Australia & New Zealand weekly.

Week beginning 15 May 2017

- Budget introducing new uncertainty to growth outlook. We still expect 2018 slowdown.
- RBA minutes.
- Australia: Labour force, housing finance, Westpac-MI consumer sentiment.
- NZ: Retail sales.
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Information contained in this report was current as at 12 May 2017.

Westpac Institutional Bank

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Budget introducing new layer of uncertainty to growth outlook - we still expect a slow down in 2018

Over the last week, reports from the Reserve Bank (May Statement on Monetary Policy) and Treasury (Commonwealth Budget) show that the official view is that growth will lift in 2018 and 2019 from the current pace.

The Reserve Bank is forecasting through the year growth in 2018 and 2019 (up to June) of 3.25% (mid- point) from 3% in 2017. Treasury is forecasting growth in 2018/19 and 2019/20 (year average) at 3% up from 2.75% in 2017/18.

Bear in mind that it is generally accepted (including by the Reserve Bank) that trend or potential growth in Australia is 2.75%, so these are clear expectations that we will have an extended period of above trend growth in Australia.

In contrast, Westpac's forecasts are 3.0% in 2017 to be followed by 2.5% in both 2018 and 2019.

While it is not possible to contrast the detailed break-up of the Reserve Bank's activity forecasts, Treasury provides details of their forecasts in the Budget Papers.

Some points made in Westpac's Budget Report highlight the differences:

"Consumer spending is forecast in the Budget Papers to improve somewhat, lifting from a subdued 2.5% in 2016/17 to 2.75% in 2018/19 and 3% in 2019/20. Notably, spending growth is expected to outstrip growth in incomes, and hence relies on an assumed further gradual decline in household savings rates.

Dwelling investment is expected to contribute modestly to growth before reaching a plateau in 2017/18 and falling 4% in 2018-19.

A lift in business investment is still expected to pick up some of the slack. Non-mining businesses are expected to see reduced negative 'spill-overs' from the mining downturn and support from rising domestic demand, solid business conditions and low financing costs. Investment is forecast to grow by 4.5% in both 2017-18 and 2018-19.

The estimated rise in the terms of trade in 2016/17 has been marked up to 16.5% to be followed by a modest decline in 2017/18 of –2.75%. The reversal is expected to extend into 2018/19 with a further 4.25% decline. The Government's forecasts continue to assume metallurgical coal prices pull back to US$120/t and iron ore prices back to US$55/t by early 2018 (FOB) and remain there for the duration of the forecast period."

In contrast Westpac expects a significantly sharper downturn in dwelling investment; ongoing soft consumer spending; and no real uplift in non-mining investment in 2018/19.

Our views on the key commodity prices of iron ore and met coal see prices move much closer to the cost curves of the major producers - generally reported as USD $20 per tonne (Australia and Brazil for iron ore) and USD $70 per tonne (Australia for coking coal) - over the course of the remainder of 2017 and 2018 with a sharper resulting downturn in the terms of trade.

Rising energy costs; ongoing soft wages growth associated with persistent excess capacity in the labour market, and a more stable savings rate are expected to see consumer spending growth slow further in 2018/19. Overall nominal income growth will also be stunted by the sharper expected fall in the terms of trade with the iron ore price (FOB) settling closer to USD $35 than the USD $55 favoured by the Government's forecasts.

Our forecasts were framed before the Budget was released so are there reasons to revise those forecasts in the light of the Budget?

Initiatives in the Budget around housing give no cause to revise up our views on the dwelling construction cycle in the one to three years outlook. Both domestic and foreign investors are targeted in the Budget. For foreigners, consider the 50% limit on foreign investment in new developments; the tougher guidelines on capital gains tax and the "Ghost Tax". For domestic investors note the new depreciation and travel restrictions are also likely to discourage some further investment.

It is unclear whether the Bank Levy (to raise $6 billion over 4 years) will further tighten financial conditions. Recently there has been an "average" 15 basis point increase across banks' mortgage books and the regulators have tightened restrictions on the growth in interest only loans (it has been assessed by the RBA that around 60% of investor loans are interest only).

