Weekly Commentary

29 February 2016

We've got company

On 23 February, we released our quarterly Regional Roundup[1] that considered the recent economic performance of New Zealand's regions and the outlook for each.

The analysis and report confirmed the three key themes identified in our February Quarterly Economic Overview[2] as being drivers of the outlook for New Zealand:

- Weak commodity prices, particularly in dairy
- A stronger service sector, particularly tourism
- Construction activity.

The level of exposure each region has to these three risks or opportunities provides a strong insight into its immediate outlook.

First, the bad news. At the time of our November *Regional Roundup*, dairy prices had rebounded somewhat and confidence had returned in many dairying regions although we were still forecasting two seasons of relatively weak payouts. Since then, the news for dairy has all been in the wrong direction. Our most recent forecast is a payout of just $4.00 for the current season, and $4.60 for next season. That would make it three dismal seasons in a row after last season's weakness.

One interesting point that we examined in our *Regional Roundup* is the level of exposure of different regions to each of 23 industries. While the Waikato has by far the largest dairy industry, with more than one quarter of national dairy employment, it actually has a relatively diverse economy. Hamilton is far more than just a service centre for the rural sector, for instance. As a result, the impact of a fall in dairy prices although significant for the Waikato economy, will likely be more heavily felt in Southland, where fewer workers are employed in dairy, but where dairy is a far bigger share of the economy.

The impacts of a weak payout will be felt worst, in order of magnitude, by Southland, Waikato, Taranaki, the West Coast, and Manawatu-Whanganui. Farmers are already cutting costs and will look to make further reductions wherever possible. Less capital investment and less discretionary spending will affect businesses they buy from across these regions.

Other commodities are not exempt from falling global demand, particularly from China. Forestry, strongly over-exposed relative to New Zealand as a whole in Northland and the Bay of Plenty, has been fortunate to see prices hold up relatively well. We expect that to change over the coming months. Lamb prices are also expected to drop, affecting Southland, Gisborne and the Hawke's Bay most.

But there is also good news. The El Niño drought that was widely expected by weather forecasters has failed to have nearly as big an impact on our rural regions as expected, meaning production will be less affected. This is a welcome result in Otago, Canterbury, Gisborne, the Hawke's Bay and Northland, which are often badly affected by El Niño. We have

1 See http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Regional-Roundup-February-2016.pdf

2 See http://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Westpac-QEO-February-2016_EMAIL.pdf

We've got company continued

backed the impact of drought out of our GDP forecast, leading to a significant upwards revision in the immediate term.

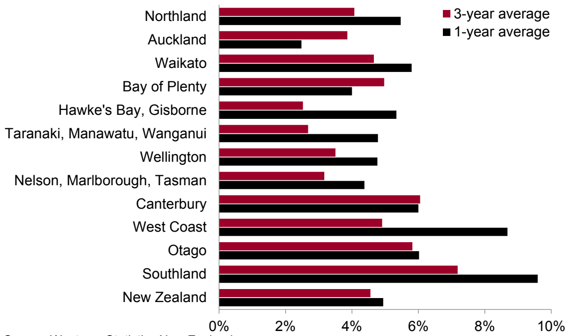
Meanwhile, regions with a stronger services focus, and particularly tourism, are facing a much stronger outlook. Hotels in Auckland, Queenstown, Wellington, Christchurch and Rotorua are enjoying strong growth in occupancy rates and revenue per available room, to the extent that industry sources have identified capacity constraints across these centres. New routes to New Zealand are being announced just about every week, and existing domestic and international routes are adding capacity.

Tourism's surge is being limited by a lack of new beds. This is not the perfect outcome, but it is a nicer problem to have than the opposite possibility. The tourism future is looking bright for Otago (mostly Queenstown-Wanaka), the Bay of Plenty, Wellington, Canterbury (as more accommodation comes on stream), and the top of the South Island.

Other services across media and ICT, business services, and finance and insurance are also enjoying a period of moderate growth.

Meanwhile, construction in some parts of the country is booming. Annual residential consents in Auckland rose 21% in 2015. We have been saying for some time that we're building too few dwellings in our largest city; we're already more than 26,000 dwellings short. The message is getting through although we're still well off the pace needed to match demand. Non-residential building is also seeing enjoying a boost in Auckland. We expect activity to stay strong for some time there.

Growth in annual guest nights



Source: Westpac, Statistics New Zealand

And the construction boom is spreading beyond Auckland. The Bay of Plenty and the Waikato (Hamilton mostly) both saw residential consents issued in the December quarter rise by over 50% over the same quarter a year earlier.

After strong increases in recent years, construction spending in Canterbury has been levelling off. Reconstruction spending on housing is well advanced and has started to ease back. But at the same time non-residential construction is ramping up. As a result, the level of total construction spending in the region is likely to remain strong for some time yet, though the region's growth rate is likely to pull back after strong gains in recent years. This will mean the unemployment rate in that region is unlikely to stay at the lows it has enjoyed, though positive trends in other parts of the regional economy (such as tourism and ICT) will provide some offset.

