Kea. Arthurs Pass National Park.

In this issue

Down, up… then down again

In this week's report we take a look at what's been happening with inflation, and what key forward indicators are currently pointing towards. Inflation in New Zealand is already low. And as we've highlighted in recent weeks, strengthening headwinds for the New Zealand economy are expected to result in a marked slowdown in GDP growth over the coming year. It's a combination of conditions that means the Reserve Bank will have its work cut out to achieve a sustained pick-up in inflation back to 2%.

In the year to June consumer price inflation was 0.3%. That's only a touch above the 15 year low it reached in early-2015, and still well below the Reserve Bank's 1 to 3% target inflation band.

In large part the current low level of inflation is a result of earlier falls in global oil prices. But that's certainly not all that's going on. Excluding petrol prices, inflation in the year to June was just 0.7% - the lowest it's been in more than 15 years. And that picture of low inflation is echoed across the range of core inflation measures produced by Statistics NZ and the Reserve Bank (core inflation measures strips out noisy movements in prices, giving us a better feel for the trend in inflation).

Dampening inflation over the past year has been broad based softness in import prices. Over the coming months, the fall in the NZD will see some of this softness reverse, driving a pick-up in overall inflation. However, this will provide only a temporary boost to inflation. Also, with petrol prices pushing down again in recent weeks, it's likely to be a more modest pick-up than previously anticipated.

Down, up…then down again continued

Looking past the volatility in import prices, a greater concern for the Reserve Bank is the continued softness in the domestic components of inflation. Despite firm growth over the past year, domestic inflation has failed to pick up. In fact, the Reserve Bank's sectoral model of core non-tradables inflation has been trending down for around five years, leaving it at very low levels. Similarly, wage inflation (as measured by the Labour Cost Index) hasn't shown any material pick-up since falling during 2009's financial crisis.

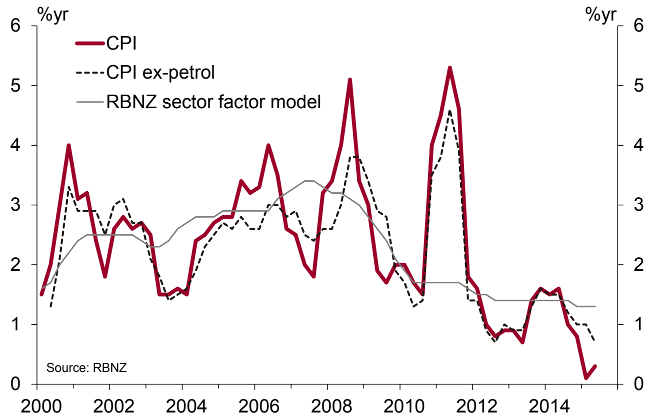
There are some areas where we are seeing domestic inflation lifting. These are mainly related to housing and construction, with pressures increasingly centred on Auckland. However, this doesn't change the more general picture of soft inflation in New Zealand.

Contributing to the subdued domestic inflation environment in recent years have been low input costs. In addition, there has been strong growth in the economy's productive capacity as a result of population growth and capital spending by businesses. This combination of factors has meant that the economy has been able to grow without generating a significant increase in inflation.

Looking forward, we expect that the Reserve Bank is going to have to its work cut out for it in order to get inflation back to 2% on a sustained basis. On top of a rocky global economy, dairy prices have fallen sharply and the Canterbury rebuild is levelling off. Given these headwinds, we expect GDP growth to slow from rates over 3% over the past year, to a below-trend 1.8% by the end of 2016. The resulting softening in demand will make it harder for business to push through price increases. Consistent with this, business surveys have highlighted that only a very low proportion of firms are currently planning on increasing prices.

The latest surveys of inflation expectations have reinforced this soft medium-term outlook for inflation. Expectations play a key role in determining wage and price setting decisions. And while we did see some modest pick-up in inflation expectations in the Reserve Bank's most recent surveys of households and businesses, this follows very sharp falls over the past year. Households and businesses continue to expect very low inflation over the next one to two years.

RBNZ sectoral factor model of core inflation



The above conditions have already seen the Reserve Bank cut rates by 50bps over recent months, and they have signalled that some further reduction is likely. Market pricing is currently consistent with just under 50bps of easing by March 2016. However, in light of the headwinds for growth and already soft inflation, we expect that they will need to cut by more, and more rapidly. We continue to expect that the OCR will drop to a low of 2% over the coming year.

There will be a number of key data releases over the coming week. First up will be August business confidence on Monday. On Wednesday morning we'll receive the results of the latest GlobalDairyTrade auction. We'll also receive updates on the construction sector with building consent numbers for July on Monday and building work put in place figures for the June quarter on Thursday.

