Weekly Commentary

31 October 2016

Going where the work is

For a while now we've been forecasting the annual migration balance to peak and head lower. But predicting the timing of that turn has proven difficult. And while the monthly figures had slowed in recent months as we had expected, they came roaring back to a new record high in September. There are a number of moving parts that make up the migration balance, but the common thread seems to be the relative strength of New Zealand's jobs market.

The net migration figures for September were boosted in particular by a sharp rise in the number of arrivals from the UK. Could this be the first of a wave of 'refugees' after the Brexit vote? To the extent that this happens at all, it seems a little too soon after the vote to see the impact just yet. We note that arrivals from the UK are quite seasonal anyway, normally surging between September and January. So the latest figures may reflect a demand to move to New Zealand that's been pent-up for some time.

Elsewhere, student visa arrivals have continued to slow this year, as the eligibility criteria have been more tightly enforced. But this has been offset by ongoing growth in work visas. Both work and student visas are temporary, and while many people will no doubt view them as a pathway to residency, the reality is that not all of them will be successful. We expect the growth in temporary visas over the last few years to be followed by a rise in departures over the coming years, which will help to moderate the net inflow.

The other aspect of net migration that has proven difficult to forecast is the movements of New Zealanders. This balance has continued to strengthen, with more New Zealanders returning than leaving in the last two months, the first time this has happened since 1991. In particular, the net flow across the Tasman has shrunk markedly over the last two years.

To the extent that the migration balance is driven by the movements of New Zealanders, the impact on the housing market, for instance, is different from that of overseas arrivals. New arrivals tend to be clustered in Auckland, whereas when New Zealanders choose not to leave, this affects every region in roughly equal measure. The result is that the impact of migration trends on population, and hence the need to build houses, is not solely an Auckland story this time.

Migration flows are the product of policy settings and economic incentives; in the case of the movements of New Zealanders across the Tasman, it's the latter that almost entirely dominates. The relative state of the two country's labour markets plays a particularly important role here. Australia's unemployment rate as of September was 5.6%. New Zealand's rate was 5.1% as of June, and we expect the September labour force survey, released on Wednesday, to show a further decline to 5.0%. Three years ago the position was reversed, with a higher unemployment rate in New Zealand (though the gap was closing).

There's reason to suspect that the unemployment rates actually understate the degree of difference in labour market conditions. Firstly, all of the growth in Australian employment over the last year has been in part-time jobs; in fact, full-time employment has been falling this year. In contrast, all of the jobs growth in New Zealand over the last year has been in full-time jobs.

Going where the work is continued

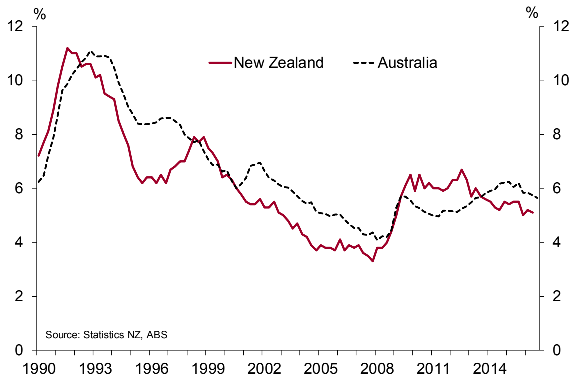
Second, while Australia's unemployment rate has fallen this year, much of this has come about through a drop in labour force participation. That indicates a number of discouraged workers who have exited the labour force (but remained in Australia). In contrast, New Zealand's participation rate has generally been trending upward over the last few years – though it has been volatile, and the sharp rise in the June quarter was partly due to a step-change after a redesign of the labour force survey.

The difference in relative jobs market conditions, and the corresponding trends in migration, are a reminder that we can't view the labour market in a purely national sense. It's worth noting that New Zealand didn't see a similar surge of arrivals on work visas during the mid-2000s, at a time when it would have been welcomed – the unemployment rate was heading to unsustainably low levels, firms were crying out for skilled workers, and labour costs were accelerating.

The difference is that back then, labour market conditions across the rest of the world were also strong; New Zealand didn't stand out in that regard. Today, however, New Zealand's economy is seen as an outperformer, even if the absolute rate of growth isn't as strong as it has been in the past.

We expect Wednesday's labour market reports to show a further gradual tightening over the September quarter. Changes to the design of the labour force survey last quarter had a big impact on the reported figures for both employment and participation, but without necessarily skewing the unemployment rate. Because of that, we'd recommend focusing on the unemployment rate again in this week's release.

Unemployment rates



Meanwhile, wage growth is likely to have remained subdued – though more favourable in real terms, due to another year of unexpectedly low inflation. Business surveys indicate that labour constraints are becoming more of a concern, but we don't expect to see firms bidding up wages to attract workers just yet.

