# Baby steps to recovery

- Eurozone stumble highlights uneven nature of recovery.
- NZ enjoyed a strong finish to 2012, but is suffering set-backs from drought.
- RBNZ to face challenging year with continued NZ dollar and housing market tensions.

The evolution of economic growth is rarely smooth and is often a case of a few steps forward and the occasional step backward. That is the case at present: the global economy and New Zealand are making forward progress, but not without some man-made or weather-induced setbacks. Nevertheless, we still expect NZ's economic recovery to gain greater momentum over the next couple of years, particularly with the increasing momentum of the Canterbury rebuild.

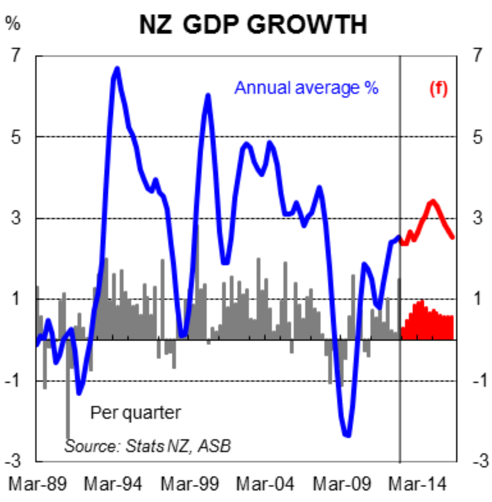
Europe has already stumbled a bit this year. Italy's election outcome (or lack of a decisive result) has cast doubt around the appetite of Italians for needed economic reform. However, the biggest erosion of confidence came from the way the bailout of Cyprus was handled. While a bailout was on the cards for some time, the terms of the initial bailout proposal were unnerving. The apparent willingness of Eurozone creditor nations to even endorse a haircut on small (insured) depositors may have increased the chances of some deposit flight in any other troubled Eurozone countries with faltering banking systems. The bailout also raised concerns about the reduced willingness of the creditor nations to keep putting their money into rescues, particularly with the German federal election looming later this year.

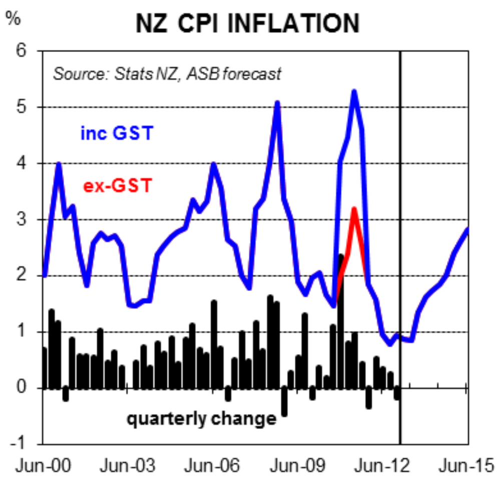
Despite Europe's unfailing ability to cause periods of uncertainty, the global outlook for this year still looks close to the long-run average. Recent developments across the Tasman suggest the rebalancing of the Australian economy away from mining, with the help of sustained cash rate cuts, is getting started.

New Zealand's economy has made two steps forward but one step back. The finish to 2012 proved to be strong with GDP growing 1.5% in Q4 alone, making up for some of the weakness in the middle parts of 2012. The rebuild of Canterbury has stepped up a gear, and its impact on overall economic growth will become increasingly apparent over the next couple of years. Stronger house building activity elsewhere, particularly Auckland, is providing a further boost.

The main step backward for NZ is the drought that has affected much of the country this year. Dairy production has been sharply affected in the tail part of the season, after strength over much of the season. Some consolation is that global dairy prices have been pushed up sharply by concerns over supply shortages, providing some income offset for affected dairy producers. Meat farmers are being hit by weaker prices due to the rush to slaughter stock and by reduced livestock weights. We estimate the drought will knock 0.7 percentage points off NZ's economic output this year, primarily through foregone production and impacts on electricity generation. The NZ dollar is also stubbornly high and a challenge for some export markets. Nevertheless, we expect NZ will still grow around 2.5% in calendar 2013 and eventually hit a peak growth rate of around 3.4%.

For the RBNZ, this year is yet again a challenging one. Inflation pressures are muted for now, with the NZD high. But the housing market remains strong in Canterbury and Auckland, with credit growth also picking up. We expect the RBNZ will keep interest rates on hold until March 2014. However, there is a growing risk the RBNZ sees not just inflation risks but financial stability risks from the hot Auckland housing market, and may also resort to using macro-prudential tools.

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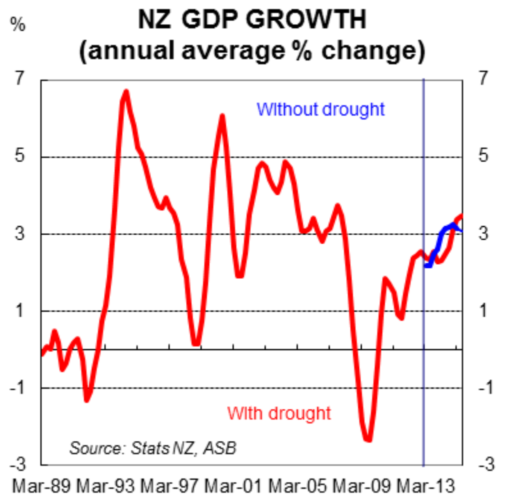
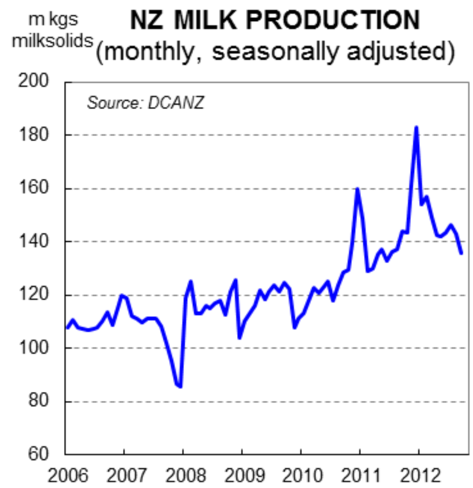
# Drought to dent 2013 growth

**We expect cost of current drought will be lower than 2007/08 experience.**

We expect this summer's drought to knock around 0.7 percentage points off GDP over 2013, with a total cost of around $2 billion in foregone output. This is less than the cost of the 2007/08 drought, which was estimated by MAF to have totalled $2.8 billion. While drought conditions were worse and more widespread this time around, this year's drought started later in the production season. Favourable pasture conditions late last year meant that dairy farmers started the season at high levels of production. In addition, following the 2007/08 drought experience, we think farmers were better prepared for a drought this time. And, even as conditions started to become very dry in the North Island in early 2013, milk production in the South Island (which was less affected by drought) continued to hold up. South Island milk production has continued to grow on year-ago levels due to the flow on impact of recent conversions over the past few years, which is also providing some offset to weaker production in the North.



