

## NEW ZEALAND MARKET FOCUS

19 February 2018

### INSIDE

Economic Overview	2
Data Event Calendar	6
Local Data Watch	8
Key Forecasts	9

### NZ ECONOMICS TEAM

**Sharon Zollner**  
**Chief Economist**  
 Telephone: +64 9 357 4094  
 E-mail: Sharon.Zollner@anz.com

**Philip Borkin**  
**Senior Economist**  
 Telephone: +64 9 357 4065  
 Email: Philip.Borkin@anz.com

**Kyle Uerata**  
**Economist**  
 Telephone: +64 4 802 2357  
 E-mail: Kyle.Uerata@anz.com

**Con Williams**  
**Rural Economist**  
 Telephone: +64 4 802 2361  
 E-mail: Con.Williams@anz.com

## HOUSE RULES

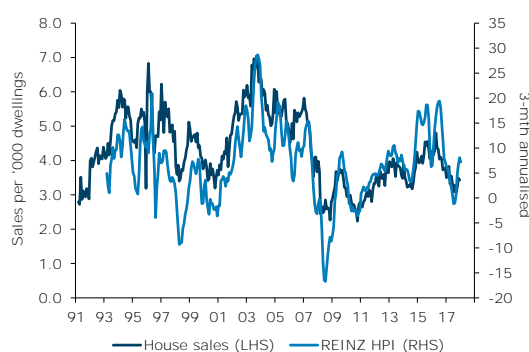
### ECONOMIC OVERVIEW

Although the housing market has shown more signs of life of late, we have not changed our overall views of where it goes from here. A number of opposing forces are likely to see prices effectively stay 'on ice' for the foreseeable future. All else being equal, we expect this to be a headwind for consumption growth going forward, although perhaps to a lesser extent than history would suggest, given that the softer housing market has not been driven by a turn in the interest rate cycle, but rather by a more restrictive credit landscape, including macro-prudential policy. Nevertheless, with the household saving rate having deteriorated over recent years (to an unsustainable level in our view), weaker house price performance is expected to see households look to rebuild precautionary saving, and this will be a headwind for overall activity growth. In data this week, the retail trade survey for Q4 is likely to show decent spending growth (perhaps the last hurrah?), while we expect global dairy prices to take a breather.

### CHART OF THE WEEK

The housing market has staged somewhat of a comeback of late, with turnover and house prices accelerating again. Is this the start of yet another resurgence? We don't think so.

#### National house sales and prices



Source: REINZ, ANZ Research

### THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.9% y/y for 2018 Q3	The economy is not quite firing on all cylinders and we have become more circumspect near term. However, we see growth holding around 2½-3% on average.	Neutral Negative Positive
Unemployment rate	4.2% for 2018 Q3	The unemployment rate should fall a touch more. Wage growth is benign, but conditions for change are emerging.	Neutral Negative Positive
OCR	1.75% by Sep 2018	With plenty of question marks over the outlook for inflation, it is still a backdrop where we believe the RBNZ will be cautious in tightening policy.	Neutral Down Up
CPI	1.5% y/y for 2018 Q3	In part due to policy changes and base effects, headline inflation will fall over the next 12 months. But domestic and core inflation should lift gradually.	Neutral Negative Positive

# ECONOMIC OVERVIEW

## SUMMARY

Although the housing market has shown more signs of life of late, we have not changed our overall views of where it goes from here. A number of opposing forces are likely to see prices effectively stay 'on ice' for the foreseeable future. All else being equal, we expect this to be a headwind for consumption growth going forward, although perhaps to a lesser extent than history would suggest, given that the softer housing market has not been driven by a turn in the interest rate cycle, but rather by a more restrictive credit landscape, including macro-prudential policy. Nevertheless, with the household saving rate having deteriorated over recent years (to an unsustainable level in our view), weaker house price performance is expected to see households look to rebuild precautionary saving, and this will be a headwind for overall activity growth. In data this week, the retail trade survey for Q4 is likely to show decent spending growth (perhaps the last hurrah?), while we expect global dairy prices to take a breather.

## FORTHCOMING EVENTS

**PPI – Q4** (10:45am, Tuesday, 20 February). Both input and output prices are likely to have been lifted by the jump in oil prices in the quarter. Perhaps both indexes could rise around 1% q/q.

**GlobalDairyTrade Auction** (early am, Wednesday, 21 February). Prices look like they could take a breather this week as concerns over local milk flow continue to wane.

**Retail Trade Survey – Q4** (10:45am, Friday, 23 February). We have pencilled in a 1.2% q/q lift in total retail sales volumes, which would represent a decent step-up from the soft Q3 performance.

