



Church of the Good Shepherd, Lake Tekapo.

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## Pointing down

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It's been just over a week since the RBNZ's October interest rate decision. At that time, the RBNZ kept the OCR on hold at 2.75% and reiterated that some further easing was likely. However, they noted that the timing of any further easing would be dependent on the flow of data. Developments over the past week have shifted the balance further in favour of a December cut, but it's still not a done deal.

First up, the latest update on the labour market showed a continued loss of momentum in economic activity, and that the economy is operating with some spare capacity. Over the September quarter, the number of people employed in the economy fell by 0.4% - the first quarterly decline in employment since 2012. It's true that labour market data can be volatile on a quarter-to-quarter basis. But even looking at the more stable annual measures of labour market conditions, we see very clearly that the labour market has been weakening. Employment growth has fallen back to 1.5% on an annual basis – well down on the above 3% rates of growth we saw last year. This softening in demand for workers has seen the unemployment rate pushing up to 6.0% and the number of unemployed people climbing to its highest level since June 2013.

On top of this, we're still looking at some tough times in the dairying industry. Dairy prices have fallen in the last two auctions, retracing about a quarter of their earlier gains. It seems that markets are unconvinced about the impact that El Niño conditions could have on global milk supply, especially as the major milk producers in the Northern Hemisphere ramp up their own productive capacity. The RBNZ has noted that they are taking a cautious approach in relation to dairy prices, and it looks like that caution has been warranted.

Next up are conditions in the housing market. This is a particularly thorny issue for the RBNZ, as reductions in the OCR aimed at boosting current low consumer price inflation risk exacerbating already strong house price inflation. The RBNZ is acutely aware of the financial stability risks stemming from strong growth in house prices, especially in

# Pointing down continued

Auckland. This will undoubtedly be a key focus of the RBNZ Financial Stability Report, which is due for release on Wednesday.

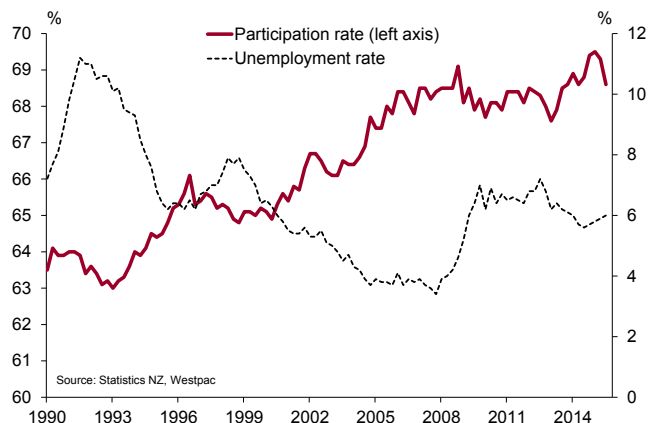
The latest house sales data must have come as quite a relief. Barfoot and Thompson's data showed that, adjusting for seasonal fluctuations, house sales in Auckland were down 20% in October compared to September. This reinforces the sense that some of the heat in the Auckland market in recent months was due to buyers getting in ahead of the new regulations. New listings also fell sharply in October, which suggests that property owners recognise that the new regulations provided a window of opportunity which has now closed.

While sales in Auckland have declined, there's been no clear impact on the trend in house prices thus far, with the average sale price rising 0.6% in October. That's not surprising, as house prices tend to follow the trend in sales with a lag of around three months. We expect to see a cooling in house price inflation over the coming year.

Finally, stubbornly low wage growth has (again) reinforced the picture of soft domestic inflation. Wage inflation, as measured by both Labour Cost Index and the Quarterly Employment Survey, nudged down in September. In fact, wage growth hasn't shown any material acceleration since the economy exited recession in 2011.

Putting it altogether, we're left with a picture of an economy that has been losing momentum, and where domestic inflation remains low. At this stage, a December rate cut is certainly looking more likely than not. But there's still a way to go before the RBNZ's next interest rate announcement, and a December rate cut isn't a certainty.

Labour force participation and unemployment



Ahead of the RBNZ's next interest rate decision we'll be watching a few key indicators. These include dairy prices, and conditions in the housing market (the next set of REINZ house sale figures is due over the coming week).