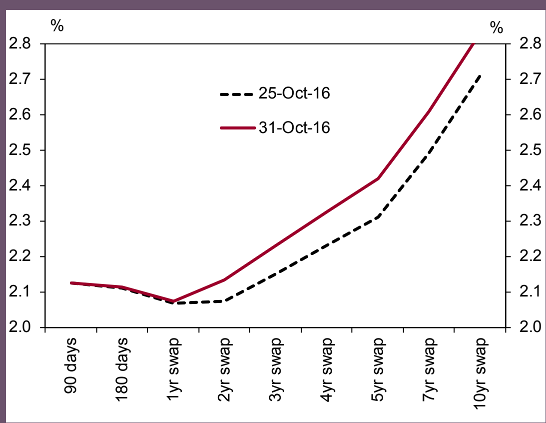
On a related note, the Reserve Bank's survey of inflation expectations will also be released on Wednesday. Together, these are the last remaining pieces of information ahead of the November Monetary Policy Statement. The RBNZ has highlighted the risk that persistently low inflation could drag inflation expectations down further to levels that are inconsistent with meeting the inflation target. So this week's report will have some bearing on how much lower the RBNZ is prepared to take the OCR.

Fixed vs Floating for mortgages

For borrowers with a deposit of 20% or more, the best value probably lies in the two-year rate or shorter terms. Four- and five-year rates seem high relative to where we think shorter-term rates are going to go over the next four or five years. That said, fixing for a longer term does offer the borrower greater 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



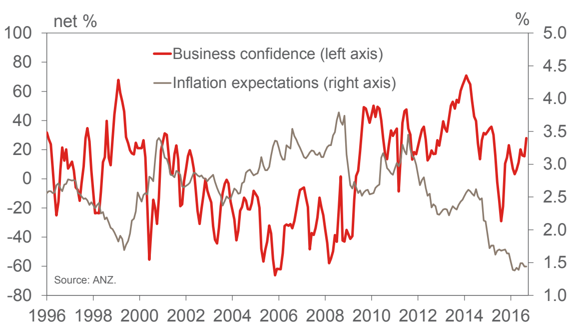
The week ahead

NZ Oct business confidence

Oct 31, Last 27.9

- Business confidence rose in September to its highest level since April 2015, with the improvement broad-based across sectors. Businesses were also much more upbeat about prospects for their own activity. These data, along with other business surveys, point to solid momentum in economic growth over the second half of this year. That said, given the recent gains in confidence, some pull-back in October wouldn't be a surprise.
- Meanwhile, the survey's two indicators of inflation have been broadly stable at low levels for the past few months. We'll be paying close attention to these measures in coming months to see whether price setting behaviour by firms is beginning to respond to reported pressure on capacity, which should eventually push inflation back towards 2%.

NZ business confidence and inflation expectations

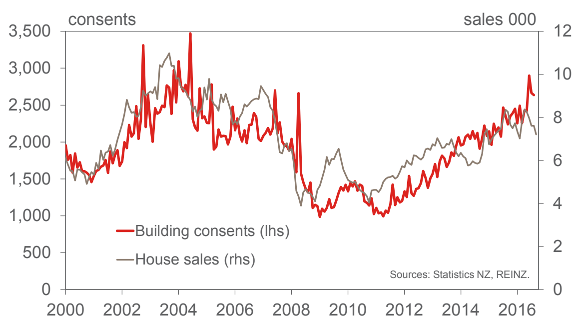


NZ September building consents

Oct 31, Last: -1.0%, Westpac f/c: 2.0%

- Residential building consents fell again in August as we had forecast, making it two consecutive months of declines in seasonally adjusted terms after huge gains in June.
- We expect to see a bounce in residential consents this month, as activity outside of Auckland and Canterbury continues to gather momentum.
- In Auckland, we don't expect the Unitary Plan to be making a big difference to consent numbers yet. That will be a couple of months away.
- The 12-month trend, however, is expected to continue upward both in Auckland and in the country as a whole. National level consents are expected to close in on 30,000 for the year.

NZ housing activity

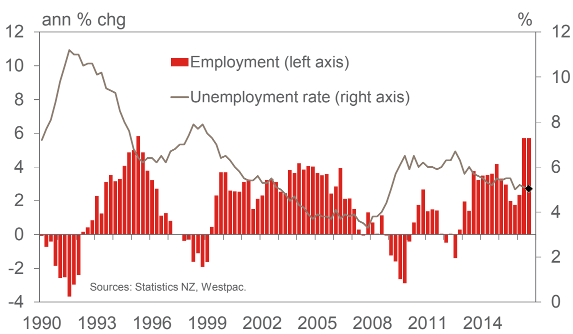


NZ Q3 household labour force survey

Nov 2, Employment, last: 2.4%, WBC f/c: 0.5%, Mkt f/c: +0.5%
Nov 2, Unemployment, last: 5.1%, WBC: 5.0%, Mkt f/c: 5.1%

- Indications are that the labour market continued to strengthen in the September quarter, and we're expecting to see a fourth consecutive quarter of employment growth.
- Combined with a further modest lift in the participation rate, this should see the unemployment rate fall to 5% (from 5.1%).
- However, there is more uncertainty than usual around the HLFS data following survey changes in Q2. For now, we would suggest focusing on the unemployment rate for the clearest gauge of how the labour market is tracking.