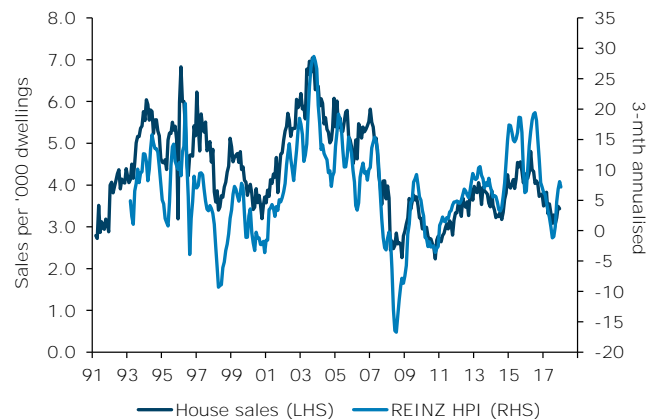
## WHAT'S THE VIEW?

**One of the key things we continue to watch locally is the housing market.** History has taught us that its performance has a critical bearing on not only construction and property-related services and manufacturing, but also on consumer confidence and spending, and hence the economic cycle more broadly.

**Recent data confirms the housing market has staged something of a comeback.** After falling sharply over the majority of 2017, January figures showed that sales volumes have rebounded 17% from their September 2017 lows. House prices, based on our preferred REINZ House Price Index measure, have risen for six consecutive months after falling over the prior three. The median number of days to sell – a good indicator of market momentum – while admittedly lifting in January, is still well below its

historical average. Auckland, which had clearly outperformed, and then underperformed over recent times, has experienced a similar turnaround.

**Figure 1: National house sales and prices**



Source: REINZ, ANZ Research

**This bounce has been large enough that it will reinforce in the minds of RBNZ officials that it was right to take a cautious approach when it comes to rolling back LVR restrictions.** In fact, we believe a further softening in those restrictions is unlikely in the near term.

**That said, the housing market is still a long way off its lofty heights of 2016.** Despite the recent bounce, sales volumes in January were still 12% below the 2016 monthly average. In three-month annualised terms, national house prices are currently growing at 7.2%. At the height of market strength in mid-2016, that pace was 20%. And at 37 days, the median number of days to sell is up significantly from around 30 days in February 2016.

**Importantly, we don't see this recent bounce turning into a full-blown resurgence; our overall views on the market have not changed** as a number of factors balance out.

**The upside should be capped to a degree by affordability constraints and the measures proposed by the new Government** (banning of non-resident buyers, extension of the bright line capital gains test, and possible other tax changes). At the very minimum, we suspect this will keep sentiment contained and ensure investors are not the driving force they were when the market was at its lofty heights over 2016.

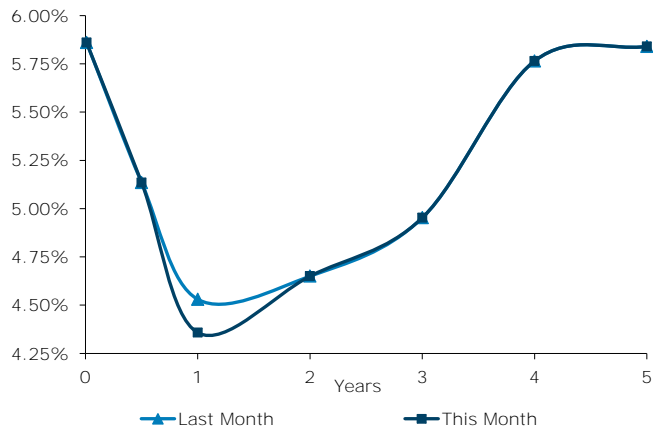
**But there remain supportive forces too:**

- **A little more competition in the mortgage market has surfaced as banks' funding pressures have eased.** Short-term fixed mortgage rates have fallen a little over the past month, which perhaps could also be a sign that

## ECONOMIC OVERVIEW

banks' appetite to lend is increasing too (i.e. both a volume and price story). That will provide some support to the market (and probably already is doing so).

**Figure 2: Average 'special' mortgage rates across the 'Big-4' banks**



Source: interest.co.nz, ANZ Research

- Pent-up demand for housing remains.** Net migrant inflows have eased off all-time highs, but only modestly, and still point to the need for a significant rate of home building. This is not only in order to keep pace with population growth, but also to eat into what we still deem to be an under-build situation in Auckland.
- A sudden jump in housing supply seems unlikely.** Skill shortages are prevalent and cost pressures are bringing into question the viability of some projects. Despite the best intentions of policymakers, the sector just does not have the ability to ramp up additional building activity quickly.
- Related to this, we are at the point in the cycle where cash-flow and margin pressures in the construction sector can intensify.** Delays to projects or significant cost inflation (like we have seen) can cause cash-flow problems for over-extended firms. That will act as a further constraint on expansion, especially at a time when these margin pressures will see banks naturally reassess risk metrics and their lending appetites to the sector.