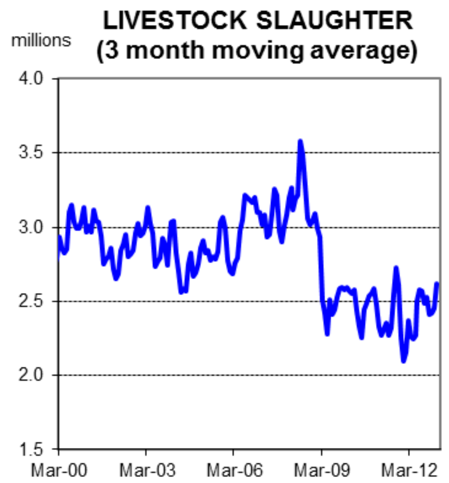




**Nationwide milk production for the season roughly flat on previous season.**

Indications from Fonterra are that nationwide milk production for the full 2012/13 season will be roughly flat relative to the previous year's exceptional season. Of course, this reflects wide regional differences, with milk production declining for the majority of the North Island regions but offset by growth in the South Island. DairyNZ has estimated lost production over Q1 on an average North Island dairy farm to be around 5,500 kgs of milk solids.

**Peak drought impact on Production GDP expected in Q2.**

We expect much of the drought impact on economic activity will be felt in Q2 this year. Reduced milk production in Q1 is likely to be largely offset by increased livestock slaughter. Meat processing plants in the North Island were operating at full capacity over late February and March as farmers actively reduced cattle and sheep numbers as weather conditions became increasingly dry. The spike in livestock slaughter will boost primary manufacturing in Q1, but will lead to lower output in the subsequent quarters. The later start to the drought meant stock is likely to be of better quality than in the 2007/08 drought, mitigating to some extent the cost to farmers of early livestock slaughter.



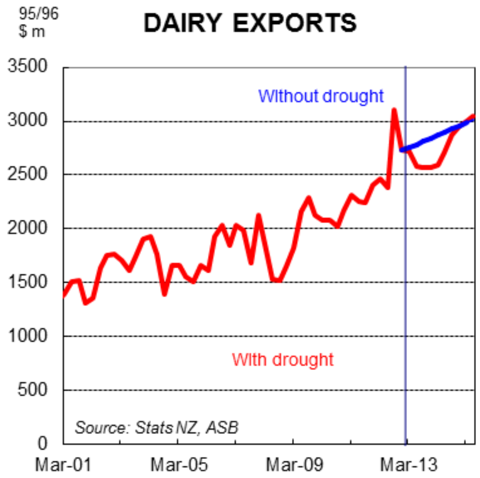

**Boost to transport activity over Q1.**

Transport activity will also get a boost over Q1, with reports of farmers bringing in extra feed as conditions became increasingly dry. However, we expect to see lower hydro-electricity production as a result of lower lake inflows over Q1, which reduces the value add of that sector on a Production GDP basis.

On the Expenditure side of GDP, we expect the direct effects of the drought will be seen in declines in dairy and meat exports over 2013. Beyond that, production and exports are expected to recover back toward pre-drought levels. We expect the drought will have a negative effect on aggregate business investment (reflecting reduced on-farm investment as a result of lower profits this season) and reduced consumer spending in rural regions.

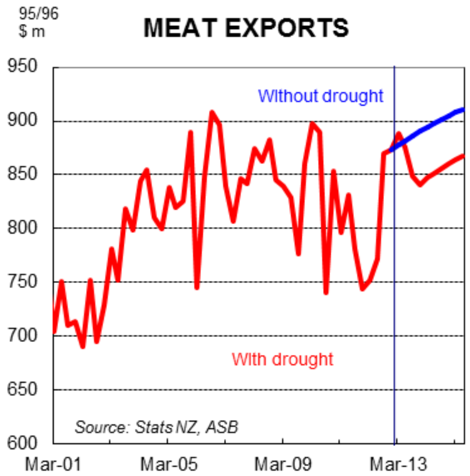
**Drought likely to reduce capital expenditure.**

The MAF[1] study on the previous drought found farm expenditure actually increased, although this reflected increased spending on feed. The study concluded the 2007/08 drought was likely to have reduced capital expenditure and farm expansion rather than spending on operating inputs in the subsequent year.




**We expect most of the cost of the drought to be borne by dairy farmers.**

For the 2007/08 drought, around 60% of the total cost was estimated to have been incurred over the first year, with the remaining 40% in the subsequent year. We expect around 50% of the total cost of this drought will be incurred over the first year, reflecting the later timing of the start of this drought. Similar to the previous drought, we expect around 75% of the costs to pastoral production will borne by dairy farmers, with the remaining 25% by sheep and beef farmers.

