



Hobbiton, Matamata

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Town and country

In what has otherwise been a very light week of New Zealand and international data, the latest Westpac McDermott Miller Consumer Confidence Index and Regional Economic Confidence Survey shed some interesting light on the regional divisions in New Zealand's economy, while providing more evidence that overall economic activity remains comfortably above trend.

We have been braced for the shock waves of dry weather and a low dairy payout to ripple through to confidence and economic activity in New Zealand's rural regions. In that context, the latest survey results came as a welcome surprise. Consumer confidence in rural regions and smaller centres picked up noticeably after plunging in December, but has been fairly steady in the main urban areas of Auckland, Christchurch and Wellington.

The sense we get is that households in rural regions feared the worst back in December, when some were predicting that Fonterra would downgrade its farmgate milk price forecast to well below \$5/kg and meteorologists were talking about emerging signs of an El Niño weather pattern. There may since have been a collective sigh of relief when reality didn't turn out quite so dire.

Even on that reading, it's fair to say that rural confidence has held up fairly well. While residents in the Waikato and Southland – two major dairying regions – remain distinctly less confident in their regions' economic prospects and their own finances than they were six months ago, their overall level of consumer confidence has only fallen to around average levels, and their reported spending appetites have also stayed reasonably healthy.

One likely reason for the rebound in rural confidence is the steep recovery in dairy auction prices since December – though we'd note that the survey was in the field before the renewed drop in prices in the latest auction, and before Fonterra's announcement last week that it had lowered its expected dividend.

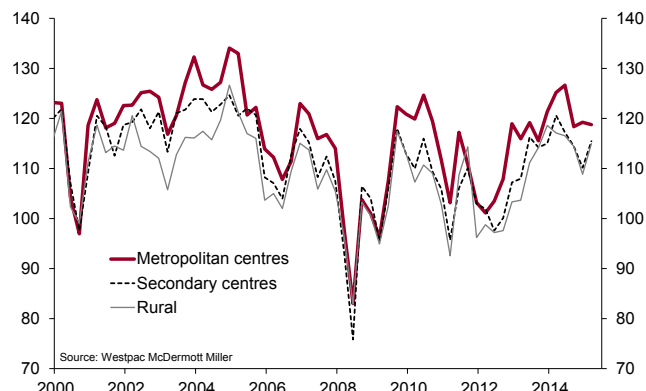
Town and country continued

However, it's also become evident that the impact of dry weather on farm output is not likely to be as severe as initially feared, at least for dairy farmers. Fonterra's initial estimates were for this season's dairy production to be more than 3% below the previous season's, which would have made this one of the harshest events in recent history. But it's since become clear that this outcome would require a further steep drop in milk production over March and April – not very likely given that soil moisture levels are now improving. In recognition, Fonterra now estimates that dairy production will be a more moderate 2% below the previous season's. We're of the view that the drop in Fonterra's full-season production could be even more modest, on the order of 0.5% (and industry-wide production could even be up slightly).

The continued lack of exuberance among urban consumers is in some ways more of a puzzle, given that cheaper petrol, falling mortgage rates, and rising property prices have been a boon to urban consumers and home owners. Part of the explanation may be that rising house prices are creating as much angst as joy – indeed, the recent slowing in the pace of Auckland building consents, despite efforts to reduce red tape and the obvious need for more building, doesn't inspire us with confidence that the Auckland housing market will achieve a better balance any time soon. Another factor may be the high exchange rate. While the NZ dollar has fallen against the US dollar in recent months, it has moved sharply higher against the euro, yen and Australian dollar, which is not good news for urban manufacturers or non-commodity exporters.

That said, it's worth stressing that consumer sentiment remains above average, both in the urban centres and in New Zealand overall. That in turn gives us some confidence that the strong uplift in New Zealand's retail spending data seen in recent months has further to run.

Consumer confidence – urban vs rural



Equally, though, there is nothing in these surveys to suggest that consumers are cashing in on rising house prices or otherwise spending in an unsustainable way. As usual, we asked respondents what they would do with a cash windfall. While the number saying they would use it to pay off debt is at record lows, the number of people saying they would spend the money is still only about average.

In short, the Reserve Bank should remain comfortably of the view that domestic economic conditions justify keeping the OCR on hold for the foreseeable future – with any change in course depending on evolving inflation trends.