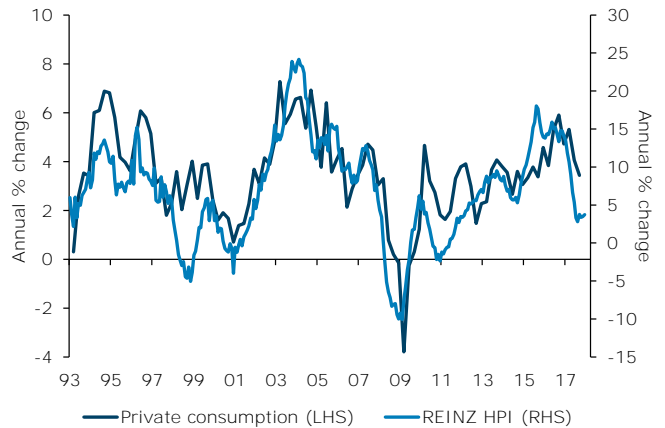
**So it all speaks to a market where a number of opposing forces are at play.** Is the risk profile for the housing market as negatively skewed as it was a few months ago? No; especially with the economy's credit wheels turning perhaps a little faster. But likewise, we have not changed our view that the market is unlikely to surge higher either. So it is a case of prices more or less being on ice for the foreseeable future.

### So what does that mean for the broader economic picture?

**One of the conundrums of recent years was the apparent relative softness in household consumption growth.** Now don't get us wrong, consumption was reported to be growing at a decent pace overall, supported by reasonable income growth, low interest rates and strong population growth. It just was not growing as strongly as one would have expected given the strength in house price inflation. It appeared that households were showing far more spending restraint than had been seen in the past, which, at the time, was one of the reasons proposed for why the current account deficit had remained contained and domestic inflation pressures had not risen to the extent expected. Prudence was the new black.

**However, the revisions to GDP changed that story.** Real consumption is now reported to have grown at close to a 6% y/y pace in Q3 2016, which is right around the time when the housing market was humming. It was the strongest growth since 2005. The household saving rate is now shown to have deteriorated more than initially thought, to be currently sitting around -3% of disposable income. **So much for that household restraint!**

**Figure 3: Real private consumption and house price growth**



Source: REINZ, Statistics NZ, ANZ Research

**All else equal then, if the traditional relationship between the housing market and consumption is alive and well, one must conclude that the slowdown in house price inflation will be a real headwind for spending growth.** In fact, real household consumption growth has already close to halved from the 6% pace seen in 2016, and perhaps has further to go.

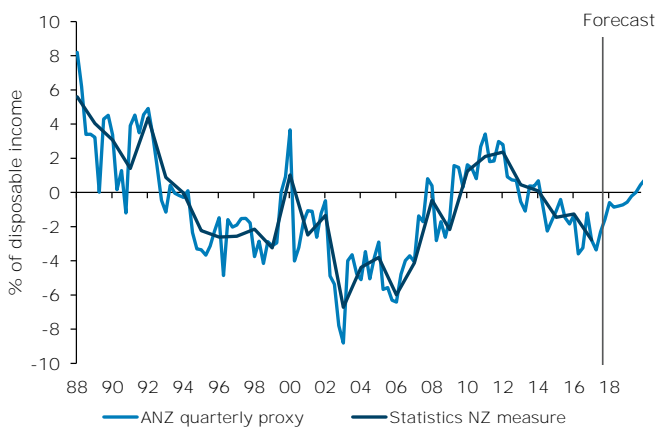
**But there is a complicating factor of which we need to be mindful; this has not been your grandfather's housing market slowdown.**

## ECONOMIC OVERVIEW

Whereas the housing cycle historically has often been arrested by higher interest rates, this time around the cooling has been driven more by macro-prudential policy and arguably more restrictive credit conditions. Does that therefore mean that the observed tight relationship between spending and house price growth is actually just a correlation, a reflection that both variables are impacted by a third influence (interest rates)? Or does the house price cycle influence consumption directly through its impact on household balance sheet strength?

**We suspect it's a bit of both.** Perhaps the fact that interest rates remain historically low – and are expected to remain that way (short-term rates, at least) – means that consumption growth **won't follow** the pace of house price growth down to the extent that has been seen in the past. After all, mortgage serviceability is at about historically average levels, despite record-high levels of debt. However, we still believe there will be some impact, especially as we **don't deem the deterioration in the household saving rate to be sustainable.** At a time when the asset side of the household balance sheet (housing) is not performing as strongly as it was, we suspect households will look to rebuild precautionary saving, getting their net equity up, and debt-to-income ratios down (or at least no higher) the hard way. All else equal, that will be a headwind for consumption growth, and hence GDP growth more broadly.