In addition, we'll be keeping a close eye on the NZD. Earlier in the year, the RBNZ had been banking on a fall in the NZD to generate substantial boost in imported inflation. However, the NZD has actually picked up over the past month or so. At the same time, the global inflation backdrop has remained modest. Combined with the softness in domestic inflation, this will make it hard for the RBNZ to generate a sustained pick-up in inflation to 2% without giving the economy a boost via lower interest rates.

## Fixed vs Floating for mortgages

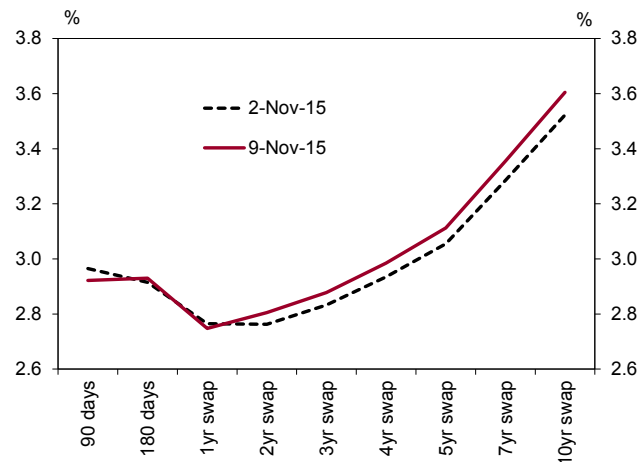
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

Longer-term fixed rates do offer the benefit of stability, but even those looking to fix may want to wait a while longer.

For borrowers with a deposit of deposit of 20% or more, the best value probably continues to lie in the two-year ahead and three-year ahead terms. Four- and five-year rates still seem high relative to where we think shorter-term rates are going to go over the next four or five years.

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.

NZ interest rates

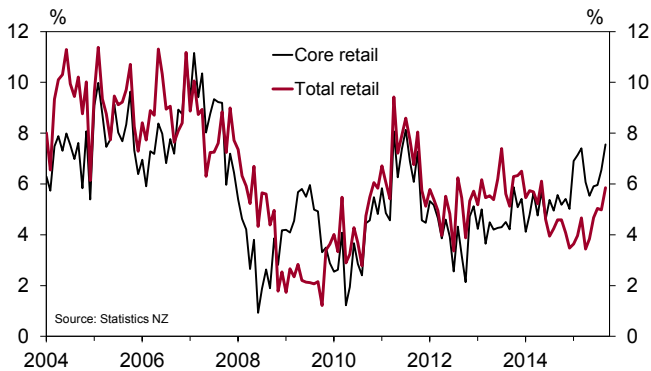


## NZ Oct retail card spending

Nov 10, last +0.9%, WBC f/c +0.1%

- Spending on electronic cards has been growing at a solid pace in recent months. There's been notable strength in spending on durables, as well as strong gains in spending on hospitality and consumables.
- Spending growth is expected to moderate in October. Nevertheless, the level of spending is still expected to remain firm, consistent with the pick-up in consumer confidence that we've recently seen.
- While high levels of migration and strong tourist demand will continue to provide support, over the coming months we do expect to see some softening in spending growth. The anticipated softening in economic growth will weigh on employment and earnings growth over the coming year.

Card transactions, annual % change

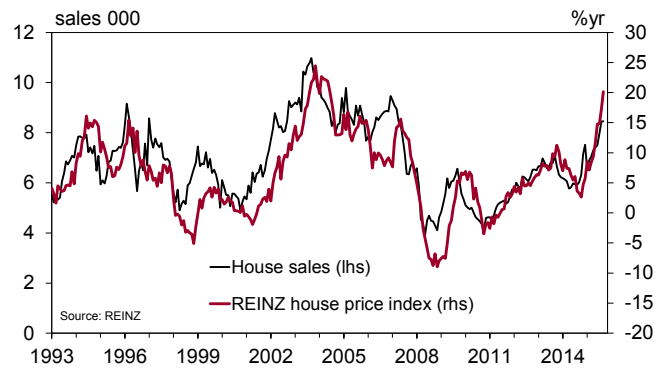


## NZ Oct REINZ house prices and sales

Nov 9-13, Sales last: 0.1%, Prices last: 20.1%yr

- REINZ will release its nationwide house sales figures for October sometime this week. This will be the first month since the tightening of tax rules and foreign buyer requirements for investment properties.
- At least some of the recent froth in the housing market, especially in Auckland, appears to have been driven by buyers getting in ahead of the new regulations. As such, we're likely to see a hole in housing demand over the next few months.
- House prices tend to follow the sales trend by about three months, so clear evidence of a cooling in house price inflation may be more a story for early next year. Regional performance will be an issue too - from 1 November restrictions on high loan-to-value ratio lending were tightened in Auckland but eased in the rest of the country.