Fixed vs Floating for mortgages

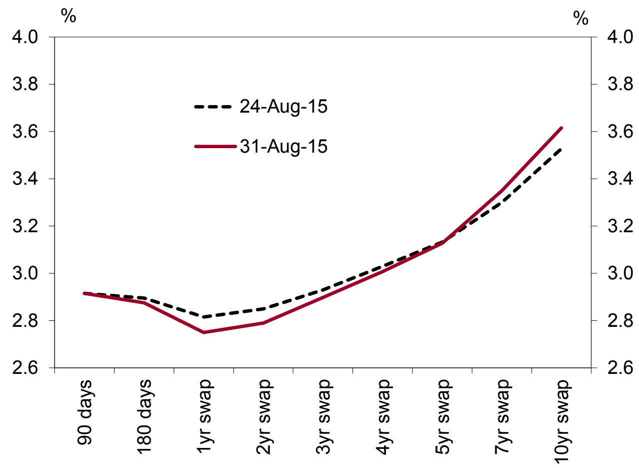
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

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



The week ahead

NZ Jul building consents

Aug 31, Last: -4.1%

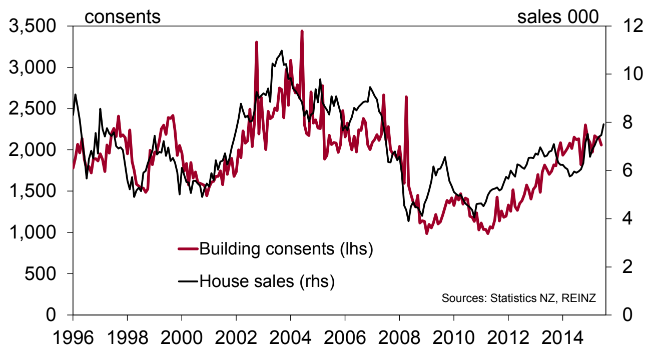
- Residential building consents are expected to edge up slightly, as Auckland continues to expand delivery of housing. This is likely to include an increasing proportion of multi-unit developments (terraced housing and apartments) as land value drives higher densities although there is a lot of variation in multi-unit consents from month to month.
- Growth in Auckland will be offset by declining residential activity as part of the Canterbury residential rebuild.

NZ Aug business confidence

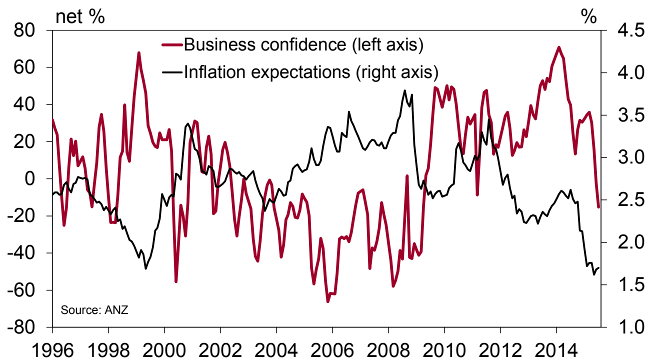
Aug 31, Last: -15.3%

- Business confidence has fallen sharply in recent months. Notably, businesses in both the agricultural and construction sectors have signalled that they expect sharp declines in activity over the coming year.
- Given the magnitude of recent falls in confidence, and the recent recovery in dairy prices, it wouldn't be surprising to see a modest bounce in confidence in August. Nevertheless, business confidence is expected to remain at low levels.
- We'll be closely watching the survey's inflation gauges to see how businesses' pricing intentions are being affected by the combination of a lower NZD and a deteriorating demand outlook.

NZ housing activity



NZ business confidence and inflation expectations



NZ Q2 terms of trade

Sep 1, Last: 1.4%, Westpac f/c: 1.1%

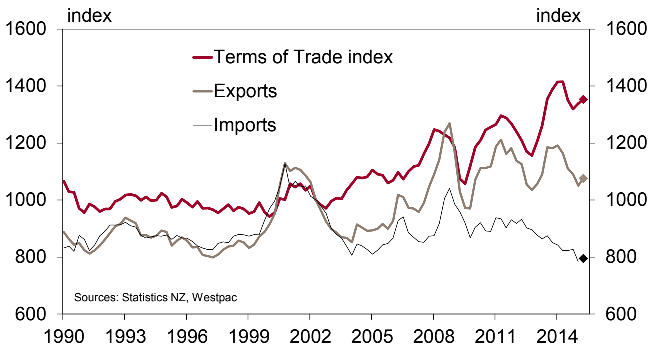
- We estimate that New Zealand's terms of trade recorded its second straight increase over the June quarter. No, that's not a typo.
- World dairy prices spiked in Feb/Mar this year in response to short-lived concerns about drought. Given the typical three-month lag between pricing and shipment, this meant that prices for dairy exports were about 8% higher over the June quarter.
- Elsewhere, there were modest price increases for wood, wool and fish, against a small decline in meat prices. Overall, we expect a 2.4% rise in export prices.
- Import prices rose an estimated 1.3%, largely due to a 10% rebound in oil prices. The NZD was down only slightly on a trade-weighted basis, suggesting little in the way of imported inflation this quarter.

NZ Q2 building work put in place

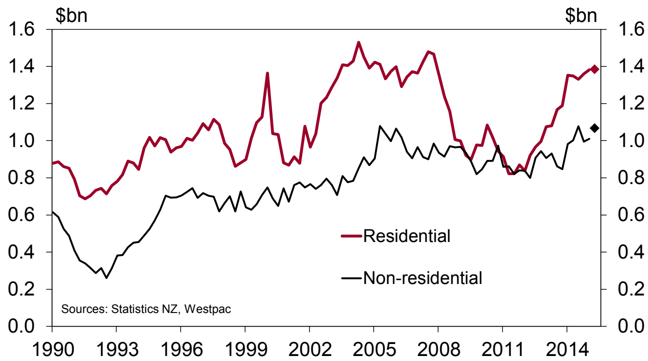
Sep 3, Last: 1.5%, Westpac f/c: 1.9%

- Residential construction is expected to have been broadly flat over the June quarter. However, underlying the aggregate numbers is a shift in the geographic centre of activity. Residential reconstruction activity in Canterbury is now well advanced and building levels have levelled off. At the same time, we are seeing strengthening demand in Auckland.
- There is a significant pipeline of non-residential building work in both Canterbury and elsewhere. We expect growth of around 5.7% over the June quarter.

