ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

21 May 2018

INSIDE

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GOOD PR

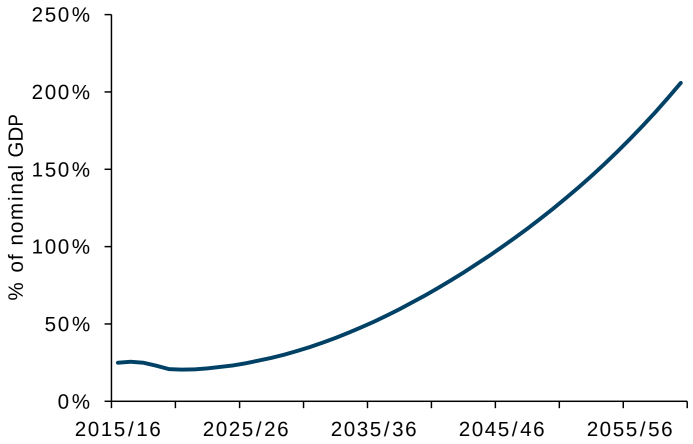
ECONOMIC OVERVIEW

In last week's pragmatic Budget, principled prudence took precedence over promises, as we expected. In the context of the economic cycle, prudence is a good thing. Increased government spending is counterproductive if it crowds out private sector activity and drives interest rates higher, or creates the need for austerity down the track. But at the current juncture, we think macroeconomic conditions could accommodate a bit more capital spending to address New Zealand's sizeable infrastructure deficit. On a longer-term basis, beyond the realm of the economic cycle, New Zealand has a looming fiscal time-bomb in the shape of a rapidly ageing population and a non means-tested superannuation system that kicks in at an unaffordably early age. While fiscal prudence today is a good start, it's not going to solve the long-term problem.

CHART OF THE WEEK

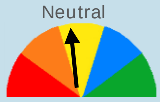
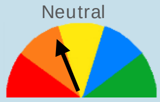
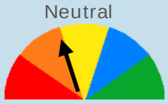
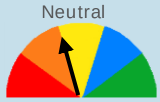
Short term prudence won't cut it long term – superannuation must be tackled.

Long-term fiscal projections: net core crown debt (net of Super Fund)



Source: The Treasury

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	4.0% for 2018 Q4	The unemployment rate should fall further gradually. Conditions are in place for wage inflation to increase.	Neutral Negative  Positive
OCR	1.75% by Dec 2018	With plenty of question marks over the outlook for inflation, we believe the RBNZ will be cautious in tightening policy.	Neutral Down  Up
CPI	1.7% y/y for 2018 Q4	With capacity constrained and wages expected to rise, we expect domestic and core inflation will lift – albeit gradually.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

In last week's pragmatic Budget, prudence took precedence over promises, as expected. In the context of the economic cycle, prudence is a good thing. Increased government spending is counterproductive if it crowds out private sector activity and drives interest rates higher, or creates the need for austerity down the track. But at the current juncture, we think macroeconomic conditions could accommodate a bit more capital spending to address New Zealand's sizeable infrastructure deficit. On a longer-term basis, beyond the realm of the economic cycle, New Zealand has a looming fiscal time-bomb in the shape of a rapidly ageing population and a non means-tested superannuation system that kicks in at an unaffordably early age. While fiscal prudence today is a good start, it's not going to solve the long-term problem.

FORTHCOMING EVENTS

Overseas Merchandise Trade – April (10:45am, Thursday 24 May). A small monthly surplus is expected but with the annual deficit widening as last year's strong April surplus drops out.

Fonterra's opening milk price for the 2018/19 season is expected this week (but may be early next week). See our latest dairy update for our expectation.

WHAT'S THE VIEW?