Fixed vs Floating for mortgages

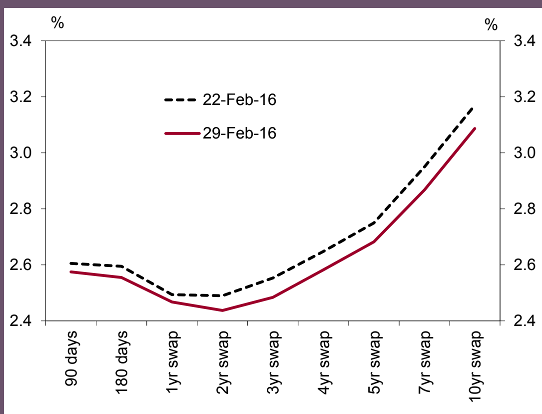
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

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 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 Jan residential building consents

Feb 29, Last: 2.3%, Westpac f/c: -1.9%

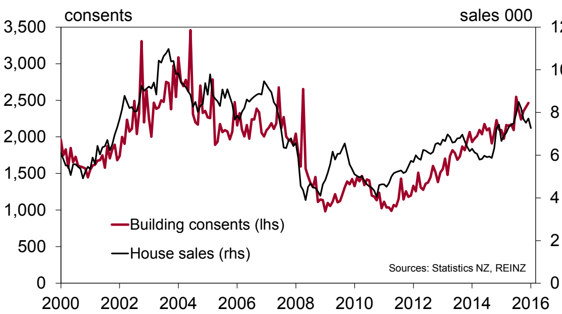
- Seasonally-adjusted monthly residential consents have increased 10.1% over the last three months.
- December's growth was stronger than expected, but we anticipate that increases may take a breather this month.
- Both Canterbury and Auckland could see a slight fall in consents after an especially strong December.
- Canterbury in particular was a surprise last month as the residential component of the rebuild there begins to taper off.

NZ Feb business confidence

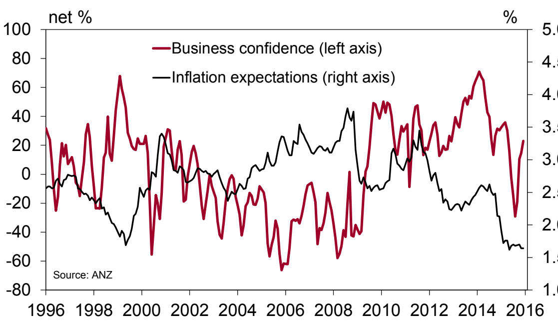
Feb 29, Last: 23.0

- Business confidence fell sharply through mid-2015, but had recovered much of its lost ground by the end of the year.
- This will be the first business survey since December. In that time, firms have contended with: stronger than expected GDP growth, an extremely weak inflation report, a surprising drop in the unemployment rate, further downward revisions to farmgate milk price forecasts, plunging oil prices, and heightened volatility in global markets. We suspect that sentiment could go either way this time.
- As always, the survey's inflation gauges will be watched closely. Pricing intentions have shown some life at times, but there is little sign that this is translating into action, and inflation expectations in general remain at historic lows.

NZ housing activity



NZ business confidence and inflation expectations



NZ Q4 terms of trade

Mar 1, Last: -3.7%, Westpac f/c: -1.0%

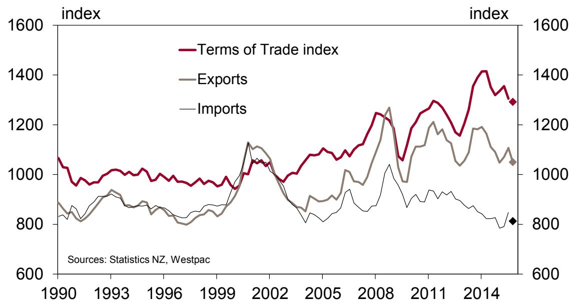
- New Zealand's terms of trade has been battered by falling dairy prices, but better fortunes for other commodity exports and cheaper oil have gone a long way towards limiting the damage. Despite the current downturn, the terms of trade remains above the cyclical peaks reached in 2008 and 2011.
- We estimate that the terms of trade fell 1% in the December quarter, reflecting the balance of a 5% fall in export prices and a 4% fall in import prices. Dairy export prices fell around 13%, while prices for petroleum products, New Zealand's largest import item, fell by around 20%.
- A rebound in the NZ dollar over the quarter also contributed to the fall in prices on both sides of the ledger.

NZ Q4 building work put in place

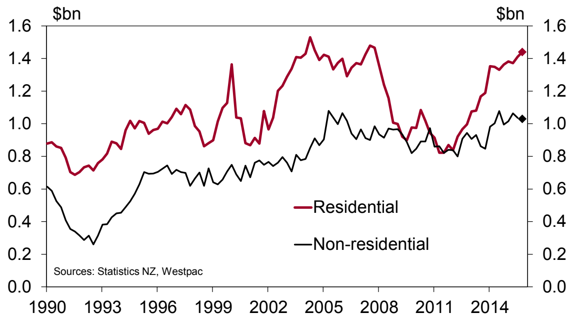
Mar 3, Last 0.5%, Westpac f/c: 0.7%

- September quarter building work put in place surprised on the weak side.
- After strong growth in consent activity in September and December, we expect moderate growth in building work put in place for the December quarter.
- Growth will be led by steady gains in residential activity, especially in Auckland, although there has been a lumpier spike in non-residential and non-building consents that may start to show in the December quarter, but is more likely to show up in the March quarter.
- Capacity constraints are the likely handbrake on growth being even stronger than that forecast.