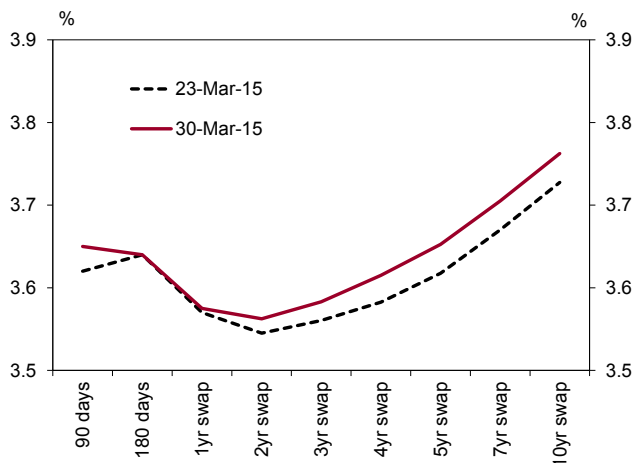
Fixed vs Floating for mortgages

Among the current standard fixed rates, the best value for borrowers with a deposit of 20% or more probably lies in the two-year and three-year terms. However, there is a possibility that fixed mortgage rates will fall even further over the weeks ahead. Waiting a while before fixing might offer even better value.

Four- and five-year rates still seem high relative to where we think shorter-term rates are going to go over the coming four or five years, though the gap has narrowed in recent weeks, and these longer-term rates do offer the benefit of stability.

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

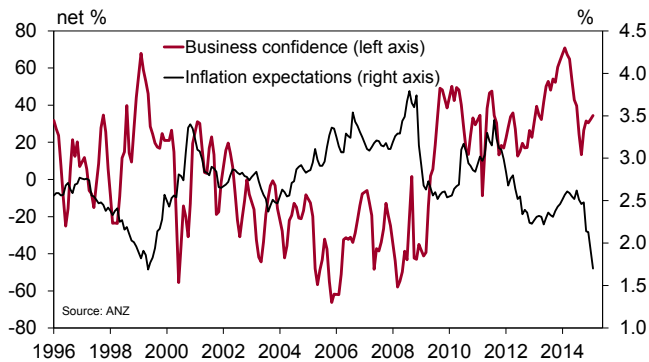


NZ Mar business confidence

Mar 31, Last: 34.4

- Businesses' activity expectations picked up in all major sectors in February, consistent with continued firmness in GDP growth in early 2015.
- It's not unusual for business confidence to pull back in March. But smoothing through such seasonal variations, we expect that confidence will have remained at robust levels, consistent with the continuing strength in domestic demand.
- The survey's inflation gauges will be closely watched. Businesses' inflation expectations have pulled back in recent months, and with headline inflation set to plunge in Q1, it's likely that expectations will drop even further. However, businesses' pricing intentions have been more resilient, and we will be looking to see if this has remained the case in March.

NZ business confidence and inflation expectations

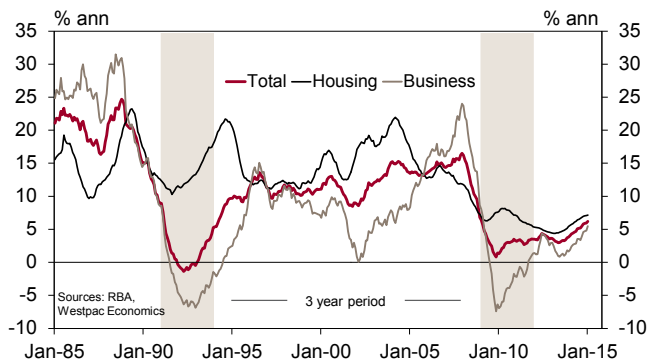


Aus Feb private sector credit

Mar 31, Last: 0.6%, WBC f/c: 0.4%
Mkt f/c: 0.5%, Range: 0.4% to 0.7%

- Private sector credit gained momentum in 2014 and into 2015 as consumers and businesses responded to lower rates.
- In January, credit grew by 0.6% in the month, lifting annual growth to 6.2%, up from 4.3% a year earlier. For February, we anticipate a more modest monthly gain, of 0.4%.
- Business credit momentum is a key risk around monthly outcomes. The January headline figure of 0.6% was boosted by a 0.8% rise in business, the strongest monthly result since late 2008 (with the exception of a one-off in June 2014). We anticipate a near-term consolidation in business credit given the softening in commercial finance in late 2014.
- Housing credit grew by 0.6% mth, 7.1% yr in January. A similar result is likely in February.