Last week brought the first full Budget for the new(ish) Government, which stacked up pretty close to our expectation:

- The broad theme was prudence, with strict adherence to Budget Responsibility Rules, including a projected return of net core Crown debt to 20% of GDP within five years – indeed, it's forecast to reach 19.1% in 2021/22.
- Operating surpluses are forecast to rise, with revenues and expenses both higher.
- Higher forecast tax revenues are owing to persistence in the stronger starting point, stronger nominal GDP outlook and policy tweaks.
- More spending on the opex side, with large allocations to health and education, and total new capital spending unchanged.
- And all of the above is underpinned by an optimistic set of macroeconomic forecasts.

The tweak to the NZDMO's bond issuance programme came as a bit of a surprise to us, admittedly. While the $3bn lift in NZGB issuance over the next five years is not overly large (and is offset by a $2bn reduction in short-term Treasury bill funding), this combination, together with a reasonable step-up in the monthly tender issuance run-rate (given no new bond maturity syndication announcement), will likely put some pressure on our longer-dated bonds. This comes after they have outperformed considerably over recent weeks.

But **the Budget was hardly a big spend up.** The Government has reprioritised spending here and there, and lifted opex a touch, but all within the constraints of its own debt target. Even though the Government is returning net core Crown debt to 20% of GDP a little more slowly than its predecessor, it is still a fiscally conservative Budget.

What constitutes responsible fiscal management is outlined in the Public Finance Act. One of the facets is that **the Government is required to have regard to the interaction between fiscal and monetary policy** when setting its fiscal strategy. That is certainly not to say that desirable additional public spending should be ruled out just because it is expected to lead to higher price pressures and ultimately higher interest rates; rather, the Government should consider the full macroeconomic implications of its spending and how the Reserve Bank might respond when making its decisions.

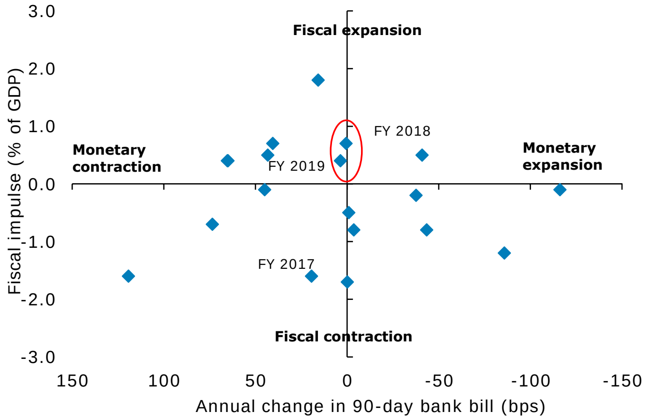
An imminent monetary policy response doesn't seem likely. For one thing, the Reserve Bank is still attempting to get inflation higher, even nine years into an economic expansion. **But more importantly, the RBNZ has built the Half-year Update (HYEFU) fiscal impulse into its projections already**, including the estimated impacts of the Kiwibuild program, Families Package, and higher government consumption – and it still says there is an equal chance of the next OCR move being up or down. Since the December HYEFU, Treasury has shifted out its expectations of the impetus to residential investment from Kiwibuild (due, we suspect, to capacity constraints in the construction sector), so we will be interested to see how the RBNZ captures this dynamic at its next forecast update. However, over the next four years, the estimated core Crown fiscal impulse is actually forecast to be a little higher overall than the Half-year Update estimates (an average of zero over four years compared with -0.3% of GDP in December).

Although the fiscal stimulus is a little larger than estimated in December (and, perhaps, what is embedded in the RBNZ's forecasts), **we very much doubt it is going to shift the RBNZ's view meaningfully.** It is just not large enough to warrant a shift, especially when there are so many other uncertainties surrounding the outlook for inflation.

ECONOMIC OVERVIEW

Figure 1 below shows that **at present, monetary policy is in a holding pattern**, with the 90-day bank bill pretty much unchanged in the year to June 2018 and on our forecasts for next year. **However, fiscal policy has moved into stimulatory territory (albeit mildly)**, in contrast to the year to June 2017 (and five consecutive years before that).