On the positive side, the First Home Buyers' salary sacrifice into superannuation is a welcome development. Funds for councils to lift planning delays, possibly boost infrastructure allocations to new housing developments and release more government land will all assist supply in the medium term but are unlikely to avert the looming downturn we see over the next two years.

The Budget also contains a 0.5% increase in the Medicare levy from July 1 2019, which can be interpreted as a tax increase for most households. The Opposition has indicated its intention to oppose the increase for all income earners below $87,000 per annum.

Growth will be boosted by the Western Sydney Airport ($5.3 billion) and Melbourne-Brisbane Rail ($8.4 billion) but these projects will take time to impact activity. The Government has also announced a new $10 billion package for rail transport with only $600 million being currently allocated.

From the near term growth perspective the impact of these infrastructure initiatives, which we support strongly and have argued in favour of for some years, will be around both business and consumer confidence. Signals that the government plans to invest aggressively may provide that "circuit breaker" that will lift confidence and spending above the trajectories envisaged in our forecasts. The first test of this possible outcome will come with the printing of the Westpac-Melbourne Institute Index of Consumer Sentiment on May 17.

Markets have recently moved, before the announcement of the Budget, to price in nearly two rate hikes in Australia next year. Such moves would be entirely inconsistent with our growth forecasts but could be justified were the RBA and government forecasts for growth next year prove to be correct. However if Westpac's growth profile unfolds we would expect the cash rate to remain on hold through 2018 and into 2019.

The Budget has introduced a new layer of uncertainty into the growth outlook. For our part we remain comfortable with our growth and interest rate forecasts.

Bill Evans, Chief Economist

Data wrap

Mar dwelling approvals

- Dwelling approvals fell heavily in March with a 13.4% drop taking monthly approvals back near their Oct 2016 low. Although most forecasters were looking for a pull back from the 10% rise in Dec-Feb, the consensus was –4% with the weakest forecast at –8%.
- As is often the case with big moves, the drop was concentrated in the more volatile 'units' category, down 22.5%mth. The detail shows a veritable collapse in 'high rise' approvals, down about 50%mth to the lowest monthly reading since July 2013.
- The month also showed a sizeable pull-back in private sector house approvals (–4.3%) although medium density 'low-mid rise' approvals surged strongly, up about 30%mth. This last segment accounts for 18% of all dwelling approvals. It is showing particularly strong gains in NSW where the state government is looking to streamline the approval process for this form of housing.
- The wider state breakdown does caution a little against over-reading the latest monthly move. As noted previously, there have been particularly big swings in NSW and Qld approvals in recent months – falling more heavily late last year then driving the surprisingly strong rebound in Dec-Feb.
- The value of renovation approvals rose 2.3% to be up 10.2%yr. Approvals remain on a solid uptrend led by strong gains in NSW and Vic with activity flat/weakening elsewhere.
- The value of non res building approvals has been more uneven, down 4.5% in March from +36% in Feb. Public work is showing some lift but total approvals are choppy on a modest downtrend.
- While we are always wary of sharp monthly moves in dwelling approvals, the pull back in high rise approvals has returned and is looking more aggressive. A surge in low-mid rise approvals has provided some offset but its unclear whether this will sustain. Meanwhile the renewed weakness in private sector house approvals is a cause for concern – given the shorter time lines on this type of construction it suggests the dwelling investment cycle is turning a little quicker than previously anticipated. Indeed, our projections of the dwelling construction pipeline now suggests new dwelling investment will contract in the second half of 2017 rather than 2018.