Credit mix: annual growth

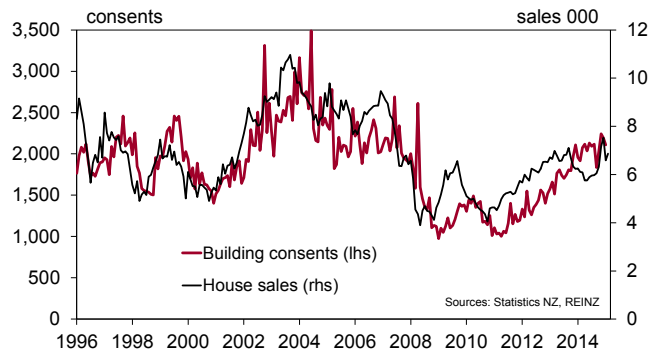


NZ Feb building consents

Mar 31, Last: -3.8%, Westpac f/c: +2.0%

- Residential building consents were surprisingly soft in January. That may have been the product of some lingering seasonality due to the usual January shutdown, but it perpetuated the sense that consents have stalled in the last six months. The loss of momentum in Auckland is particularly concerning, given the obvious signals that more needs to be done just to match population growth.
- We're assuming a reversal of January's 7.5% drop in ex-apartment consents, partly offset by a moderation in the volatile apartment units category, which has been running at unusually high levels for the last few months.

NZ housing activity

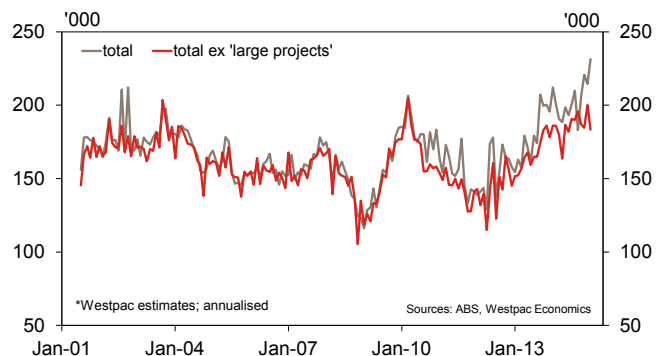


Aus Feb dwelling approvals

Apr 1 Last: 7.9%, WBC f/c: -4.0%, Mkt f/c: -4.0%, Range: -8.0% to 2.0%

- Dwelling approvals came in much stronger than expected with a 7.9% jump in Jan. The upside surprise was mainly due to a large project in Qld (1200 high-rise dwellings approved in the Gold Coast, the first really big project seen there since the GFC). Seasonal adjustment may have amplified the overall effect of this jump with Jan the 'low season' for approvals.
- Dwelling approvals get back to 'normal' in Feb. Second guessing the pipeline of large projects is basically impossible but we're inclined to assume a smaller effect in Feb (Jan's 'lump' was one of the largest on record). 'Underlying' approvals ex large projects are showing tentative signs of flattening out. Overall we expect total approvals to show a significant pull back, down 4% in Feb. Note that the Feb interest rate cut will take several months to impact with the marginal effect on approvals expected to be fairly small.

Dwelling approvals: excluding 'large projects'

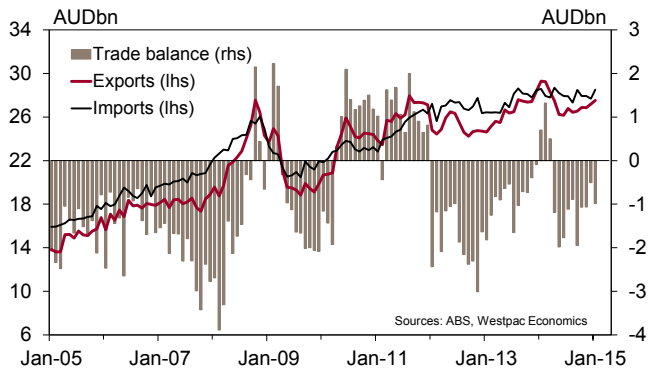


Aus Feb trade balance, AUDbn

Apr 2, Last: -1.0, WBC f/c: -1.2
Mkt f/c: -1.3, Range: -2.5 to -0.1

- Australia's trade balance has been stuck in deficit since last April as lower global commodity prices dent export earnings.
- For February, we expect the deficit to widen a little, increasing by \$0.2bn to \$1.2bn.
- Imports are forecast to rise by 1.6%, with the ABS advising that goods imports rose by 2%. A key factor in February was the sharply lower currency, boosting the cost of imports. The AUD fell by 3% on a TWI basis and by 3.7% against the US dollar.
- Exports are forecast to rise by only 0.8%, constrained by a further slide in the iron ore price.