REINZ house prices and sales



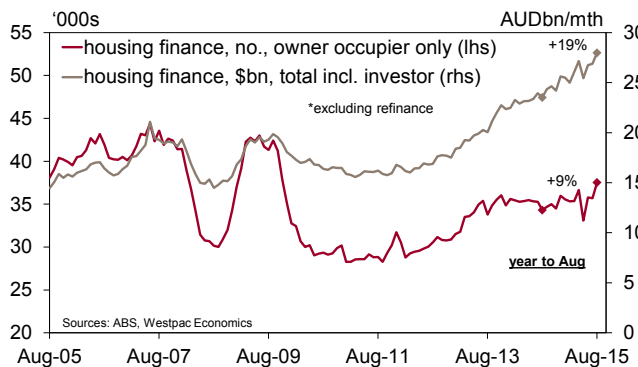
## Aus Sep housing finance (no.)

Nov 10, Last: 2.9%, WBC f/c: flat

Mkt f/c: 0.0%, Range: -3.0% to 1.1%

- The Aug housing finance approvals data was the proverbial 'dog's breakfast'. Changes associated with APRA's measures to contain investor activity created significant disruptions in the month with a tightening in lending criteria and an increase in interest rates for investor loans impacting negatively on the value of investor loans (-0.4% mth) but indirectly boosting owner occupier loans (number approved up 5.2% ex refi).
- Adding to this, housing markets are showing clear signs of cooling off, especially in the previously 'hot' Sydney and Melbourne markets. Industry data suggests the number of owner occupier loans was flat in Sep. The total value of loans - covering both owner occupiers and investors - gives a better gauge of housing market conditions and may well be down for the Sep month.

New finance approvals\*

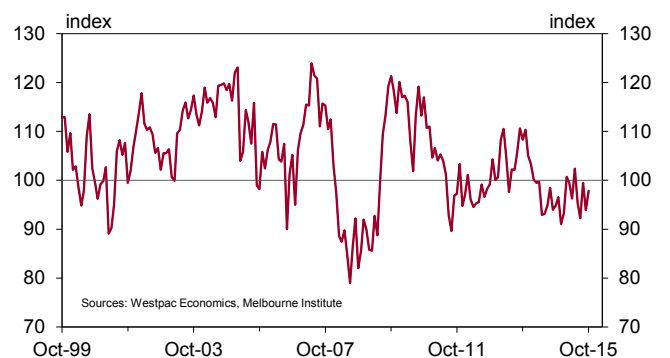


## Aus Nov Westpac-MI Consumer Sentiment

Nov 11 Last: 97.8

- The Westpac-Melbourne Institute Consumer Sentiment Index lifted 4.2% in Oct from 93.9 in Sep to 97.8. This was the first survey since Malcolm Turnbull took over from Tony Abbott as PM. As such, the gain was smaller than might have been expected given the surge in polls following the change.
- The Nov survey is in the field over the week ended Nov 9. The biggest point of interest will be how sentiment reacts to the decision by the major banks to raise their standard variable mortgage rates by an average of 17bps. Financial markets and the currency have been more settled over the last month although housing markets are showing clearer signs of cooling in Sydney and Melbourne. The RBA left rates unchanged at its Nov meeting, disappointing some expecting a cut to offset the rise in mortgage rates. However, the Bank did adopt a clearer easing bias in the Governor's statement accompanying the decision.