Apr business conditions

- The NAB business survey reported that business confidence moved sharply higher in April, narrowing the gap to business conditions. The survey was conducted from April 21 to 28, ahead of the Federal budget on May 9. The previous update was during Cyclone Debbie.
- In April, the conditions index rose 2pts to +14 (with March revised lower to +12 from +14). This is well above the long-run average (which is +1) and a high since the start of 2008, prior to the GFC.
- The survey adds to the evidence that, as expected, the Australian economy has emerged from the slowdown in 2016, which was associated with the July Federal election.
- Business confidence jumped in April, up 7pts to +14, which is above the long-run average for this series of around +5. This is the highest reading in 7 years, since April 2010.
- This extends the trend improvement in business confidence evident in 2017, against the backdrop of improved global conditions. It brings confidence more into line with business conditions.
- In April: trading conditions moderated from an elevated level, down 4pts to +17; profitability was steady at +14; and employment conditions strengthened, +2pts to +8. Employment conditions have moved higher in 2017, with a sustained lift for four consecutive months. By industry, the improvement in business conditions has become more broadly based. Using a 3 month average, conditions are at or above average in all 8 industry groups, including wholesale and transport & utilities, but with the exception of retail.
- By state, business conditions are positive in all six states, led by NSW at +19 in April. Improved conditions are more broadly based. Notably, conditions in the mining states of Qld and WA have lifted, with the reduced drag from the mining investment downturn and the income boost from the recent higher commodity prices. In April, business conditions in Qld were +11, while WA was at +3.

Mar retail trade

- Total retail sales dipped 0.1% in March vs expectations of a 0.3% rise. Sales had dipped 0.2% in Feb as warm weather, aggressive discounting and clothing store closures impacted. Weather had a more substantive negative impact in March featuring abnormally wet conditions over the eastern states and Cyclone Debbie impacting Qld and parts of NSW. Qld bore the brunt of the impact with sales down 1.3%. Sales across the rest of Australia rose 0.2%.
- Q1 real retail sales also came in well below expectations, rising 0.1% vs consensus forecasts of a 0.5% gain. Weather was again a key factor: sales in Qld fell 1%qtr while the rest of Australia rose 0.4%qtr.
- Price discounting was not quite as aggressive as expected, the retail deflator rising 0.1% vs an expected 0.1% dip.
- The impact of severe weather makes interpreting storetype results difficult. The event likely impacted different categories to varying degrees and quarterly storetype estimates not available by state.
- As they stand the national figures show a 0.6% rise for food retail, 0.4% gains for household goods and 'other retail', flat sales for department stores, cafes & restaurants and a sharp contraction in clothing retail. The latter saw a several chain stores close early in the year. The monthly sales detail suggests Qld's weather impact was more pronounced for cafes & restaurants, 'other retail', department stores and clothing.
- The weaker than expected retail report highlights downside risks to the broader consumer spending estimates in the Q1 national accounts – due June 7. Our starting point is already soft with spending estimated to have risen just 0.5%qtr. With available partials now showing flat retail and a modest dip in motor vehicle sales, that gain rests on services spending retaining reasonable momentum. While there are few indicators of actual spending for these consumer sectors, recent business surveys suggest conditions have indeed held up reasonably well. Looking further ahead, next month will clearly see sales rebound from weather effects. While weather dominated in March, it was against a backdrop of soft conditions and aggressive price competition. The tone of the April bounce will give a better idea of just how soft the sector really is.

Round–up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Mon 08	Mar dwelling approvals	8.9%	-13.4%	-4.0%
	Apr ANZ job ads	0.8%	1.4%	-
	Apr NAB business survey, conditions	12	14	-
Tue 09	Mar retail sales	-0.2%	-0.1%	0.3%
	Q1 real retail sales	0.7%	0.1%	0.5%
	Federal budget, 2017/18 balance, $bn	-36.5	-29.2	-28.0

New Zealand: week ahead & data wrap

The Reserve Bank left the Official Cash Rate unchanged at 1.75% this week, and restated its view that interest rate hikes are a long way off. Inflation has been boosted for now by some temporary factors, but underlying inflation pressures are still seen to be subdued. The Reserve Bank's economic forecasts have many similarities with our own, and we remain of the view that the OCR will remain on hold until early 2019.