Australia's trade balance: -\$1.0bn in January

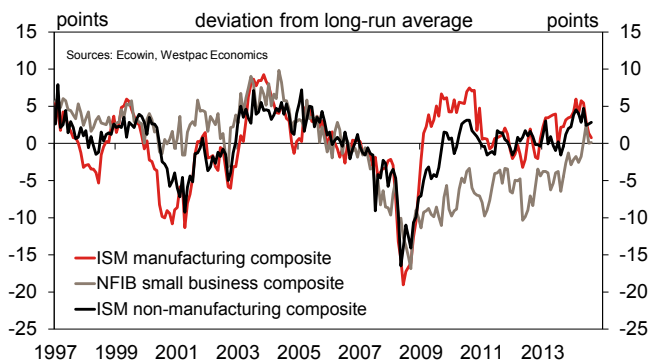


US Mar ISM factory survey

Apr 1, ISM manufacturing Last: 52.9, WBC f/c: 52.3

- The ISM manufacturing index fell for the fourth month running in Feb, a total decline of 5pts to 52.9 over that period. Production and orders both declined by nearly 10pts over the four months, to 53.7 and 52.5 respectively. And jobs slipped almost 4pts to 51.4. All three were at their lowest levels in at least a year in Feb, as was the headline. Transportation delays, weaker investment in the energy sector, and fragile international demand were cited as factors at play. Unlike last year, poor weather does not seem to have been a dominating concern.
- February's industrial production report also captured manufacturing sector weakness, and recent orders data point to constrained business investment, an ongoing feature of the recovery from the last recession. Against this, the Markit PMI factory index reversed its recent downtrend in February and rose to 55.3 in Mar. We expect the ISM to edge lower to 52.3.

ISM manufacturing has been trending down

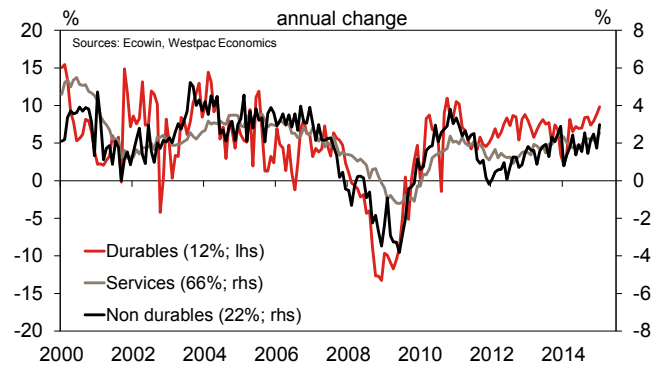


US Feb personal income, spending and PCE deflator

Mar 30, Personal income: Last: 0.3%, WBC f/c: 0.3%
Mar 30, Personal spending: Last: -0.2%, WBC f/c: 0.2%
Mar 30, PCE deflator: Last: -0.5%, WBC f/c: 0.2%

- Income posted solid gains through late 2014/ early 2015: +0.4% in Oct/Nov and +0.3% in Dec/Jan. Oil further boosted real disposable income in Nov/Dec, up 0.5%, and Jan, +0.9%. Momentum will continue in Feb, with a 0.3% gain expected.
- Despite strengthening income growth, personal spending is yet to see substantial benefit. Personal consumption fell 0.3% in Dec and 0.2% in Jan, as soft underlying demand failed to offset oil's effect. Retail sales disappointed again in Feb, with core sales stagnating. But services should provide some support to activity, seeing a modest 0.2% gain in total spending.
- The headline PCE deflator will bounce in Feb after being materially impacted by the oil price decline in recent months. Following the CPI, a 0.2% rise is expected in the month.

