Building momentum

- 2013 economic outlook to be shaped by the Canterbury rebuild with a global backdrop of modest growth.
- NZD likely to remain stubbornly elevated, although the impact of this is felt unevenly across the economy.
- RBNZ to leave OCR unchanged over 2013, but may reach for its macro-prudential toolkit.

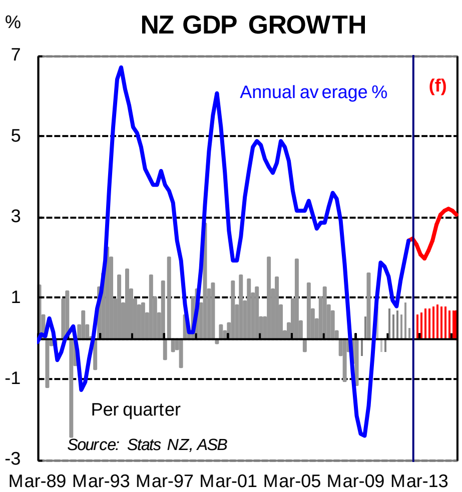
2012 was a year of modest growth for NZ and encouraging signs that Canterbury's rebuild is getting underway, but a year also interrupted by further Eurozone crisis flare-ups and US fiscal deadlock. These themes are likely to repeat in 2013, but by the end of the year we expect a better local economic performance and a bit more progress in getting on top of the developed world's various debt woes.

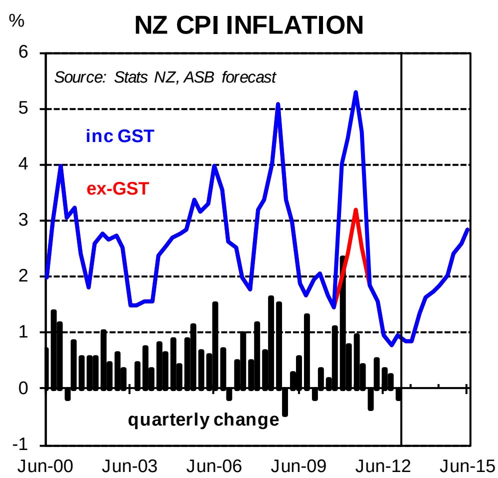
Global growth should be similar to last year at upwards of 3.3% – overall near the long-term average but with risks continuing to hover in the background. Again, developing economies will be providing the momentum as developed economies continue working through the aftermath of high debt levels, with US fiscal wranglings taking centre stage in the first half of the year. The Eurozone debt crisis is now less severe with the risk of a disorderly default or euro exit reduced. But occasional set-backs will continue, and the Eurozone economy will be stagnant over 2013. China's economy has achieved a soft landing, though acceleration over 2013 is likely to more modest than in the past. That means Australia will need to engineer a lift in the non-mining part of its economy as investment in mining-related infrastructure peaks earlier than previously expected.

NZ's recovery was patchy over 2012, but we expect momentum to pick up over 2013. Earthquake rebuilding is gearing up in Canterbury, along with other signs that the region's economy is starting to rebound. To readily highlight the progress of the rebuild, we recently developed a new monthly indicator, the Cantometer. Rebuilding activity will be a key driver of higher overall NZ growth. The broader housing market is likely to continue strengthening, particularly in Auckland, further boosting house-building to meet demand. Greater building activity will filter through to the wider economy.

The NZ dollar is likely to remain stubbornly high for much of 2013, the legacy of NZ's better relative economic health. The impact of the high NZD is, however, spread unevenly across the trade-exposed sectors of the economy. In this Quarterly we summarise some recent work we have been doing on the exchange rate. We created manufacturing-focussed alternatives to the RBNZ's Trade Weighted Index (TWI) exchange rate for manufactured exports and manufactured imports. These export and import exchange rate indices suggest import-competing manufacturers have had the heavier going relative to the manufacturing export base.

The RBNZ faces a difficult dilemma this year. Inflation pressures will increasingly be generated by the rebuild of Canterbury. Moreover, the heat of the housing market shows no sign of letting up, particularly in Auckland. Credit growth is also starting to pick up across the board, a clear indication that households and businesses are responding to low interest rates. But on the other side of the equation is the muted economic recovery in 2012, low inflation pressures at present, and the still-high exchange rate – all of which suggest little urgency for the RBNZ to lift the OCR. We think it is likely the OCR will not increase until the first quarter of 2014. But there is a growing possibility that the RBNZ will reach for its macro-prudential toolkit to cool the housing market and credit growth.





Exchange rate: manufacturers' perspective

Exchange rate pressures will differ from firm to firm.

NZ has a myriad of exporters and importers that use a wide variety of currencies. Whether a business faces a favourable exchange rate depends on which side of the trade equation it sits and which markets it trades with. There is no one generalisation that can be made. In the current environment the NZ dollar is high against many currencies (generally favourable for importers) yet relatively low against the Australian dollar (favourable for exporters to that market). High prices for key commodities such as dairy mean some exporters may face favourable NZD receipts notwithstanding a high exchange rate.

The official TWI is a broad measure of the NZ dollar.

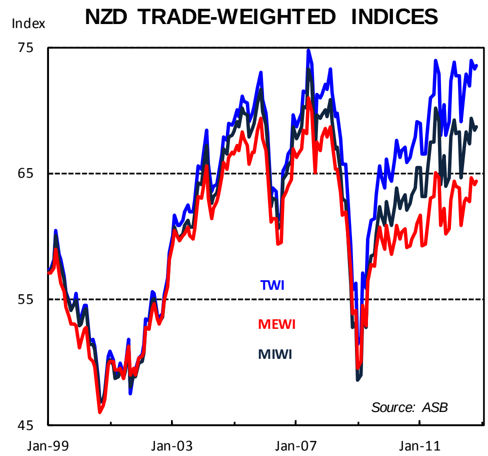
The Reserve Bank's Trade Weighted Index (TWI) is a broad measure of the NZ dollar, weighting five commonly-used exchange rates by a combination of trading partner GDP and import/export flows. This methodology is used to reflect not only NZ's direct trade flows but also the prevalence of the world's major currencies. For example, NZ exporters to Australia compete not only with domestic Australian producers but also with US exporters. The USD is also widely used to denominate global trade transactions. The current methodology has been used since 1999. Prior to 1999 the weights used were based solely on trade flows.