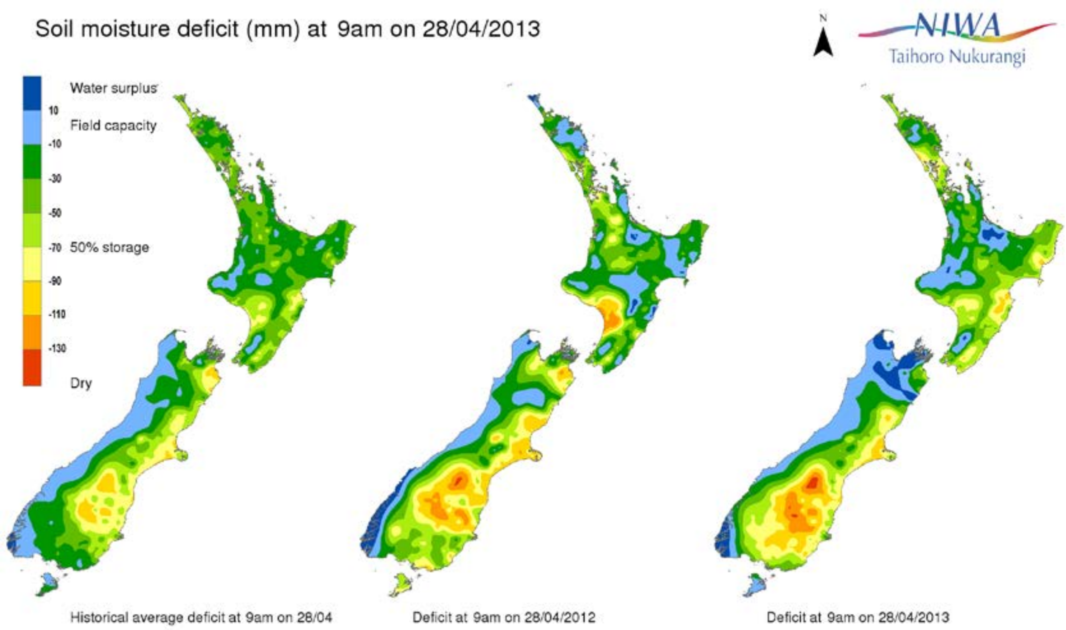



**Normal rainfall forecast for May and June.**

Rain over late March and April has seen an improvement in pasture growth conditions. However, soil moisture levels are recovering from much drier than normal conditions, particularly in the top half of the North Island. NIWA has forecast that rainfall levels will return to normal during May and June, and temperatures are likely to be above normal across the North Island. This is very encouraging news for farmers for the next season, given warm and wet conditions are required for optimal pasture growth. The NZX Pasture Growth Index indicates an improvement in pasture growth (source: Agrifax).

**We expect recovery from drought over 2014.**

We expect the drought will cost the economy around $2 billion. In real GDP growth terms the drought will knock 0.7 percentage points off 2013 growth. However, growth over 2014 will receive a boost as dairy production recovers over the following season. While this drought will dent 2013 growth, the overall economic outlook will remain supported by low interest rates and a boost from earthquake rebuild activity. We continue to expect the rebuild will be the key driver of the NZ recovery over the coming years.




**Reference:**

[1] *Regional and national impacts of the 2007-2009 drought* (July 2009), prepared for MAF Policy by Butcher Partners Ltd.

# International outlook

**Europe back in the spotlight thanks to Italy and Cyprus.**

Europe has returned to the spotlight in recent months as Italy and Cyprus have threatened to tip the region back into crisis. Firstly the Italian election, held in February, delivered a divided Parliament. A political stalemate continued for two months as the three major parties were unable to come to an agreement to form a coalition Government. Although a coalition was eventually formed, the initial election result, particularly the level of support for the anti-reform party led by former Prime Minister Silvio Berlusconi, has raised doubts about the nation's appetite for further austerity and economic reforms. Moreover, the coalition is an awkward mix of Centre Left (now led by Letta after Bersani stepped down) and Burlesconi's various Centre Right interests.

**Italian election produced deadlock for 2 months.**

**Cyprus bailout complicated by levy on bank deposits.**

Meanwhile in Cyprus, the total collapse of the banking system was only avoided by a bailout from the EU, ECB and IMF. A bailout had been on the cards for a year or so, given how underwater Cyprus' massively oversized banking system had become. A tiny economy like Cyprus would not normally cause too much concern in global markets, but the initial bailout proposal called for a levy on all Cypriot bank deposits – importantly, including those under €100k covered by a deposit insurance scheme. The final bailout agreement will see deposits under the insurance limit untouched. But the apparent willingness of the Eurozone creditor nations to even endorse a haircut on small (insured) depositors may have increased the chances of some deposit flight in other troubled Eurozone countries with faltering banking systems. It has also raised concerns about the reduced willingness of the creditor nations to keep putting their money into rescues, particularly with the German federal election looming later this year.

**What are the implications for future Eurozone bailouts?**

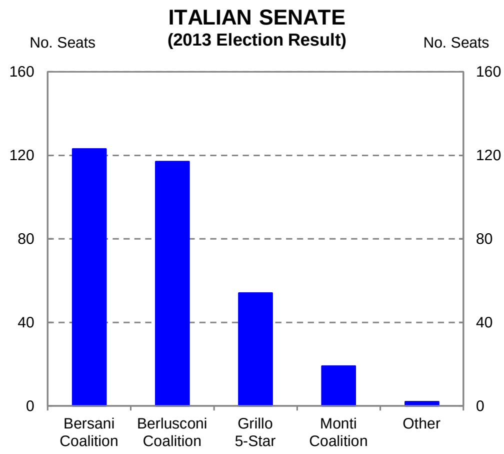
**US economy looks to have started 2013 on the front foot…**

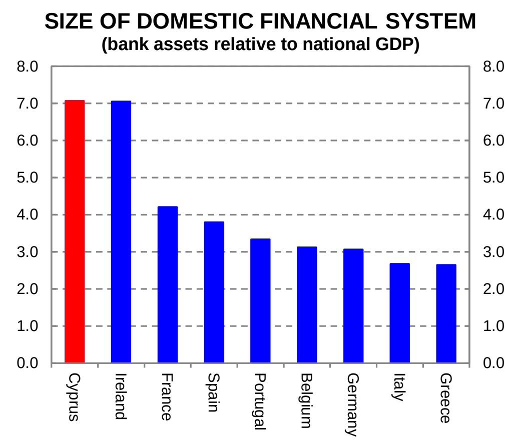
In the US, the economy seems to have gotten off to a strong start in 2013, despite continued uncertainty over fiscal policy. However, more recent data have pointed to a slowdown in the pace of growth in March, with employment gains, consumer confidence and activity surveys all disappointing. It may be the case that fiscal consolidation measures are now impacting on demand. Growth over the year as a whole is expected to measure around 2%, similar to 2012.

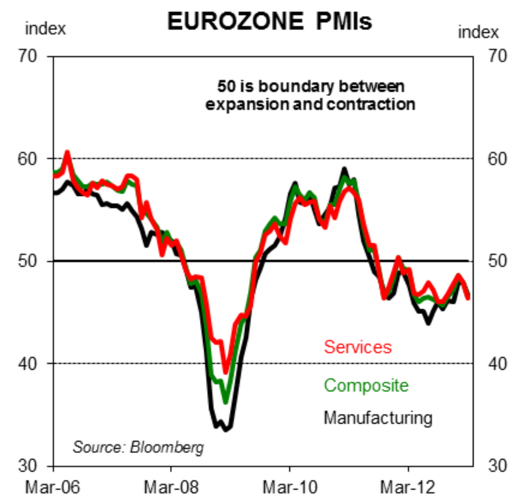
**…but fiscal consolidation may now be impacting on growth.**