Household labour force survey

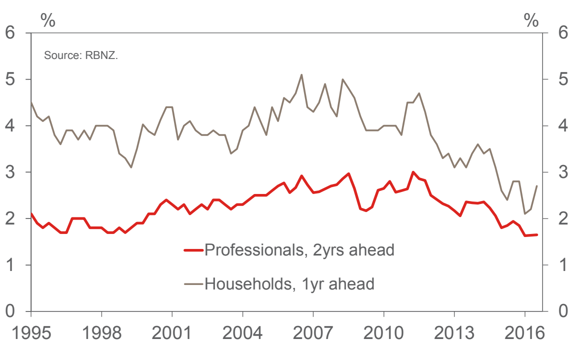


NZ Q4 survey of inflation expectations

Nov 2, two years ahead last: 1.65%

- Recent surveys have seen inflation expectations stabilise, albeit at low levels. The RBNZ has highlighted the potential for low expectations to translate into downward pressure on wages and prices as a key risk.
- The latest CPI outturn saw the annual inflation rate fall from 0.4% to 0.2%. However, we don't expect that this will translate into a further decline in expectations; there's enough recognition that current inflation is being held down by forces that won't persist over the medium term.
- The RBNZ has strongly hinted that it is committed to another OCR cut next month. A steady or even a higher result for inflation expectations probably won't alter the November decision, but it would have a bearing on the RBNZ's bias toward any further easing.

RBNZ survey of inflation expectations



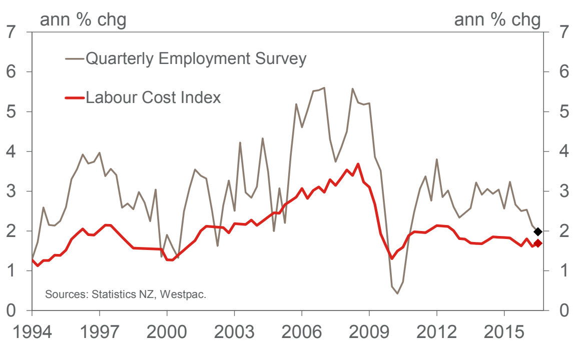
The week ahead

NZ Q3 labour cost index

Nov 2, Private sector (incl. overtime), last: 0.4%, WBC f/c: 0.4%, Mkt f/c: 0.4%

- Strong growth in the labour force and a subdued inflation backdrop is likely to translate into ongoing softness in wage growth. We're forecasting a 0.4% lift in the private sector LCI, which would leave annual wage inflation at 1.7% on this measure.
- But this situation won't last forever. Inflation is expected to rise from here and ongoing momentum in the economy is also underpinning solid employment growth. In turn, this is likely to translate into rising pressure on wages over the year ahead.

LCI and QES wages

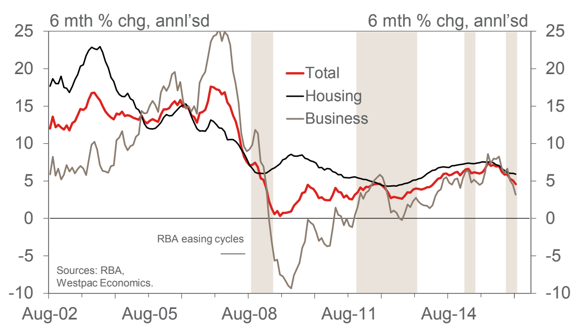


Aus Sep private sector credit

Oct 31, Last: 0.4%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: 0.4% to 0.6%

- Credit to the private sector lost momentum over the past year. A 0.6% average pace in Q3 2015 gave way to a 0.5% rate in Q4 2015 and Q1 2016, slowing to 0.4% in Q2 and Q3 2016. Key to this slower pace were: tighter lending conditions in the housing market during the second half of 2015; and businesses delaying borrowing plans ahead of the July Federal election.
- In August, credit grew by a soft 0.4% (0.36%), with housing a 0.5% and business credit an anaemic 0.1%.
- For September, we expect credit to expand by 0.4%. RBA rate cuts in May and August will provide a boost to housing. That said, the impact may be relatively modest by historical standards. On business, we anticipate a small rise, noting that commercial finance staged a partial rebound in July and was flat in August, following sharp falls mid-year.

Credit: a loss of momentum

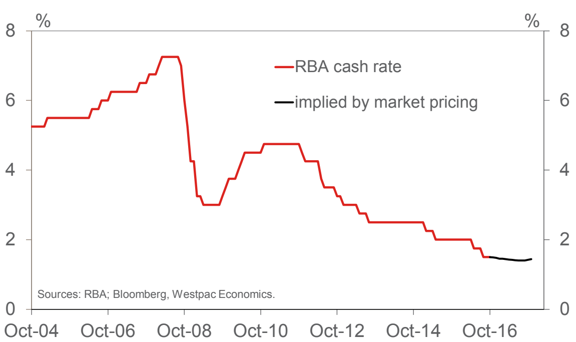


Aus RBA policy decision

Nov 1, Last: 1.50%, WBC f/c: 1.50%
Mkt f/c: 1.50%, Range: 1.25% to 1.50%

- The RBA is in "wait and see" mode as they assess the impact of the rate cuts delivered in May and August, totalling 50bps.
- Inflation was the key surprise earlier this year. Currently the RBA is forecasting core inflation to be 1.5% in 2016, undershooting their February forecast of 2.5% and below the 2-3% target band.
- The September quarter headline CPI printed at 0.7%, lifting annual growth to 1.3% from 1.0%. Core was 0.3%; that saw the annual pace at 1.5%, in line with the RBA's forecast and moderating from a revised 1.6% for the June quarter.
- We expect rates to be on hold for the remainder of this year and throughout 2017, reflecting an expected emerging comfort around inflation and with Australian economic growth at or above trend, exerting a downward tilt on the unemployment rate.