NZ Terms of Trade



NZ real building work put in place

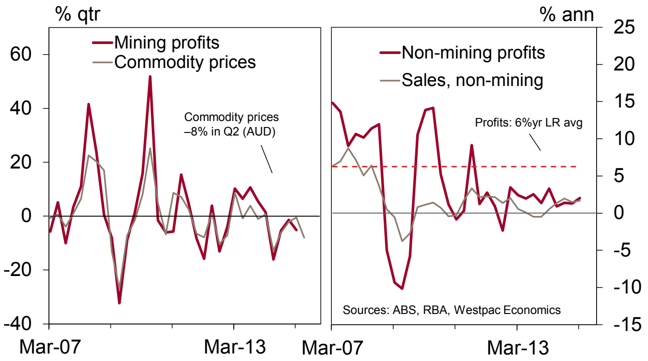


Aus Q2 company profits

Aug 31, Last: 0.2%, WBC f/c: –1.5%
Mkt f/c: –1.8%, Range: –4.5% to 2.0%

- Company profits trended lower in 2014 and are set to take a further step down.
- For Q2, profits are forecast to decline by 1.5%.
- Miners have been hit by plunging global commodity prices. This was again the case in the June quarter, with commodity prices in AUD terms falling –8%qtr, –16%yr.
- Profits across the broader economy have been mixed, reflective of uneven conditions. On balance, we anticipate a broadly flat result for the quarter. Profitability has improved in the consumer related sectors, as well as construction and finance. By contrast, profits in the goods distribution sectors have come under pressure.

Company profits

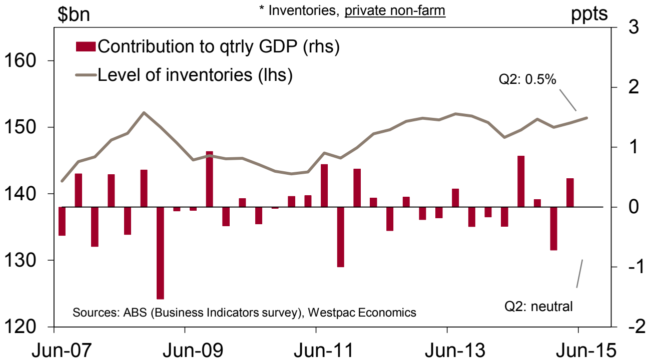


Aus Q2 inventories

Aug 31, Last: 0.4%, WBC f/c: 0.5%
Mkt f/c: 0.2%, Range: –0.5% to 1.5%

- Private non-farm business inventories are expected to be neutural for growth in Q2. We anticipate a 0.5% increase in inventory levels in the quarter, in line with the outcome for the opening months of 2015.
- Firms have responded to the strengthening of household demand by expanding inventories. Over the past year, inventories ex mining and ex manufacturing grew by 2.9%, following a flat period in the year to March 2014.
- However, total inventories rose by a more modest 1.3% over the past year. The manufacturing sector has been reducing inventories since 2008 and in mining, inventories consolidated over recent quarters.

Inventories: f/c neutral in Q2*

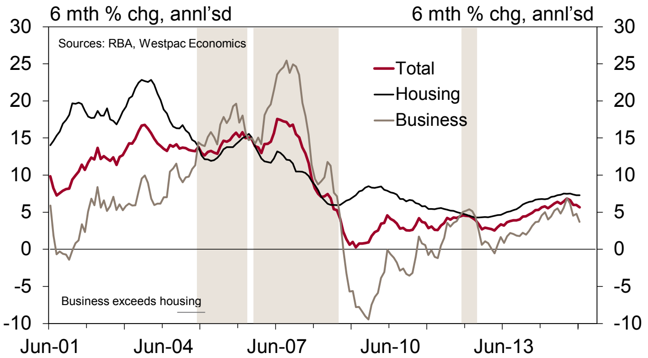


Aus Jul private sector credit

Aug 31, Last: 0.4%, WBC f/c: 0.5%
Mkt f/c: 0.5%, Range: 0.3% to 0.7%

- Credit to the private sector grew 0.5% per month on average over 2015 H1, to be up 5.9% from the middle of 2014.
- For July, credit growth is forecast to be 0.5%, following a 0.4% rise in June.
- Business credit has been choppy over recent months, following a strong six months to February. With new lending, commercial finance, rebounding of late we expect business credit to advance in July, up 0.3%, after a flat June, to be 4.1% higher than a year ago.
- Housing credit grew by 0.6%, 7.3%yr in June. Low and falling interest rates and strong investor interest are driving the sector forward. A similar outcome is likely in July.

