

16 April 2018

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FEELING THE SQUEEZE

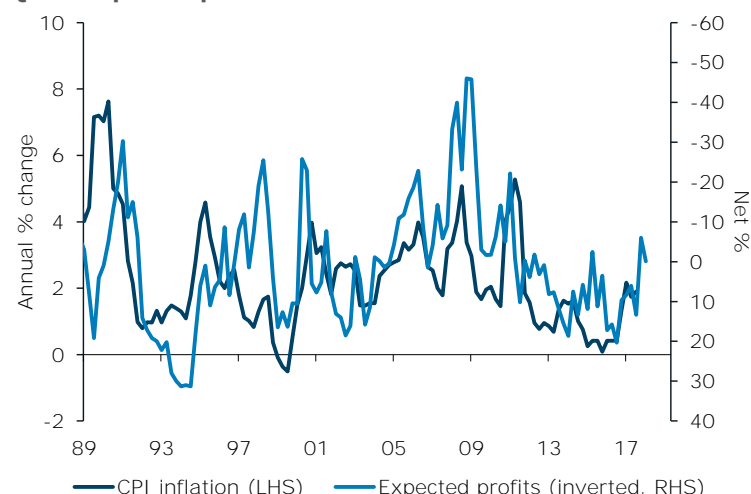
ECONOMIC OVERVIEW

Firms' expectations of their profitability have deteriorated since mid-2017. This week we ask: should we be concerned? Weaker profit expectations can reflect either weaker expected sales, or increasing costs. We think it's the latter, and in that context, it is neither surprising nor alarming. While squeezed margins are not a comfortable situation for firms, it is a typical feature of the business cycle. They encourage firms to increase their prices in order to claw back profits, consistent with our expectation of rising inflation. All that said, a lack of pricing power has been a feature of this business cycle and we don't think that is about to change. Inflation will increase only gradually as a result. Q1 CPI should be consistent with this theme.

CHART OF THE WEEK

Expected profits have fallen (inverted below) as costs have risen. Margin compression is a necessary (but not sufficient) condition for an inflation pick-up.

QSBO expected profits and CPI inflation



Source: ANZ, NZIER, Statistics NZ

THE ANZ HEATMAP

Variable	View	Comment	Risks around our view
GDP	3.2% y/y for 2018 Q4	The economy is not quite firing on all cylinders. However, we see growth holding around 3% (trend) on average.	Neutral Negative Positive
Unemployment rate	4.2% for 2018 Q4	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 Dec 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	1.6% y/y for 2018 Q4	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

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SUMMARY

Firms' expectations of their profitability have deteriorated since mid-2017. Should we be concerned? Weaker profit expectations can reflect either weaker expected sales, or increasing costs. We think it's the latter, and in that context, it is neither surprising nor alarming. While squeezed margins are not a comfortable situation for firms, they are a typical feature of the business cycle. They encourage firms to increase their prices in order to claw back profits, consistent with our expectation of rising inflation. All that said, a lack of pricing power has been a feature of this business cycle and we don't think that is about to change. Inflation will increase only gradually as a result. Q1 CPI is released later this week, which will give us more of a sense of current price pressures. While temporary factors will weigh on headline inflation, we expect the story of modest and gradually increasing underlying inflation to continue.

FORTHCOMING EVENTS

BNZ-BusinessNZ PSI – March (10:30am, Monday 16 April). We expect the PSI will continue to signal solid rates of expansion in the services sector.

Food prices – March (10:45am, Monday 16 April). Given usual seasonality, a flat outturn is on the cards.

REINZ Housing Market Statistics – March (9:00am, Tuesday, 17 April). We expect activity in the housing market will remain steady, with annual house price inflation to ease gradually going forward.

GlobalDairyTrade Auction (GDT) (early am, Wednesday, 18 April). A sterner test of demand is on its way, with GDT whole milk powder (WMP) supply having been lifted again. NZX futures are pointing to a 2% fall for WMP, but a slight increase in the GDT-TWI.

CPI – Q1 (10:45am, Thursday, 19 April). We expect a dip in headline inflation due to temporary factors, in the context of generally subdued price pressures. We will release our full preview note following today's food price data.

WHAT'S THE VIEW?

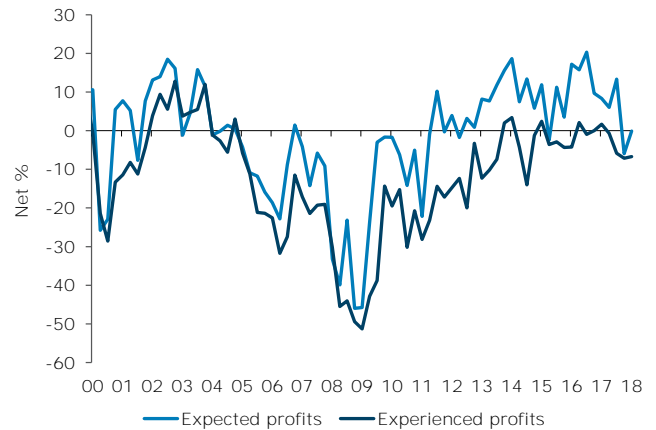
According to business surveys, **firms' expectations of their profitability have deteriorated over the past year.** In the ANZ Business Outlook (ANZBO), profit expectations have declined from the elevated levels seen over the first half of 2017. A net 30% of firms expected profits to increase in June 2017, but this has fallen to a net 6% in March 2018, after dipping below zero late last year. In the QSBO, expected profits have fallen since September 2016, while experienced profits have been flat.