As in its past two statements, the RBNZ concluded its May Monetary Policy Statement by noting that "monetary policy will remain accommodative for a considerable period". This itself is a fairly innocuous statement: no-one was expecting the OCR to rise above a 'neutral' level (which the RBNZ now puts at somewhere below 4%) in the foreseeable future.

What was surprising, though, was that the RBNZ's interest rate projections were unchanged from the path produced in the February Monetary Policy Statement. The OCR was projected to remain on hold through until September 2019, and then rise gradually further ahead. In contrast, we and the rest of the market had expected the RBNZ to bring forward the expected timing of an OCR hike to some degree.

So what stayed the RBNZ's hand? Firstly, the RBNZ has looked through the recent rise in inflation back above 2%, attributing it largely to higher food and fuel prices, both of which will only have a temporary impact on inflation. Consistent with this, the RBNZ's forecasts show inflation falling to as low as 1.1% in early 2018, as food prices drop back from elevated to normal levels.

Nevertheless, this isn't the horizon where monetary policy should be focusing. What's more important is the longer term outlook and the strength of domestic activity. On this point, the Reserve Bank has become a little more downbeat. GDP growth was softer than expected over the second half of 2016. And although activity is expected to expand at a reasonable pace over the next few years, the RBNZ is of the view that there is a bit more spare capacity than it had previously been factoring in.

On top of this, much of the recent and expected growth is coming on the back of strong population increases. While that's adding to demand, it's also boosting the economy's supply potential, meaning only a limited rise in the associated inflation pressures.

In addition, the RBNZ has concluded that the slowdown in house price inflation is more than just temporary. The tightening of loan-to-value limits for property investors and a rise in mortgage rates since late last year, have together seen house price gains slow to a crawl. This will have a dampening impact on the outlook for demand more generally.

Lastly, the RBNZ remains very conscious of the softness in global inflation. Around the world, headline inflation has been boosted by the rebound in oil prices from unsustainable lows. However, 'core' measures of inflation have yet to show any substantial upturn. So even though a lower New Zealand dollar will add to import prices to some extent, tradables inflation is projected to rise only gradually over the coming years.

Putting all this together, the RBNZ is forecasting inflation to drop below 2% again by the end of this year and not to return to that mark on a sustained basis until mid-2019 – the same as in the February MPS. In fact, the RBNZ's statement noted that: "Developments since the February Monetary Policy Statement on balance are considered to be neutral for the stance of monetary policy."

Overall, the RBNZ's latest forecasts have a lot in common with our own. There are some points of difference: for instance, the RBNZ's terms of trade forecast and the implications for national income, still look a bit anaemic compared to what dairy prices have been doing lately. Additionally the RBNZ has been cautious about the degree of fiscal stimulus ahead of the Budget later this month.

On the other hand, the RBNZ's GDP growth forecasts, which were already on the high side of the market, are still stronger than ours. And its forecast of a 5% rise in nationwide house prices this year may still be on the optimistic side – it would require an acceleration from the pace of recent months.

However, we're broadly in agreement with the RBNZ's view that annual inflation will drop back below 2% next year, and that domestic inflation pressures over the medium term are still subdued. The economy is not growing at the sort of pace that led to overheating and a surge in inflation in previous cycles.

So we are sticking with our call that the OCR will remain on hold until early 2019. This is earlier than the RBNZ's projection, but later than what markets have been pricing in – even after this week's statement, interest rate markets are priced for a hike by mid-2018.