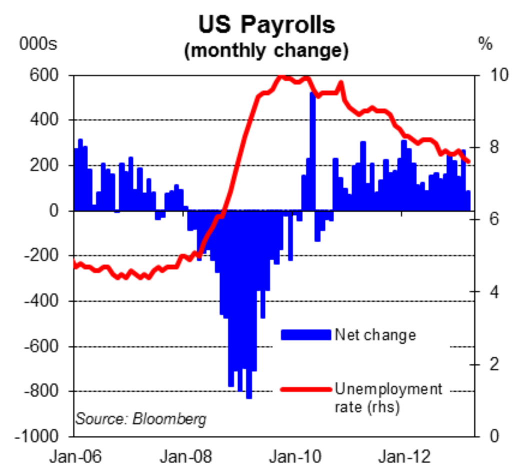
**China's Q1 growth was disappointing, but likely influenced by weather.**

In China, the expected stabilisation in growth that occurred over H2 2012 looks set to continue over 2013. Q1 GDP was a little disappointing, with the annual rate of growth dropping to 7.7% (down from 7.9% in Q4). However, much of the slowdown in Q1 growth, which measured 1.6% qoq, was likely due to extreme weather conditions that impacted activity early in the year.

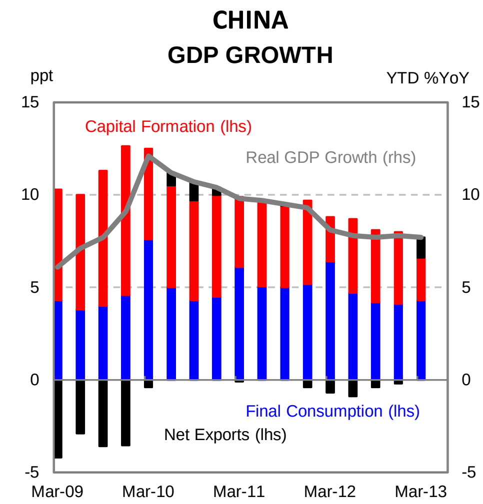


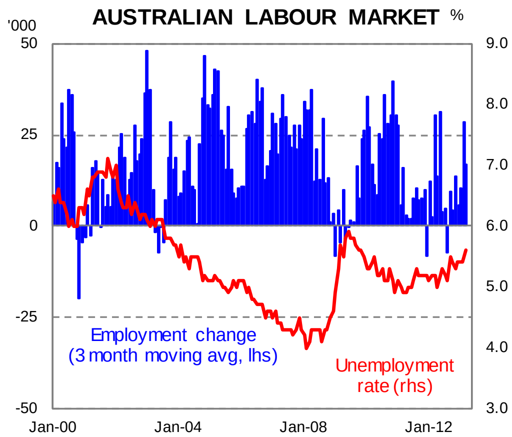
China reportedly experienced its coldest winter in 28 years, which was almost certainly a factor in soft retail spending and construction activity during January and February. Since then, reported activity levels have improved markedly, suggesting that growth should recover to 8% – 8.3% over the year as a whole.




**Australia's non-mining economy is showing tentative signs of improvement.**

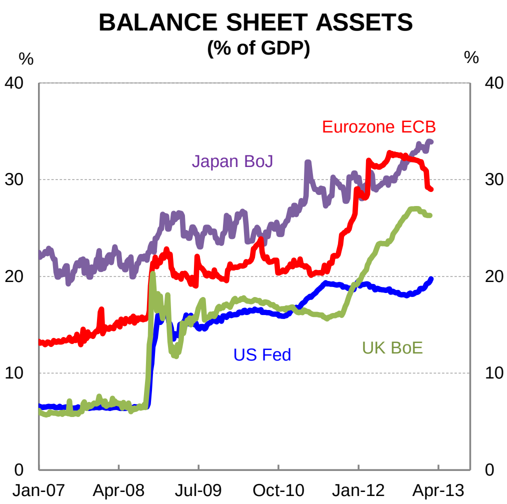
The fact that China avoided a sharp slowdown in 2012 provided some relief that the Australian mining boom will continue for several years to come. However, attention is increasingly turning to other parts of the Australian economy, most of which have been quite soft over recent years. The non-mining economy will have to improve if it is to fill some of the 'pothole' left by declining mining investment over coming years. With the economy so clearly dominated by mining, judging the health of other sectors can be difficult. There are reasons to be cautiously optimistic, though. The Reserve Bank of Australia (RBA) has cut its cash rate from 4.75% to 3.00% since November 2011 and now appears satisfied that monetary policy stimulus is flowing through to the (non-mining) economy. The cash rate has been on hold since December and expectations are growing that the RBA has reached the bottom of its easing cycle. The most obvious impact of lower interest rates has been on the housing market, where construction and prices are gradually picking up. The economy also added 74,000 jobs in February, the largest monthly gain since July 2000, although part of the strength proved illusory – a loss of 36,100 was recorded in March.

**The RBA looks to have reached the bottom of its easing cycle.**



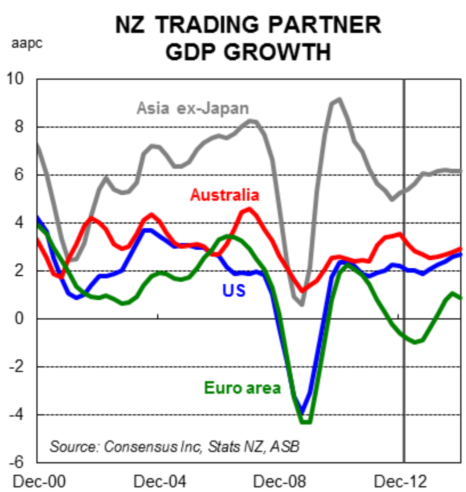

**Japan's Government and central bank are embarking on aggressive policy experiments.**

Of much interest over the next couple of years will be Japan, where the new Government and the new Bank of Japan (BoJ) Governor are set to undertake large programmes of fiscal and monetary stimulus in an effort to drag the economy out of its seemingly perpetual slump. Recently, Governor Kuroda announced that the BoJ would double Japan's monetary base by the end of 2014, with asset purchases forecast at ¥62 trillion for 2013 and ¥70 trillion for 2014. Such a programme would be the largest undertaken by any central bank relative to the size of the domestic economy. The ability of the BoJ to push down already-low Japanese interest rates is debatable, but the expected monetary easing has already caused a sharp depreciation in the JPY that should aid Japanese exports.