NZ Terms of Trade



NZ real building work put in place



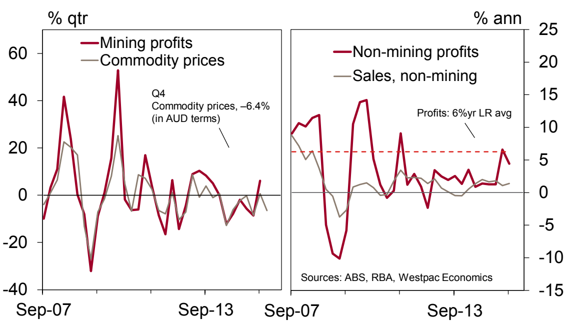
The week ahead

Aus Q4 company profits

Feb 29, Last: 1.3%, WBC f/c: –3.5%
Mkt f/c: –1.8%, Range: –5.0% to 2.0%

- The Business Indicators survey reported a 1.3% rise in company profits for Q3. Mining profits rebounded on stronger sales, up 6%qtr but still 10% below a year ago. Non-mining profits were little changed, with mixed outcomes across industries consistent with uneven economic conditions.
- A weaker result is in prospect for Q4, with profits in the Business Indicator survey forecast to fall by 3.5%qtr.
- Mining profits were once again hit by lower commodity prices, –6.4% in AUD terms, and non-mining profits may again be flat as conditions remain mixed. Also, inventory prices fell in Q4, on our figuring, which will be booked as a loss. However, profits in the national accounts fall by 1.5% on our numbers, a measure which abstracts from the accounting treatment of inventories.

Company profits: Q4, mining hit by price falls

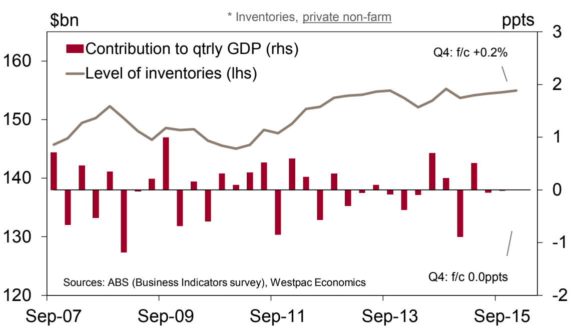


Aus Q4 inventories

Feb 29, Last: 0.1%, WBC f/c: 0.2%
Mkt f/c: 0.1%, Range: –0.5% to 0.4%

- Private business inventories were held broadly flat in Q3, edging only 0.1% higher, which was neutral for Q3 GDP.
- By industry, there was a modest rebuilding of mining inventories, following a run-down over late 2014, into early 2015. However, manufacturing inventories continued to decline, ahead of the closure of auto makers. Across other sectors, with a focus on consumers, inventory levels consolidated after some rebuilding during 2014 as conditions strengthened.
- We anticipate a further consolidation in Q4 given the absence of any new momentum in conditions. Inventories are forecast to rise by only 0.2%qtr, another neutral result for GDP.

Inventories: Q4 f/c +0.2%, 0.0ppts

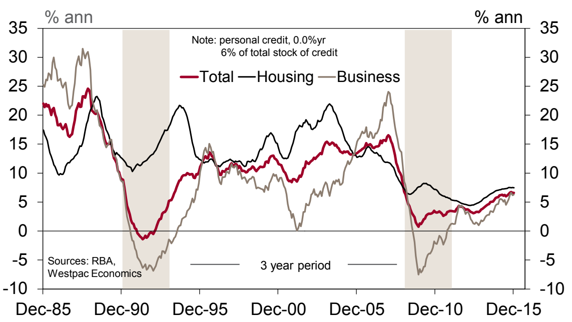


Aus Jan private sector credit

Feb 29, Last: 0.5%, WBC f/c: 0.5%
Mkt f/c: 0.5%, Range: 0.5% to 0.6%

- Credit posted a 0.4% rise in November and then a 0.5% gain in December, more modest outcomes than over the previous four months (0.6%, 0.6%, 0.7% and a 0.7%).
- For January, we expect credit to expand by 0.5%.
- The business segment is typically key to monthly fluctuations in total credit. Through July to October business credit grew by a brisk 0.9% per month on average, results inflated by valuations effects associated with the falling dollar. Since then, business credit recorded a flat outcome and a rise of 0.5%, with the latter more in line with that implied by commercial finance.
- Housing credit grew by 0.55%, 7.5%yr in December. A gradual loss of momentum is likely to emerge in coming months, with new lending to investors falling of late.