Consumption: momentum broad based at present

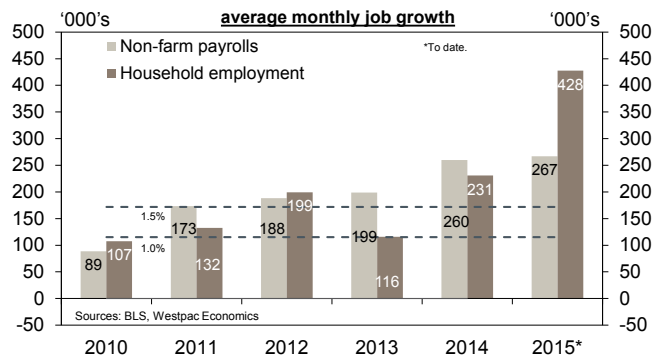


US Mar non-farm payrolls

Apr 3, Payrolls: Last: 295k, WBC f/c: 260k

- Payrolls rose 295k in Feb, the twelfth straight gain of over 200k – the longest run since 1995. There was little evidence of a poor weather impact, with leisure and retail jobs both above trend. Construction and factory jobs growth slowed, but that may be a true reflection of activity in those sectors rather than a temporary disruption story. Although unemployment fell from 5.7% to 5.5%, its lowest level since May 2008, average hourly earnings rose just 0.1% in Feb to be up 0.4% in Dec-Feb, compared to 0.6% in the prior period. Robust jobs growth continues to be concentrated in lower paying sectors.
- Initial jobless claims were weather impacted in late February, but had recovered by the time of the March survey. Small business hiring intentions have softened this year, while the national ISM surveys have been mixed. These factors suggest another robust result, albeit a tad softer than Feb.