**Overall trading partner growth will be close to average this year.**

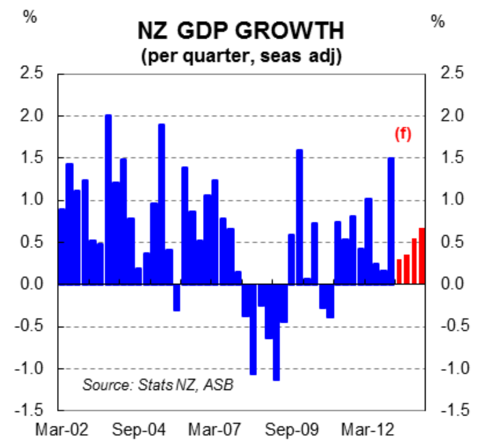
Overall, trading partner growth is expected to run at around the long-run average rate of 3.5% over 2013. Asia will continue to outpace the West, and therefore provide NZ exporters with some shelter from the continued absence of growth in Europe.



# The New Zealand Economy

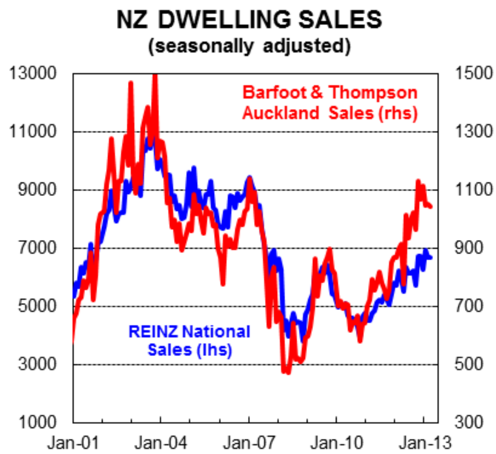
**Q4 GDP much stronger than expected.**

After a disappointing Q3, the NZ economy [finished 2012 on a strong note](). Economic activity increased by a much stronger than expected 1.5% over the final quarter of 2012, largely reflecting the boost from a stronger household sector. We expect growth over the coming year will be much more modest, particularly given the effects of the drought. Nonetheless, the strong Q4 result suggests the NZ economy has some buffer to absorb adverse shocks.



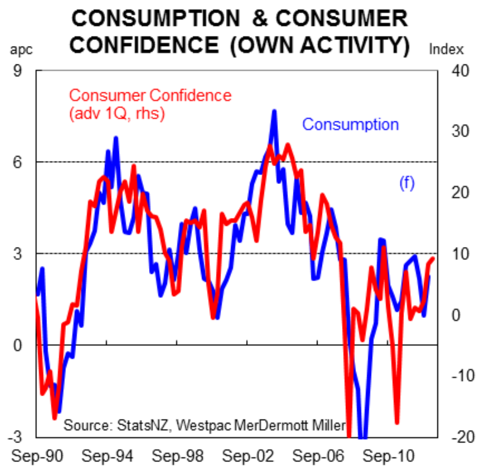

**Stronger household sector boosts retail spending, residential construction and services activity.**

The housing market has strengthened over the past year, and this provided a boost to retail spending, residential construction and services activity over late 2012. The stronger housing market activity has been concentrated in Auckland and Canterbury. Against the backdrop of weak residential construction activity over the past few years in the wake of the Global Financial Crisis, housing supply constraints have become increasingly evident. REINZ stratified house price figures for March showed annual house price inflation in Auckland lifting to 16% - much stronger than the nationwide average of 8.6%. The speech from RBNZ Deputy Governor Spencer in April highlighted the central bank's increasing discomfort with the continued increase in house prices, and the risks this presented to inflation and financial stability.



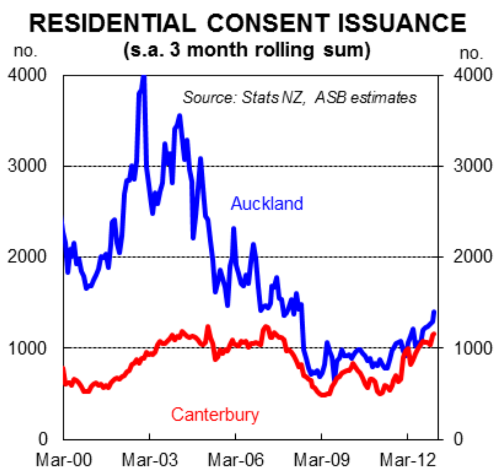

**Improvement in consumer confidence underpins recovery in household consumption.**

In line with the improvement in housing market activity and house prices, consumer confidence has also improved over the past year. This has supported the recovery in household consumption. Along with the wealth effects, housing market activity also tends to boost spending of durable goods as households purchase new furniture and appliances for their new homes. We expect the improvement in consumer confidence will support a continued recovery in household spending over 2013.




**Canterbury and Auckland drives stronger residential construction.**

Reflecting the relatively stronger housing market activity in Canterbury and Auckland, these regions have been the key drivers behind the improved demand for residential construction. Dwelling consent issuance in Canterbury continues to trend higher, and we expect rebuilding will continue to drive higher residential construction activity over the coming years. However, the lift in consent issuance so far has been modest. As such, the increase in housing supply is unlikely to make a meaningful, impact on supply constraints over 2013, particularly in Auckland.




**Rebuilding expected to be key driver of recovery in non-residential construction.**

The recovery in non-residential construction has been much more gradual, and follows weakness seen over the first half of 2012. Recent business confidence surveys suggest businesses remain cautious in regards to investment. Nonetheless, we expect non-residential construction will recover over the coming year, boosted by earthquake rebuilding in Canterbury. This is in line with the increase in non-residential consent issuance in recent months. The Government now estimates the total cost of the rebuild at $40 billion, with the reconstruction expected to occur over an extended period.

**Construction activity expected to support domestic manufacturing demand.**

We expect stronger construction activity will underpin a rebound in core manufacturing activity over the coming year. RBNZ research on the manufacturing sector indicates construction activity has a large influence on domestic demand for manufacturing output. Recent manufacturing PMI surveys and the NZIER Quarterly Survey of Business Opinion (QSBO) show an improvement in confidence and expectations of higher sales in the manufacturing sector.

**Business confidence holding up, but some caution remains.**

The latest QSBO also indicates business confidence is holding up, underpinned by strength in the building sector. However, hiring and investment intentions remain relatively subdued, indicating the recovery in employment and business investment will be gradual.