Credit mix: annual growth

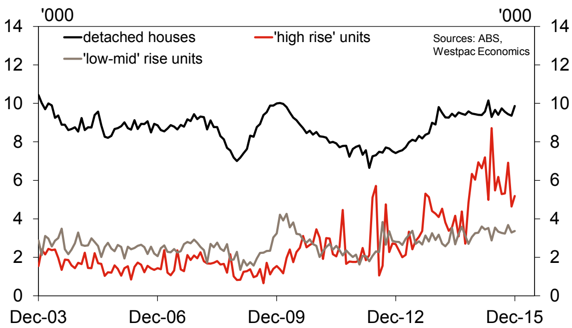


Aus Jan dwelling approvals

Mar 1 Last: 9.2%, WBC f/c: –1.0%
Mkt f/c: –3.0%, Range: –8.0% to 1.0%

- Dwelling approvals posted a better than expected 9.2% rebound in Dec from a 12.4% drop in Nov. A surprisingly strong rise in detached house approvals combined with an expected partial recovery in units which led the big Nov fall. Approvals still look to have moved into a downturn since early 2015 but to date this has been confined to the volatile 'high rise' component of unit approvals.
- We expect the downtrend to re-establish in early 2016 with a 1% decline in approvals in Jan. Note that the holiday season typically sees a 20-30% drop in approvals in Jan – the heavy seasonal adjustment factor applied to the month means the headline approvals estimate can be erratic and prone to revision. Combined with the high concentration of high-rise approvals in recent months, there is a risk of more volatile moves in monthly approvals through Jan-Feb.

Dwelling approvals: houses, low-mid & high rise



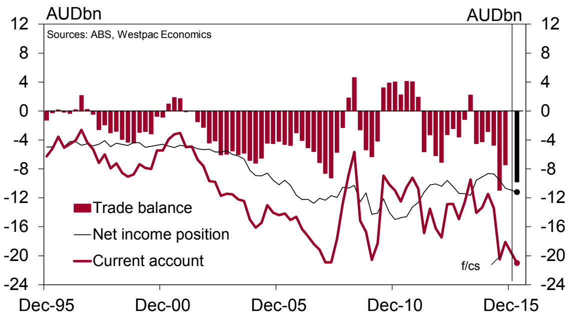
The week ahead

Aus Q4 current account, AUDbn

Mar 1, Last: –18.1, WBC f/c: –21.0
Mkt f/c: –20.0, Range: –23.0 to –12.3

- Australia is running sizeable current account deficits as sharp falls in the terms of trade hit export earnings. In Q4, the deficit widened to a forecast $21bn (5.1% of GDP), a near $3bn deterioration on Q3.
- Trade figures deteriorated in Q4, with a combined deficit of $9.8bn, a $2.4bn increase on Q3. Export earnings fell by 3½%, on weaker prices, partially offset by a small decrease in the import bill, down around 0.5%, on softer volumes.
- The terms of trade contracted by an estimated 4% in the quarter, to be 13% lower than a year ago, centred on lower global commodity prices.
- The net income deficit is expected to increase by around $0.5bn to $11.2bn on rising income debits.

Current account: f/c –$21bn in Q4

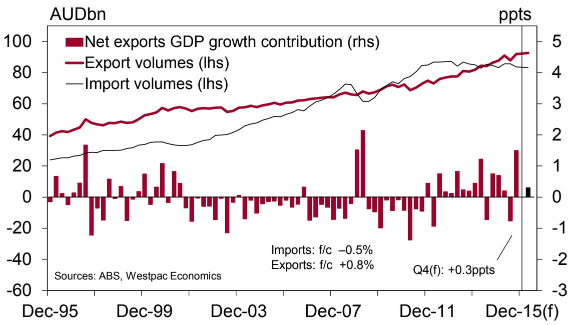


Aus Q4 net exports, ppt cont'n

Mar 1, Last: 1.5, WBC f/c: 0.3, Mkt f/c: 0.3, Range: flat to 0.6

- Net exports will likely be a positive for growth in the December quarter, contributing a forecast 0.3ppts. However that is far less than the 1.5ppt addition in the September quarter.
- Export volumes advanced in Q4, increasing by a forecast 0.8%. That follows a 4.6% rebound in Q3, which more than reversed an atypical fall in Q2. In Q4, non-resource exports appear to have led the way, including services, benefitting from a lower dollar, and rural goods. Resource export volumes softened in the quarter, on lower coal and iron ore shipments, we estimate.
- Import volumes have most likely recorded back-to-back falls, with an estimated 0.5% decline in Q4 after a 2.4% drop in Q3. On our figuring, weakness in Q4 was evident in consumer goods (centred on transport equipment); capital goods, as business investment contracts; and services, hit by the lower AUD.