Credit momentum

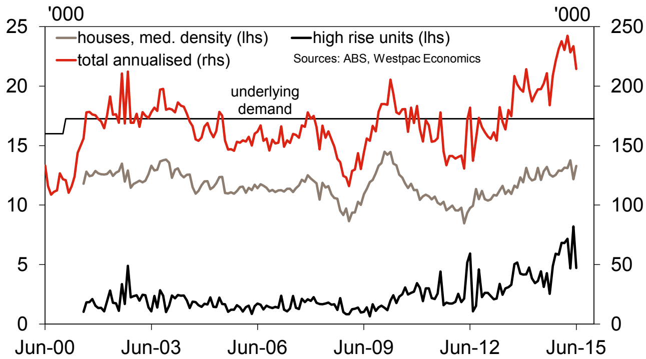


Aus Jul dwelling approvals

Sep 1 Last: –8.2%, WBC f/c: 3.0%
Mkt f/c: 3.0%, Range: –3.0% to 8.5%

- Dwelling approvals fell sharply in June, the 8.2% drop driven by a big reversal in previously strong high-rise approvals. An apparent pull-forward in Victoria ahead of a new levy on metro area approvals from July 1 had been expected to hold approvals at a higher level but failed to do so. Ex high-rise, approvals were actually up in the month, a testimony both to the steepness of the June high-rise decline and the sizeable portion this segment now accounts for in total approvals.
- Further weakness is likely in July as the Victorian pull-foward unwinds. That said, the June drop looks a little overdone – the sharp fall in high-rise in particular looks like an 'air pocket' that should post a partial reversal. On balance we expect July approvals to lift 3% but the underlying trend story still looks to be of a strong upswing cycle that has now passed its peak.

Dwelling approvals, high rise vs the rest



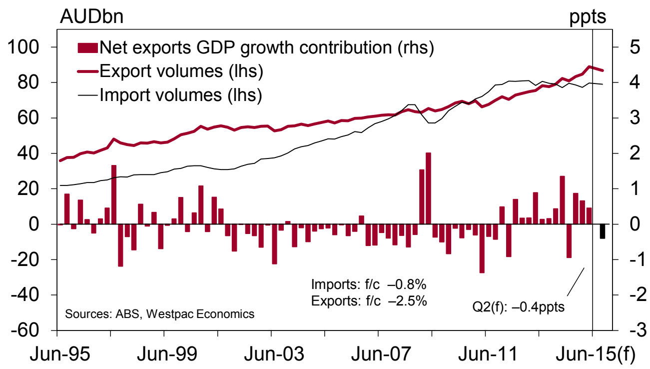
The week ahead

Aus Q2 net exports, ppt cont'n

Sep 1, Last: 0.5, WBC f/c: –0.4
Mkt f/c: –0.3, Range: –0.5 to flat

- Net exports have been making a sizeable positive contribution to growth of late, led by rising resource exports as new projects begin production. This was evident in Q1, with a +0.5ppt result. However, for Q2, we expect a sizeable subtraction, forecasting a –0.4ppts contribution.
- Export volumes gave back some of Q1's surge, down an estimated 2.5%, following a 5% jump. Fewer weather disruptions than usual early in the year resulted in stronger Q1 shipments of coal and iron ore. This was partially reversed in Q2.
- Import volumes fell an estimated 0.8% in Q2, following a sizeable 3% rise in Q1. Imports have generally been soft of late, as mining investment returns to earth, the lower AUD makes overseas travel less affordable and given the mixed domestic demand backdrop.

Net exports: f/c –0.4ppts in Q2

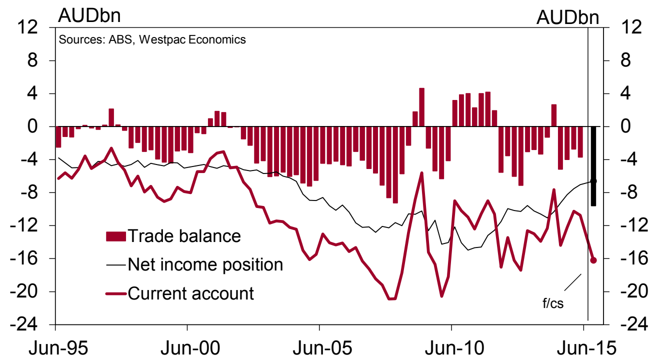


Aus Q2 current account, AUDbn

Sep 1, Last: –10.7, WBC f/c: –16.2
Mkt f/c: –15.8, Range: –17.2 to –13.5

- Australia's current account deficit widened sharply in the June quarter, to $16.2bn, a $5.5bn deterioration on the March quarter. This represents –4.0% of GDP, up from –2.7% in Q1.
- The trade deficit blew out to $9.6bn from an originally reported $3.7bn deficit, revised to –$4.7bn. The slump in the terms of trade continued, down an estimated 4.3% to be 17% lower than at the end of 2013. In addition, net exports were a negative in the quarter.
- The net income deficit is expected to continue to narrow, to a forecast –$6.6bn, down from –$7.0bn in Q1 and from –$9.2bn a year earlier. Notably, the returns for overseas investors in Australia have been under performing those for Australia's investments abroad.

Current account: f/c –$16.2bn in Q2

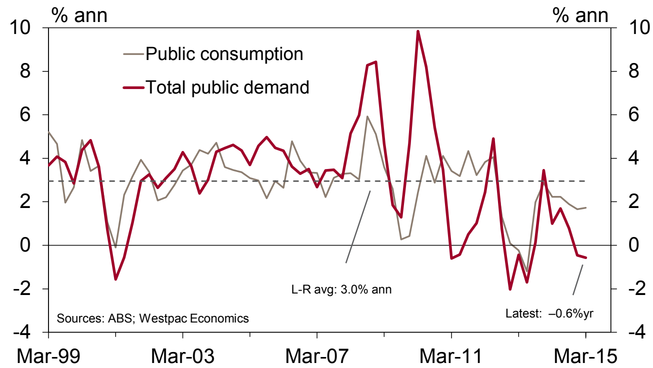


Aus Q2 public demand

Sep 1, Last: 0.2%, WBC f/c: flat

- Public demand, representing just over 20% of the economy, has stalled. A focus on budget repair and a lack of urgency around public infrastructure are key constraints.
- For Q2, we expect a flat quarter, following a 0.2% rise in Q1. That would see public demand 1% lower over the year.
- Public consumption is running at around a 2% annual pace, which is below the long-run average of 3%.
- Public investment, which accounts for a little less than 20% of public demand, is the key source of weakness. Investment fell 10% over the past year and a further fall in the June quarter is a risk. Public construction work slumped 8% in the period. Going forward, an improvement is likely, as state governments begin to lift spending on key transport projects.