RBA cash rate & market pricing

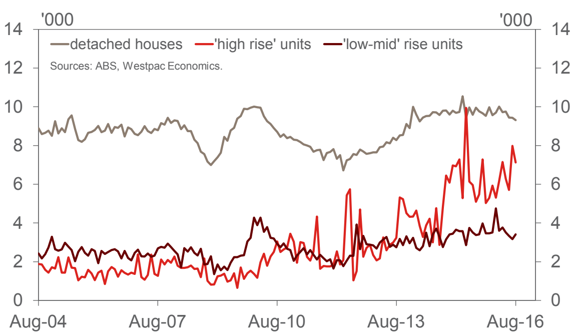


Aus Sep dwelling approvals

Nov 2 Last: –1.8%, WBC f/c: –2.5%
Mkt f/c: –3.0%, Range: –8.0% to 2.0%

- Dwelling approvals outstripped expectations again in Aug, with a small 1.8% pull-back despite forecasts of a more material decline. Approvals were coming off a record July that included a spectacular 40% jump in 'high rise' activity. The expected reversal in this segment was only a muted 10% drop. With 'non high rise' activity likely to be supported near term by recent rate cuts, the outlook continues to hinge on the high rise segment. Here the forward view is very uncertain. On the one hand, a tightening in domestic funding sources, settlement concerns for foreign buyers, weaker prices and fears of oversupply argue for a pull back. On the other, there is reportedly still a large pipeline of projects at the pre-approval stage, foreign demand may hold up better than expected and developers may be undeterred. Our best guess is that Sep will show a 2.5% decline. Either way, the next few months may prove decisive.

Dwelling approvals: houses, low-mid & high rise



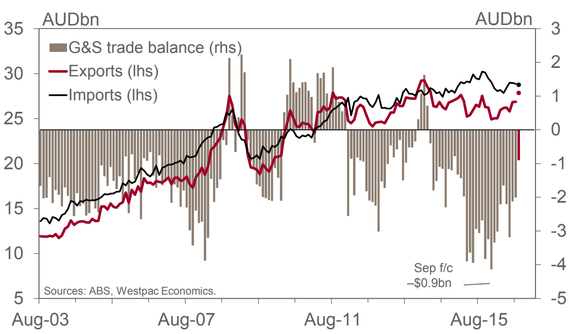
The week ahead

Aus Sep trade balance, AUDbn

Nov 3, Last: –2.0, WBC f/c: –0.9, Mkt f/c: –1.7, Range: –2.3 to –0.9

- Australia's trade balance will potentially return to surplus in coming months for the first time since March 2014, benefitting from the spike in coal prices.
- For September, we anticipate a sharp narrowing of the deficit, from \$2.0bn to \$0.9bn.
- Export earnings jump by a forecast 3.7%, +\$1.0bn, with coal surging from \$2.8bn (10% of exports) towards \$4.0bn. Iron ore (prices and volumes), gold and rural are all potential negatives.
- Imports are forecast to edge lower, down 0.4%, –\$0.1bn, following surprising strength of late.
- **NOTE:** Since January, there is additional uncertainty around the import and trade forecast. The ABS no longer publishes customs goods imports ahead of the trade release.

Australia's trade deficit to narrow in September

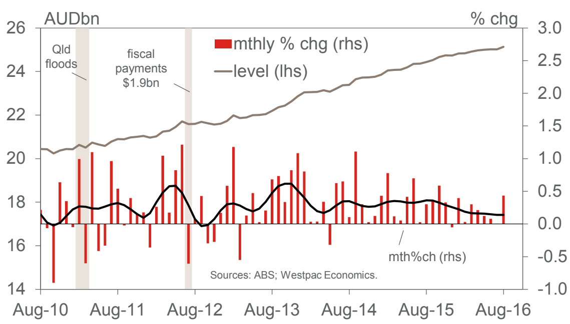


Aus Sep retail trade

Nov 4, Last: 0.4%, WBC f/c: 0.7%
Mkt f/c: 0.4%, Range: 0.0% to 0.8%

- Retail sales enjoyed a rare gain in August, rising 0.4% in the month. That followed a flat July and disappointing gains in the previous five months, with annual growth running at a lacklustre 2.8%yr.
- September is expected to see a 0.7% rise, but the gain is somewhat misleading, reflecting price increases rather than volumes. The Q3 CPI showed a big 1.7%qtr increase in food prices driven by a spike in fresh fruit and veges. Food accounts for 40% of retail, and while spending patterns will adjust away from newly expensive items, a lift in food retail in July-Aug is likely partly due to these effects.