**HLFS showed surprising weakness in employment.**

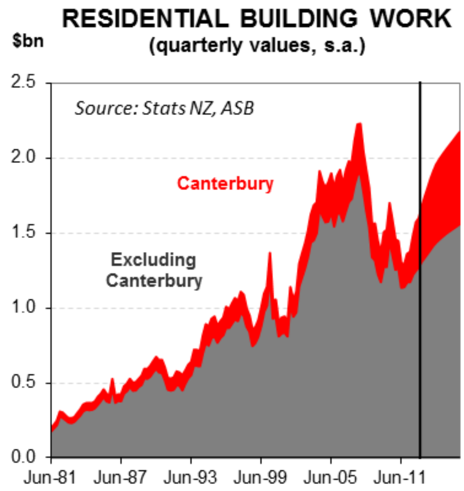
The Q4 Household Labour Force Survey showed a decline in employment for the third consecutive quarter. The sharp drop in Q4 may have overstated the weakness in the NZ labour market, and the industry breakdown raises questions about how well the survey captures the influx of personnel for the post-earthquake rebuild. Nonetheless, it is clear businesses remain cautious about hiring, and this is weighing on the recovery in the NZ labour market. We expect improving economic activity will underpin the recovery in employment over the coming years, albeit at a gradual pace. This will see an easing in the unemployment rate, from close to 7% to 5.5% by 2016.

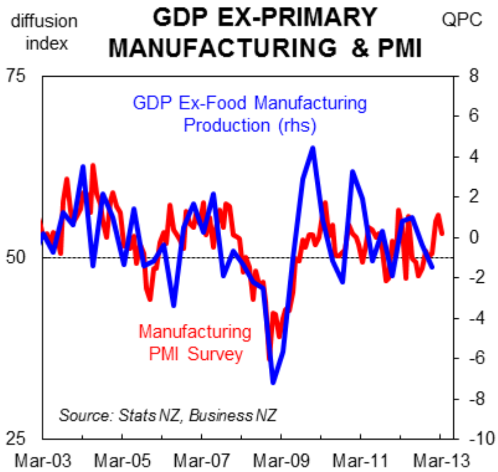
**Beyond drought impact, gradual lift in global demand should support export growth.**

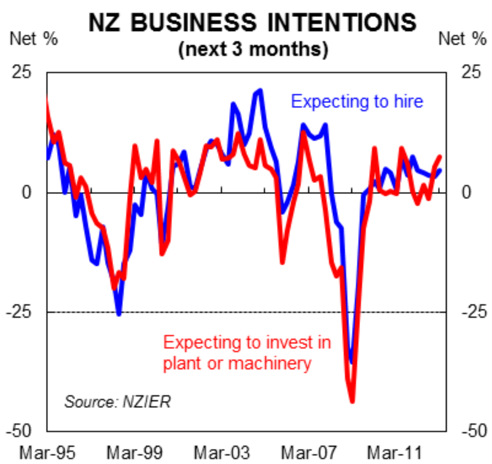
Setting aside the effects of the drought, we expect the gradual pick-up in global growth will support export growth over the coming years. The growing middle class in Asia means NZ is well positioned as a food producer to meet the increased demand for protein. Meanwhile, we expect the recovery in domestic demand to underpin import growth, particularly over 2013. But in the short term, we expect export growth to lose momentum, partly reflecting the adverse effects of the drought on dairy export volumes.

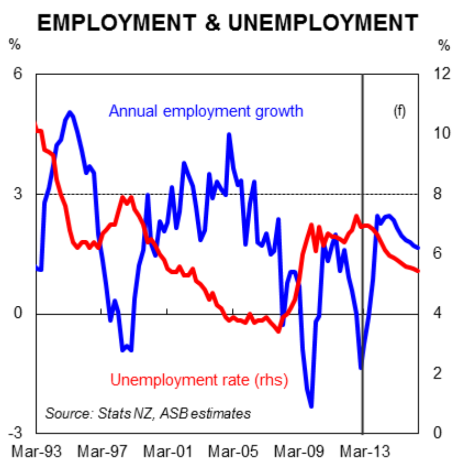
**Terms of Trade expected to recover over 2013.**

The Terms of Trade have declined since June 2011, largely reflecting a correction in dairy and meat prices. We expect some recovery in the Terms of Trade over 2013 as the impact of lower global production of meat and dairy flow through to higher agriculture commodity prices.



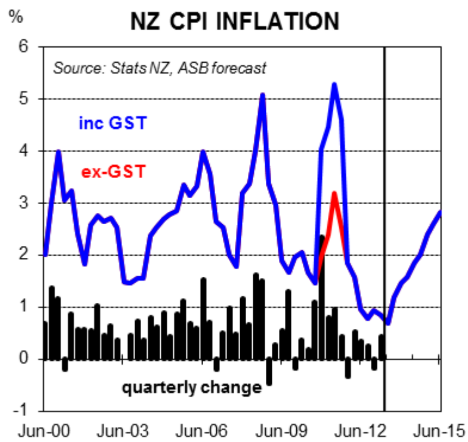



# Inflation outlook

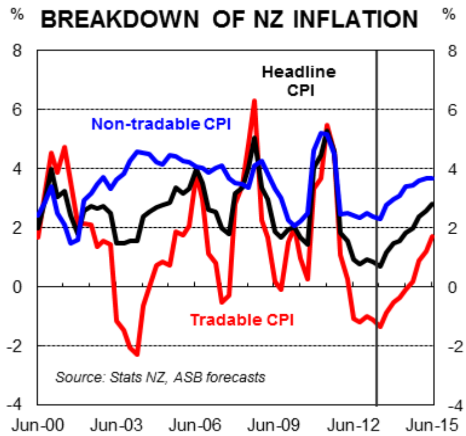
**Inflation remains below the RBNZ's 1-3% target band.**

Annual inflation remains very subdued at 0.9% in March 2013 and has now been sitting just below the RBNZ's inflation target of 1-3% for three consecutive quarters. Contributing to weak inflation pressures over the past year have been the strength of the NZ dollar, an increase in discounting by retailers and increased competition in the telecommunications sector. Over 2012, declines in food prices, led by weaker dairy prices, were also a source of low inflation. However, we expect that food prices will start to lift this year, as dairy prices head higher. The drought will temporarily weigh on meat prices.