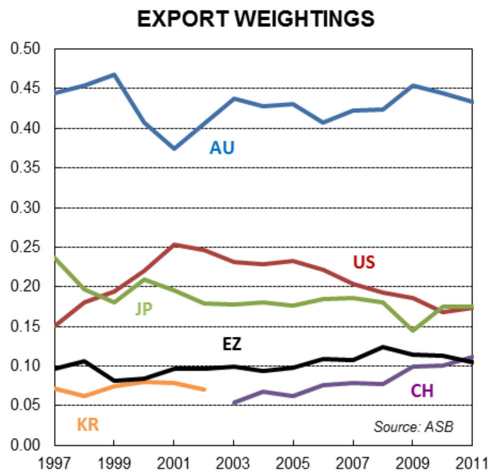
We have constructed two alternative exchange rate indices, focused on manufacturing exports and imports.

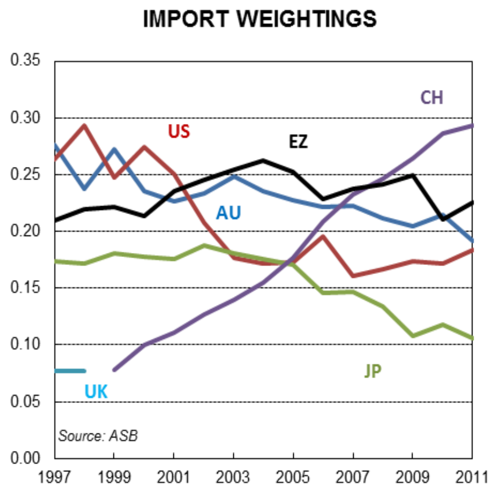
To get a better idea of the broader impacts on the manufacturing sector of the exchange rate we have constructed two alternative exchange rates, one weighted by manufacturing exports and one weighted by manufacturing imports. We have kept the definition of 'manufacturing' fairly narrow, intentionally excluding processed meat and dairy. For each index we have used a basket of five currencies (as in the official TWI), based purely on manufacturing import and export flows. Each index is reweighted annually (again, as with the official TWI). The key differences between these indices and the official TWI are (a) our indices do not use GDP to determine currency weightings, (b) our indices use trade flows of manufactured goods only, and (c) the currencies used in our indices are not fixed – we simply use the five top import/export partners in each year. We have calculated our own indices from 1999, the date of the RBNZ's new methodology, calibrated to have the same starting value.

Export-weighted index is heavily weighted towards the AUD.

For instance, typically about 40% of NZ's manufacturing exports go to Australia. Therefore the Manufacturing Export Weighted Index (MEWI) is heavily weighted towards the Australian dollar. And the composition of the index changes in 2004, when China overtook South Korea as the fifth-highest recipient of NZ manufacturing exports. Note that the official TWI has never included the above two Asian exchange rates.







Weightings, 2012

	TWI	MEWI	MIWI
USD	0.30	0.17	0.17
AUD	0.23	0.44	0.21
EUR	0.26	0.11	0.21
JPY	0.15	0.17	0.12
GBP	0.06	-	-
CNY	-	0.10	0.29

The import weighted index features an increasing weight on the Chinese Renminbi.

The Manufacturing Import Weighted Index (MIWI) features large weightings for the US and Australian dollars, as well as the euro. The most striking aspect of this index, though, is the steadily rising weighting given to the Chinese Renminbi as more and more manufactured goods are imported from China.

Both indices are lower than the official TWI.

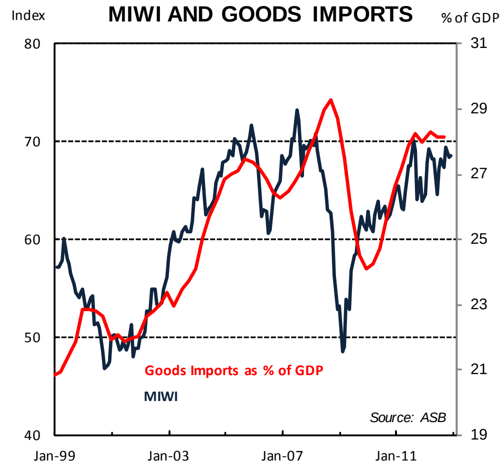
Our two indices are intended to capture the exchange rate pressures facing NZ manufacturers, both those exporting goods and those competing in the domestic market against imported goods. Both indices have risen to high levels over the last few years, indicating increased competitive pressures from abroad. However, exchange rate movements over recent years seem to have affected import-competing manufacturers to a greater extent overall.

Exports to Australia actually face quite a favourable exchange rate.

The concentration of exports to Australia and the low NZD/AUD mean that a significant proportion of NZ's export basket faces a favourable exchange rate (and one that has been relatively stable for the past 4 years). But exporters to the US, Eurozone and UK (not in our basket) nonetheless face dual challenges of both high exchange rates and muted economic growth in their destination markets.

Less exposure to Australian competition means import-competing firms face greater currency pressures.

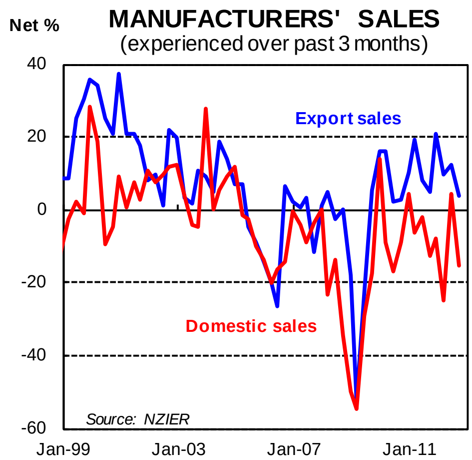
In contrast, import-competing manufacturers appear to, on average, face a higher (less favourable) exchange rate. That is because the NZD/AUD rate is of less importance; these firms compete against imports from China and Europe as much as those from Australia. A stronger currency improves the global purchasing power of NZers and means a greater inclination to purchase imported goods as opposed to locally-sourced goods. NZ's import penetration ratio reflects this pattern; the ratio of goods imports to GDP fell in 2009 as the NZD weakened (and recession hit), and has since risen steadily.