Monthly retail sales

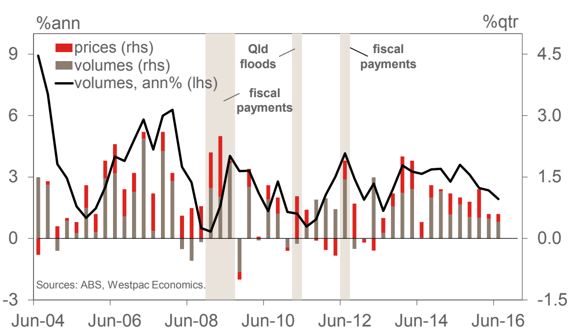


Aus Q3 real retail sales

Nov 4, Last: 0.4%, WBC f/c: 0.1%
Mkt f/c: 0.2%, Range: 0.0% to 0.5%

- Real retail sales rose 0.4% in Q2 after consistent 0.5% gains in the previous three quarters. Annual real retail sales growth slowed to 1.9%yr, the weakest since mid-2013. Q3 is shaping up as weaker still. Even with a monthly lift in Sep, nominal sales are on track for a similar quarterly gain to Q2 (+0.6% vs +0.5% in Q2). However, the Q3 CPI detail points to a stronger gain for retail prices – even allowing for spending patterns moving away from newly expensive items such as fresh fruit and veges, the retail deflator is likely to show a significant lift from Q2's meagre 0.1% gain. We expect it to be up by around 0.5%, meaning real retail sales will have only registered a 0.1% gain, slowing annual growth to 1.5%. Uncertainty around price effects makes this forecast less assured – a negative quarter is entirely possible. More generally, the retail survey is still not a great indicator for the wider national accounts spending measures.

Quarterly retail volumes and prices

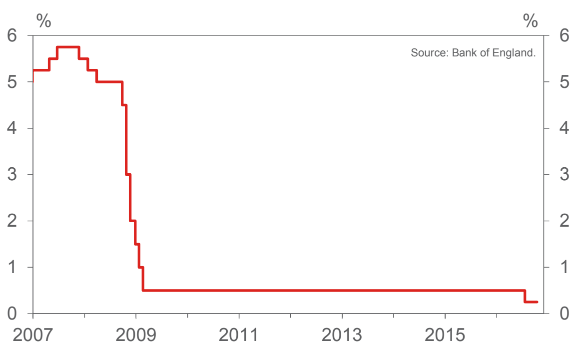


Bank of England policy decision

Nov 3, Last: 0.25%, WBC f/c: 0.25%

- In September, the BOE kept rates on hold, but signalled the possibility of some further easing, depending on the evolution of economic conditions. Since then, economic indicators have pointed to a degree of resilience in activity. While the UK economy has lost momentum, it's only experiencing a slowdown. At the same time, the sharp fall in the pound has pushed inflation higher (with more to come) and has provided a boost for exports.
- While the BOE can look through some of the pick-up in inflation, Governor Carney has noted that they cannot completely ignore it. And, with activity holding up, the need for further stimulus has been reduced. We expect the BOE to keep rates on hold in November.
- With the full effects of Brexit on investment and activity yet to be seen, we continue to see a good chance of a cut in 2017. But for now, the BOE can take its time and assess conditions.

Bank of England Bank Rate



The week ahead

Euro Area Q3 GDP

Oct 31, Last: 0.3%, WBC 0.3%

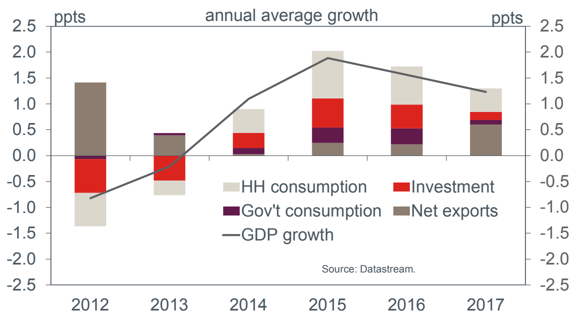
- GDP growth slowed in the Euro Area in Q2, following the pattern seen in 2015. After Q1's 0.5% rise, in Q2 activity increased 0.3%. As a result, annual growth slowed from 1.8% to 1.6%. We expect another 0.3% gain to be reported in Q3.
- Through Q3, PMI detail continued to point to moderate growth across the continent. Other partial data was also constructive but not strong. Most notably, credit growth was sustained, while consumer confidence and business conditions remained robust.
- As has been the case throughout this recovery, conditions vary greatly across the Euro Area. Spain leads the way, with annual growth of 3.2%yr to June. Germany and France are next, respectively 1.7%yr and 1.4%yr in June. Meanwhile Italy continues to lag behind, 0.8%yr.