US jobs: 'cumulative improvement' continues



Data calendar

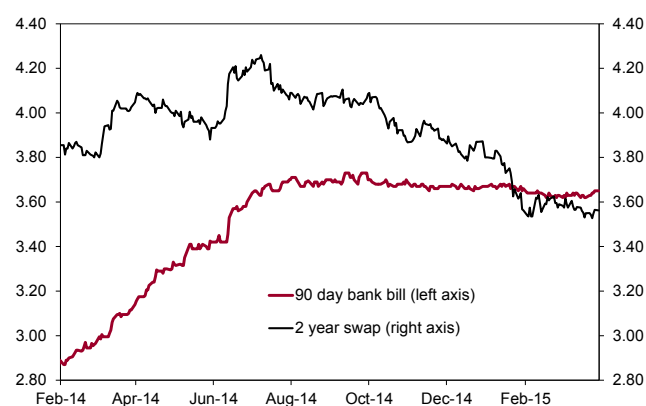
		Last	Market median	Westpac forecast	Risk/Comment
Mon 30					
Eur	Mar business climate indicator	0.07	–	–	Conditions are improving, with confidence riding high on ECB actions.
UK	Feb lending secured on dwellings, £bn	1.6	1.6	–	4-month high in Jan; consumer credit also improved to 0.8bn.
US	Feb personal income	0.3%	0.3%	0.3%	Improved pace of income growth to continue in March.
	Feb personal spending	–0.2%	0.2%	0.2%	To bounce as oil effect subsides; but will discretionary spending lift?
	Feb PCE deflator	–0.5%	0.2%	0.2%	Oil effect subsides; core inflation pressures modest.
	Feb pending home sales	1.7%	0.4%	0.4%	Weather may influence; have been outperforming existing sales.
	Mar Dallas Fed manufacturing activity	–11.2	–9.0	–8.5	Modest improvement likely; but level weak after Feb's sharp fall.
Tue 31					
NZ	Feb building consents	–3.8%	–	2.0%	Trend has softened despite the obvious need to build more.
	Mar ANZ business confidence	34.4	–	–	Confidence high, inflation expectations weak.
Aus	Feb private sector credit	0.6%	0.5%	0.4%	Business expected to consolidate following strong +0.8% gain in Jan.
Eur	Feb unemployment rate	11.2%	11.2%	–	Marginal improvement continues; but level of unemp. still very high.
	Mar CPI, %yr	–0.3%	–0.3%	–0.3%	Flash estimate. EUR supportive in Mar; oil negligible negative.
Ger	Mar unemployment rate	6.5%	6.5%	–	Unemp. fell 20k in Feb; market can only be described as strong.
UK	Mar GfK consumer confidence	1	1	–	Unchanged in Feb at highest level since last August.
	Q4 current account, £bn	–27.0	–21.0	–	NID widened CAD in Q3; trade deficit narrowed on stronger services.
	Q4 GDP, final	0.5%	0.5%	0.5%	Up 2.7%yr; second estimate was unchanged from first.
US	Jan S&P Case-Shiller house prices	0.87%	0.70%	0.60%	Loss of momentum clearly apparent in recent months.
	Mar Chicago PMI	45.8	52.4	50.2	The PMI plunged in Feb; likely to bounce back into expansionary zone.
	Mar consumer confidence	96.4	96.6	96.0	Conference board measure; elevated level to be maintained.
	Fedspeak	–	–	–	Vice Chair Fischer on policy & stability; Lacker; Lockhart; and George.
Wed 1					
Aus	Feb CoreLogic RP Data home value index	0.3%	–	1.1%	Solid gain but growth wedge between Syd-Melb and rest widening.
	Feb dwelling approvals	7.9%	–4.0	–4.0%	Big Qld high rise project boosted Jan.
	Mar AiG PMI	45.4	–	–	In Feb, the AiG's manufacturing index fell 3.6pts to 45.4.
Chn	Mar HSBC manufacturing PMI - final	49.2	–	–	Residual seasonality amplified flash weakness. 3mth & 6mth trends flat.
	Mar NBS manufacturing PMI	49.9	–	–	Smaller gain than HSBC in Feb, consequently less to unwind.
	Mar NBS non-manufacturing PMI	53.9	–	–	Quite resilient over last six months
Eur	Mar Markit PMI (f)	51.9	–	51.9	Final estimate for month; continues to point to moderate expansion.
UK	Mar Markit PMI	54.1	54.2	–	Rose 1pt in Feb; signalling robust pace of expansion in manufacturing.
US	Mar ADP private payrolls, '000	212	230	220	ADP has been underperforming payrolls of late; momentum to persist.
	Mar Markit manufacturing PMI	55.3	55.1	55.3	Has been surprisingly strong of late; in contrast to softening ISM.
	Feb construction spending	–1.1%	–0.1%	–0.5%	Weather to weigh on already weak sector.
	Mar ISM manufacturing	52.9	52.5	52.3	Downtrend to persist; US dollar strength a material headwind.
Can	Mar RBC manufacturing PMI	48.7	–	–	Momentum underwhelming, with sector reported to be contracting.
Thu 2					
NZ	GlobalDairyTrade auction	–8.8%	–	–	Reduced supply concerns could weigh further on prices.
	ANZ commodity price index	1.8%	–	3.5%	Strong gains in dairy and beef export prices.
Aus	Feb trade balance, AUDbn	–1.0	–1.3	–1.2	Deficit to widen as iron ore price slide continued.
	Mar TD–MI inflation gauge, %yr	1.3%	–	–	Petrol prices rose in March which is likely to temper current moderation.
US	Mar Challenger job cuts	20.9%	–	–	A highly volatile measure of job shedding.
	Initial jobless claims, '000	282	–	–	Firing remains at low level historically.
	Feb trade balance, \$bn	–41.8	–41.3	–41.5	US oil production continuing, limiting change in oil imports.
	Mar ISM New York	63.1	–	–	At odds with many other indicators of momentum.
	Feb factory orders	–0.2%	flat	0.3%	Durables signal weak momentum for investment.
	FOMC Chair Yellen	–	–	–	Opening remarks to Fed's "Economic Mobility" conference.
Can	Feb merchandise trade, \$bn	–2.45	–1.80	–	Oil price decline and ample global supply having material effect.
Fri 3					
–	Good Friday	–	–	–	Public holiday. Markets closed.
US	Mar nonfarm payrolls, '000	295	250	260	Limited firing and robust job creation to see momentum persist.
	Mar unemployment rate	5.5%	5.5%	5.5%	Now at upper end of full employment range.
	Fedspeak	–	–	–	Kocherlakota, welcoming remarks at DC conference.