Public demand: declined over the past year

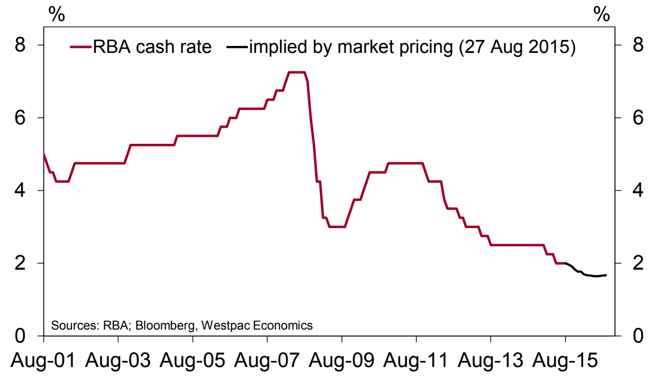


Aus RBA policy announcement

Sep 1, Last: 2.00%, WBC f/c: 2.00%
Mkt f/c: 2.00%, Range: 2.00% to 2.00%

- The Reserve Bank Board is expected to leave interest rates unchanged in September, for the fourth consecutive month.
- The Bank lowered rates in February and May, taking the cash rate to 2.00% from 2.50%, having been on hold since August 2013. The RBA is in "watch and see mode", assessing the impact of this additional policy stimulus.
- The most recent statement from the RBA was relatively balanced. The Bank highlighted that the unemployment rate has stabilised of late and argued that this will continue, ahead of a decline during 2017.
- We expect rates to be hold on for the remainder of 2015 and in 2016. As to the risks, they are tilted to the downside, with economic growth below par and the terms of trade in decline.

RBA cash rate

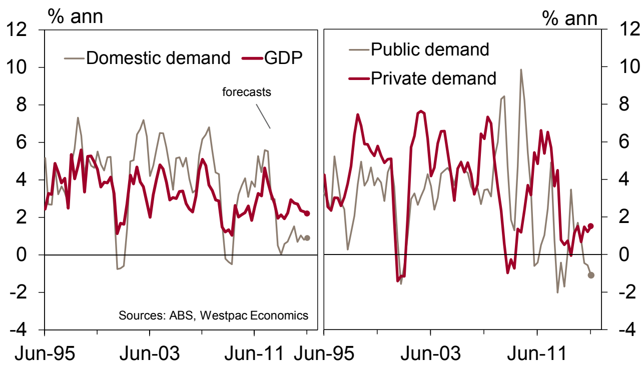


Aus Q2 GDP

Sep 2, Last: 0.9%qtr, 2.3%yr, WBC f/c: 0.4%qtr, 2.2%yr
Mkt f/c: 0.4%, Range: –0.1% to 0.7%

- Overall conditions in the Australian economy are lacklustre, with growth uneven. For Q2, GDP growth is forecast to be 0.4%, with annual growth edging lower to 2.2% from 2.3%.
- A dip in exports, partially reversing a surge in Q1, will see net exports subtract 0.4ppts from Q2 growth.
- Domestic demand is forecast to rise by 0.7%qtr, 0.9%yr in Q2, after stalling in Q1. A late cycle burst of infrastructure work on mining projects has inflated activity in the quarter, adding 0.5ppts to domestic demand.
- Consumer spending grew a modest 0.5%qtr, 2.6%yr in Q1. We anticipate a 0.6% rise in Q2, with households lowering their saving rate to partially offset weak wage incomes.

Australian economic conditions

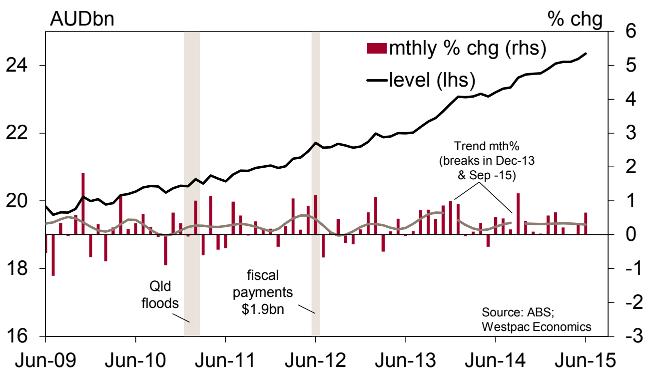


Aus Jul retail trade

Sep 3, Last: 0.7%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: 0.1% to 0.5%

- Retail sales posted a 0.7% gain in June, driven by a solid 2.2% rise in household goods retail. Some of this directly linked to new construction. However we suspect part of the lift also related to Budget measures encouraging small business investment ahead of the end of financial year. A similar modest lift in June vehicle sales retraced in July.
- July will see any Budget-related spending lift reverse. Consumer sentiment also fell quite sharply following renewed instability in Europe and a slump in China's sharemarket. However, the evidence from private sector business surveys and anecdotal reports suggests Q2 sales momentum has been sustained. Housing-related spending in particular should remain a solid positive. On balance we expect a decent 0.4% gain in July.