This deterioration has been broad-based across industries but was particularly pronounced for those

in the building and retail industries, according to the QSBO. The ANZBO also shows a particular fall for those in agriculture, reflecting difficult production conditions through late 2017.

This week we ask the question: Should we be concerned about weaker profit expectations? The answer is: probably not.

Figure 1: QSBO experienced and expected profits

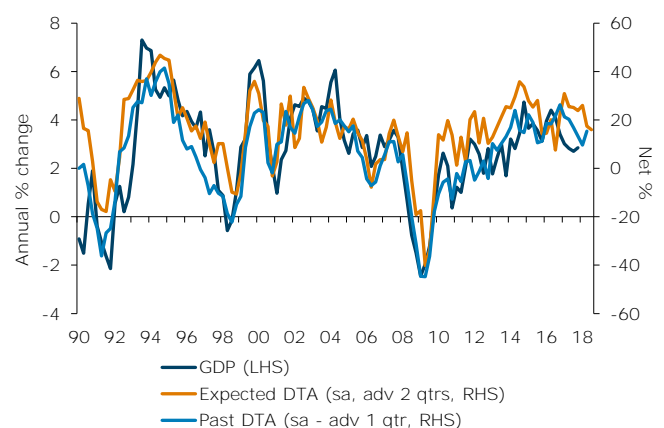


Source: ANZ, NZIER, Statistics NZ

Weaker profit expectations can reflect either weaker expected sales, or increasing costs that result in declining margins.

We don't think weaker expected sales are a major factor. GDP growth has moderated from the break-neck rates seen over 2015/16, but demand indicators have held up.

Figure 2: GDP and QSBO expected domestic trading activity



Source: ANZ, NZIER, Statistics NZ

Activity indicators signal GDP growth continuing around its trend pace of 2-3%. A net 22% of firms in the ANZ Business Outlook survey expect activity to increase. And the proportion of firms reporting demand as a factor constraining activity in the QSBO has declined consistently. While we don't expect GDP

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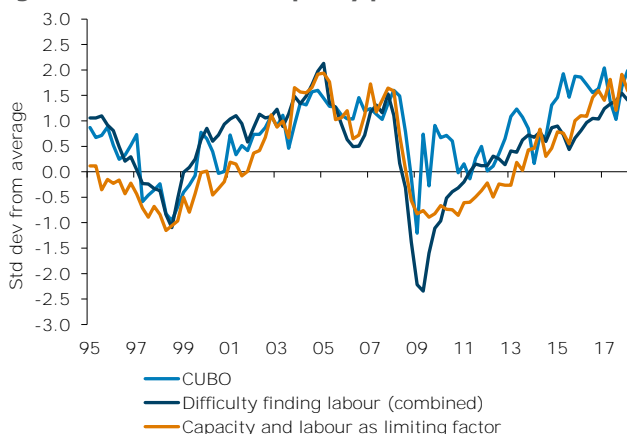
growth will accelerate from here, businesses surveys signal continued moderate growth, not weak demand.

The economic cycle is getting long in the tooth, but conditions remain supportive for continued growth. Strong population growth, supportive financial conditions and fiscal policy, and the elevated terms of trade are all playing a part. We will get data from the GDT auction this week, with higher supply set to test demand. WMP supply has been lifted for the second auction in a row, with improved pasture conditions ensuring a solid finish to a challenging production season. The next several dairy auctions are worth watching as they are always critical in setting the opening 2018/19 milk price forecast at end of May. We are currently expecting something in the low-\$6/kg MS. But if current pricing was to hold, then a repeat of 2017/18 (up around mid-\$6/kg MS) could be on the cards. Outside of dairy, strength in commodity prices is broad based, supporting the elevated terms of trade.

Some might argue that profit expectations are lower due to election angst. But we don't think that stacks up either. Profit expectations in the QSBO started falling from September 2016 – well before the election. And while headline business confidence has fallen, businesses are getting on with it. They are certainly experiencing a degree of uncertainty, with some concern about proposed policies, particularly around minimum wages and labour relations. But demand indicators are solid, with investment and employment intentions heading in the right direction. Overall, surveys do not paint a picture of businesses paralysed by uncertainty.

Rather, we think weaker profit expectations predominantly reflect increased costs. Capacity pressures have risen. According to the QSBO, capacity utilisation is at 93.5% – well above the long-run average of 89.3%. The biggest constraints on firms' activity are labour availability and capacity.