Consumer Sentiment Index

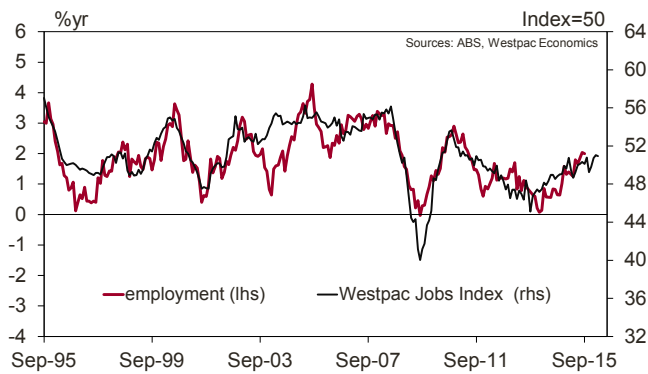


## Aus Oct Labour Force - employment

Nov 12, Last: -5.1k, WBC f/c: 15k Mkt f/c: 15k, Range: -10k to 25k

- The 5.1k fall in Sep was below market expectations for a 9.6k rise. Total employment has grown 230.1k (or 2.0%/yr) in the year. The mix was soft with a 13.9k fall in full-time employment (128.9k or 1.6%/yr) and an 8.9k rise in part-time employment (101.2k or 2.9%/yr).
- Following changes to the supplementary surveys in 2014, significant volatility emerged in the original data in Aug/Sep 2014 and, in the initial releases, in the seasonally adjusted data as well. The volatility in the seasonally adjusted data has since been revised away and something more like the historical seasonality returned to the original data in 2015.
- Total employment has average 17.5k per month over the last three months which feels about right compared to the leading indicators. We keep this trend with our 15k forecast.

Jobs Index is pointing to a softer pace for H2

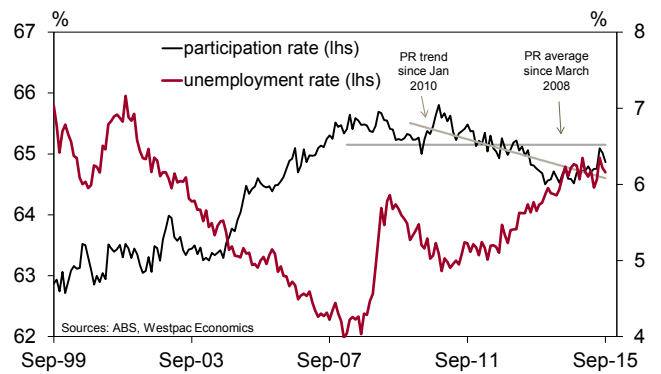


## Aus Oct Labour Force - unemployment rate

Nov 12, Last: 6.2%, WBC f/c: 6.2% Mkt f/c: 6.2%, Range: 6.3% to 6.0%

- The participation rate pulled back from the Jul high of 65.1% to 64.9% in Sep but it is still well up on the 2014 low of 64.5% which kept in place the rising trend we have seen since then. As such it does appear that recent changes to government policy with regards to job search for those on unemployment benefits may represent a lasting boost to job seeker numbers. At least for now, the decline in participation that we had been seeing associated with an aging population has ended.
- In the month, the drop in participation from 65.02% to 64.86% in Sep resulted in a 13.2k drop in the labour force hence the fall in the unemployment rate to 6.16% from 6.22% in Aug.
- Holding the participation rate flat at 64.9% in Sep, the forecast +15k on total employment is only enough to hold the unemployment rate flat at 6.2%.

Unemployment and participation rates

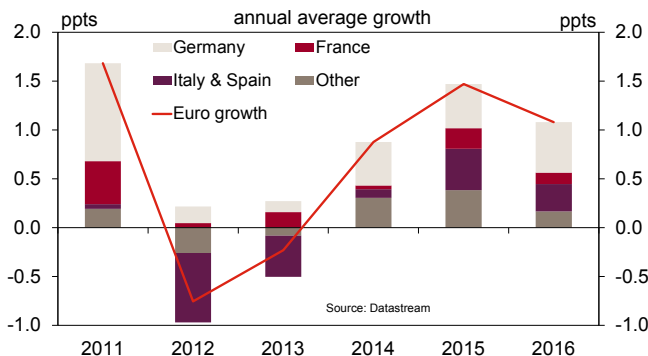


## Euro area Q3 GDP

Nov 13, Last: 0.4%, WBC f/c: 0.4%

- The ECB's intent to do 'whatever it takes' to foster robust, enduring growth has been a boon for confidence amongst households; businesses; and investors. Together with a modest improvement in the labour market, it has released pent-up demand, bolstering growth across the region.
- Q2's robust 0.4%, 1.5%/yr gain looks set to repeat in Q3, with the consumer again leading the way. Spain and the Netherlands also continue to see strong growth in investment, but this trend is yet to broaden across the region.
- The preliminary estimate for Spain suggests it will (again) lead the way in Q3, +0.8%. In contrast, Germany is expected to report another moderate gain (circa 0.4%); while France and Italy should see small but positive growth around 0.2%.