US Nov FOMC policy meeting

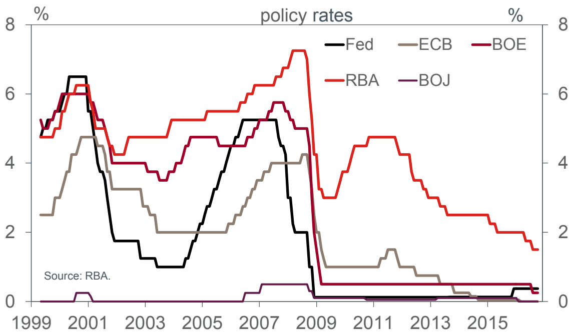
Nov 2, Last: 0.375%, WBC 0.375%

- The Nov FOMC meeting is expected to be a quiet affair, with the market (and ourselves) believing the FOMC will hold off on tightening policy a week out from the Presidential election. Given inflation and growth considerations, there is no urgency to act.
- That being said, we do expect the post-meeting communications to again signal that the long-anticipated second rate hike of this cycle will come in December.
- Apparent in the minutes from the September meeting was a constructive view of the economy amongst Committee members. There was also a belief that risks were balanced – an improvement from the downside reference that has long been part of their discussions. Given the three dissenters at the September meeting, a rate hike come December seems almost inevitable.

Euro Area moderate growth continues



Developed world policy interest rates

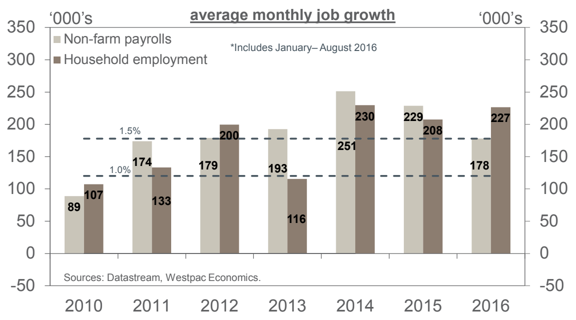


US Oct nonfarm payrolls

Nov 2, Last: 156k, WBC 180k, Nov 2, Last: 5.0%, WBC 4.9%

- The pace of nonfarm payrolls employment growth has been fickle through 2016: a monthly average gain of near-200k through Q1 giving way to an 80k average in Apr/May, then 260k in Jun/Jul and 160k in Aug/Sep.
- Regardless, annual jobs growth remains strong at 1.7%yr, well above population growth.
- Why then has the unemployment rate not fallen? The answer is rising participation, particularly amongst prime-aged workers.
- Come Oct we look for a modest acceleration in payrolls job growth to around 180k. Continued job gains should see the unemployment rate edge back below 5.0%, although this assumes broadly stable participation in the month.