Figure 3: Indicators of capacity pressure



Source: ANZ, NZIER, Statistics NZ

And capacity pressures have put upward pressure on costs. In response to increased resource pressures, experienced costs have increased since 2016, according to the QSBO. Anecdotally, input costs have increased (particularly for construction and retail). These costs can include labour, materials, credit, regulatory and other input costs incurred in production. And while we know cost bases vary for each business, we do know that some key costs have increased.

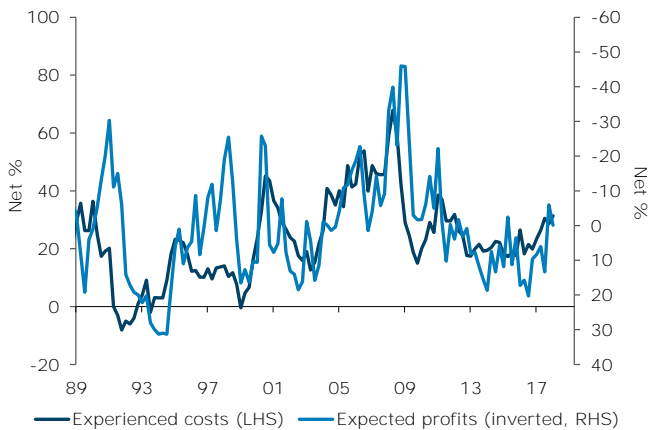
- **Wages:** The minimum wage increased from \$15.75 to \$16.60/hr on April 1, and is expected to increase further. The Government intends for the minimum wage to reach \$20 by April 2021. This represents a significant cost increase for some firms and we are hearing that some (especially small) businesses are concerned. We expect that a broader increase in wages is imminent, but how large and persistent remains to be seen.
- **Property:** We are hearing anecdotally that businesses' property-related costs are increasing. Rents are increasing, particularly for businesses in tourism and hospitality industries. According to the CPI, insurance premiums are up 5.8% y/y and property maintenance costs are up 3.6% y/y.
- **Oil:** Oil prices have been on an increasing trajectory since the middle of 2017, with WTI crude oil futures up 52% since June last year. Higher oil prices have a direct flow-on impact to the input, energy and distribution costs of firms.
- **World prices:** While it partly reflects oil prices and so one must be wary of double-counting, global inflation is picking up. If sustained, this could see some of the current global deflationary influences abate, affecting a range of firms' inputs. In terms of prices paid by New Zealanders, the exchange rate is an offsetting force. The NZD trade-weighted index has been stable recently, below levels seen in mid-2017 but high relative to history. Nonetheless, we expect the NZD will be under downward pressure going forward, as interest rate differentials reassert themselves and global liquidity continues to reduce. This will increase the cost of imported inputs.

Higher costs are squeezing margins, which are already very thin. And in that context, weaker profit expectations are neither surprising nor alarming. Figure 4 shows that an increase in experienced costs does typically lead to lower expected profitability. While it is an uncomfortable situation for firms, it is a typical feature of the business cycle, and certainly does not herald "the beginning of the end". Indeed, the decline in expected profitability experienced over the past year (evident in figure 1) is perhaps analogous to that seen in 2004-5. The economy

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continued to grow strongly for a number of years following that (until tighter monetary policy and the Global Financial Crisis eventually impacted).

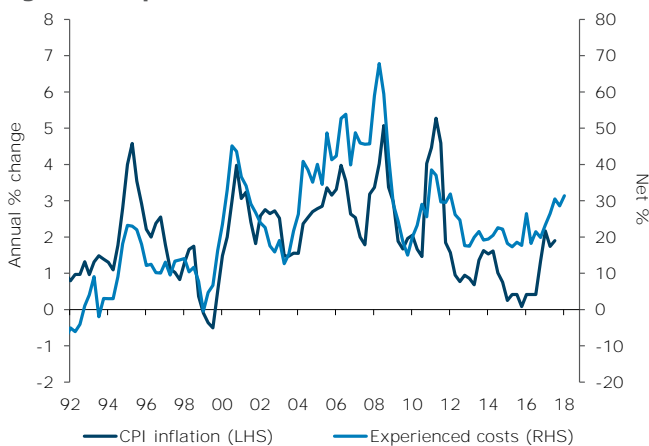
Figure 4: Profit expectations and experienced costs



Source: ANZ, NZIER, Statistics NZ

Rising costs and margin pressures encourage firms to increase their prices in order to claw back profits. While the relationship has weakened over the past five years, observed measures of experienced costs are nonetheless consistent with our expectation of rising inflation.