Monthly retail sales

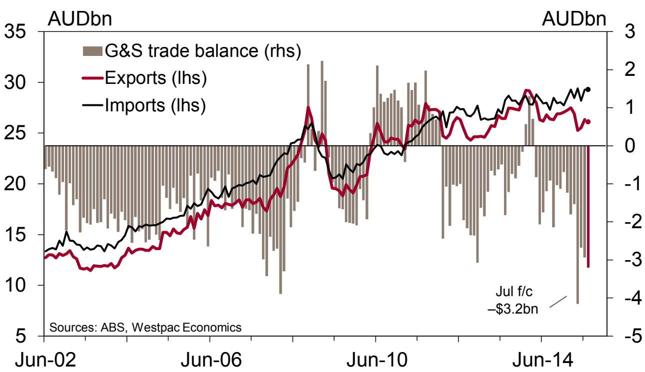


Aus Jul trade balance, AUDbn

Sep 3, Last: –2.9, WBC f/c: –3.2
Mkt f/c: –3.1, Range: –3.7 to –2.0

- Australia is running sizeable trade deficits as plunging commodity prices dent export earnings.
- In July, the trade deficit is expected to deteriorate a little further, widening to $3.2bn from $2.9bn in June.
- Export earnings fell a forecast 1% in the month. Iron ore was hit by lower prices and fewer shipments, while oil prices also declined in the month.
- Imports are forecast to be broadly flat in the month. The ABS advise that goods imports edged 0.2% higher and we anticipate that services will be little changed.
- Note, the Australian dollar slumped in July, down 4% against the US dollar and 3% lower on a TWI basis. This acts to raise the cost of imports and boost AUD export earnings.

Australia's trade position

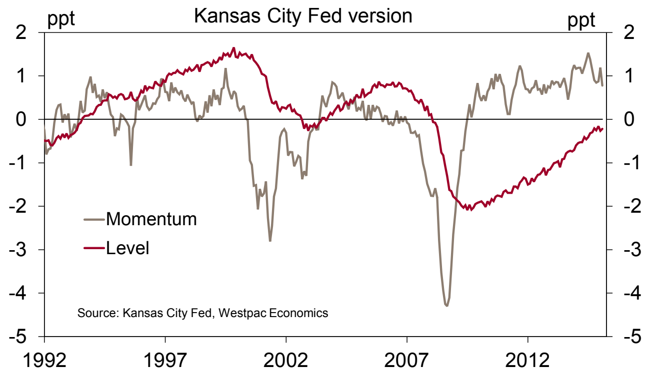


US August nonfarm payrolls & unemployment

Sep 4, nonfarm payrolls Last: 215k, WBC f/c: 230k
Sep 4, Last: 5.3%, WBC f/c: 5.3%

- Nonfarm payrolls rose 215k in July, following gains of 231k and 260k in June and May respectively. Three-month average growth stands at 235k; and six-month average growth is 213k.
- In the household survey, the unemployment rate remained steady at 5.3%, thanks to moderate job gains and a steady participation rate.
- In August, we expect to see further robust growth in employment, with a nonfarm payrolls gain circa 230k likely. Initial claims data continues to point to a low pace of firing; and the business surveys are supportive of continued robust hiring. Participation may tick higher, but the unemployment rate will likely remain unchanged.