US job creation continues at strong pace



Data calendar

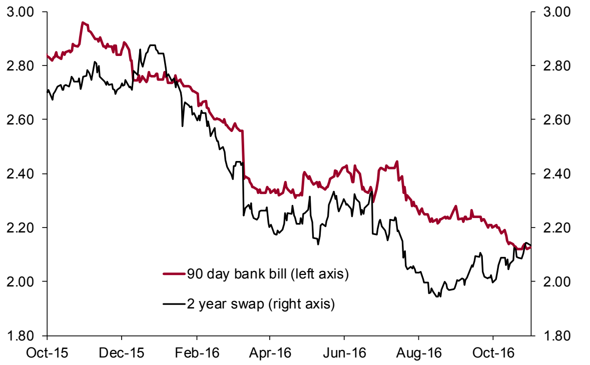
		Last	Market median	Westpac forecast	Risk/Comment
Mon 31					
NZ	Sep building consents	–1.0%	–	2.0%	Residential consents are expected to recover after two weaker months.
	Oct ANZ business confidence	27.9	–	–	Confidence has picked up, pointing to a continuation of solid growth.
Aus	Oct MI inflation gauge	1.3%	–	–	Has been a poor guide for CPI in last two quarters.
	Sep private sector credit	0.4%	0.4%	0.4%	Loss of momentum ahead of boost from RBA rate cuts.
Eur	Oct CPI %yr	0.4%	0.5%	–	Flash estimate; core also weak at 0.8%yr.
	Q3 GDP	0.3%	0.3%	0.3%	Annual growth to remain at 1.6%yr.
UK	Oct GfK consumer confidence	–1	–	–	Consumer confidence has retraced its post-Brexit fall.
	Sep net lending secured on dwellings £bn	2.9	–	–	The housing market has lost some momentum in recent months.
	Sep mortgage approvals	60.1k	–	–	Approvals have eased off as the housing market has softened.
	Oct Nationwide house prices	0.3%	0.2%	–	Low inventories are limiting the downside for prices.
US	Sep personal income	0.2%	0.4%	0.3%	Wages starting to gain traction…
	Sep personal spending	0.0%	0.4%	0.3%	… supporting spending…
	Sep PCE deflator	0.1%	0.2%	0.2%	… and robust core inflation pressures.
	Oct Chicago PMI	54.2	54.0	–	Has picked up, but only moderate levels.
	Oct Dallas Fed manufacturing activity	–3.7	1.8	–	Points to only moderate growth in manufacturing.
Tue 1					
NZ	Oct QVNZ house prices %yr	14.3%	–	–	Lending restrictions have eroded some of the momentum in prices.
Aus	Oct AiG PMI	49.8	–	–	Manuf'g index rebounded 2.9pts in Sep. Housing, lower AUD are +ves.
	Oct CoreLogic home value index	1.0%	–	0.3%	Showing stronger gains than other measures; latter starting to pick up?
	RBA policy decision	1.50%	1.50%	1.50%	In "wait and see" mode, with focusing shifting to labour market.
Chn	Oct manufacturing PMI	50.4	50.3	–	Growth yet to take hold….
	Oct non-manufacturing PMI	53.7	–		… employment remains a concern across economy…
	Oct Caixin China PMI	50.1	50.1		… despite having improved in recent months.
UK	Oct Markit manufacturing PMI	55.4	–	–	Lower sterling providing a boost to manufacturing; final estimate.
US	Oct Markit manufacturing PMI	53.2	–	–	Final estimate.
	Sep construction spending	–0.7%	0.5%	–	Structures investment likely to persist at weak level.
	Oct ISM manufacturing survey	51.5	51.5	–	Production and orders both jumped in Sep; but employment lagged.
Can	Aug GDP	0.5%	–	–	Activity has been picking up, but gradually.
Wed 2					
NZ	GlobalDairyTrade auction result	1.4%	–	–	Tighter supply likely to push prices higher.
	Q3 unemployment rate	5.1%	5.1%	5%	Labour market continues to gradually tighten…
	Q3 employment change	2.4%	0.5%	0.7%	… with ongoing solid employment growth…
	Q3 LCI wage inflation (incl. overtime)	0.4%	0.4%	0.4%	… but no sign of wage inflation just yet.
	Q4 RBNZ infl. expectations – 2yrs ahead	1.65%	–	–	Inflation remains low, but firming activity outlook limiting the downside.
Aus	Sep dwelling approvals	–1.8%	–3.0%	–2.5%	Near term outlook hinges on very uncertain 'high rise' segment.
Eur	Oct Markit manufacturing PMI	53.3	53.3	–	Final estimate.
Ger	Oct Markit manufacturing PMI	55.1	–		Final estimate.
US	Oct ADP employment change	154k	160k	–	Occasionally helpful in predicting payrolls.
	FOMC policy decision, midpoint	0.375%	0.375%	0.375%	No change in Nov; but to signal Dec highly likely.
Thu 3					
NZ	Oct commodity prices	5.1%	–	–	Improving dairy prices to boost index.
Aus	Oct AiG PSI	48.9	–	–	Services index rebounded 3.9pts in Sep, conditions patchy of late.
	Sep trade balance $bn	–2.0	–1.7	–0.9	Deficit sharp narrowing on spike in coal prices.
Chn	Oct Caixin China PMI services	52	–		Lags the official measure but still a useful cross check.
Eur	Sep unemployment rate	10.1%	–		(Very) slow progress being made.
UK	Oct Markit services PMI	52.6	–	–	Service sector activity has slowed, but lower sterling is providing an offset.
	Bank of England bank rate decision	0.25%	0.25%	0.25%	Rates to remain on hold. GBP down, inflation up, activity resilient.
US	Initial jobless claims	258k	–	–	Claims linger around 40-year lows.
	Oct Markit services PMI	54.8	–	–	Final estimate.
	Oct ISM non-manufacturing activity	57.1	56.0	–	Activity and new orders sharply higher in Sep.
	Sep factory orders	0.2%	0.4%	–	Durables weak again in Sep.
Fri 4					
Aus	Sep retail sales	0.4%	0.4%	0.7%	Food price rises likely to boost Sep.
	Q3 real retail sales	0.4%	0.2%	0.1%	An even weaker qtr, chance of a contraction given uncertain prices.
	RBA Statement on Monetary Policy	–	–	–	Updated growth and inflation forecasts. Terms of trade rebound a plus.
Chn	Q3 current account balance	64.1	–	–	Preliminary estimate.
Eur	Oct Markit services PMI (final)	53.5	53.5	–	Flash pointed to a welcome improvement…
Ger	Oct Markit services PMI (final)	54.1	–		… led by Germany.
US	Sep trade balance $bn	40.7	41.8	–	X'pts up 0.8%, M'pts 1.2% in Aug.
	Oct non-farm payrolls	156k	169k	180k	Employment growth to firm a touch…
	Oct unemployment rate	5.0%	4.9%	4.9%	… and see unemployment rate edge lower, pending participation.
	Fedspeak	–	–		Kashkari and Lockhart; Fischer speaks on IMF panel.
Can	Oct Ivey PMI	58.4	–	–	Manufacturing has been firming, supported by commodities sector.