Figure 5: Experienced costs and CPI inflation



Source: ANZ, NZIER, Statistics NZ

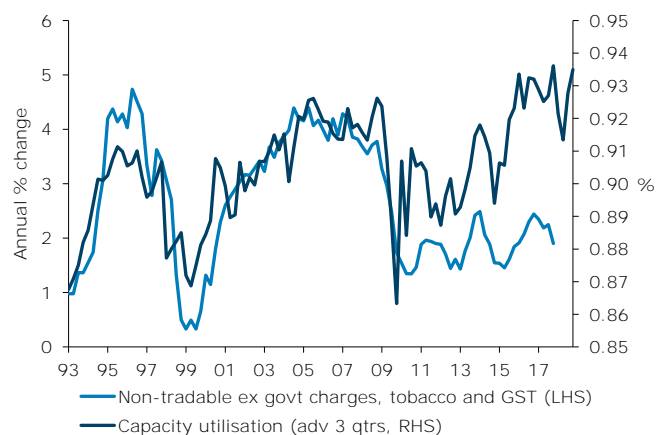
As the chart above shows, a lack of pricing power has been a feature of this business cycle, and we have consistently heard reports from businesses of razor-thin margins. While softness in demand may have been a factor early in the cycle, activity has now well and truly recovered. So why are firms finding it so difficult to pass on cost increases?

Margins have been very compressed for a range of structural reasons. The Reserve Bank argues that structural forces at play include global competition, outsourcing and global supply chains, and

technological advancements.¹ Essentially, as markets have gotten bigger and more global, individual firms have had less influence on pricing outcomes. Increased competition on the global market has reduced pricing power.

In addition to subdued tradables inflation, domestic inflation has not behaved in the usual way. Non-tradables inflation has disconnected from its relationship with capacity pressures in the economy. A correlation still exists, but the inflation response has been unusually muted.

Figure 6: Non-tradables inflation and capacity utilisation



Source: ANZ, NZIER, Statistics NZ

While feeling confident, consumers have proven very price sensitive over this cycle. This may possibly reflect the new ease of a comprehensive price search in this era of global internet shopping. For whatever reason, **in this environment, firms have found it very difficult to put through price increases, and have instead maintained profitability via high volumes** – with favourable demand conditions allowing them to do that.

Anecdotally, it appears that thin margins are becoming unsustainable. As costs have increased recently, margin pressure has become untenable for some, with competition on volume no longer enough to maintain profits. Businesses report increasingly that **“something has to give”** if costs keep increasing. **We suspect that something will be prices.** Some businesses without pricing power may look to cut costs and improve efficiency (which could bode well for productivity). But we think prices will need to budge, at least for some.

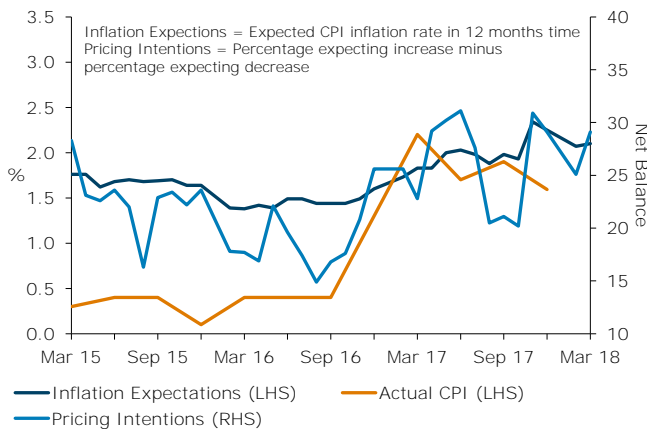
Consistent with our suspicions, firms’ inflation expectations have increased. Higher experienced costs and weaker profit expectations have coincided

¹ Spencer, G, (2017), ‘Low inflation and its implications for monetary policy’, Reserve Bank of New Zealand Speech delivered to the Institute of Directors in Auckland, 5 December 2017.

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with higher inflation expectations and pricing intentions. According to our own Business Outlook Survey, firms' inflation expectations increased above 2% in late 2017 and early 2018, **consistent with stronger price pressures going forward and higher inflation over the medium term.**

Figure 7: ANZBO inflation expectations and actual CPI

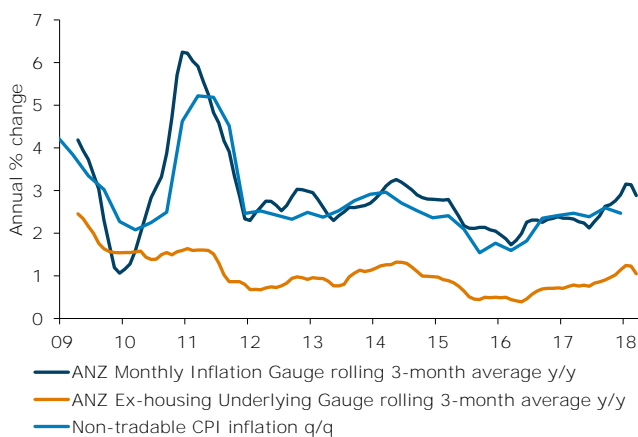


Source: ANZ, Statistics NZ

That said, near-term inflation is expected to be subdued. We will get CPI data for the March quarter on Thursday. It is expected to remain soft, dampened by temporary factors, including the Government's free-fees first-year tertiary education policy and base effects. We will make our final pick for CPI after food prices are released today (we expect a flat month).