Round–up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Wed 10	Apr retail card spending	–0.3%	1.1%	0.6%
Thu 11	RBNZ policy decision	1.75%	1.75%	1.75%
	Apr food price index	–0.3%	–0.8%	–
Fri 12	Apr manufacturing PMI	58.0	56.8	–
	Apr REINZ house sales	2.2%	–4.2%	–
	Apr REINZ house sales %yr	9.9%	7.8%	–

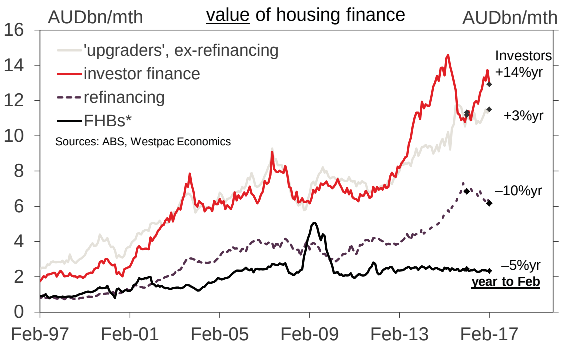
Data previews

Aus Mar housing finance (no.)

May 15, Last: –0.5%, WBC f/c: 0.0%
Mkt f/c: 0.0%, Range: -2.0% to 3.0%

- The Feb housing finance report recorded a 0.5% dip in the number of owner occupier approvals and a sharp 5.9% pull back in the total value of investor lending. Note that the latter predates the recent tightening in 'macro-prudential' regulation and suggests lenders were already moving to ensure growth in total investor credit – i.e. the stock of loans – stayed below the existing 10%yr guideline.
- Industry data points to a steady result for owner occupier finance approvals in March. The value of investor loans will again be of close interest although the most recent macro prudential measures (10% guide should be met 'comfortably', 'interest only' loans capped) only come into play from April on.

Value of finance approvals by segment

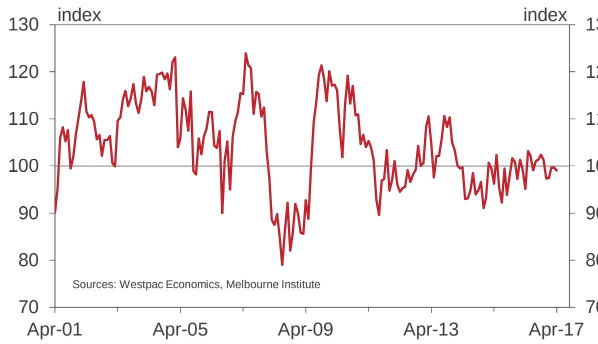


Aus May Westpac-MI Consumer Sentiment

May 17 Last: 99.0

- The **Westpac-Melbourne Institute Consumer Sentiment Index** dipped 0.7% in April to 99.0 from 99.7 in March. That was a surprisingly resilient result given intense media attention about housing concerns, bank moves to increase interest rates for some mortgage borrowers and more disappointing updates on labour markets.
- This month's survey is in the field May 8-13 and will capture reactions to the Federal Budget delivered on the night of May 8. Its likely to be a clear read with other developments mostly minor – the RBA left both rates and its 'firmly on hold' stance unchanged this month and the ASX is unchanged, albeit with some volatility and big sectoral shifts along the way. Labour markets are looking a little better but still unconvincing. The AUD is off 2¢ vs the USD but current moves can have an ambiguous impact on sentiment.

Consumer Sentiment Index

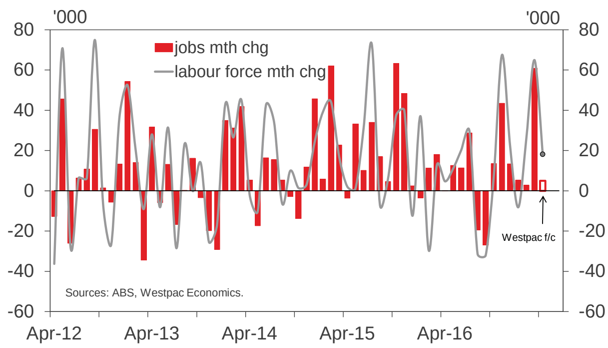


Aus April Labour Force - employment '000

May 18, Last: 60.9k, WBC f/c: 5.0k
Mkt f/c: 5.0k, Range: -20k to 20k

- In March employment surged 60.9k compared to the market's forecast of +20k. There was a promising sign in the 74.5k surge in full-time employment and 0.2% gain in hours worked. However, it's too early to call a more positive turnaround and the annual pace for each is just 0.8%yr for both.
- Normally, a strong rise in both employment and participation points to sample roll being behind a strong number. However, in original terms the incoming group had a lower employment to population ratio than the group it replaced so sample rotation was behind the better than expected outcome.
- Despite our Jobs Index pointing to upside risks for near-term employment gains, we are expecting survey volatility to drive a pull-back in employment momentum after the 60.9k gain in March due to survey volatility. We have pencilled in +5k, rather than a negative as the underlying growth in population should be enough generate a positive print.