Since 2009 the MEWI, MIWI and TWI have diverged…

Looking at the historical performance of our two indices versus the official TWI, we can see that until 2009 all three indices tracked quite closely. Since then, though, they have diverged somewhat. That highlights a key difference in the nature of the most recent appreciation of the NZD compared to the appreciation seen over the early- to mid-2000s. Through much of the 2000s the NZD appreciated more broadly – that is, against most major currencies and to a similar degree against each. Since 2009, though, the NZD has held broadly stable at a low level against the AUD. The NZD appreciation against the Chinese Renminbi has also been more muted compared to the previous decade as that currency has been strengthening against the (weak) USD.

…largely due to a low and stable NZD/AUD.



Overall, the alternative exchange rate baskets we have constructed suggest that for the manufacturing sector it is import-competing businesses that appear to be facing the broader impact of the high NZ dollar. The competitive challenges for the manufacturing export sector are likely to be slightly lower overall and are confined to exports that don't benefit from exposure to Australia. Nevertheless, we stress that exporters to markets such as the US, UK and Europe are facing twin challenges of unfavourable exchange rates and weak demand – and those challenges are considerable.

RBNZ research has found domestic-focused manufacturers have performed worse than exporters.

This observation ties in with some recent work the RBNZ did on the manufacturing sector. That work found that sales of domestic-focussed manufacturers (i.e. import-competers) had weakened to a greater extent than export sales. The RBNZ put some of that weaker performance down to the relatively heavy exposure domestic manufacturing has to the building industry, which has suffered weak levels of activity since the recession hit in 2008. But part of the weaker performance of the domestic manufacturing sector was also attributed to the high exchange rate.

Click here for a fuller note on the exchange rate from a manufacturing perspective.

International outlook

Similar trading partner growth for 2013 – and similar risks.

Growth expectations for calendar 2013 are very similar to what 2012 delivered: around 3.3% - nearly at the long-term average. Again, developing economies will be the key engine room while developed economies continue with their repair work. And most of the risks remain skewed to the downside once more.

US growth trend 2% in 2012 and 2013.

But pressing short-term (and long-term) fiscal issues have yet to be resolved.

The US economy is grinding along at a 2% pace. Its fiscal situation is currently its weakest link and a source of uncertainty for businesses. The 'fiscal cliff', a combination of tax increases and spending cuts, has only been partially averted. Further wrangling over spending cuts and the debt ceiling will take place over the first half of 2013, remaining a cloud lingering over the US economy. And the US has yet to properly address its long-term fiscal position, which will require overhaul of its snowballing social and medical programmes and a level of taxation in keeping with the level of spending instead of significantly short of it. But, assuming a sensible agreement is reached over short-term budget issues, the US economy should continue to grow at its recent 2% pace over 2013.

US Federal Reserve has upped its stimulus efforts.

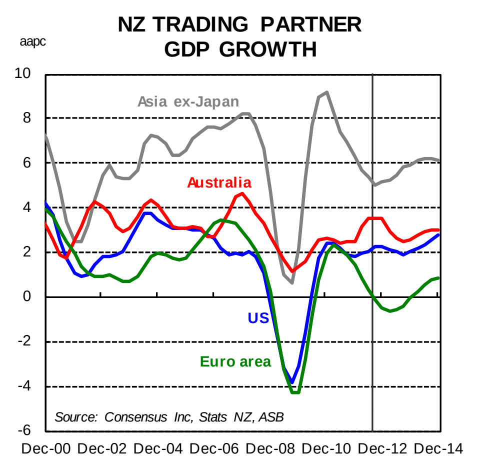
The Federal Reserve has put in place more quantitative easing and linked this action more explicitly to economic outcomes such as the unemployment rate. At the margin this support will help growth, though the impact of more recent quantitative easing programmes will be more diluted than the initial one. The Fed's QE and signalling of low interest rates for a couple more years should encourage investors/savers to start moving money from low-risk but low-earning assets into ones that play a greater role in underpinning spending and capital investment.

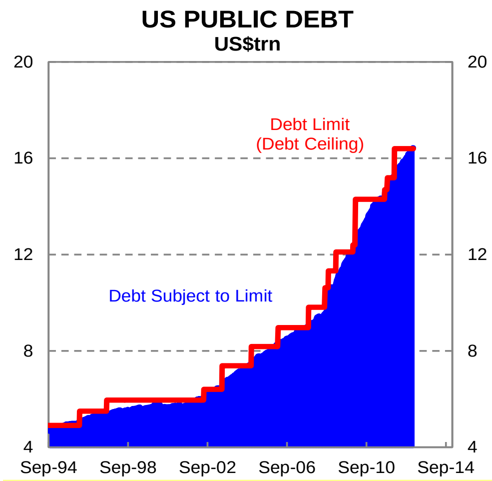
Eurozone calmer because of ECB backstop.

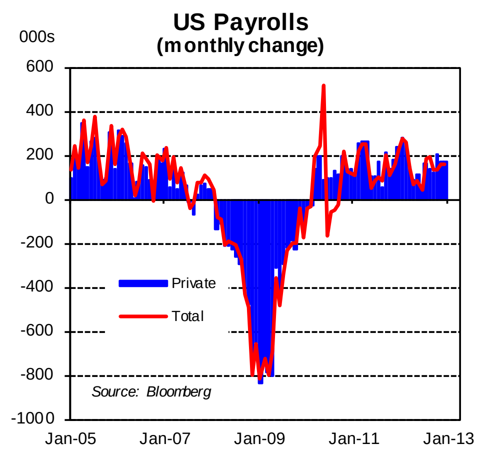
Europe has been calmer in recent months, in the main part through the ECB's pledge to act as a backstop for countries that need a last-resort lender (and that meet conditions set in return for help). Greece has been given more time to turn its finances around and an easing of its debt terms, and the rest of the Eurozone is taking a less-stringent stance on turning around fiscal deficits in troubled countries.