Subdued inflation is consistent with our ANZ Monthly Inflation Gauge for March. The Inflation Gauge provides a monthly signal of broad movements in non-tradables inflation. It fell 0.2% m/m in March, to be up 2.9% y/y. Non-tradables price pressures are being buoyed by housing. The ex-housing Gauge was up a very modest 1.1% y/y, suggesting that inflation remains elusive elsewhere.

Figure 8: ANZ Monthly Inflation Gauge and non-tradables inflation



Source: ANZ, Statistics NZ

As stated, we expect inflation will increase over the medium term, with costs increasing and margins squeezed. **But it will remain harder than usual for firms to increase prices.** Structural pricing power suppressants are not going to magically evaporate. Moreover, price increases at this juncture are coming fairly late in the cycle, at a time when we don't see GDP growth heading higher as key growth drivers tire and credit constraints are in play.

As a result, we think inflation will increase only gradually. Our forecast is for inflation to increase to 2% by June 2019 if the economy evolves as we expect. This inflation outlook implies the RBNZ will be playing wait-and-see for a while. **The RBNZ expects not to have to increase interest rates until mid-2019 – an assessment with which we agree.**

We also think the RBNZ will be broadly comfortable with recent housing and credit market developments. Banks have worked hard to close their funding gap, which along with affordability constraints and macro-prudential policy has contributed to a slowing in the housing market. House sales and prices are broadly stable. Household credit growth has similarly stabilised.

However, we expect the RBNZ will retain a cautious approach to easing macro-prudential policy. The RBNZ's next *Financial Stability Report* is out at the end of May and small tweaks at most can be expected, given that the housing market has stabilised only recently. REINZ housing statistics out this week will be interesting from that perspective. We expect house sales to remain steady from here, with annual house price inflation to ease gradually going forward.

LOCAL DATA

NZIER Quarterly Survey of Business Opinion – Q1. Pessimism among businesses persisted into 2018, with sentiment improving only slightly. **But firms' own activity measures continue to hold up.**

ANZ Truckometer – March. The ANZ Truckometer Heavy Traffic Index fell 0.3% m/m in March, to be down 0.7% for the quarter. This isn't a strong signal for GDP growth, but the index has been volatile lately.

ANZ Monthly Inflation Gauge – March. The Gauge fell 0.2% m/m in March to be 2.9% higher than a year ago. The underlying Ex-Housing Gauge fell 0.4% m/m to be up just 1.1% y/y.

Electronic Card Transactions – March. Total retail ECT spending increased a solid 1.0% in March, painting a picture of strong nominal spending growth of 1.8% q/q and 6.0% y/y.