Contribution to Euro area annual growth

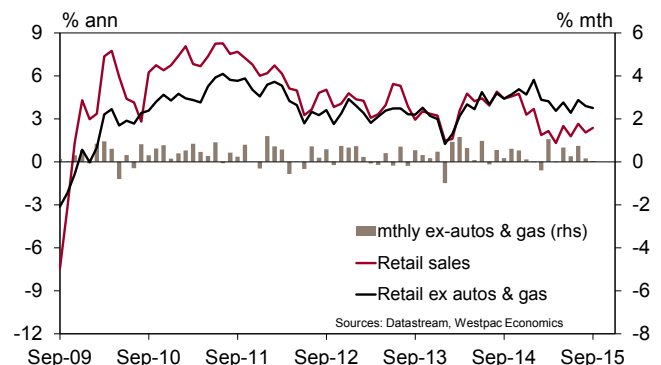


## US Oct retail sales

Nov 13, Last: 0.1%, WBC f/c: 0.3%

- Retail sales have been disappointing of late, the 0.1% gain for September leaving annual (nominal) growth in total sales at just 2.4%/yr. The sharp decline in the price of oil experienced over the past year is a key contributor to this weakness; yet core sales (excluding autos & gas) are still only up 3.8%/yr following a flat outcome in September.
- This weakness has come despite robust employment growth; oil-induced real wage gains; and strong confidence, implying a reticence on the part of households to spending discretionary income. Absent a circuit breaker, this trend looks set to persist well into the future.
- In October, we look for another benign monthly outcome of 0.3%, driven by core sales.

US retail sales, momentum absent



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 9</b>					
<b>NZ</b>	Oct REINZ house sales	0.1%	–	–	Due this week. Sales likely to be hit by new regulations in October.
	Oct REINZ house prices %yr	20.1%	–	–	House price strength has been spreading beyond Auckland.
<b>Eur</b>	Oct Sentix investor confidence	11.7	12.2	–	ECB key to investor confidence.
<b>Ger</b>	Sep trade balance	15.4b	21.0b	–	Primed to benefit from stronger global growth, when it comes.
<b>US</b>	Oct labour conditions index	0.0%	–	–	FOMC's aggregate measure of the US labour market.
	Fedspeak	–	–	–	Rosengren speaks on economic outlook for the US economy.
<b>Tue 10</b>					
<b>NZ</b>	Oct retail card spending	0.9%	0.3%	0.1%	Spending picked up in recent months.
<b>Aus</b>	Sep housing finance	2.9%	0.0%	flat	Headline is owner-occupier only. Total value of finance a better guide.
	Oct NAB business survey	9	–	–	Business conditions steady at +9 in Sep, a reading above the LR avg.
<b>Chn</b>	Oct CPI %yr	1.6%	–	–	Volatile food drove Sep disinflation. Non-food
	Oct PPI %yr	–5.9%	–	–	multi-year downtrend continues.
<b>US</b>	Oct NFIB small business optimism	96.1	96.3	–	Has been trending higher; but is losing momentum.
	Sep wholesale inventories	0.1%	0.0%	–	Inventories accumulation slowed through Q3; what will Q4 bring?
<b>Wed 11</b>					
<b>NZ</b>	Nov RBNZ Financial Stability Report	–	–	–	Housing market conditions will be a key focus following policy changes.
<b>Aus</b>	Nov Westpac-MI Consumer Sentiment	97.8	–	–	Bounced in Oct on PM change. Bank rate rises to impact in Nov?
<b>Chn</b>	Oct retail sales %yr	10.9%	–	–	Forecasts tweaked post CPI - consumer sentiment fell heavily in Oct.
	Oct industrial production %yr	5.7%	–	–	PMIs and exports contracted at a slower rate in Oct/Sep respectively.
	Oct fixed investment %ytd	10.3%	–	–	Heavy manufacturing, real estate and extractive sectors all very weak.
<b>Eur</b>	ECB speech	–	–	–	Draghi speaks at BOE event in London.
<b>UK</b>	Sep ILO unemployment rate	5.4%	5.4%	–	Unemployment has fallen to low levels.
<b>Thu 12</b>					
<b>NZ</b>	Oct BusinessNZ PMI	55.4	–	–	Business conditions have remained firm in recent months.
	Oct food price index	–0.5%	–	–0.6%	Trend has been flat despite weaker NZD.
	Nov consumer confidence	114.9	–	–	Remains low, but has been climbing.
<b>Aus</b>	Oct employment, chg	–5.1k	15k	15k	Changes to supplementary surveys introduced new volatility in Aug & Sep
	Oct unemployment rate	6.2%	6.2%	6.2%	and we are hoping for a clean read in Oct. Participation rising again.
	Nov MI inflation expectations %yr	3.5%	–	–	Eased back from the recent peak of 3.7% painting a benign picture.
<b>Eur</b>	Sep industrial production	–0.5%	0.1%	–	Weaker Euro would help at margin.
<b>Ger</b>	Oct CPI	0.0%	0.0%	–	Inflation pulse to remain weak for some time.
<b>UK</b>	Oct RICS house price balance	44%	46%	–	Low mortgage rates have been boosting demand.
<b>US</b>	Sep JOLTS job openings, 000's	5370	–	–	JOLTS release gives detail on hiring; firing; and quits.
	Initial jobless claims	276k	–	–	Despite recent increases, claims remain very low.
	Fedspeak	–	–	–	Bullard, Lacker, Evans and Dudley.
<b>Can</b>	Sep New house price index	1.3%	–	–	House price inflation has remained limited in recent months.
<b>Fri 13</b>					
<b>Eur</b>	Sep trade balance	19.8b	–	–	External demand remains an important support for Euro Area GDP.
	Q3 GDP	0.4%	0.4%	–	Q2 momentum to persist; Spain remains the standout.
<b>UK</b>	Sep construction output	–4.3%	1.5%	–	Demand remains positive in residential and non-residential markets.
<b>US</b>	Oct retail sales	0.1%	0.3%	0.3%	Weak underlying trend set to persist.
	Oct PPI	–0.5%	0.1%	–	Both headline and core measures have fallen.
	Sep business inventories	0.0%	0.1%	–	Inventories accumulation slowed through Q3; what will Q4 bring?
	Nov Uni of Michigan consumer sentiment	102.3	–	–	Confidence remains robust; labour market key.
	Fedspeak	–	–	–	Mester speaks on economic outlook and monetary policy.