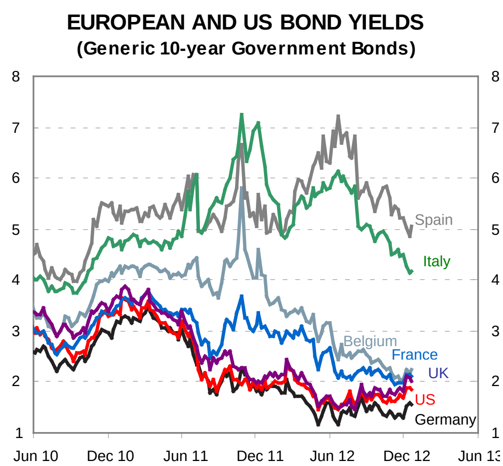
Disruptive tail risks have reduced, but not disappeared.

The prospect of imminent departure from the euro by a crisis-riven country has diminished. But stress points will remain, particularly in Greece, Spain and Italy. For example, Italy is holding an election at the end of February and the outcome could slow the economic reforms that have restored some of Italy's lost credibility. Any renewed doubts over Italy's ability to meet its sizable debt obligations could set back other countries that have made hard-won progress.









Eurozone may stop contracting by early 2013.

The overall Eurozone region should stop contracting by early 2013 – barring another destabilising flare-up – but any growth over the remainder of 2013 will be marginal. Most leading indicators remain in recessionary territory, and there is little scope for further support from fiscal or monetary policy. Uncertainties over the euro's survival and politicians' commitment to support troubled countries have been an added drag on the region. The more recent period of stability may help restore a degree of confidence that prompts some households and businesses to make more forward-looking decisions after a period of focus on survivability. Nevertheless, the road to better health in the Eurozone requires a lot of economic reform to harmonise competitiveness across the zone.

But extensive reforms needed for the long term.

China starting to pick up modestly, will engineer a growth shift.

China appears in reasonable shape, a contrast to the widespread fears up to 6 months ago that it was heading for a hard landing. On a quarter-to-quarter basis economic growth has been accelerating slightly, with other leading indicators also confirming greater momentum. However, the pick-up in growth is likely to be modest: to a little more than 8%. The Chinese authorities are being more circumspect about stimulating the economy than they were during the GFC and are trying to engineer a shift to less reliance on capital spending for driving economic growth. Exports are lifting sharply to Asia (see charts to the right).

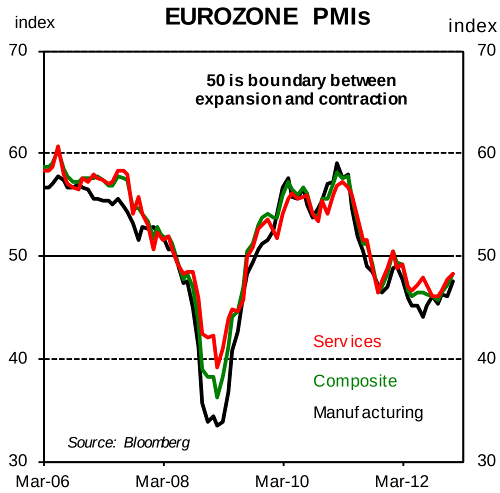
Australia to stimulate non-mining economy.

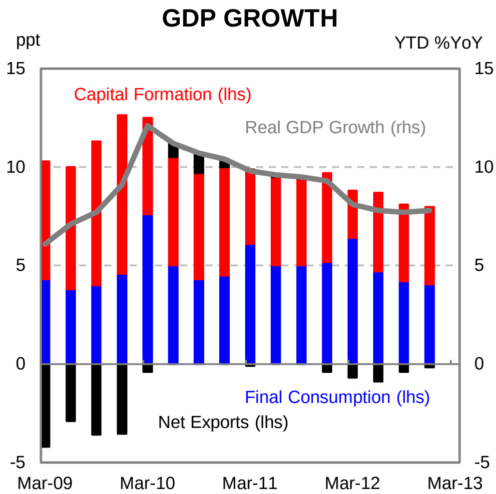
This shift in the mix of China's growth means Australia's mining investment boom is likely to end sooner (2013/14) and be smaller than previously thought. That will lead to a pothole in future economic growth, and has prompted the RBA to cut interest rates further so that non-mining activity will partly fill the hole. Even as the mining investment boom slows, mining exports will still lift strongly as all the increased capacity comes on stream and global commodity consumption continues to rise. And iron ore prices, after falling sharply in August/September last year, have rebounded and Chinese ore import volumes are at record levels.

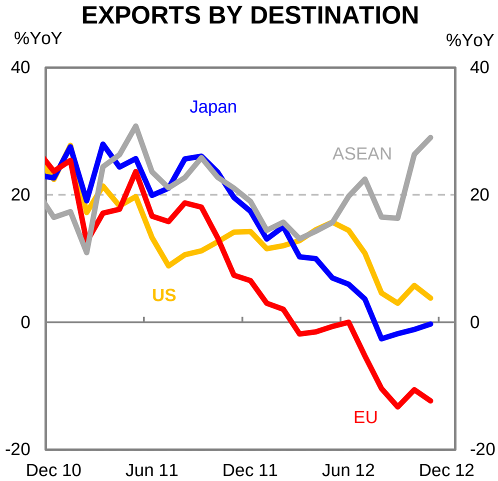
Transitions from one growth engine to another usually aren't seamless. But, even with some deceleration, the Australian economy is still set to grow around 3% this year. The earlier interest rate cuts already seem to be having some effect, with the lagged impact of more recent ones yet to fully come through.

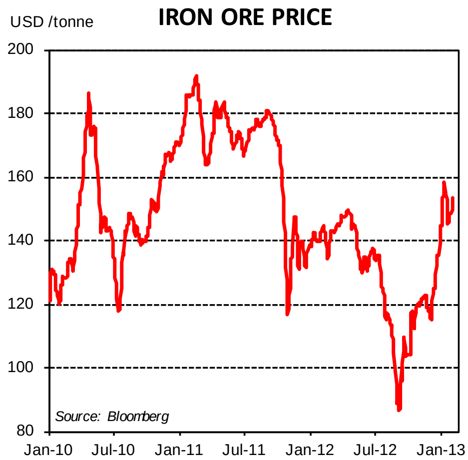
Japan reaches for the stimulus lever.