Net exports: f/c +0.3ppts in Q4

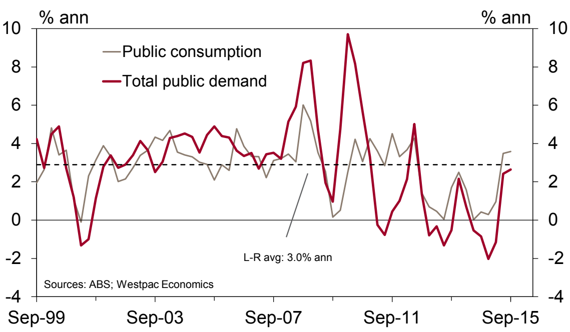


Aus Q4 public demand

Mar 1, Last: –0.9%, WBC f/c: 0.7%

- Public demand, representing just over 20% of the economy, advanced in 2015, notwithstanding the challenging backdrop. However, the quarterly profile remained a volatile one.
- In Q3, public demand contracted, declining by 0.9%, but was still some 2.6% higher than a year earlier. Weakness in the quarter was centred on an 8.2% slump in public investment – representing a weak start to the new financial year. Public consumption, driven by public servant numbers, grew by a further 0.7% to be 3.6% above a year ago as governments look to enhance front-line services, including in health.
- We anticipate a stronger result for Q4, as public investment rebounds - albeit only partially - from the sharp slump in Q3. Public demand is forecast to expand by 0.7%qtr, 3.2%yr.

Public demand: growth lifts, albeit still volatile

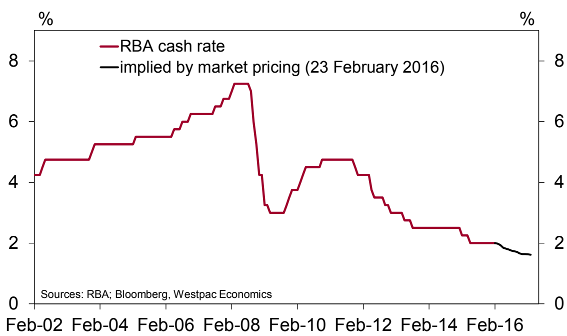


Aus RBA policy decision

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

- The RBA is widely expected to leave rates unchanged at its March meeting.
- The Bank continues to carry a clear though mild easing bias, the Governor's statement following its Feb meeting retaining the line that "continued low inflation may provide scope for easier policy, should that be appropriate". The statement also highlighted the Bank's main areas of interest are "whether the recent improvement in labour market conditions is continuing and whether the recent financial turbulence portends weaker global and domestic demand". Evidence over the last month suggests, on the one hand, that labour market conditions have cooled a little, but on the other, that the initial confidence impacts from recent financial turbulence have been fairly minor.

RBA cash rate & market pricing



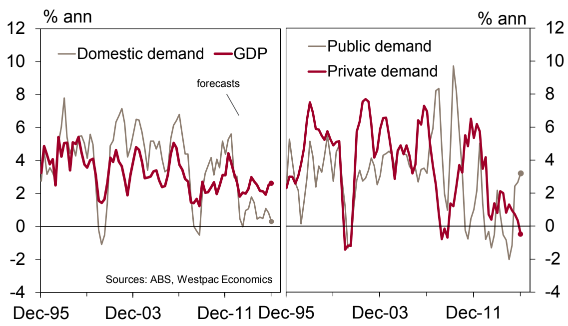
The week ahead

Aus Q4 GDP

Mar 2, Last: 0.9%qtr, 2.5%yr, WBC f/c: 0.5%qtr, 2.6%yr
Mkt f/c: 0.5%

- Real GDP growth is a little below trend, with conditions uneven across sectors and geographies. The mining investment downturn remains a major headwind and the falling terms of trade is squeezing incomes.
- GDP growth is forecast to be 0.5% in Q4, following an export boosted 0.9% in Q3. Annual growth rounds to 2.6% from 2.5%.
- Net exports add an estimated 0.3ppts in Q4 after a volatile six months. Service exports are up, boosted by the lower AUD and resource exports, despite a Q4 dip, are trending higher.
- Domestic demand is weak, f/c flat in Q4, following -0.5%, as business investment declines. Consumer spending is lukewarm, f/c +0.5%qtr, 2.4%yr, constrained by weak wages. Housing and public demand are both expected to add to growth in Q4.

Australian economic conditions

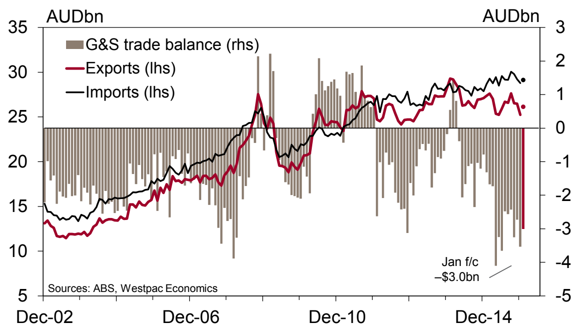


Aus Jan trade balance, AUDbn

Mar 3, Last: –3.5, WBC f/c: –3.0, Mkt f/c: –3.2, Range: –4.5 to –2.5

- Australia is running sizeable trade deficits as sharply lower commodity prices hit export earnings. For January, while we expect a $0.5bn improvement on December that would still have the deficit at $3.0bn.
- Export earnings are forecast to rebound by 3.5%, following a 4.7% decline in December. Iron ore prices lifted off their lows, coal shipments were up in the month, so too LNG volumes.
- Imports are forecast to rise by 1.2%. Prices will increase on a weaker AUD, -3.2% against the USD and -2.4% on a TWI basis, with a partial offset from sharply lower oil prices.
- **NOTE: From now there is greater uncertainty around the import and trade forecast as the ABS no longer publishes custom imports data ahead of the trade release.**