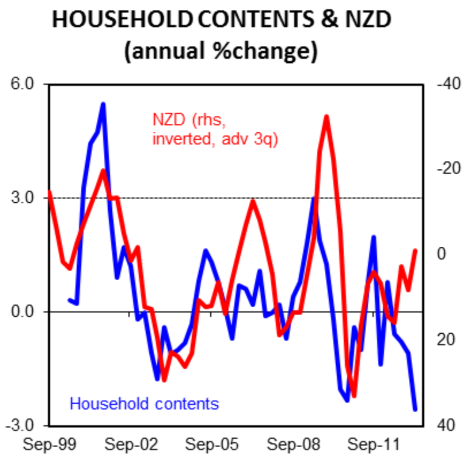

**Elevated NZD and discounting contributing to sharp price declines in imported retail goods.**

The elevated NZD has resulted in declines in the price of imported household goods over the past year. However, it appears the extent of discounting is even greater than the currency suggests. Retailers aggressively increased the amount of discounting over late 2012 and early 2013. This indicates household demand remains relatively subdued, with retailers continuing to work very hard to gain sales. It is unlikely this level of discounting can be sustained. With consumer confidence starting to lift, retailers may take advantage of the improved demand environment over the coming year to recoup some margin. Nonetheless, with the NZD set to remain elevated over 2013, the overall tradable inflation outlook will remain muted for the time being.



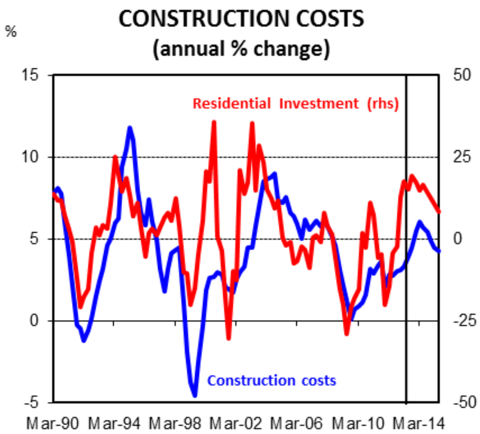

**Housing-related inflation increases on rebuild pressures and housing shortages.**

Housing-related inflation has started to lift over the past year. Housing shortages in Auckland and Canterbury have resulted in stronger growth in rents in these regions. Over time, increased housing supply should help alleviate these pressures. With Canterbury rebuild activity starting to lift, construction costs in the region have increased sharply. Canterbury construction inflation accelerated in Q1 2013, to an annual rate of 12.2%, indicating capacity constraints are starting to impact the rebuild. Canterbury construction cost increases act as a price signal, encouraging a shift in resources to the region. As a result, the RBNZ will look through this localised increase and remain focused on containing any spillover effects. So far, there has been no evidence of any spillover of rebuild-generated inflation outside of Canterbury.




**Ex-housing tradable inflation subdued for now, but will increase as recovery broadens.**

Beyond housing, non-tradable inflation remains steady and subdued. This is also consistent with relatively contained wage inflation pressures. Over the coming year, as the economic recovery starts to pick up, we expect to see a broader increase in inflation pressures. We continue to expect inflation to rise to the upper end of the RBNZ's target band by 2015.



# Interest Rates and Exchange Rates

**Market consensus pointing to an OCR hike in March-June period of next year.**

As downside risks to global growth receded over H2 2012, expectations of an OCR cut diminished. So far in 2013, the question has simply been when will the first OCR hike take place? Market consensus has generally settled on a hike in the March – June period of next year (our own expectation is for a March 2014 hike), but there are several competing factors that could mean earlier or later OCR increases.

**Canterbury rebuild will be primary driver of economic and inflation outlook.**

The Canterbury rebuild will be the key driver of the economic and inflation outlook over the next few years. The RBNZ will look through the first-round (direct) cost pressures that are beginning to emerge but will remain vigilant for second-round spillover effects to broader inflation.

**High NZD points to the OCR remaining lower for longer.**

One of the key factors behind subdued inflation is the strong NZD. We expect that strength to continue for the rest of 2013, before beginning to slowly subside next year as the US and European economies find their feet. Continued NZD strength would imply the OCR being held lower for longer. On the other hand, continued house price inflation may eventually prompt the RBNZ to raise the OCR earlier than generally foreseen. The RBNZ is becoming increasingly concerned about house price increases, especially in Auckland. However, macro-prudential tools (such as limiting loan-to-value ratios) may be utilised before OCR hikes to curb housing demand and reduce financial system risks.

**But further house price increases could prompt earlier hikes.**

**We expect a first OCR hike in March 2014, followed by a gradual tightening cycle.**

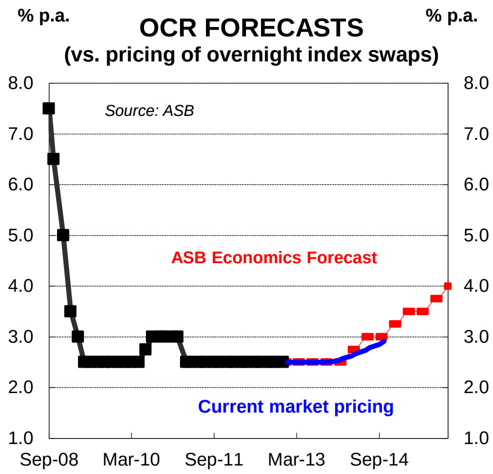
We expect that, by early 2014, inflationary pressures will be building as a result of the Canterbury rebuild and a softer outlook for the NZD. That will prompt the RBNZ to begin to raise the OCR in March 2014, lifting it gradually to 4.0% by the end of 2015.

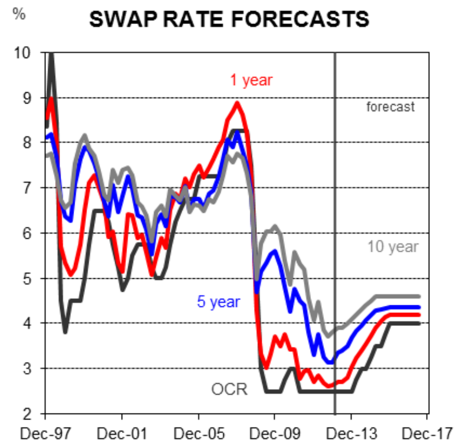
**We expect NZD strength to persist over the next 12 months.**

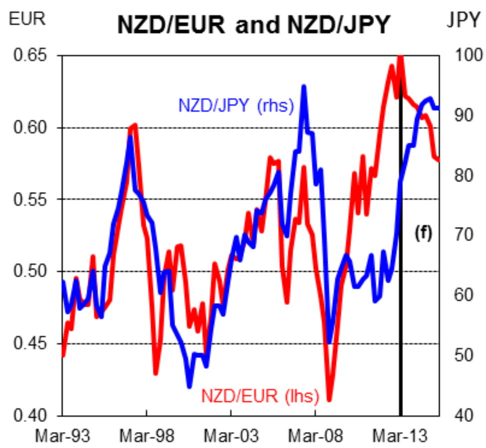
As mentioned, we anticipate the NZD remaining elevated for all of 2013 and into early 2014. The key factors supporting the NZD are stronger dairy prices, reinsurance inflows, attractive NZ interest rates and bond yields, and NZ's relative economic outperformance. All of these drivers are set to stay in place for the rest of the year.