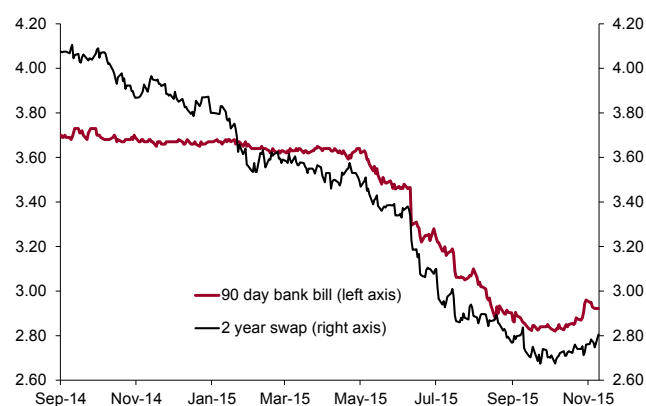


# New Zealand forecasts

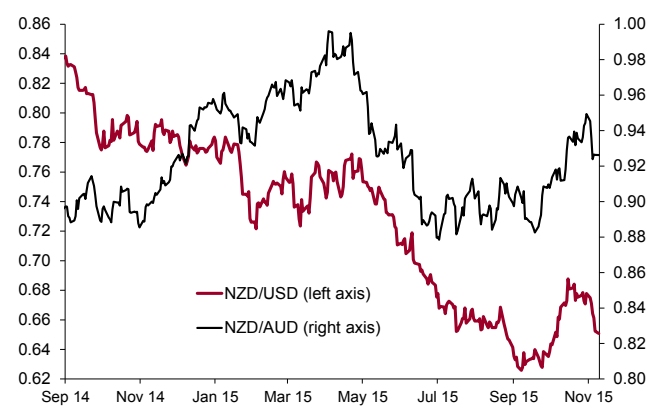
Economic Growth Forecasts	March years				Calendar years			
	2014	2015	2016f	2017f	2013	2014	2015f	2016f
% change								
GDP (Production) ann avg	2.5	3.2	2.1	2.1	2.3	3.3	2.3	2.0
Employment	3.8	3.2	1.5	2.0	2.9	3.6	2.0	1.5
Unemployment Rate % s.a.	6.0	5.8	6.4	6.2	6.1	5.7	6.1	6.3
CPI	1.5	0.3	1.3	1.5	1.6	0.8	0.5	1.7
Current Account Balance % of GDP	-2.6	-3.4	-4.4	-4.3	-3.2	-3.1	-3.9	-4.5