US labour market: full employment on horizon



Data calendar

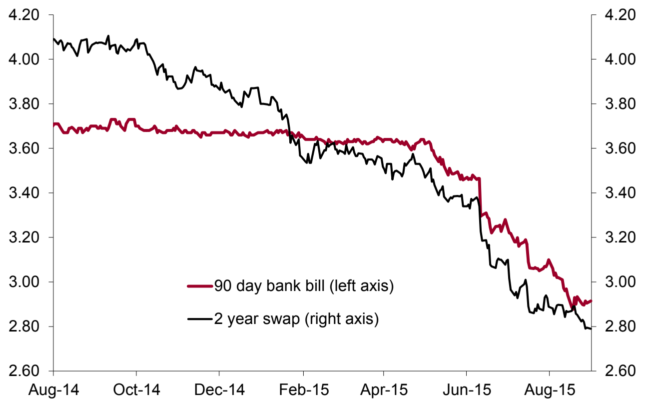
		Last	Market median	Westpac forecast	Risk/Comment
Mon 31					
NZ	Jul building consents	–4.1%	–	–	Demand is being driven by strengthening activity in Auckland.
	Aug business confidence	–15.3	–	–	Following recent sharp falls, confidence is expected to remain low.
Aus	Q2 company profits	0.2%	–1.8%	–1.5%	Profits hit by lower commodity prices and uneven conditions.
	Q2 inventories	0.4%	0.2%	0.5%	Inventories rise to meet a lift in household demand. Neutral for Q2 GDP.
	Jul private sector credit	0.4%	0.5%	0.5%	Housing supported by lower rates. Business choppy month to month.
	Aug TD inflation gauge, %yr	1.6%	–	–	Inflation benign consistent with current economic backdrop.
Eur	Aug CPI %yr	0.2%	0.1%	–	Headline inflation still non-existent; core at 1.0%yr.
US	Aug ISM Milwaukee	47.1	–	–	Has fallen to low levels in recent months.
	Aug Chicago PMI	54.7	54.8	–	Has picked up, but remains moderate.
	Aug Dallas fed manufacturing survey	–4.6	–2.5	–	Remains a little below average.
Can	Q2 current account balance	–17.5b	–	–	US demand has been supporting exports.
Tue 01					
NZ	Q2 terms of trade	1.5%	–3.7%	1.1%	Temporary drought-induced spike in dairy export prices.
	Aug QV house prices %yr	10.1%	–	–	Signs of housing strength spreading beyond Auckland.
Aus	Aug CoreLogic-RP Data home value index	2.8%	–	0.4%	Daily index slowed in Aug after big gains June-July. Sydney prices >15%yr.
	Jul dwelling approvals	–8.2%	3.0%	3.0%	June's big fall in high-rise looks overdone. Underlying cycle has peaked.
	Q2 net exports, ppts cont'n	0.5	–0.3	–0.4	A negative in Q2 as exports dip following surge in Q1.
	Q2 current account, AUDbn	–10.7	–15.8	–16.2	Current account deteriorates as trade deficit blows out. ToT down sharply.
	Q2 public demand	0.2%	–	flat	Public demand has stalled. Declining investment key weakness.
	Aug AiG PMI	50.4	–	–	Manufact'g index avg'd 48.7 since April - pluses are housing & lower AUD.
	RBA policy announcement	2.00%	2.00%	2.00%	Rates to be unchanged for a 4th consecutive meeting, following 2 cuts.
Chn	Aug manufacturing PMI	50.0	49.7	–	Flash Caixin scared the horses, manufacturing still under pressure.
	Aug non-manufacturing PMI	53.9	–	–	Similar level to Caixin version - sub trend but not alarmingly so.
	Aug Caixin PMI manufacturing - final	47.1	47.3	–	Level close to Krw/Twd reflecting common factor of weak global trade.
	Aug Caixin PMI services	53.8	–	–	Under new mgt release date brought forward to compete with NBS.
Eur	Aug Markit manufacturing PMI (final)	52.4	52.4	–	Decent, albeit not spectacular, momentum.
	Jul unemployment rate	11.1%	11.1%	–	Unemployment still very high; a major hindrance for policy.
Ger	Aug Markit manufacturing PMI (final)	53.2	53.2	–	German manufacturers continue to benefit from EUR.
UK	Jul net lending secured on dwellings	2.6b	–	–	Lower mortgage rates have boosted the housing market.
	Jul mortgage approvals	66.6k	67.8k		Housing market conditions have been strengthening.
	Aug Markit manufacturing PMI	51.9	52.0	–	Domestic demand has firmed, but export orders remain weak.
US	Aug Markit manufacturing PMI (final)	52.9	52.9	–	Has come back into line with ISM of late.
	Aug ISM manufacturing	52.7	52.8	53.0	USD impacting sector, but growth persists.
	Jul construction spending	0.1%	0.8%	–	Revisions to Q2 GDP point to better momentum in construction.
	Fedspeak	–	–	–	Fed's Rosengren to speak on economic outlook.
Can	Q2 Jun GDP, % annualised	–0.6%	–0.9%	–	Canadian activity is being dampened by fall in oil prices.
	Manufacturing PMI	50.8	–	–	RBC measure; momentum lacking, but positive.
Wed 02					
NZ	GlobalDairyTrade auction	14.8%	–	–	Anticipated cutbacks in milk production have lifted dairy prices.
	Aug commodity prices	–11.2%	–	–1.0%	Recent dairy price bounce likely to show through next month.
Aus	Q2 GDP	0.9%	0.4%	0.4%	Net exports swing from +0.5ppts in Q1 to -0.4ppts.
Eur	Aug Markit services PMI (final)	54.3	54.3	–	Final read for month; composite at 54.1.
UK	Aug Markit construction PMI	57.1	57.5	–	Remains at firm levels.
US	Aug ADP employment change	185k	200k	210k	Undershooting nonfarm payrolls of late.
	Aug New York ISM	68.8	–	–	Businesses reported improved conditions in recent months.
	Jul factory orders	1.8%	0.7%	0.9%	Revisions to durables welcome; overall trend still soft.
	Federal Reserve Beige Book	–	–	–	Fed reviews regional economic conditions.
Thu 03					
NZ	Q2 building work put in place	1.5%	–	1.9%	Activity is shifting from Canterbury to Auckland.
Aus	Jul retail trade	0.7%	0.4%	0.4%	Budget effects & sentiment hit a drag in July but other indicators +ve.
	Jul trade balance, AUDbn	–2.9	–3.1	–3.2	Deficit widens. Exports -1%, led lower by iron ore. Imports flat.
Eur	ECB policy meeting	–	–	–	No change, in stance or in tone of communications.
UK	Aug Markit services PMI	57.4	57.5	–	Remains at firm levels; composite measure at 56.6.
Ger	Aug Markit services PMI (final)	53.6	53.6	–	Composite measure at 54.0.
US	Initial jobless claims	271k	–	–	Claims remain at very low levels, consistent with firm jobs growth.
	Jul trade balance	–43.8b	–44.3b	–45.0	Jul to see slightly wider deficit; USD supportive of imports.
	Aug Markit services PMI (final)	55.2	–		Final release for month; composite at solid 55.0.
	Aug ISM non-manufacturing	60.3	58.3	57.0	Startling strength in Jul; pullback seems assured.
Fri 04					
Ger	Jul factory orders	2.0%	–0.8%	–	Activity likely dipped in Jul after strong June.
US	Aug non-farm payrolls	210k	215k	230k	Hiring robust and firing limited; another strong employment print.
	Aug unemployment rate	5.3%	5.3%	5.3%	Participation may tick higher, but unemp rate to remain unchanged.
	Fedspeak	–	–	–	Fed's Lacker gives speech "The case against further delay".
Can	Aug Ivey PMI	52.9	–	–	Conditions have softened in recent months.