Japan is likely to undergo macro-economic policy changes after the recent election. The new Prime Minister, Shinzo Abe, wants the Bank of Japan to adopt a formal inflation target of 2% and take more aggressive action to stimulate the economy. The Government is also considering fiscal stimulus (a long-established and over-used lever) to help drag the economy out of another downturn.









The New Zealand Economy

Economic growth over much of 2012 was softer than expected.

GDP data released towards the end of last year indicated NZ economic growth over much of 2012 was not as robust as earlier estimates had suggested. In addition to the softer than expected Q3 GDP result there were downward revisions to growth over the first half of 2012. These results suggest that although the earthquake rebuild has boosted economic activity, this boost was not as great as first thought. This is particularly the case in the service sectors and in infrastructure work.

Activity indicators suggest rebound in Q4.

More recent activity indicators suggest the NZ economy picked up towards the end of 2012. In particular, businesses' reported activity in the NZIER Quarterly Survey of Business Opinion (QSBO) suggests growth will register a rebound for the December quarter.

Infrastructure spending driving volatility in construction.

There has been greater than usual volatility in heavy and civil construction activity in recent quarters, which mainly consists of spending on infrastructure. This likely reflects the lumpiness of some of the rebuild construction projects.

Earthquake rebuilding drives increase in residential and non-residential construction.

Nonetheless, rebuilding is reflected in the increase in residential and non-residential construction. The recovery in non-residential construction more recently is encouraging, given the weakness seen over the first half of 2012. Building consent issuance suggests non-residential construction will continue to lift over the coming year. These expectations are also supported by the latest QSBO survey, with architects reporting continued increase in work on commercial construction projects.

Rebuilding expected to underpin increase in residential construction over 2013.

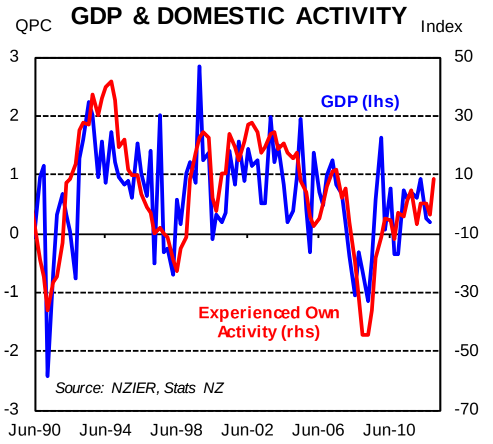
We also expect residential construction to recover over the coming year, underpinned by rebuilding in Canterbury. The RBNZ has estimated the total cost of the rebuild at $30 billion, with the reconstruction expected to occur over an extended period.

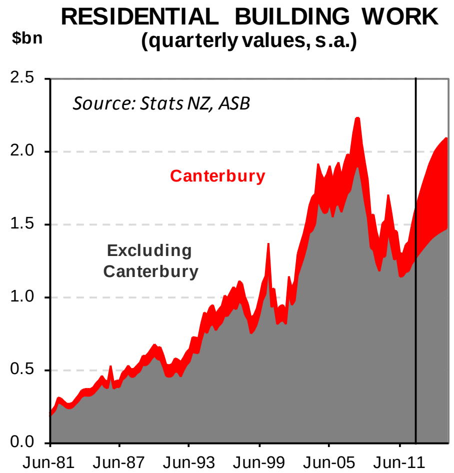
Stronger housing demand encourages house building in other regions.

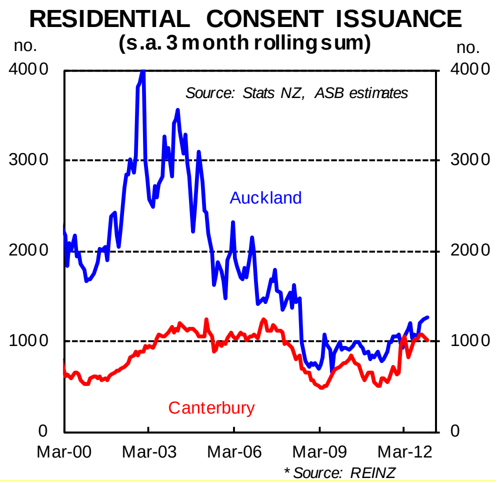
Outside of Canterbury, we also expect a recovery in residential construction. In particular, housing market pressures in Auckland are encouraging increased house-building demand. The increase in dwelling consent issuance over the 2012 year was concentrated in Auckland and Canterbury. We expect house-building demand will continue to be relatively strong in these regions over 2013.

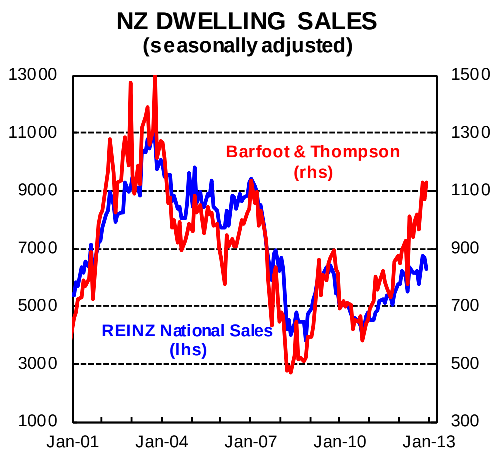
Housing demand broadening beyond Auckland and Canterbury.

Housing demand has been particularly strong in Auckland and Canterbury over the past year, as reflected in the large increase in housing turnover. There are signs more recently that the increase in housing demand is beginning to broaden beyond these regions.









However, new housing supply likely to remain low in Auckland over 2013.

Given it will take some time for the pick-up in recent building activity to flow through to new housing supply, we expect the housing market to remain tight over the coming years. The more acute supply constraints in Auckland and Christchurch have already driven stronger house price inflation in these regions, and this is likely to continue over the coming year.

Annual house price inflation expected to peak at just over 6% nationwide.

We also expect house prices to recover modestly in the other regions, given signs of more broad-based improvement in demand more recently. We expect annual house price inflation to peak around 6-7% nationwide, with upside risks.

Pick-up in household credit growth.

Stronger housing demand is also reflected in the acceleration in mortgage lending growth in recent months. Meanwhile, consumer credit has also recovered, albeit to a lesser extent. We expect further household credit growth to be modest, but this will be a key development to watch.