Labour force vs. total employment



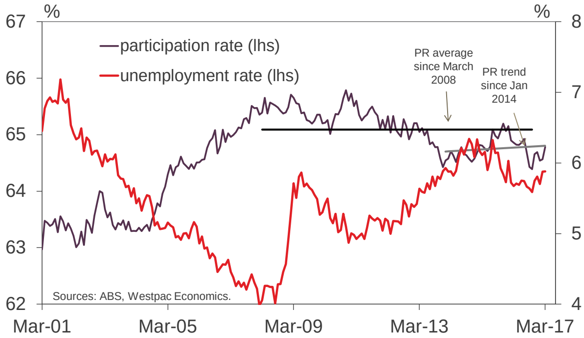
Data previews

Aus April Labour Force - unemployment %

May 18, Last: 5.9%, WBC f/c: 6.0%
Mkt f/c: 5.9%, Range: 5.7% to 6.0%

- In March the unemployment rate was flat at 5.9% (5.88% at two decimal places for both months) as a 0.2ppt lift in the participation rate to 64.78 (from 64.56) resulted in 64.9k bump in the labour force.
- There was a jump in both male and female participation but the underlying trend of rising female participation and declining male participation remains. The relatively more positive female labour market may be part of the reason but the female participation is greater than what you would expect given the current pace of female employment.
- Steady participation will see an 18k gain in the labour force and the unemployment rate tick up a bit to 6.0%. It is possible that soft employment print may be associated with falling participation holding the unemployment rate steady. However, we also note that a larger gain in employment is likely to be associated with a rise in participation and thus we are unlikely to see a fall in unemployment.

Unemployment and participation rates

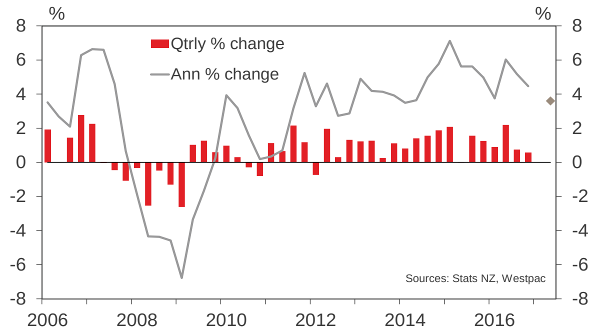


NZ Q1 real retail sales

Mar 15, Last: +0.8%, Westpac f/c: flat, Mkt f/c: 0.9%

- While nominal spending has continued to climb in the early part of 2017, this is coming against a backdrop of rising prices. Consumer prices rose by more than expected in the March quarter, with large contributions from the prices of necessities like food and fuel. On top of this, increases in borrowing rates and the related slowdown in the housing market is weighing on households' spending appetites.
- Providing some offset to the above headwinds are continued strong population growth and a strong tourist season.
- Putting it altogether, we expect overall spending growth to remain flat in the March quarter. On a per-capita basis, spending has been soft for some time.