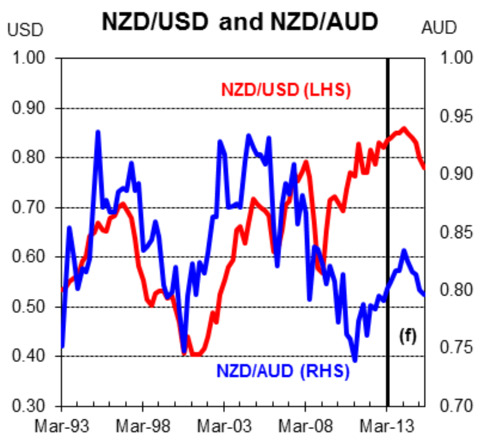
**JPY and GBP weakness is likely to continue.**

Recently, the NZD TWI reached record post-float highs, largely due to appreciation against the GBP and the JPY. The GBP has been weakened by continually soft economic data and expectations of more quantitative easing. The JPY has depreciated dramatically leading up to and following the BoJ's announcement of its aggressive new easing programme. We expect the NZD will continue to gain against both currencies over the next year. By contrast, the recent weakness in the EUR is likely to reverse, so long as the region continues to steer clear of major crises.



## Economic Forecasts

| ASB economic forecasts | | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Mar-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | <<actual | forecast >> | | | | | | | | | |
| **NZ GDP real** | **AA%** | **2.5** | **2.4** | **2.4** | **2.7** | **2.5** | **2.7** | **2.9** | **3.1** | **3.3** | **3.4** | **2.7** |
| private consumption | AA% | 2.1 | 1.9 | 2.0 | 2.6 | 2.7 | 2.9 | 3.0 | 2.9 | 2.9 | 2.8 | 2.3 |
| dwelling construction | AA% | 10.6 | 16.2 | 17.3 | 16.6 | 16.9 | 15.6 | 14.5 | 13.4 | 11.4 | 9.6 | 5.3 |
| other investment | AA% | 5.3 | 4.5 | 2.4 | 3.6 | 4.3 | 6.2 | 7.5 | 6.9 | 6.1 | 4.7 | 2.8 |
| exports | AA% | 2.1 | 2.8 | 3.8 | 2.8 | 2.6 | 1.8 | 1.6 | 2.5 | 3.5 | 4.3 | 3.4 |
| imports | AA% | 1.5 | -0.7 | 0.0 | 0.3 | 1.3 | 3.1 | 3.6 | 4.2 | 3.8 | 3.4 | 2.1 |
| NZ GDP real | A% | 3.0 | 2.2 | 2.5 | 2.9 | 2.3 | 2.9 | 3.4 | 3.6 | 3.4 | 3.2 | 2.5 |
| NZ GDP real | Q% | 1.5 | 0.3 | | | | | | | | | |
| **NZ CPI** | **A%** | **0.9** | **0.9** | **0.7** | **1.2** | **1.5** | **1.6** | **1.8** | **2.0** | **2.4** | **2.6** | **2.7** |
| NZ house prices (QV index) | A% | 6.2 | 7.3 | 7.6 | 7.3 | 6.9 | 5.8 | 5.0 | 4.6 | 4.2 | 3.9 | 2.6 |
| NZ unemployment (sa%) | Qtr | 6.9 | 7.0 | 6.9 | 6.8 | 6.6 | 6.4 | 6.1 | 6.0 | 5.9 | 5.8 | 5.5 |
| NZ private sector wages (LCI) | A% | 1.9 | 1.9 | 2.0 | 2.0 | 2.1 | 2.2 | 2.3 | 2.4 | 2.4 | 2.4 | 2.3 |
| NZ current account ($b) | Yr | -10.5 | -10.6 | -10.0 | -9.3 | -9.3 | -9.5 | -10.2 | -11.3 | -11.8 | -11.8 | -11.9 |
| as a % of GDP | Yr | -5.0 | -5.1 | -4.7 | -4.3 | -4.3 | -4.3 | -4.6 | -5.0 | -5.2 | -5.1 | -4.9 |

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 | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Mar-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (end of quarter) | | <<actual | forecast >> | | | | | | | | |
| NZ cash rate target | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.75 | 3.00 | 3.00 | 3.25 | 3.50 | 4.0 |
| NZ 90-day bank bill | 2.68 | 2.64 | 2.7 | 2.7 | 2.8 | 3.0 | 3.2 | 3.3 | 3.5 | 3.7 | 4.2 |
| NZ 3-year swap rate | 2.84 | 3.07 | 3.1 | 3.2 | 3.5 | 3.7 | 3.8 | 3.9 | 4.0 | 4.1 | 4.3 |
| NZ 10-year gov't stock | 3.55 | 3.51 | 3.6 | 3.7 | 3.8 | 3.9 | 4.0 | 4.1 | 4.2 | 4.3 | 4.5 |

| ASB foreign exchange forecasts | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Mar-15 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (end of quarter) | | <<actual | forecast >> | | | | | | | | |
| USD per NZD | 0.820 | 0.837 | 0.84 | 0.85 | 0.85 | 0.86 | 0.85 | 0.84 | 0.83 | 0.80 | 0.76 |
| GBP per NZD | 0.507 | 0.553 | 0.57 | 0.58 | 0.58 | 0.59 | 0.57 | 0.56 | 0.54 | 0.53 | 0.52 |
| AUD per NZD | 0.791 | 0.801 | 0.81 | 0.82 | 0.82 | 0.83 | 0.83 | 0.82 | 0.81 | 0.80 | 0.84 |
| JPY per NZD | 70.4 | 79.0 | 82 | 85 | 85 | 89 | 92 | 92 | 93 | 91 | 95 |
| EUR per NZD | 0.621 | 0.655 | 0.62 | 0.62 | 0.62 | 0.61 | 0.61 | 0.61 | 0.60 | 0.58 | 0.57 |
| TWI | 73.6 | 77.0 | 76.8 | 77.7 | 77.6 | 78.8 | 78.3 | 77.8 | 77.1 | 75.0 | 74.9 |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