New Zealand forecasts

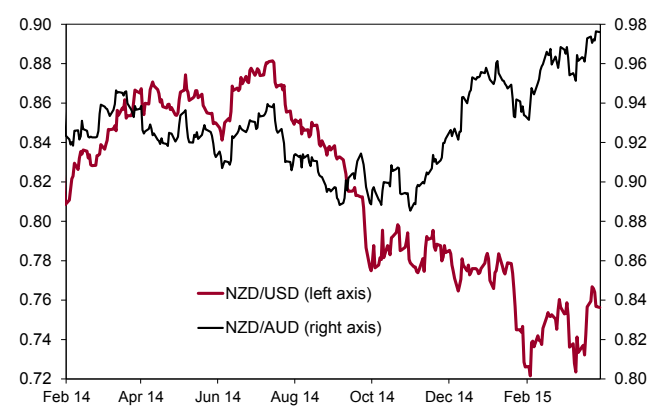
Economic Growth Forecasts	March years				Calendar years			
	2013	2014	2015f	2016f	2013	2014f	2015f	2016f
% change								
GDP (Production) ann avg	2.2	2.5	3.3	3.0	2.3	3.3	3.0	3.4
Employment	0.4	3.8	2.9	3.0	2.9	3.5	2.6	2.5
Unemployment Rate % s.a.	6.2	6.0	5.5	4.7	6.0	5.7	4.8	4.3
CPI	0.9	1.5	0.3	0.9	1.6	0.8	0.3	1.7
Current Account Balance % of GDP	-3.7	-2.6	-4.3	-4.9	-3.3	-3.3	-5.0	-4.6

Financial Forecasts	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Cash	3.50	3.50	3.50	3.50	3.50	3.75
90 Day bill	3.70	3.70	3.70	3.75	3.75	4.00
2 Year Swap	3.50	3.40	3.50	3.70	3.90	4.00
5 Year Swap	3.60	3.50	3.60	3.80	4.00	4.20
10 Year Bond	3.30	3.20	3.30	3.60	3.80	4.00
NZD/USD	0.73	0.73	0.74	0.76	0.78	0.78
NZD/AUD	0.97	0.97	0.97	0.97	0.98	0.96
NZD/JPY	89.1	90.5	93.2	95.8	99.1	99.8
NZD/EUR	0.68	0.68	0.69	0.70	0.71	0.70
NZD/GBP	0.49	0.49	0.49	0.49	0.49	0.49
TWI	78.5	78.7	79.7	81.0	82.2	81.9

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 30 March 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.50%	3.50%	3.50%
30 Days	3.63%	3.62%	3.63%
60 Days	3.64%	3.63%	3.63%
90 Days	3.65%	3.64%	3.63%
2 Year Swap	3.56%	3.58%	3.59%
5 Year Swap	3.65%	3.70%	3.71%

NZ foreign currency mid-rates as at Monday 30 March 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7562	0.7328	0.7571
NZD/EUR	0.6942	0.7004	0.6770
NZD/GBP	0.5079	0.4971	0.4906
NZD/JPY	90.16	88.98	90.64
NZD/AUD	0.9760	0.9613	0.9683
TWI	79.10	77.69	78.60



Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014e	2015f	2016f
Australia						
Real GDP % yr	2.7	3.6	2.1	2.7	2.4	3.0
CPI inflation % annual	3.0	2.2	2.7	1.7	2.2	2.4
Unemployment %	5.2	5.3	5.8	6.2	6.7	6.4
Current Account % GDP	-2.8	-4.4	-3.3	-2.8	-2.5	-1.7
United States						
Real GDP %yr	1.6	2.3	2.2	2.4	2.8	3.2
Consumer Prices %yr	3.1	2.1	1.5	1.6	1.0	2.1
Unemployment Rate %	8.9	8.1	7.4	6.2	5.2	4.9
Current Account %GDP	-2.9	-2.9	-2.4	-2.4	-2.5	-2.5
Japan						
Real GDP %yr	-0.4	1.7	1.6	-0.1	1.0	1.7
Euroland						
Real GDP %yr	1.6	-0.6	-0.4	0.8	1.0	1.0
United Kingdom						
Real GDP %yr	1.1	0.3	1.7	2.6	2.5	2.7
China						
Real GDP %yr	9.3	7.7	7.7	7.4	7.3	7.5
East Asia ex China						
Real GDP %yr	4.5	4.5	4.3	4.1	4.8	5.3
World						
Real GDP %yr	4.1	3.4	3.3	3.3	3.5	4.1
Forecasts finalised 9 March 2015						

Interest Rate Forecasts	Latest	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Australia						
Cash	2.25	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.23	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.39	2.50	2.90	3.00	3.10	3.40
International						
Fed Funds	0.125	0.125	0.375	0.625	0.875	1.125
US 10 Year Bond	1.99	2.10	2.50	2.70	2.90	3.20
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
AUD/USD	0.7820	0.75	0.75	0.76	0.78	0.80
USD/JPY	119.20	122	124	126	126	127
EUR/USD	1.0883	1.07	1.07	1.07	1.08	1.10
AUD/NZD	1.0310	1.03	1.03	1.03	1.03	1.03

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Disclaimer continued

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