Recovery in retail spending gradual.

Following the boost from the Rugby World Cup in the second half of 2011, the recovery in retail spending since then has been gradual. The extensive use of discounting over the past year reflects the tough trading environment. Encouragingly though, a recovery in sales of durable goods appears to be taking place. Part of this is likely to be underpinned by higher housing turnover as households purchase major household items to furnish their new homes.

Households likely to remain cautious.

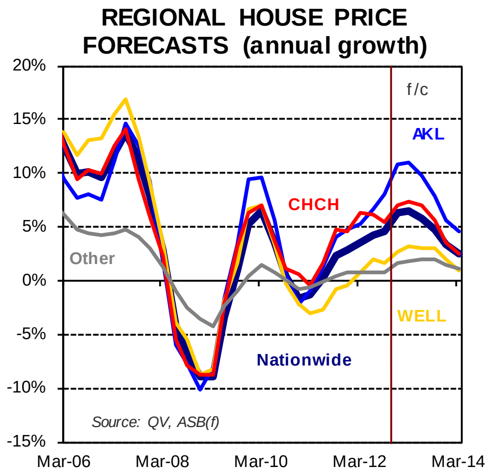
Nonetheless, households are likely to remain cautious, in light of the continued high level of household debt. Added to that, the recovery in employment will be very gradual. The Household Labour Force Survey (HLFS) data showed another decline in employment in Q3, with the unemployment rate ticking up to a 13-year high of 7.3%.

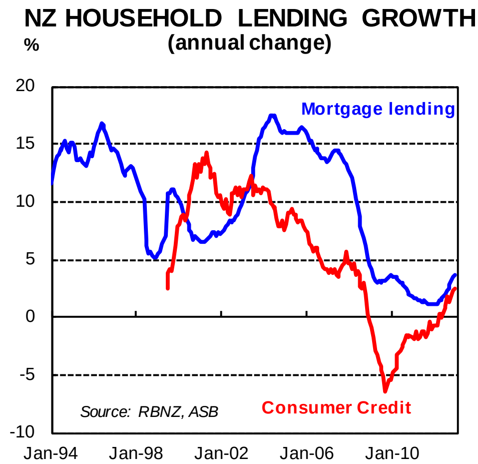
Businesses also cautious.

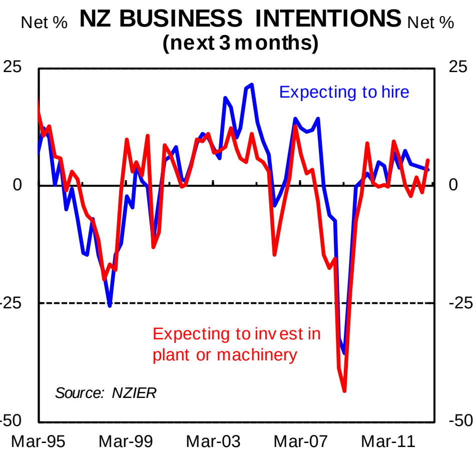
Soft employment demand reflects caution amongst businesses towards expanding operations. Business confidence has remained relatively resilient despite the ongoing offshore uncertainty. Although the latest QSBO showed business confidence improved in Q4 last year, this has not flowed through to strong investment and hiring intentions. We expect the recovery in employment will be gradual over the coming years, with the unemployment rate easing toward 6% by the end of December 2013. The recovery in business investment is likely to be slightly stronger over 2013, as businesses take advantage of the high exchange rate and purchase new plant and machinery.

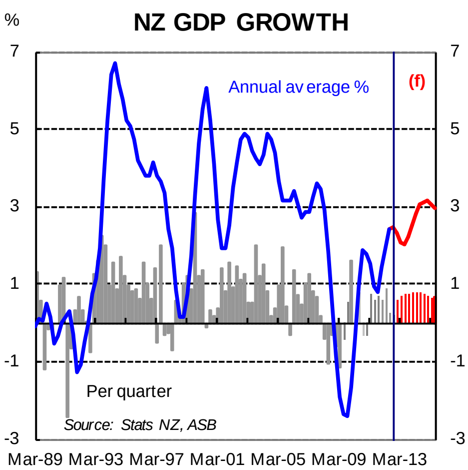
We expect the current account deficit to widen slightly over 2013.

We expect the current account deficit will widen slightly over 2013, as imports increase and as improved NZ profitability from a pick-up in the economic recovery contributes to a larger investment income outflow. An improvement in export receipts will provide some offset.









Inflation outlook

Inflation falls to lowest rate in 13-years.

Inflation pressures became very subdued over 2012, with the annual rate of inflation falling to 0.8% in 2012 – the lowest rate in 13 years – and below the RBNZ's medium-term target band of 1-3%. Inflation outcomes have consistently undershot RBNZ and market expectations over the past 18 months. The drivers of the decline include: deflation in food prices (particularly dairy and meat); the elevated NZD, and; a very competitive environment weighing on tradable inflation. Non-tradable inflation has also remained relatively subdued.

Core inflation measures ease into the bottom half of the RBNZ's 1-3% target band.

Reflecting the steady decline in underlying inflation pressures, core measures of inflation have also moderated. Both the trimmed mean and the weighted median suggest annual underlying inflation is now firmly in the bottom half of the RBNZ's target band. In addition, there has been continued moderation in medium-term inflation expectations and pricing intentions. Given the moderation in core inflation measures, the RBNZ is likely to be more sensitive around the near-term downside risks to inflation.

Elevated NZ to keep tradable inflation subdued.

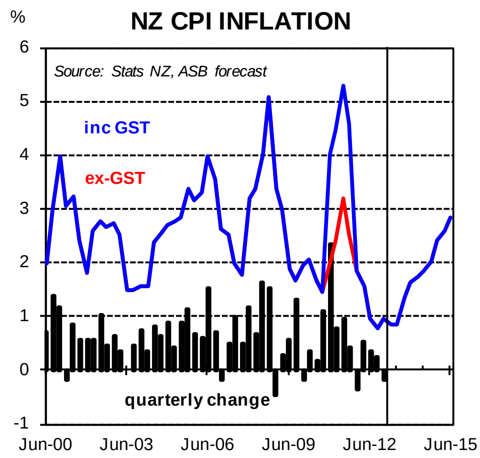
The NZD is likely to remain elevated over 2013, which will keep tradable inflation subdued. Competitive pressures have also been a contributor to weaker tradable inflation, with evidence of greater discounting. However, there has been a gradual recovery taking place in consumer demand. As this continues to strengthen over the coming year retailers may try to recover some margin.