New Zealand forecasts

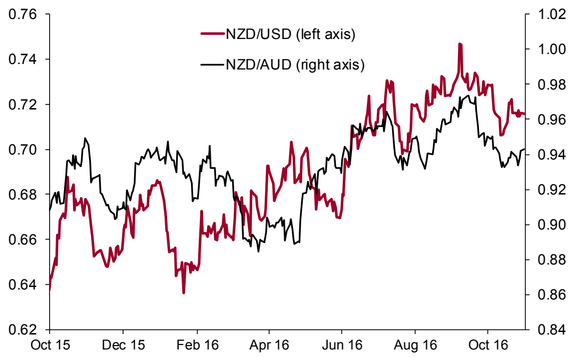
Economic Forecasts	March years				Calendar years			
% change	2015	2016	2017f	2018f	2014	2015	2016f	2017f
GDP (Production) ann avg	3.6	2.5	3.5	2.9	3.8	2.5	3.4	3.1
Employment	3.2	2.0	3.9	1.6	3.6	1.4	4.7	2.0
Unemployment Rate % s.a.	5.4	5.2	5.0	4.5	5.5	5.0	5.1	4.6
CPI	0.3	0.4	1.2	1.6	0.8	0.1	1.0	1.5
Current Account Balance % of GDP	-3.5	-3.1	-3.3	-3.8	-3.2	-3.4	-3.1	-3.9

Financial Forecasts	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Cash	1.75	1.75	1.75	1.75	1.75	1.75
90 Day bill	2.00	2.00	2.00	2.00	2.00	2.00
2 Year Swap	2.00	2.10	2.10	2.10	2.10	2.00
5 Year Swap	2.30	2.40	2.50	2.50	2.50	2.50
10 Year Bond	2.50	2.50	2.60	2.70	2.80	2.80
NZD/USD	0.70	0.69	0.67	0.65	0.63	0.62
NZD/AUD	0.95	0.95	0.94	0.94	0.93	0.91
NZD/JPY	72.1	69.7	69.7	68.3	66.2	65.7
NZD/EUR	0.64	0.64	0.64	0.63	0.61	0.60
NZD/GBP	0.56	0.56	0.55	0.53	0.51	0.51
TWI	75.7	75.2	73.8	72.2	70.3	69.3

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 31 October 2016

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.00%	2.00%	2.00%
30 Days	2.11%	2.18%	2.18%
60 Days	2.12%	2.16%	2.20%
90 Days	2.13%	2.15%	2.21%
2 Year Swap	2.14%	2.07%	2.00%
5 Year Swap	2.42%	2.26%	2.14%

NZ foreign currency mid-rates as at Monday 31 October 2016

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7155	0.7096	0.7278
NZD/EUR	0.6510	0.6468	0.6480
NZD/GBP	0.5874	0.5843	0.5631
NZD/JPY	74.73	74.04	73.66
NZD/AUD	0.9431	0.9302	0.9506
TWI	77.27	76.47	77.42

International forecasts

Economic Forecasts (Calendar Years)	2012	2013	2014	2015	2016f	2017f
Australia						
Real GDP % yr	3.6	2.0	2.7	2.4	3.0	3.0
CPI inflation % annual	2.2	2.7	1.7	1.7	1.5	1.8
Unemployment %	5.3	5.8	6.2	5.8	5.6	5.8
Current Account % GDP	-4.4	-3.4	-3.0	-4.7	-3.3	-4.2
United States						
Real GDP %yr	2.2	1.5	2.4	2.4	1.5	2.1
Consumer Prices %yr	2.1	1.5	1.6	0.1	1.2	1.7
Unemployment Rate %	8.1	7.4	6.2	5.3	4.9	4.6
Current Account %GDP	-2.9	-2.3	-2.3	-2.6	-2.7	-2.6
Japan						
Real GDP %yr	1.7	1.4	0.0	0.5	0.6	0.5
Euroland						
Real GDP %yr	-0.9	-0.3	0.9	1.6	1.6	1.2
United Kingdom						
Real GDP %yr	1.2	2.2	2.9	2.2	1.6	0.6
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	3.7	3.9
World						
Real GDP %yr	3.5	3.3	3.4	3.1	3.2	3.4
Forecasts finalised 14 October 2016						

Interest Rate Forecasts	Latest	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Australia								
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 Day Bill	1.76	1.80	1.80	1.80	1.80	1.80	1.80	1.80
10 Year Bond	2.38	2.20	2.20	2.30	2.45	2.65	2.75	2.80
International								
Fed Funds	0.375	0.625	0.625	0.875	0.875	1.125	1.125	1.375
US 10 Year Bond	1.86	1.70	1.80	2.00	2.10	2.25	2.35	2.40
ECB Deposit Rate	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40

Exchange Rate Forecasts	Latest	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
AUD/USD	0.7597	0.74	0.73	0.71	0.69	0.68	0.68	0.68
USD/JPY	105.13	103	101	104	106	105	106	106
EUR/USD	1.0902	1.10	1.07	1.05	1.04	1.03	1.03	1.03
AUD/NZD	1.0652	1.06	1.06	1.06	1.06	1.08	1.10	1.11

Contact the Westpac economics team

Michael Gordon, Acting Chief Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Senior Economist +64 9 336 5669

David Norman, Industry Economist +64 9 336 5656

Sarah Drought, Economist +64 9 336 5696

Any questions email: economics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Disclaimer

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in

Disclaimer continued

the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

(i) Chinese Wall/Cell arrangements;

(ii) physical separation of various Business/Support Units;

(iii) and well defined wall/cell crossing procedures;

(iv) a "need to know" policy;

(v) documented and well defined procedures for dealing with conflicts of interest;

(vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.