BNZ-BusinessNZ PMI – March. The PMI fell for the second consecutive month to 52.2 points. Nonetheless, it remains in expansionary territory.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
16-Apr	NZ	Performance Services Index - Mar	--	55.0	10:30
	NZ	Food Prices MoM - Mar	--	-0.5%	10:45
	UK	Rightmove House Prices MoM - Apr	--	1.5%	11:01
	UK	Rightmove House Prices YoY - Apr	--	2.1%	11:01
	GE	Wholesale Price Index MoM - Mar	--	-0.3%	18:00
	GE	Wholesale Price Index YoY - Mar	--	1.2%	18:00
17-Apr	US	Empire Manufacturing - Apr	18.6	22.5	00:30
	US	Retail Sales Advance MoM - Mar	0.4%	-0.1%	00:30
	US	Retail Sales Ex Auto MoM - Mar	0.2%	0.2%	00:30
	US	Retail Sales Ex Auto and Gas - Mar	0.4%	0.3%	00:30
	US	Retail Sales Control Group - Mar	0.3%	0.1%	00:30
	US	Business Inventories - Feb	0.6%	0.6%	02:00
	US	NAHB Housing Market Index - Apr	70.0	70.0	02:00
	US	Total Net TIC Flows - Feb	--	\$119.7B	08:00
	US	Net Long-term TIC Flows - Feb	--	\$62.1B	08:00
	NZ	REINZ House Sales YoY - Mar	--	1.2%	09:00
	AU	ANZ-RM Consumer Confidence Index - 15-Apr	--	115.1	11:30
	AU	RBA April Meeting Minutes	--	--	13:30
	CH	GDP SA QoQ - Q1	1.5%	1.6%	14:00
	CH	GDP YoY - Q1	6.8%	6.8%	14:00
	CH	GDP YTD YoY - Q1	6.8%	6.9%	14:00
	CH	Retail Sales YoY - Mar	9.7%	9.4%	14:00
	CH	Retail Sales YTD YoY - Mar	9.7%	9.7%	14:00
	CH	Industrial Production YoY - Mar	6.4%	6.2%	14:00
	CH	Industrial Production YTD YoY - Mar	6.9%	7.2%	14:00
	CH	Fixed Assets Ex Rural YTD YoY - Mar	7.7%	7.9%	14:00
	NZ	Non Resident Bond Holdings - Mar	--	59.7%	15:00
	UK	Claimant Count Rate - Mar	--	2.4%	20:30
	UK	Jobless Claims Change - Mar	--	9.2k	20:30
	UK	Average Weekly Earnings 3M/YoY - Feb	3.0%	2.8%	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Feb	2.8%	2.6%	20:30
	UK	ILO Unemployment Rate 3Mths - Feb	4.3%	4.3%	20:30
	UK	Employment Change 3M/3M - Feb	55k	168k	20:30
	GE	ZEW Survey Current Situation - Apr	88.0	90.7	21:00
	GE	ZEW Survey Expectations - Apr	-1.0	5.1	21:00
	EC	ZEW Survey Expectations - Apr	--	13.4	21:00
18-Apr	US	Housing Starts - Mar	1266k	1236k	00:30
	US	Housing Starts MoM - Mar	2.4%	-7.0%	00:30
	US	Building Permits - Mar	1325k	1321k	00:30
	US	Building Permits MoM - Mar	0.3%	-4.1%	00:30
	US	Industrial Production MoM - Mar	0.4%	0.9%	01:15
	US	Manufacturing (SIC) Production - Mar	0.1%	1.2%	01:15
	US	Capacity Utilization - Mar	77.9%	77.7%	01:15
	JN	Trade Balance - Mar	¥499.2B	¥2.6B	11:50
	JN	Trade Balance Adjusted - Mar	¥98.5B	-¥201.5B	11:50
	JN	Exports YoY - Mar	5.6%	1.8%	11:50
	JN	Imports YoY - Mar	6.0%	16.6%	11:50
	AU	Westpac Leading Index MoM - Mar	--	0.3%	12:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
18-Apr	AU	Skilled Vacancies MoM - Mar	--	0.6%	13:00
	CH	New Home Prices MoM - Mar	--	0.3%	13:30
	UK	CPI MoM - Mar	0.3%	0.4%	20:30
	UK	CPI YoY - Mar	2.7%	2.7%	20:30
	UK	CPI Core YoY - Mar	2.5%	2.4%	20:30
	UK	Retail Price Index - Mar	278.8	278.1	20:30
	UK	RPI MoM - Mar	0.3%	0.8%	20:30
	UK	RPI YoY - Mar	3.5%	3.6%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Mar	3.6%	3.6%	20:30
	UK	PPI Input NSA MoM - Mar	0.3%	-1.1%	20:30
	UK	PPI Input NSA YoY - Mar	4.2%	3.4%	20:30
	UK	PPI Output NSA MoM - Mar	0.1%	0.0%	20:30
	UK	PPI Output NSA YoY - Mar	2.3%	2.6%	20:30
	UK	PPI Output Core NSA MoM - Mar	0.2%	0.2%	20:30
	UK	PPI Output Core NSA YoY - Mar	2.2%	2.4%	20:30
	UK	House Price Index YoY - Feb	4.5%	4.9%	20:30
	EC	Construction Output MoM - Feb	--	-2.2%	21:00
	EC	Construction Output YoY - Feb	--	3.7%	21:00
	EC	CPI YoY - Mar F	1.4%	1.1%	21:00
	EC	CPI MoM - Mar	1.0%	0.2%	21:00
	EC	CPI Core YoY - Mar F	1.0%	1.0%	21:00
	US	MBA Mortgage Applications - 13-Apr	--	-1.9%	23:00
19-Apr	US	Federal Reserve releases Beige Book	--	--	06:00
	NZ	CPI QoQ - Q1	0.5%	0.1%	10:45
	NZ	CPI YoY - Q1	1.1%	1.6%	10:45
	AU	Employment Change - Mar	20.0k	17.5k	13:30
	AU	Unemployment Rate - Mar	5.5%	5.6%	13:30
	AU	Participation Rate - Mar	65.7%	65.7%	13:30
	AU	NAB Business Confidence - Q1	--	6	13:30
	AU	RBA FX Transactions Market - Mar	--	A\$310M	13:30
	EC	ECB Current Account SA - Feb	--	€37.6B	20:00
	EC	Current Account NSA - Feb	--	€12.8B	20:00
	UK	Retail Sales Ex Auto Fuel MoM - Mar	-0.4%	0.6%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Mar	1.4%	1.1%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Mar	-0.6%	0.8%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Mar	1.9%	1.5%	20:30
20-Apr	US	Initial Jobless Claims - 14-Apr	230k	233k	00:30
	US	Continuing Claims - 7-Apr	1845k	1871k	00:30
	US	Philadelphia Fed Business Outlook - Apr	21.0	22.3	00:30
	US	Leading Index - Mar	0.3%	0.6%	02:00
	JN	Natl CPI YoY - Mar	1.1%	1.5%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Mar	0.9%	1.0%	11:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - Mar	0.5%	0.5%	11:30
	GE	PPI YoY - Mar	2.0%	1.8%	18:00
	GE	PPI MoM - Mar	0.2%	-0.1%	18:00
21-Apr	EC	Consumer Confidence - Apr A	-0.1	0.1	02:00