Real retail sales



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 15					
Aus	Mar housing finance	-0.5%	0.0%	0.0%	Industry figs show steady own-occ loans. Focus on investor figs.
NZ	Apr performance services index	59.0	–		Expected to continue its upward expansionary trend.
	Q1 real retail sales	0.6%	0.9%	0.0%	Nominal spending up, but volumes soft due to price gains.
	RBNZ Asst Governor McDermott	–	–	–	Speech "The value of forecasting in an uncertain world".
Chn	Apr retail sales %yr	10.9%	10.9%	–	Employment prospects positive over services and industry.
	Apr fixed asset investment ytd %yr	9.2%	9.1%	–	Acceleration in private investment welcome.
	Apr industrial production ytd %yr	6.8%	6.9%	–	PMI's supportive of outlook for manufacturing.
UK	May Rightmove house prices	1.1%	–	–	Post-Brexit uncertainty weighing on house prices, esp. in London.
US	May Fed Empire state index	5.2	7.5	–	Slowed materially in April from March's 2-year high.
	May NAHB housing market index	68	68	–	Home builders remain very positive on outlook.
Tue 16					
Aus	Apr new vehicle sales	1.9%	–	–1.0%	Sales have been tracking a moderate downtrend so far in 2017.
	RBA minutes	–	–	–	On hold, housing and the labour market remain in focus.
Eur	Mar trade balance €bn	19.2	–	–	Remains positive, driven by large German surplus.
	May ZEW survey of expectations	26.3	–	–	Investors likely to remain positive given Euro & US g'th f'casts.
	Q1 GDP (2nd estimate)	0.5%	0.5%	0.5%	Strong flash estimate to be confirmed.
UK	Apr CPI	0.4%	0.4%	–	Earlier fall in currency to keep annual inflation
	Mar house price index, %yr	5.8%	–	–	Uncertainty weighing on prices, but low supply limiting downside.
US	Apr housing starts	-6.8%	2.9%	–	Uptrend remains intact despite...
	Apr building permits	4.2%	0.2%	–	... considerable monthly volatility for starts & permits.
	Apr industrial production	0.5%	0.4%	–	Disconnect between ISMs and real data clear.
Wed 17					
Aus	May Westpac-MI Consumer Sentiment	99.0	–	–	First post-Budget read on sentiment. Surprisingly resilient in April.
	Q1 wage cost index	0.5%	0.5%	0.5%	Wages are subdued and there is little to suggest this will change.
NZ	GlobalDairyTrade auction	3.5%	–	–	Dairy futures are pointing to a slight fall in the GDT to come.
	Apr net migration	6100	–	5900	Flows expected to remain firm, annual inflows around record highs.
Jpn	Mar machinery orders	1.5%	3.0%	–	Choppy readings evident of cautious business investment.
	Mar industrial production (final)	-2.1%	–	–	Prelim. showed a drop from uptrend but surveys remain positive.
Eur	Apr CPI, %yr (final)	1.5%	1.9%	1.9%	Energy has created volatility of late; core stable circa 1.2%yr.
UK	Mar ILO unemployment rate	4.7%	4.7%	–	Hiring slowing, unemployment to remain low.
	NY Fed Q1 Household Credit Report	–	–	–	Update on household debt and credit data.
Thu 18					
Aus	Apr employment, mth ch.	60.9k	5k	5k	Some moderation from Mar spike but sound trend to remain.
	Apr unemployment rate	5.9%	5.9%	6.0%	With flat participation unemployment set to rise to 6.0%.
NZ	May ANZ consumer confidence	–2.8%	–	–	Consumer confidence is moderating, but remains firm.
Jpn	Q1 GDP (preliminary)	0.3%	0.4%	–	Exports boosted by world growth but consumption is sluggish.
Chn	Apr property prices	–	–	–	Tier 1 continues to moderate, tier 2 stable.
Eur	ECB Draghi speaks	–	–	–	Conferral of honorary PhD to Mario Draghi by Tel Aviv Uni.
UK	Apr retail sales	-1.8%	–	–	Likely to recover after last month's fall, rising prices still a drag.
US	May Initial jobless claims	236k	–	–	Persists at historic low.
	May Phily Fed index	22.0	19.5	–	Has halved since Feb 33-year high, but still very positive.
	Apr leading index	0.4%	0.3%	–	Points to a continuation of at-trend growth.
	Fedspeak	–	–	–	Mester Speaks to Economic Club of Minnesota
Can	Mar new housing price index	0.4%	–	–	Strength centred on Toronto.
Fri 19					
Eur	Mar ECB current account, €b	37.9	–	–	Annual surplus quite large at 3.4% of GDP.
	May consumer confidence (advance)	-3.6	-3.0	–	Consumers optimistic.
US	Fedspeak	–	–	–	Bullard to Speak about U.S. Economy and Monetary Policy
Can	Apr CPI %yr	0.2%	–	–	Core inflation has been easing, consistent with excess capacity.