**Figure 4: Household saving rate**

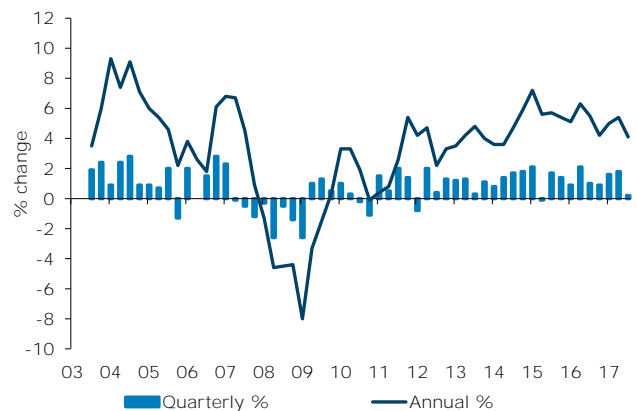


Source: Statistics NZ, ANZ Research

**The domestic data calendar is reasonably light this week. The main focus will be the Q4 Retail Trade Survey, which should show a decent end to the year for sales volume growth.** We have pencilled in a 1.2% q/q lift in total sales volumes, which **would certainly be a jump from Q3's modest 0.2% q/q growth** (although that, in part, was impacted by an unwind in hospitality-related spending following some key tourist events in Q2). Electronic Card Transaction figures have indeed

highlighted this acceleration, with total (nominal) retail spending growing 1.8% q/q in Q4 after contracting 0.6% q/q in Q3. We believe some of this acceleration reflects price effects (with seasonally adjusted tradable CPI inflation rising 0.2% q/q in Q4 after falling over the prior two quarters – with higher petrol prices a key contributor), although there should be some broader strength under the hood too.

**Figure 5: Total retail sales volume growth**



Source: Statistics NZ, ANZ Research

**But as we discuss above, we don't expect this pace of sales growth to be maintained.** Quarterly volatility aside, we see retail spending growing at a more modest rate going forward vis-à-vis the recent experience as households look to rebuild savings. But on top of that, the strong boost provided by international tourist spending over recent years is also something we expect to slow. While tourism is having a boomer year, the stronger NZD will eat into average visitor spending, and we see visitor arrivals growth moderating as new route development and new airline arrivals slow due to capacity pressures.

**Figure 6: PPI input and output indexes**



Source: Statistics NZ, ANZ Research

## ECONOMIC OVERVIEW

**The PPI for Q4 should show a decent lift in both input and output prices**, led largely by a bounce in oil prices. We typically don't focus much on the PPI figures when estimating future inflationary pressures because it has a largely contemporaneous relationship with the CPI. In addition, both input and output price indexes are thrown around from quarter to quarter by movements in commodity prices (both oil and export commodity prices), which is information we already know – and also, of course, the type of price action that the Reserve Bank tends to look through.

**Figure 6: PPI input and output indexes**



Source: Statistics NZ, ANZ Research

**Dairy prices look likely to take a breather this week, consolidating after the upswing seen since the start of the year.** An improvement in New Zealand pasture conditions after recent rain has seen a pick-up in milk flow. This means the worst case scenario of an early finish to the season is highly unlikely in the majority of areas.

**In fact, the improvement has seen extra whole milk powder (WMP) added back onto the GDT platform for the remainder of 2017/18.** WMP prices have also cycled back to the top of their broad USD2,800 to USD3,200/tonne range, plus it's the Chinese New Year holiday period, which could reduce buying pressure. How much so is debatable to be fair, but to push prices sustainably through USD3,200/tonne would seem challenging given its current spread to SMP/milkfat prices, the improvement in local production conditions, and the strong momentum for European milk flow heading into their seasonal peak.

**New Zealand skim milk powder prices also look stretched versus Northern Hemisphere pricing.**

A premium can often be created during periods of lower New Zealand supply as some end-users need locally-sourced product (due to branding or quality requirements for example). While recent cooler weather across Europe could again curb production,

supporting SMP/milkfat prices, there remains a large overhang of product and the European Commission is unlikely to provide the same price support as it moves to a tender process (instead of fixed prices) for intervention product. Milkfat prices are expected to be mixed as price relativities between anhydrous milkfat and butter adjust.

### LOCAL DATA

**ANZ Monthly Inflation Gauge – January.** The Gauge jumped 0.8% m/m, in large part due to higher tobacco prices.

**Food Price Index – January.** Prices rose 1.2% m/m (0.8% y/y) due primarily to the volatile fruit and vegetable component.

**RBNZ Survey of Expectations – Q1.** Two-year ahead inflation expectations rose to 2.11% from 2.02%.

**REINZ Housing Market Statistics – January.** In seasonally adjusted terms, sales volumes rose 3.5% m/m, while the REINZ House Price Index lifted 0.3% m/m (3.4% y/y).