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

The data flow has turned a little more mixed, reflecting headwinds the economy is currently facing, but is still generally providing a positive signal overall. Inflation pressures are likely to remain contained.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 16 Apr (10:30am)	BNZ-BusinessNZ PSI – March	Solid	We expect the PSI will continue to signal solid rates of expansion in the services sector.
Mon 16 Apr (10:45am)	Food Price Index – March	Flat	From a seasonal perspective, an outturn around flat seems on the cards.
Tue 17 April (9:00am)	REINZ Housing Market Statistics – March	Steady	The market should remain stable around current levels. Annual house price growth should remain contained.
Wed 18 Apr (early am)	GlobalDairyTrade Auction	More pressure	Supply conditions continue to improve, while demand remains steady. Prices could head lower.
Thu 19 Apr (10:45am)	CPI – Q1	Soft	On the back of tertiary education fee reductions and base effects, headline inflation looks set to fall to near the bottom of the RBNZ's target band.
Tue 24 Apr (10:45am)	Net Migration – March	Peaked	We don't see migration inflows falling quickly, but we believe we are past the peak, with gradual decline from here.
Fri 27 Apr (10:00am)	ANZ-Roy Morgan Consumer Confidence – April	--	--
Fri 27 Apr (10:45am)	Overseas Merchandise Trade – March	Bounce	Some bounce-back in imports can be expected. Export earnings are expected to remain steady with durable, broad-based strength.
Mon 30 Apr (1:00pm)	ANZ Business Outlook – April	--	--
Tue 1 May (10:45am)	Building Consents – March	Plateau	We are in an environment where issuance will struggle to push higher.
Wed 2 May (10:45am)	Labour Market Statistics – Q1	Gradual	Continual tightening in the labour market and a gradual pick up in wage inflation is expected.
Thu 3 May (10:00am)	ANZ Job Ads – April	--	--
Thu 3 May (1:00pm)	ANZ Commodity Price Index – April	--	--
Tue 8 May (10:00am)	ANZ Truckometer – April	--	--
Tue 8 May (1:00pm)	RBNZ 2-year ahead inflation expectations – Q2	Anchored	With inflation low but expected to increase, we expect inflation expectations will remain close to 2%.
Wed 9 May (10:45am)	Electronic Card Transactions – April	Boost	Moderate retail spending growth is expected; increases in the minimum wage may provide a temporary boost.
Thu 10 May (9:00am)	RBNZ OCR decision	On hold	With inflation increasing only gradually, we expect the RBNZ is on hold for some time yet.
10 -14 May	REINZ Housing Market Statistics – April	Steady	The market should remain stable around current levels. Annual house price growth should remain contained.
Fri 11 May (10:30am)	BNZ-BusinessNZ PMI – April	Getting on	A stabilisation might be on the cards after a softer start to the year, although confidence in the manufacturing sector has fallen into the start of 2018.
On balance		Data watch	The data pulse is mixed, but generally positive. Domestic inflation is low, but should lift gradually.

KEY FORECASTS AND RATES

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
GDP (% qoq)	0.6	0.6	0.9	0.9	0.8	0.7	0.7	0.7	0.6	0.6
GDP (% yoy)	2.9	2.8	2.8	3.1	3.2	3.3	3.1	2.8	2.6	2.5
CPI (% qoq)	0.1	0.5	0.3	0.6	0.2	0.6	0.6	0.7	0.1	0.6
CPI (% yoy)	1.6	1.1	1.4	1.5	1.6	1.7	2.1	2.2	2.0	2.0
Employment (% qoq)	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	3.7	3.2	3.6	1.8	1.6	1.4	1.3	1.2	1.2	1.2
Unemployment Rate (% sa)	4.5	4.3	4.3	4.2	4.2	4.1	4.1	4.1	4.2	4.1
Current Account (% GDP)	-2.7	-2.3	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Terms of Trade (% qoq)	0.8	-1.4	-0.8	0.1	0.1	0.0	0.1	0.2	0.1	0.1
Terms of Trade (% yoy)	7.3	1.8	-0.1	-1.4	-2.1	-0.6	0.3	0.4	0.3	0.5