Economic & financial forecasts

Interest rate forecasts

	Latest (12 May)	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 Day Bill	1.73	1.80	1.80	1.80	1.80	1.80	1.80	1.80
3 Year Swap	1.95	2.20	2.35	2.50	2.40	2.30	2.50	2.80
10 Year Bond	2.62	2.85	3.00	3.05	3.15	3.25	3.40	3.40
10 Year Spread to US (bps)	24	30	25	20	15	15	10	10
International								
Fed Funds	0.875	1.125	1.125	1.375	1.625	1.625	1.875	1.875
US 10 Year Bond	2.38	2.55	2.75	2.85	3.00	3.10	3.30	3.30
US Fed balance sheet USDtrn	4.52	4.52	4.52	4.52	4.46	4.40	4.31	4.22
ECB Deposit Rate	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40
New Zealand								
Cash	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
90 day bill	1.98	2.00	2.00	2.00	2.00	2.00	2.00	2.10
2 year swap	2.24	2.40	2.40	2.40	2.50	2.60	2.70	2.80
10 Year Bond	2.98	3.30	3.50	3.60	3.65	3.75	4.00	4.10
10 Year spread to US	60	75	75	75	65	65	70	80

Exchange rate forecasts

	Latest (12 May)	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18
AUD/USD	0.7378	0.73	0.73	0.73	0.72	0.69	0.68	0.65
NZD/USD	0.6841	0.68	0.68	0.68	0.67	0.66	0.65	0.63
USD/JPY	113.73	111	112	114	116	117	118	118
EUR/USD	1.0869	1.05	1.04	1.03	1.02	1.01	1.00	0.99
AUD/NZD	1.0787	1.07	1.07	1.07	1.07	1.05	1.05	1.03

Australian economic growth forecasts

	2016			2017				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2015	2016	2017f	2018f
GDP % qtr / yr avg	0.8	–0.5	1.1	0.6	0.8	0.8	0.7	2.4	2.5	2.6	2.8
% yr	3.1	1.9	2.4	1.9	2.0	3.4	3.0	2.5	2.4	3.0	2.5
Unemployment rate %	5.7	5.7	5.7	5.8	5.9	5.9	6.0	5.8	5.7	6.0	6.2
CPI % qtr	0.4	0.7	0.5	0.5	0.5	0.8	0.3	–	–	–	–
% yr	1.0	1.3	1.5	2.1	2.2	2.3	2.1	1.7	1.5	2.1	2.2
CPI underlying % qtr	0.5	0.4	0.4	0.4	0.5	0.3	0.4	–	–	–	–
% yr	1.6	1.5	1.6	1.8	1.8	1.7	1.7	2.0	1.5	1.7	2.3

New Zealand economic growth forecasts

	2016			2017				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2015	2016	2017f	2018f
GDP % qtr	0.8	0.8	0.4	0.9	0.8	1.1	0.7	–	–	–	–
Annual avg change	2.7	2.9	3.1	3.1	2.9	2.9	3.2	2.5	3.1	3.2	3.4
Unemployment rate %	5.0	4.9	5.2	4.9	4.6	4.6	4.4	4.9	5.2	4.8	4.4
CPI % qtr	0.4	0.3	0.4	1.0	0.2	0.4	0.3	–	–	–	–
Annual change	0.4	0.4	1.3	2.2	2.0	2.1	2.0	0.1	1.3	2.0	2.1

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