Financial Forecasts	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Cash	2.50	2.25	2.00	2.00	2.00	2.00
90 Day bill	2.60	2.30	2.10	2.10	2.10	2.10
2 Year Swap	2.60	2.40	2.20	2.20	2.20	2.20
5 Year Swap	3.10	3.10	3.10	3.20	3.20	3.20
10 Year Bond	3.30	3.40	3.50	3.70	3.80	3.80
NZD/USD	0.64	0.63	0.62	0.62	0.62	0.62
NZD/AUD	0.94	0.95	0.94	0.93	0.90	0.89
NZD/JPY	78.1	77.5	76.9	77.5	78.1	76.3
NZD/EUR	0.60	0.61	0.60	0.59	0.58	0.57
NZD/GBP	0.43	0.43	0.42	0.42	0.41	0.40
TWI	70.5	70.4	69.3	69.0	68.1	67.5

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 9 November 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.75%	2.75%	2.75%
30 Days	2.89%	2.87%	2.86%
60 Days	2.90%	2.86%	2.85%
90 Days	2.92%	2.87%	2.84%
2 Year Swap	2.81%	2.74%	2.72%
5 Year Swap	3.11%	3.03%	3.06%

NZ foreign currency mid-rates as at Monday 9 November 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6508	0.6789	0.6689
NZD/EUR	0.6064	0.6145	0.5887
NZD/GBP	0.4322	0.4423	0.4366
NZD/JPY	80.18	82.16	80.37
NZD/AUD	0.9262	0.9366	0.9135
TWI	71.16	73.05	71.58



## Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014	2015f	2016f
<b>Australia</b>						
Real GDP % yr	2.7	3.6	2.1	2.7	2.2	2.7
CPI inflation % annual	3.0	2.2	2.7	1.7	1.6	2.3
Unemployment %	5.2	5.3	5.8	6.2	6.3	6.0
Current Account % GDP	-2.8	-4.4	-3.4	-3.0	-4.0	-4.0
<b>United States</b>						
Real GDP %yr	1.6	2.2	1.5	2.4	2.4	2.8
Consumer Prices %yr	3.1	2.1	1.5	1.6	0.1	1.7
Unemployment Rate %	8.9	8.1	7.4	6.2	5.3	4.9
Current Account %GDP	-2.9	-2.9	-2.3	-2.2	-2.3	-2.3
<b>Japan</b>						
Real GDP %yr	-0.5	1.7	1.6	-0.1	0.6	1.3
<b>Euroland</b>						
Real GDP %yr	1.6	-0.8	-0.3	0.9	1.5	1.1
<b>United Kingdom</b>						
Real GDP %yr	1.6	0.7	1.7	3.0	2.5	2.5
<b>China</b>						
Real GDP %yr	9.5	7.7	7.7	7.3	7.0	6.6
<b>East Asia ex China</b>						
Real GDP %yr	4.5	4.6	4.2	4.1	3.5	4.0
<b>World</b>						
Real GDP %yr	4.2	3.4	3.3	3.4	3.0	3.6
Forecasts finalised 6 Nov 2015						

Interest Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
<b>Australia</b>						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.19	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.78	2.85	2.90	3.00	3.10	3.30
<b>International</b>						
Fed Funds	0.125	0.375	0.625	0.875	1.125	1.375
US 10 Year Bond	2.24	2.35	2.50	2.70	2.90	3.00
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
AUD/USD	0.7145	0.68	0.66	0.66	0.67	0.69
USD/JPY	121.74	122	123	124	125	126
EUR/USD	1.0876	1.06	1.04	1.04	1.05	1.07
AUD/NZD	1.0814	1.06	1.05	1.06	1.08	1.11

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## Disclaimer continued

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