Australia's trade position

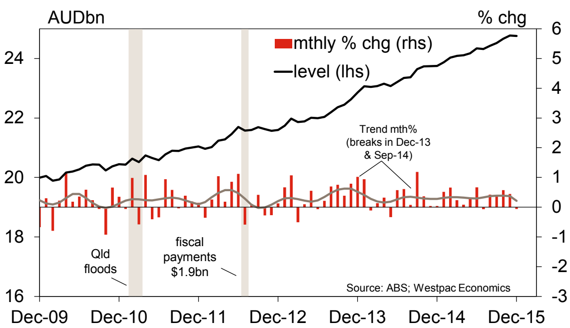


Aus Jan retail trade

Mar 4, Last: flat %, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: –0.1% to 0.8%

- Retail sales posted a disappointing finish to 2015 with sales flat in the Dec month. The detail showed an outright contraction non food retail, down 0.3%, led by sizeable falls in household goods (–1%mth) and 'other' retail (–0.9%) – both bellwether discretionary categories. The result was particularly disappointing given the reasonably solid lead-in to the Christmas sales period from consumer sentiment and relatively upbeat reports from private sector business surveys.
- Financial market turmoil knocked sentiment in early Jan although the reaction was arguably quite muted with a solid rebound in Feb. Private sector business surveys continued to show some softening for consumer-related sectors but previous strong readings were never matched by retail sales. On balance we expect the Jan report to show a bit more momentum for retail with a 0.4% gain.

Monthly retail sales

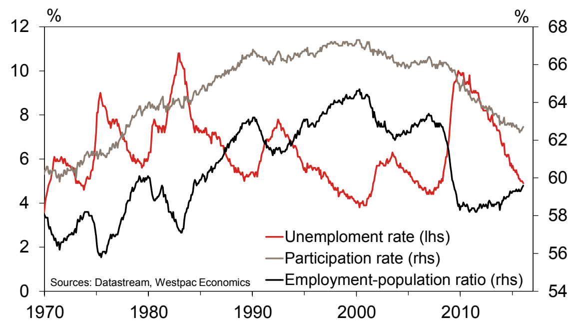


US Feb employment report

Nonfarm payrolls Mar 4, Last: 151k , WBC f/c: 175k
Unemployment rate Mar 4, Last: 4.9% , WBC f/c: 4.9%

- In January, the particularly strong jobs growth of 2015 moderated, the monthly gain coming in at 151k.
- Nonetheless, annual employment growth was unchanged at 1.9%yr, well in excess of 1.1%yr growth in the population.
- The headline for January came not from nonfarm payrolls but the household survey, where the unemployment rate declined to 4.9% – in line with full employment.
- Come February, we expect January's softer pace of employment growth to persist circa 175k, moderating the annual rate somewhat.
- The unemployment rate should be unchanged assuming participation is also. A key focus for the employment report hence will be the wage outcomes, which should firm slowly.