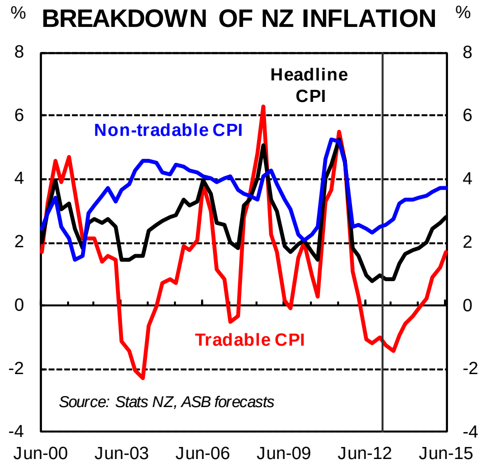
Non-tradable inflation starting to lift on housing-related costs.

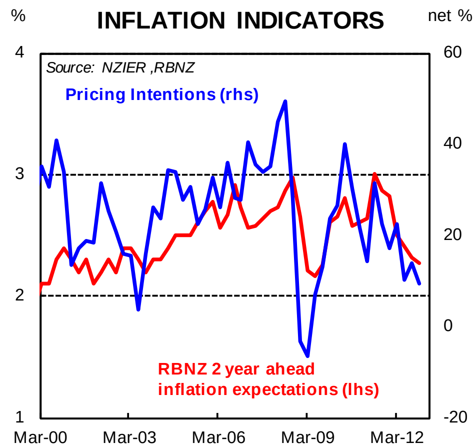
Meanwhile, we also expect to see a gradual recovery in non-tradable inflation. This is already lifting as a result of housing-related price increases including rents, construction costs and insurance premiums. Canterbury construction costs have increased 10% over the past year during the early stages of the rebuild. To date, spillover to the rest of the country has been muted, but over time we do expect to see some construction cost pressure outside of Canterbury.

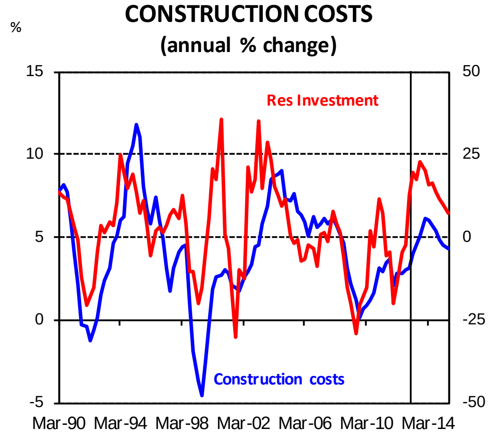
Inflation to lift over 2014-2015.

As the economic recovery gains more momentum, domestic inflation pressures are likely to broaden beyond the housing-related areas. However, in light of recent downward revisions to GDP growth, the pick-up in domestically-sourced inflation pressures is likely to occur later than previously thought. Once the economic recovery does gain momentum and the labour market recovers we anticipate capacity constraints may start to bite relatively quickly. Inflation will lift back toward the mid-point of the target band by mid-2014, and we see scope for inflation to track toward 2.5% by mid-2015.









Interest Rates and Exchange Rates

RBNZ's forecasts imply a Q1 2014 OCR hike.

Persistently low inflation and a materially stronger NZD have continued to push out expectations of the first OCR hike. The RBNZ's forecast 90-day track, at the December MPS, implied a hike in Q1 2014. That is slightly later than the December 2013 hike shown in the September MPS. The December MPS featured a significant change to the RBNZ's forecast TWI track, incorporating a stronger NZD for longer.

We have also revised our OCR hike to March 2014.

Since then, Q3 GDP and Q4 CPI have both come in weaker than expected and as a result we have pushed out our own expectations of the first OCR hike, to March 2014. In the short term, inflationary pressures remain low; CPI outturns have consistently surprised to the downside; and we expect the NZD to hold up at elevated levels and limit tradable inflation. Clearly, (beyond the Auckland housing market) there is no need for higher interest rates in the immediate future. However, the RBNZ's inflation view remains, appropriately, focused on the medium term. Inflationary pressures will emerge over time from the building and housing sector, and more broadly as the economic recovery gains momentum, necessitating OCR increases from early next year.

OCR still to peak at 4%.

We continue to expect the eventual tightening cycle to be fairly slow, resulting in an OCR peak of 4.00% in December 2015. There is a small but growing probability the RBNZ resorts to macro-prudential tools if housing and credit remain strong relative to broader inflation pressures.

NZD/USD to remain elevated.

We expect the NZD/USD will remain elevated over 2013 reflecting: the improving global economy over 2013 led by growth in Asia; firm commodity prices, and; the persistently weak USD as a result of the Fed maintaining very loose monetary policy.

NZD/AUD around 0.80-0.81.

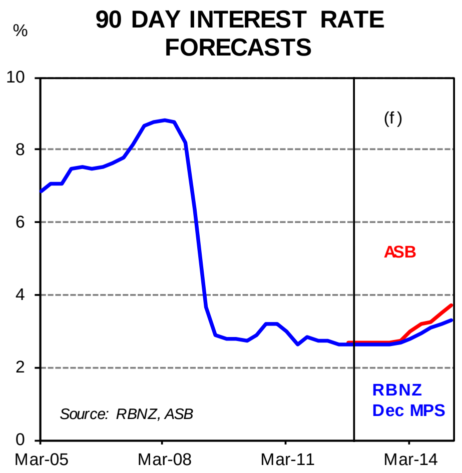
Meanwhile, we expect the NZD/AUD over the coming year to hold around 0.80-0.81, underpinned by an eventual narrowing of the AU-NZ interest rate spread.