**BNZ-BusinessNZ PMI – January.** The index jumped 4.5 points to 55.6 (sa).

**BNZ-BusinessNZ PSI – January.** The index fell 0.2 points to 55.8 (sa).

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
19-Feb	JN	Trade Balance - Jan	-¥1020.2B	¥358.7B	12:50
	JN	Trade Balance Adjusted - Jan	¥143.9B	¥86.8B	12:50
	JN	Exports YoY - Jan	9.4%	9.3%	12:50
	JN	Imports YoY - Jan	7.8%	14.9%	12:50
	UK	Rightmove House Prices MoM - Feb	--	0.7%	13:01
	UK	Rightmove House Prices YoY - Feb	--	1.1%	13:01
	EC	ECB Current Account SA - Dec	--	<b>€32.5B</b>	22:00
	EC	Current Account NSA - Dec	--	<b>€37.8B</b>	22:00
	EC	Construction Output MoM - Dec	--	0.5%	23:00
	EC	Construction Output YoY - Dec	--	2.7%	23:00
20-Feb	NZ	PPI Output QoQ - Q4	--	1.0%	10:45
	NZ	PPI Input QoQ - Q4	--	1.0%	10:45
	AU	ANZ-RM Consumer Confidence Index - 18-Feb	--	119.5	11:30
	AU	RBA February Meeting Minutes	--	--	13:30
	GE	PPI YoY - Jan	1.8%	2.3%	20:00
	GE	PPI MoM - Jan	0.5%	0.2%	20:00
	GE	ZEW Survey Current Situation - Feb	94.0	95.2	23:00
	GE	ZEW Survey Expectations - Feb	16.0	20.4	23:00
	EC	ZEW Survey Expectations - Feb	--	31.8	23:00
21-Feb	UK	CBI Trends Total Orders - Feb	11	14	00:00
	UK	CBI Trends Selling Prices - Feb	--	40	00:00
	EC	Consumer Confidence - Feb A	1.0	1.3	04:00
	AU	Westpac Leading Index MoM - Jan	--	0.27%	12:30
	AU	Skilled Vacancies MoM - Jan	--	0.2%	13:00
	AU	Wage Price Index QoQ - Q4	0.5%	0.5%	13:30
	AU	Wage Price Index YoY - Q4	2.0%	2.0%	13:30
	AU	Construction Work Done - Q4	-10.0%	15.7%	13:30
	JN	Nikkei PMI Mfg - Feb P	--	54.8	13:30
	JN	All Industry Activity Index MoM - Dec	0.4%	1.0%	17:30
	GE	Markit/BME Manufacturing PMI - Feb P	60.5	61.1	21:30
	GE	Markit Services PMI - Feb P	57.0	57.3	21:30
	GE	Markit/BME Composite PMI - Feb P	58.5	59.0	21:30
	EC	Markit Manufacturing PMI - Feb P	59.2	59.6	22:00
	EC	Markit Services PMI - Feb P	57.6	58.0	22:00
	EC	Markit Composite PMI - Feb P	58.4	58.8	22:00
	UK	Claimant Count Rate - Jan	--	2.4%	22:30
	UK	Jobless Claims Change - Jan	--	8.6k	22:30
	UK	Average Weekly Earnings 3M/YoY - Dec	2.5%	2.5%	22:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Dec	2.4%	2.4%	22:30
	UK	ILO Unemployment Rate 3Mths - Dec	4.3%	4.3%	22:30
	UK	Employment Change 3M/3M - Dec	180k	102k	22:30
	UK	Public Finances (PSNCR) - Jan	--	£25.1B	22:30
	UK	Public Sector Net Borrowing - Jan	-£11.4B	£1.0B	22:30
	UK	PSNB ex Banking Groups - Jan	-£9.6B	£2.6B	22:30
22-Feb	US	MBA Mortgage Applications - 16-Feb	--	-4.1%	01:00
	US	Markit Manufacturing PMI - Feb P	55.5	55.5	03:45
	US	Markit Services PMI - Feb P	54.0	53.3	03:45
	US	Markit Composite PMI - Feb P	--	53.8	03:45