Full employment achieved; jobs g'th to slow



Data calendar

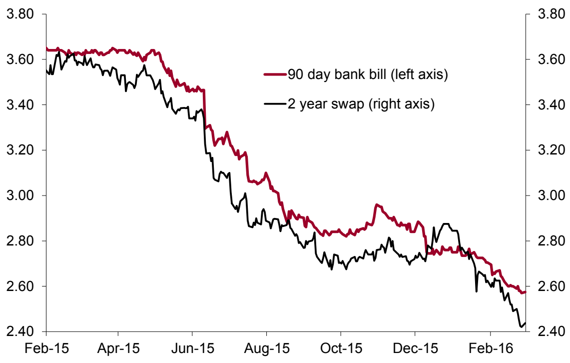
		Last	Market median	Westpac forecast	Risk/Comment
Mon 29					
NZ	Jan building consents	2.3%	–	–1.9%	Canterbury residential to decline, Auckland to consolidate.
	Feb ANZ business confidence	23.0	–	–	Activity holding up but dairy risks rising.
	Jan private sector credit growth, %yr	7.4%	–	–	Likely close to a peak as property investment restrictions bite.
Aus	Q4 company profits	1.3%	–1.8%	–3.5%	Mining profits hit by lower commodity prices.
	Q4 business inventories	0.1%	0.1%	0.2%	Inventories little changed, neutral for quarterly GDP growth.
	Jan private sector credit	0.5%	0.5%	0.5%	Dec, housing +0.55% & business 0.5% – expect similar outcomes for Jan.
	Feb MI inflation gauge	2.3%	–	–	Mid month of qtr most pertinent reading for picking CPI moves.
Eur	Feb CPI, %yr	0.3%	0.1%	–	Headline inflation impacted (again) by energy prices.
UK	Feb Nationwide house prices	0.3%	0.4%	–	Tentative date. Low rates and tight supply have supported prices.
	Jan net mortgage lending, £b	3.2b	3.7b	–	Low mortgage rates have been boosting demand.
US	Feb ISM Milwaukee	50.4	–	–	External headwinds and the USD are weighing on manufacturing.
	Feb Chicago PMI	55.6	53.1	–	Despite recent gains, conditions remain soft.
	Jan pending home sales	0.1%	0.8%	–	Can be a useful pointer to next month's (finalised) home sales.
	Feb Dallas manufacturing activity	–34.6	–30.0	–	The downturn in the energy sector is dampening activity.
Can	Q4 current account balance	–$16.2b	–$17.0b	–	The lower Canadian dollar is helping to offset commodity price falls.
Tue 1					
NZ	Q4 terms of trade index	–3.7%	flat	–1.0%	Weaker dairy export prices mostly offset by cheaper fuel imports.
Aus	Jan dwelling approvals	9.2%	–3.0%	–1.0%	Approvals tracking lower but volatility continues to make pace uncertain.
	Q4 current account balance, AUDbn	–18.1	–20.0	–21.0	Deficit to widen. Export earnings hit by lower commodity prices.
	Q4 net exports, ppts cont'n	1.5	0.3	0.3	A more modest contrib'n. Export vols +0.8%, imports –0.5%.
	Q4 public demand	–0.9%	–	0.7%	Public investment to consolidate following 8% slump in Q3.
	Feb AiG PMI	51.5	–	–	Manufacting index in expansionary zone, +ves are lower AUD & housing.
	Feb CoreLogic RP Data home value index	0.9%	–	0.3%	Daily index shows most markets have had a steady start to 2016.
	RBA policy decision	2.00%	2.00%	2.00%	On hold: potential demand shocks & jobs growth key factors for policy.
Chn	Feb manufacturing PMI	49.4	49.4	–	Weakness in manufacturing to persist for some time.
	Feb non–manufacturing PMI	53.5	–	–	Momentum much stronger in services, but consumers under pressure.
	Feb Caixin manufacturing PMI	48.4	48.4	–	Caixin impacted more by weak external demand.
Eur	Feb Markit manufacturing PMI (final)	51.0	51.0	–	Momentum weak for manufacturing.
	Jan unemployment rate	10.4%	10.4%	–	Progress is slow, but at least labour market is firming.
UK	Feb Markit manufacturing PMI	52.9	52.0	–	Soft external demand is weighing on manufacturing.
US	Feb Markit manufacturing PMI (final)	51.0	51.2	–	Continues to print stronger than ISM...
	Feb ISM manufacturing index	48.2	48.6	–	... but both point to material impact from USD and global growth.
	Fedspeak	–	–	–	Dudley on economy in Hangzhou China 3:30pm AEDT.
Can	Q4 GDP (annualised)	2.3%	0.1%	0.1%	Growth close to zero over Q4.
	Feb RBC manufacturing PMI	49.3	–	–	Energy sector a persistent negative for sector.
Wed 2					
NZ	GlobalDairyTrade auction	–2.8%	–	–	Futures pointing to modest lift in prices.
Aus	Q4 GDP	0.9%	0.5%	0.5%	Growth supported by low rates & AUD. Headwinds persist.
US	Feb ADP employment change	205k	190k	180k	With full employment reached, employ growth should slow.
	Feb ISM New York	54.6	–	–	Remains at moderate levels.
	Fedspeak	–	–	–	Williams in California.
	Fed's Beige book released	–	–	–	Detail on conditions around the 12 districts.
Thu 3					
NZ	Q4 building work put in place	0.5%	2.0%	0.7%	Strong consents growth should lift building work.
	Feb ANZ commodity price index	–2.3%	–	–	Dragged down by dairy.
Aus	Jan trade balance, AUDbn	–3.5	–3.2	–3.0	Deficit to narrow but remain sizeable, exports a partial rebound, +3.5%.
	Feb AiG PSI	48.4	–	–	Services index sub 50 past 4mths, conditions patchy.
Chn	Feb Caixin non manufacturing PMI	52.4	–	–	Telling similar story to official measure.
Eur	Feb Markit Eurozone services PMI (final)	53.0	53.0	–	Composite at 52.7.
UK	Feb Halifax house prices	1.7%	flat		Low interest rates are supporting demand.
	Feb Markit services PMI	55.6	55.0	–	Domestic demand conditions have been firm.
US	Initial jobless claims	272k	–		Jobless claims remain low.
	Feb Markit services PMI (final)	49.8	49.8	–	In contrast to manufacturing, Markit services index ...
	Feb ISM non–manf	53.5	53.5	–	... is underperforming ISM equivalent.
	Jan factory orders	–2.9%	1.4%	–	Durables Jan bounce suggests risks for factory orders to upside.
Fri 4					
Aus	Jan retail sales	flat	0.4%	0.4%	Disappointing finish to 2015 but Jan should see a little more momentum.
US	Jan trade balance	–$43.4b	–$43.3b	–	Net exports to remain a drag through 2016.
	Feb non–farm payrolls	151k	195k	175k	Growth to slow but remain well in excess of population growth ...
	Feb unemployment rate	4.9%	4.9%	4.9%	... with unemployment rate unchanged – more focus on wage outcomes.
Can	Feb Ivey PMI	66.0	–	–	Has recovered sharply in recent months.