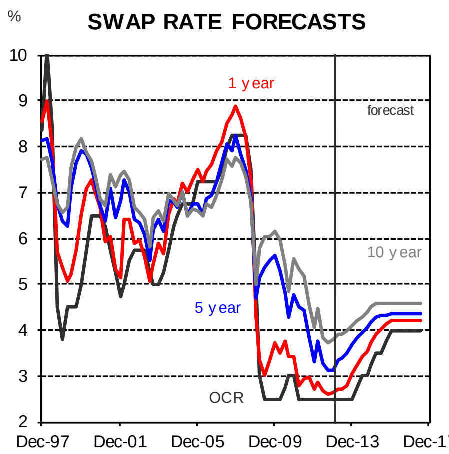
NZD/EUR should moderate as Eurozone stabilises.

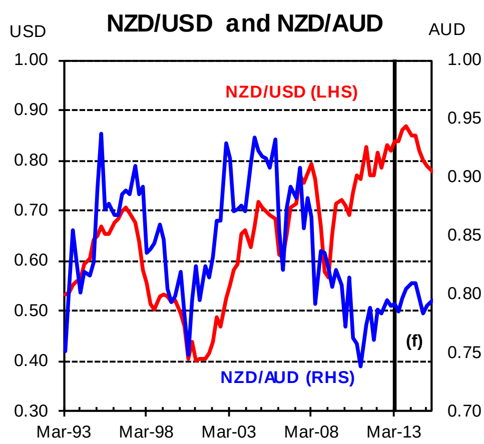
The recent improvement in Eurozone sentiment and the diminished tail-end risk of a Eurozone break up are currently providing support to the euro. We expect this improved sentiment will continue and drive some moderation in the NZD/EUR over the coming year.

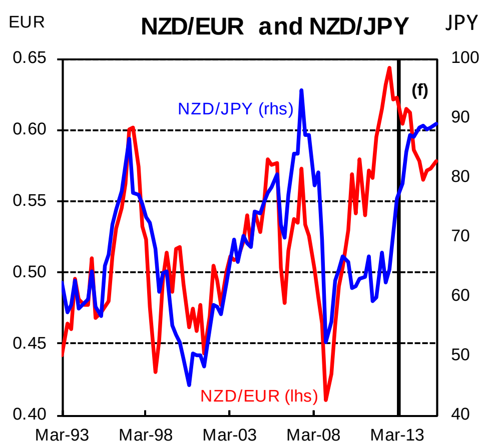
JPY to weaken on smaller current account surpluses.

We have revised our view on the JPY substantially lower and see the NZD continuing to lift against the JPY over the coming year. The key driver of the weaker JPY is the structural change occurring in Japan's current account, with the contraction in the surplus likely to continue. In addition to this, looser monetary policy settings following the Liberal Democratic Party's return to power will also weigh on the JPY.









Economic Forecasts

ASB economic forecasts		Sep-12 <<actual	Dec-12 forecast >>	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
NZ GDP real	**AA%**	**2.5**	**2.3**	**2.1**	**2.0**	**2.2**	**2.4**	**2.8**	**3.0**	**3.2**	**3.2**	**3.2**
private consumption	AA%	2.3	1.6	1.2	1.0	1.3	1.7	2.1	2.4	2.6	2.6	2.5
dwelling construction	AA%	6.0	11.7	18.2	20.0	18.9	18.6	16.3	14.2	12.7	10.5	8.6
other investment	AA%	3.6	3.8	3.9	2.4	4.5	5.5	6.3	7.4	6.6	5.9	5.3
exports	AA%	3.2	0.9	0.3	0.4	-1.2	0.4	1.3	1.9	3.3	3.4	3.4
imports	AA%	1.4	2.0	0.2	1.5	2.2	2.8	4.0	3.7	3.7	3.2	2.7
NZ GDP real	A%	2.0	2.0	1.7	2.2	2.8	3.0	3.2	3.2	3.3	3.2	3.0
NZ GDP real	Q%	0.2	0.6									
NZ CPI	**A%**	**0.8**	**0.9**	**0.9**	**0.8**	**1.3**	**1.6**	**1.7**	**1.8**	**2.0**	**2.4**	**2.6**
NZ house prices (QV index)	A%	4.6	6.3	6.5	5.7	4.7	3.2	2.5	2.1	2.0	2.0	2.0
NZ unemployment (sa%)	Qtr	7.3	7.0	6.9	6.8	6.6	6.3	6.1	5.8	5.7	5.6	5.5
NZ private sector wages (LCI)	A%	2.1	1.9	2.0	2.0	2.0	2.1	2.2	2.3	2.4	2.4	2.4
NZ current account ($b)	Yr	-9.9	-11.1	-11.6	-11.6	-12.0	-11.7	-11.4	-11.2	-11.5	-11.8	-11.8
as a % of GDP	Yr	-4.7	-5.3	-5.6	-5.6	-5.7	-5.5	-5.3	-5.1	-5.2	-5.3	-5.2

A% = percentage change since same quarter the previous year

AA% = percentage change for year ending quarter since the previous year

Financial Forecasts

ASB interest rate forecasts (end of quarter)	Sep-12	Dec-12 <<actual	Mar-13 forecast >>	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
NZ cash rate target	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.25	3.50
NZ 90-day bank bill	2.68	2.68	2.7	2.7	2.7	2.8	3.0	3.2	3.3	3.5	3.7
NZ 3-year swap rate	2.86	2.84	3.1	3.1	3.2	3.5	3.7	3.8	3.9	4.0	4.1
NZ 10-year gov't stock	3.47	3.55	3.6	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3

ASB foreign exchange forecasts (end of quarter)	Sep-12	Dec-12 <<actual	Mar-13 forecast >>	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
USD per NZD	0.831	0.820	0.84	0.84	0.86	0.87	0.85	0.85	0.82	0.80	0.79
GBP per NZD	0.512	0.507	0.52	0.51	0.52	0.53	0.52	0.51	0.49	0.48	0.49
AUD per NZD	0.795	0.791	0.79	0.79	0.80	0.81	0.81	0.81	0.80	0.78	0.79
JPY per NZD	64.5	70.4	76	79	84	87	87	88	89	88	88
EUR per NZD	0.643	0.621	0.62	0.60	0.61	0.61	0.59	0.58	0.57	0.57	0.57
TWI	73.7	73.6	75.3	74.8	76.8	77.6	76.1	76.0	74.3	73.7	73.6

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