New Zealand forecasts

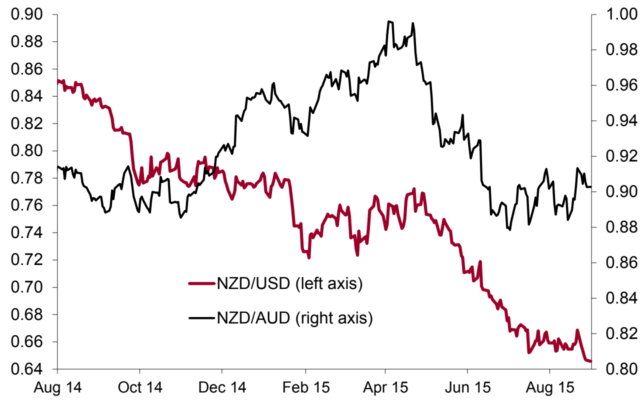
Economic Growth Forecasts	March years				Calendar years			
% change	2014	2015	2016f	2017f	2013	2014	2015f	2016f
GDP (Production) ann avg	2.5	3.2	2.1	2.0	2.2	3.3	2.2	1.8
Employment	3.8	3.2	0.5	2.1	2.9	3.6	0.9	1.8
Unemployment Rate % s.a.	6.0	5.8	6.5	6.3	6.1	5.7	6.4	6.3
CPI	1.5	0.1	1.6	1.3	1.6	0.8	0.7	1.7
Current Account Balance % of GDP	-2.6	-3.6	-5.4	-4.4	-3.3	-3.3	-4.8	-4.8

Financial Forecasts	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Cash	2.75	2.25	2.00	2.00	2.00	2.00
90 Day bill	2.70	2.20	2.10	2.10	2.10	2.10
2 Year Swap	2.60	2.30	2.20	2.10	2.10	2.10
5 Year Swap	2.90	2.70	2.70	2.60	2.60	2.70
10 Year Bond	3.10	2.90	2.90	3.00	3.10	3.20
NZD/USD	0.64	0.63	0.62	0.63	0.65	0.67
NZD/AUD	0.90	0.90	0.89	0.91	0.92	0.92
NZD/JPY	77.4	77.5	76.3	78.7	81.3	84.4
NZD/EUR	0.59	0.59	0.58	0.59	0.60	0.61
NZD/GBP	0.42	0.42	0.41	0.42	0.42	0.43
TWI	69.2	68.9	67.8	69.4	70.7	72.0

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 31 August 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.00%	3.00%	3.00%
30 Days	3.04%	3.09%	3.13%
60 Days	2.93%	3.03%	3.11%
90 Days	2.92%	2.94%	3.11%
2 Year Swap	2.79%	2.88%	2.86%
5 Year Swap	3.13%	3.18%	3.23%

NZ foreign currency mid-rates as at Monday 31 August 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6458	0.6539	0.6605
NZD/EUR	0.5781	0.5883	0.6014
NZD/GBP	0.4192	0.4178	0.4223
NZD/JPY	78.56	81.26	81.85
NZD/AUD	0.9028	0.8868	0.9032
TWI	69.95	70.24	70.41

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014	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	2.2
Unemployment %	5.2	5.3	5.8	6.2	6.5	6.2
Current Account % GDP	-2.8	-4.4	-3.3	-2.8	-3.7	-4.2
United States						
Real GDP %yr	1.6	2.3	1.5	2.4	2.2	2.8
Consumer Prices %yr	3.1	2.1	1.5	1.6	0.2	2.0
Unemployment Rate %	8.9	8.1	7.4	6.2	5.4	5.1
Current Account %GDP	-2.9	-2.9	-2.2	-2.2	-2.4	-2.4
Japan						
Real GDP %yr	-0.5	1.8	1.6	-0.1	1.0	1.7
Euroland						
Real GDP %yr	1.6	-0.8	-0.3	0.9	1.3	1.1
United Kingdom						
Real GDP %yr	1.6	0.7	1.7	3.0	2.5	2.5
China						
Real GDP %yr	9.3	7.8	7.8	7.4	7.0	6.8
East Asia ex China						
Real GDP %yr	4.4	4.5	4.3	4.1	3.7	4.0
World						
Real GDP %yr	4.2	3.4	3.4	3.4	3.1	3.6
Forecasts finalised 7 Aug 2015						

Interest Rate Forecasts	Latest	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Australia						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.13	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.74	3.00	3.10	3.25	3.40	3.60
International						
Fed Funds	0.125	0.375	0.625	0.875	1.125	1.375
US 10 Year Bond	2.19	2.60	2.80	3.00	3.20	3.40
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
AUD/USD	0.7180	0.71	0.70	0.70	0.70	0.71
USD/JPY	120.97	121	123	123	124	125
EUR/USD	1.1240	1.09	1.07	1.07	1.07	1.08
AUD/NZD	1.1070	1.11	1.11	1.13	1.11	1.09

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Disclaimer continued

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