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
22-Feb	US	Existing Home Sales - Jan	5.62M	5.57M	04:00
	US	Existing Home Sales MoM - Jan	0.9%	-3.6%	04:00
	US	FOMC Meeting Minutes - 31-Jan	--	--	08:00
	NZ	Credit Card Spending MoM - Jan	--	0.6%	15:00
	NZ	Credit Card Spending YoY - Jan	--	6.3%	15:00
	GE	IFO Business Climate - Feb	117.0	117.6	22:00
	GE	IFO Expectations - Feb	107.9	108.4	22:00
	GE	IFO Current Assessment - Feb	127.0	127.7	22:00
	UK	Index of Services MoM - Dec	0.0%	0.4%	22:30
	UK	Index of Services 3M/3M - Dec	0.5%	0.4%	22:30
	UK	GDP QoQ - Q4 P	0.5%	0.5%	22:30
	UK	GDP YoY - Q4 P	1.5%	1.5%	22:30
	UK	Total Business Investment QoQ - Q4 P	0.4%	0.5%	22:30
	UK	Total Business Investment YoY - Q4 P	2.4%	1.7%	22:30
	UK	Exports QoQ - Q4 P	0.2%	0.8%	22:30
	UK	Imports QoQ - Q4 P	1.1%	0.9%	22:30
23-Feb	UK	CBI Retailing Reported Sales - Feb	14	12	00:00
	UK	CBI Total Dist. Reported Sales - Feb	--	14	00:00
	US	Initial Jobless Claims - 17-Feb	230k	230k	02:30
	US	Continuing Claims - 10-Feb	1935k	1942k	02:30
	US	Leading Index - Jan	0.7%	0.6%	04:00
	US	Kansas City Fed Manf. Activity - Feb	18	16	05:00
	NZ	Retail Sales Ex Inflation QoQ - Q4	1.3%	0.2%	10:45
	JN	Natl CPI YoY - Jan	1.3%	1.0%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Jan	0.8%	0.9%	12:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - Jan	0.3%	0.3%	12:30
	JN	PPI Services YoY - Jan	0.8%	0.8%	12:50
	GE	GDP SA QoQ - Q4 F	0.6%	0.6%	20:00
	GE	GDP WDA YoY - Q4 F	2.9%	2.9%	20:00
	GE	GDP NSA YoY - Q4 F	2.3%	2.3%	20:00
	GE	Exports QoQ - Q4	2.2%	1.7%	20:00
	GE	Imports QoQ - Q4	1.4%	0.9%	20:00
	EC	CPI MoM - Jan	-0.9%	0.4%	23:00
	EC	CPI YoY - Jan F	1.3%	1.4%	23:00
	EC	CPI Core YoY - Jan F	1.0%	1.0%	23:00

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All \$ values in local currency.

Note: All surveys are preliminary and subject to change

## LOCAL DATA WATCH

We expect the near-term data flow to be a little more mixed, reflecting headwinds the economy is currently facing. Inflation pressures are likely to remain contained.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 20 Feb (10:45am)	PPI – Q4	Bounce	Both input and output prices are likely to be boosted by the jump in crude oil prices.
Wed 21 Feb (early am)	GlobalDairyTrade Auction	A breather	With concerns over local supply easing, and more product added to the GDT platform, prices should take a breather.
Fri 23 Feb (10:45am)	Retail Trade Survey – Q4	Bounce	After a soft Q3, we expect a better performance from sales volumes over the quarter.
Tue 27 Feb (10:45am)	Overseas Merchandise Trade – Jan	Import strength	<b>Import growth has been strong of late, but we suspect we'll see more modest growth over the coming months.</b>
Tue 27 Feb (3:00pm)	RBNZ New Mortgage Lending – Jan	Lifting	With housing market turnover lifting off lows, new mortgage lending should do the same.
Wed 28 Feb (10:45am)	International Travel and Migration – Jan	Peaked	<b>We don't see net inflows falling quickly, but we do believe that a peak has been seen.</b>
Wed 28 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Wed 28 Feb (3:00pm)	RBNZ Sectoral Lending – Jan	Modest	We see overall private sector credit growing in a fashion that keeps the ratio of credit to GDP roughly stable.
Thu 1 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Thu 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Off highs	After hitting an all-time high in Q3, we see the terms of trade falling modestly in the quarter.
Fri 2 Mar (10:00am)	ANZ-Roy Morgan Consumer Confidence – Feb	--	--
Fri 2 Mar (10:45am)	Building Consent Issuance – Jan	Capped	Due to cost, capital and capacity constraints, we continue to believe issuance will struggle to push much above current levels.
Mon 5 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Wed 7 Mar (early am)	GlobalDairyTrade Auction	A breather	With concerns over local supply easing and more product added to the GDT platform, prices should take a breather.
Wed 7 Mar (10:45am)	Building Work Put in Place – Q4	Lift	Residential building work is likely to be higher, but consent issuance suggests a softer trend over H1 2018.
Thu 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Thu 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Mixed	The vagaries and swings in milk production and livestock slaughtering will throw the numbers around, no doubt.
Fri 9 Mar (10:45am)	Electronic Card Transactions – Feb	Modest	We see households looking to rebuild precautionary saving, resulting in a modest underlying pace of spending growth.
Mon 12 Mar (1:00pm)	ANZ Monthly Inflation Gauge – Feb	--	--
12-16 Mar	REINZ Housing Market Statistics – Feb	Up, but stable	The market has staged somewhat of a comeback, but we <b>don't see it turning into a full-blown resurgence.</b>
Tue 13 Mar (10:45am)	Food Price Index – Feb	Down	Food prices typically ease in February.
Wed 14 Mar (10:45am)	Balance of Payments – Q4	Steady	The annual current account deficit is likely to be steady around 2½% of GDP.
Thu 15 Mar (10:45am)	GDP – Q4	Mixed	Our expectation is for somewhat modest growth of 0.5% q/q, although the risks are arguably upwardly skewed.
Fri 16 Mar (10:30am)	BNZ-BusinessNZ PMI - Feb	Robust	The index has bounced around a bit of late but we suspect it will hold at a steady level this month.
<b>On balance</b>		<b>Data watch</b>	<b>The data pulse has turned a little more mixed. Domestic inflation is low, but should lift gradually.</b>