New Zealand forecasts

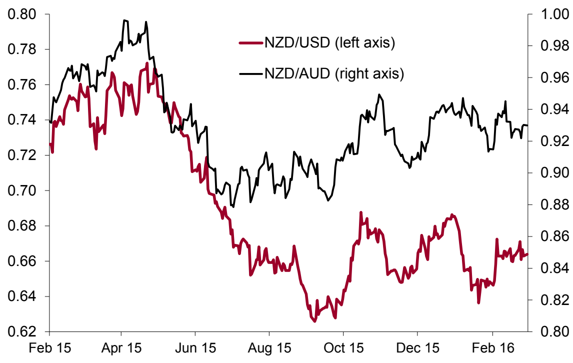
Economic Growth Forecasts	March years				Calendar years			
% change	2014	2015	2016f	2017f	2014	2015e	2016f	2017f
GDP (Production) ann avg	2.7	3.6	2.2	2.2	3.7	2.4	2.0	2.9
Employment	3.8	3.2	1.1	2.4	3.6	1.2	2.1	2.1
Unemployment Rate % s.a.	6.0	5.8	5.8	5.2	5.7	5.3	5.3	5.3
CPI	1.5	0.3	0.3	1.3	0.8	0.1	0.8	2.1
Current Account Balance % of GDP	-2.5	-3.4	-3.3	-2.7	-3.1	-3.3	-2.9	-3.0

Financial Forecasts	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-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	2.90	2.90	3.00	3.00	3.10	3.10
10 Year Bond	3.10	3.30	3.50	3.70	3.70	3.70
NZD/USD	0.65	0.63	0.61	0.61	0.62	0.62
NZD/AUD	0.93	0.93	0.92	0.91	0.90	0.89
NZD/JPY	79.5	77.7	75.9	76.5	75.9	75.9
NZD/EUR	0.61	0.61	0.59	0.58	0.57	0.57
NZD/GBP	0.44	0.44	0.43	0.42	0.41	0.40
TWI	71.1	70.1	68.4	68.0	67.7	67.1

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 29 February 2016

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.50%	2.50%	2.50%
30 Days	2.52%	2.57%	2.59%
60 Days	2.55%	2.60%	2.65%
90 Days	2.58%	2.63%	2.70%
2 Year Swap	2.44%	2.58%	2.60%
5 Year Swap	2.68%	2.79%	2.92%

NZ foreign currency mid-rates as at Monday 29 February 2016

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6639	0.6617	0.6523
NZD/EUR	0.6077	0.5890	0.5988
NZD/GBP	0.4784	0.4562	0.4518
NZD/JPY	75.62	75.06	78.98
NZD/AUD	0.9299	0.9303	0.9187
TWI	72.69	72.17	71.69

International forecasts

Economic Forecasts (Calendar Years)	2012	2013	2014	2015f	2016f	2017f
Australia						
Real GDP % yr	3.5	2.0	2.6	2.3	2.8	2.8
CPI inflation % annual	2.2	2.7	1.7	1.7	1.9	3.1
Unemployment %	5.3	5.8	6.2	5.8	6.1	5.9
Current Account % GDP	-4.4	-3.4	-3.0	-4.4	-5.0	-4.6
United States						
Real GDP %yr	2.2	1.5	2.4	2.4	2.4	2.1
Consumer Prices %yr	2.1	1.5	1.6	0.1	1.7	1.8
Unemployment Rate %	8.1	7.4	6.2	5.3	4.7	4.4
Current Account %GDP	-2.9	-2.3	-2.2	-2.3	-2.3	-2.3
Japan						
Real GDP %yr	1.7	1.6	-0.1	0.6	1.3	0.7
Euroland						
Real GDP %yr	-0.8	-0.3	0.9	1.5	1.3	1.4
United Kingdom						
Real GDP %yr	0.7	1.7	3.0	2.5	2.5	2.0
China						
Real GDP %yr	7.7	7.7	7.3	6.9	6.5	6.2
East Asia ex China						
Real GDP %yr	4.6	4.2	4.1	3.7	3.9	4.3
World						
Real GDP %yr	3.4	3.3	3.4	3.0	3.4	3.5
Forecasts finalised 12 Feb 2016						

Interest Rate Forecasts	Latest	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Australia						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.29	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.40	2.50	2.70	2.90	3.30	3.55
International						
Fed Funds	0.375	0.375	0.625	0.875	1.125	1.375
US 10 Year Bond	1.72	1.80	2.20	2.60	3.00	3.25
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
AUD/USD	0.7263	0.70	0.68	0.66	0.67	0.69
USD/JPY	112.8	117	119	121	123	125
EUR/USD	1.1062	1.11	1.10	1.08	1.05	1.03
AUD/NZD	1.0702	1.08	1.08	1.08	1.10	1.12

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