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Retail ECT (% mom)	0.1	-0.5	0.0	0.3	0.5	1.2	0.5	1.6	-0.2	1.0
Retail ECT (% yoy)	4.5	2.0	4.4	2.9	1.3	4.3	3.3	3.4	3.3	6.0
Credit Card Billings (% mom)	0.3	0.7	-0.6	0.8	1.0	0.9	0.6	-0.6	0.7	--
Credit Card Billings (% yoy)	8.3	7.1	6.5	5.0	3.0	9.1	6.3	4.6	7.0	--
Car Registrations (% mom)	-2.6	-4.7	9.6	-0.7	1.6	1.1	-5.0	2.4	-8.6	-3.7
Car Registrations (% yoy)	11.1	6.2	13.5	15.6	7.3	7.3	4.7	6.2	-4.2	-11.9
Building Consents (% mom)	0.9	2.3	5.7	-1.9	-9.9	9.4	-9.5	0.0	5.7	--
Building Consents (% yoy)	-7.9	-1.9	13.1	7.5	-7.4	13.1	3.7	4.0	-0.6	--
REINZ House Price Index (% yoy)	5.4	3.3	2.9	3.8	3.4	3.6	3.7	3.5	4.0	--
Household Lending Growth (% mom)	0.6	0.3	0.4	0.5	0.5	0.5	0.5	0.4	0.5	--
Household Lending Growth (% yoy)	7.6	7.1	6.7	6.5	6.3	6.2	5.9	5.8	5.7	--
ANZ Roy Morgan Consumer Conf.	127.8	125.4	126.2	129.9	126.3	123.7	121.8	126.9	127.7	128.0
ANZ Business Confidence	24.8	19.4	18.3	0.0	-10.6	-39.3	-37.8	..	-19.0	-20.0
ANZ Own Activity Outlook	42.8	40.3	38.2	29.6	22.0	6.5	15.6	..	20.4	21.8
Trade Balance (\$m)	243	92	-1174	-1165	-840	-1222	614	-655	217	--
Trade Bal (\$m ann)	53530	53742	53982	54085	54759	55999	56475	57253	57440	--
ANZ World Comm. Price Index (% mom)	2.1	-0.8	-0.8	0.8	-0.3	-0.9	-1.9	0.7	2.8	1.2
ANZ World Comm. Price Index (% yoy)	24.6	21.1	16.3	11.5	10.4	6.0	3.2	4.1	5.0	5.8
Net Migration (sa)	6310	5750	5470	5270	5660	5690	5720	6270	4970	--
Net Migration (ann)	72305	72402	72072	70986	70694	70354	70016	70147	68943	--
ANZ Heavy Traffic Index (% mom)	-0.5	-6.0	6.5	-1.5	2.9	1.1	-4.2	4.1	-2.5	-0.3
ANZ Light Traffic Index (% mom)	1.2	-2.2	2.7	-0.1	-0.6	1.5	-1.7	-0.5	-0.2	2.2

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)						
	Feb-18	Mar-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
NZD/USD	0.721	0.724	0.74	0.70	0.69	0.67	0.66	0.65	0.65	0.65
NZD/AUD	0.924	0.942	0.95	0.92	0.93	0.93	0.94	0.93	0.93	0.93
NZD/EUR	0.590	0.587	0.60	0.56	0.54	0.52	0.51	0.50	0.50	0.50
NZD/JPY	77.26	76.91	79.03	74.2	71.8	69.0	66.0	64.4	63.1	62.4
NZD/GBP	0.520	0.516	0.52	0.50	0.49	0.47	0.46	0.45	0.45	0.45
NZ\$ TWI	73.2	73.3	75.6	70.8	69.6	67.8	66.5	65.4	65.2	65.1
INTEREST RATES	Feb-18	Mar-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	1.92	1.96	2.03	1.96	1.96	1.96	1.96	2.05	2.30	2.47
NZ 10-yr bond	2.94	2.72	2.83	3.05	3.30	3.50	3.50	3.65	3.65	3.65
US Fed funds	1.50	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.50	2.50
US 3-mth	2.02	2.31	2.35	2.25	2.50	2.70	2.70	2.95	2.95	2.95
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00
AU 3-mth	1.79	2.03	2.07	1.90	1.80	1.80	1.80	2.05	2.30	2.30

	13 Mar	9 Apr	10 Apr	11 Apr	12 Apr	13 Apr
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.90	1.97	1.98	2.00	2.03	2.03
NZGB 05/21	2.13	2.07	2.09	2.08	2.08	2.10
NZGB 04/23	2.45	2.34	2.36	2.35	2.35	2.38
NZGB 04/27	2.97	2.79	2.80	2.79	2.79	2.83
NZGB 04/33	3.32	3.17	3.19	3.18	3.16	3.21
2 year swap	2.21	2.25	2.25	2.26	2.29	2.32
5 year swap	2.76	2.69	2.70	2.71	2.71	2.74
RBNZ TWI	75.00	75.19	75.36	75.65	75.61	75.82
NZD/USD	0.7326	0.7287	0.7346	0.7367	0.7381	0.7365
NZD/AUD	0.9301	0.9515	0.9501	0.9506	0.9519	0.9473
NZD/JPY	78.53	78.04	78.63	78.75	79.09	79.03
NZD/GBP	0.5273	0.5166	0.5188	0.5190	0.5203	0.5165
NZD/EUR	0.5942	0.5937	0.5960	0.5953	0.5983	0.5966
AUD/USD	0.7876	0.7658	0.7731	0.7750	0.7755	0.7764
EUR/USD	1.2330	1.2273	1.2325	1.2375	1.2338	1.2331
USD/JPY	107.20	107.10	107.05	106.90	107.16	107.35
GBP/USD	1.3894	1.4104	1.4158	1.4196	1.4187	1.4238
Oil (US\$/bbl)	60.71	63.42	65.51	66.82	67.07	67.39
Gold (US\$/oz)	1318.84	1328.48	1335.82	1346.80	1345.50	1346.20
NZX 50	8473	8454	8470	8454	8404	8415
Baltic Dry Freight Index	1179	952	974	979	993	1014
NZX WMP Futures (US\$/t)	3150	3225	3225	3225	3240	3240

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