## KEY FORECASTS AND RATES

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
GDP (% qoq)	0.6	<b>0.5</b>	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>
GDP (% yoy)	2.7	<b>2.9</b>	<b>2.7</b>	<b>2.6</b>	<b>2.9</b>	<b>3.2</b>	<b>3.3</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>
CPI (% qoq)	0.5	0.1	<b>0.5</b>	<b>0.3</b>	<b>0.6</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.1</b>
CPI (% yoy)	1.9	1.6	<b>1.1</b>	<b>1.4</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>2.1</b>	<b>2.2</b>	<b>2.0</b>
Employment (% qoq)	2.2	0.5	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	4.2	3.7	<b>3.2</b>	<b>3.6</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>
Unemployment Rate (% sa)	4.6	4.5	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>	<b>4.2</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>
Current Account (% GDP)	-2.5	<b>-2.6</b>	<b>-2.3</b>	<b>-2.5</b>	<b>-2.8</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-2.9</b>	<b>-2.9</b>	<b>-2.9</b>
Terms of Trade (% qoq)	0.8	<b>-1.6</b>	<b>-1.5</b>	<b>-0.9</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
Terms of Trade (% yoy)	12.4	<b>4.5</b>	<b>-0.9</b>	<b>-3.1</b>	<b>-3.8</b>	<b>-2.2</b>	<b>-0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Retail ECT (% mom)	1.0	-0.4	0.1	-0.6	-0.1	0.3	0.5	1.3	0.6	1.4
Retail ECT (% yoy)	4.5	5.2	4.5	2.0	4.4	2.9	1.3	4.3	3.3	3.4
Credit Card Billings (% mom)	1.1	1.0	0.4	0.7	-0.6	0.8	1.1	0.9	0.6	--
Credit Card Billings (% yoy)	6.6	7.5	8.4	7.0	6.5	5.0	3.0	9.1	6.3	--
Car Registrations (% mom)	-2.6	3.8	-2.6	-4.8	9.6	-1.5	2.2	1.2	-4.4	2.5
Car Registrations (% yoy)	3.0	13.7	11.1	6.2	13.5	15.6	7.3	7.3	4.7	6.2
Building Consents (% mom)	-2.1	1.3	0.4	2.8	6.4	-2.1	-9.6	9.6	-9.6	--
Building Consents (% yoy)	3.8	4.7	-7.8	-1.9	13.6	7.3	-7.2	13.3	3.8	--
REINZ House Price Index (% yoy)	9.1	6.7	5.4	3.3	2.8	3.8	3.4	3.5	3.7	3.4
Household Lending Growth (% mom)	0.5	0.4	0.6	0.3	0.4	0.5	0.4	0.5	0.5	--
Household Lending Growth (% yoy)	8.3	7.9	7.6	7.1	6.7	6.5	6.3	6.1	5.9	--
ANZ Roy Morgan Consumer Conf.	121.7	123.9	127.8	125.4	126.2	129.9	126.3	123.7	121.8	126.9
ANZ Business Confidence	11.0	14.9	24.8	19.4	18.3	0.0	-10.1	-39.3	-37.8	--
ANZ Own Activity Outlook	37.7	38.3	42.8	40.3	38.2	29.6	22.2	6.5	15.6	--
Trade Balance (\$m)	547	62	243	92	-1174	-1165	-841	-1233	640	--
Trade Bal (\$m ann)	52588	53218	53530	53742	53982	54085	54759	56003	56497	--
ANZ World Comm. Price Index (% mom)	-0.2	3.2	2.1	-0.8	-0.8	0.8	-0.3	-0.9	-1.9	0.7
ANZ World Comm. Price Index (% yoy)	23.7	26.3	24.6	21.1	16.3	11.5	10.4	6.0	3.2	4.1
Net Migration (sa)	5790	5940	6300	5720	5450	5250	5640	5660	5700	--
Net Migration (ann)	71885	71964	72305	72402	72072	70986	70694	70354	70016	--
ANZ Heavy Traffic Index (% mom)	-2.2	4.0	-0.5	-6.0	6.5	-1.5	2.9	1.1	-4.2	4.1
ANZ Light Traffic Index (% mom)	-1.4	1.2	1.2	-2.2	2.7	-0.1	-0.6	1.5	-1.7	-0.5

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

## KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Dec-17	Jan-18	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZD/USD	0.710	0.740	0.738	0.71	0.70	0.69	0.67	0.66	0.65	0.65
NZD/AUD	0.909	0.914	0.933	0.92	0.92	0.93	0.93	0.94	0.93	0.93
NZD/EUR	0.591	0.595	0.595	0.57	0.56	0.54	0.52	0.51	0.50	0.50
NZD/JPY	79.99	80.53	78.49	76.7	74.2	71.8	69.0	66.0	64.4	63.1
NZD/GBP	0.525	0.523	0.526	0.53	0.52	0.50	0.49	0.48	0.47	0.47
NZ\$ TWI	73.0	74.2	75.7	72.1	71.0	69.8	67.9	66.7	65.6	65.4
INTEREST RATES	Dec-17	Jan-18	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
NZ 90 day bill	1.88	1.89	1.92	1.90	1.93	1.95	1.98	2.00	2.08	2.34
NZ 10-yr bond	2.72	2.90	2.97	3.00	3.15	3.30	3.45	3.45	3.75	3.80
US Fed funds	1.50	1.50	1.50	1.50	1.75	2.00	2.25	2.25	2.50	2.50
US 3-mth	1.69	1.77	1.88	1.88	2.05	2.20	2.45	2.45	2.70	2.70
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75
AU 3-mth	1.80	1.78	1.77	1.80	1.80	1.80	1.80	1.80	2.00	2.00

	16 Jan	12 Feb	13 Feb	14 Feb	15 Feb	16 Feb
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.88	1.91	1.91	1.90	1.90	1.91
NZGB 03/19	1.78	1.77	1.77	1.77	1.77	1.77
NZGB 05/21	2.16	2.07	2.06	2.05	2.07	2.07
NZGB 04/23	2.42	2.41	2.39	2.38	2.42	2.41
NZGB 04/27	2.88	2.99	2.97	2.94	3.00	2.98
2 year swap	2.21	2.16	2.16	2.16	2.17	2.17
5 year swap	2.73	2.74	2.73	2.71	2.75	2.73
RBNZ TWI	75.22	74.73	74.72	74.92	75.56	75.61
NZD/USD	0.7267	0.7247	0.7290	0.7315	0.7396	0.7386
NZD/AUD	0.9148	0.9253	0.9261	0.9294	0.9311	0.9349
NZD/JPY	80.45	78.78	78.45	78.57	78.82	78.46
NZD/GBP	0.5285	0.5228	0.5238	0.5273	0.5260	0.5266
NZD/EUR	0.5949	0.5907	0.5903	0.5920	0.5926	0.5955
AUD/USD	0.7944	0.7832	0.7872	0.7870	0.7943	0.7905
EUR/USD	1.2213	1.2268	1.2349	1.2357	1.2481	1.2406
USD/JPY	110.71	108.70	107.61	107.41	106.57	106.21
GBP/USD	1.3750	1.3863	1.3916	1.3872	1.4061	1.4026
Oil (US\$/bbl)	63.73	59.29	59.19	60.60	61.34	61.68
Gold (US\$/oz)	1333.20	1320.89	1329.61	1332.03	1353.74	1346.96
Electricity (Haywards)	15.28	13.44	12.43	7.70	7.22	6.95
Baltic Dry Freight Index	1221	1123	1114	1095	1089	1084
NZX WMP Futures (US\$/t)	2885	3260	3260	3255	3265	3265

# IMPORTANT NOTICE

**This document is intended for ANZ's institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.**

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

**Disclaimer for all jurisdictions:** This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is for informational purposes and nothing contained within is intended to be a recommendation, invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document, ANZ does not make any representation as to the accuracy of the views expressed in this document. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (**Liability**) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

**Country/region specific information:** Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

**Australia.** ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please [click here](#) or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 Cth).

**Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan.** This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

**Cambodia.** This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (**ANZ Royal Bank**). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

**European Economic Area (EEA): United Kingdom.** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the **FCA definition of "eligible counterparty" or "professional client"**. It is not intended for and must not be distributed to any person who would come within the **FCA definition of "retail client"**. Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the **FCA**. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the **FCA** and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

**Fiji.** For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

**Hong Kong.** This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

**India.** If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

**Myanmar.** This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).



# IMPORTANT NOTICE

**New Zealand.** This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

**Oman.** ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the **Central Bank of Oman or Oman's Capital Market Authority**. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

**People's Republic of China (PRC).** This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

**Qatar.** This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

**Singapore.** This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

**United Arab Emirates (UAE).** This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (**ANZ Representative Office**) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

**United States.** Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) ([www.finra.org](http://www.finra.org)) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

**Vietnam.** This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64-9-357 4094, e-mail [nzeconomics@anz.com](mailto:nzeconomics@anz.com), <http://www.anz.co.nz>