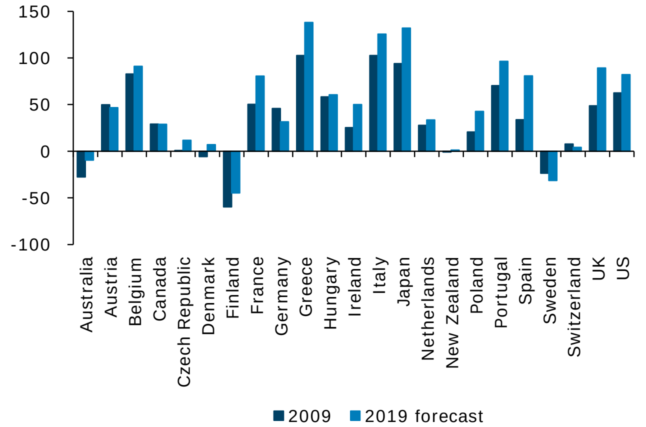
Figure 1: Monetary and fiscal expansion and contraction



Source: The Treasury, Reserve Bank, ANZ Research

This mix of stimulus has been to some extent *de rigueur* **around the world this cycle,** as **monetary policy has run out of ammunition.** Of course, in many countries fiscal policy is also running out of road. New Zealand stands out for being imperceptible on the chart below, which shows government debt ten years ago, and forecasts for next year – in most countries, meaningfully higher.

Figure 2: General government net financial liabilities, % of GDP, selected OECD countries: 2009 and 2019



Source: IMF, ANZ Research

This background provides some context for last week's Budget. **New Zealand is in an enviable fiscal position, and monetary policy is in a sweet spot where it can be accommodative** of a bit more government spending, without feeling the need to spoil the party by raising interest rates. Add in a run of upward revenue surprises, and currently historically low borrowing costs, this backdrop could have led to a good old spend-up. However, the new Government is determined to prove its fiscal responsibility credentials.

Although, as we have stated before, we think a case can be made for loosening the reins a little on capital spending, given the sizeable deficit in this area that the new Government inherited, **we nonetheless wholeheartedly agree with the demonstrated spirit of fiscal prudence**, for a few reasons.

First, **New Zealand is a small, commodity trading nation**, the kind of place from which capital departs when risk aversion rises. While bond yields are low at present (indeed, in the secondary market our 10-year bond yields are below those of both Australia and the US – figure 3), we can't count on that remaining the case indefinitely. The wobbles being experienced by emerging markets of late are perhaps a reminder that global risk appetite can change, and foreigners do hold a sizeable proportion of New Zealand's sovereign debt. New Zealand is not an emerging market economy, of course, but it is a small, price-taking commodity exporter.

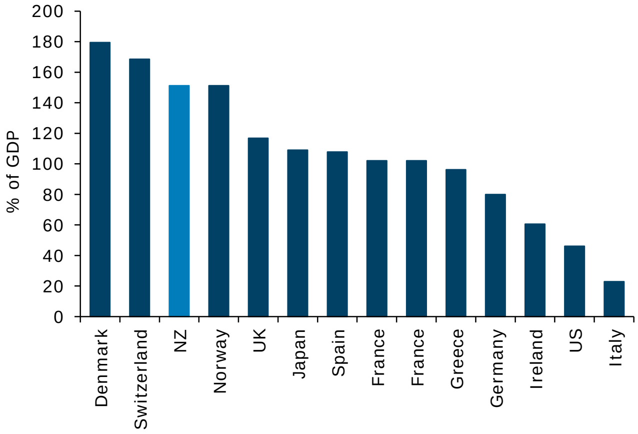
Figure 3: 10-year bond yields: NZ, Australia, US

Source: Bloomberg, ANZ Research

Second, **economy-wide debt in New Zealand is *not* unusually low in a global comparison.** Households, in particular, have gone on something of a debt binge in order to finance buying ever more expensive houses. Indeed **household debt is at a record high as a multiple of household incomes.** In this context, an offsetting prudent government sector will help keep ratings agencies happy. "Debt schmebt" seems to be the mantra for global investors at present, but that may change.

ECONOMIC OVERVIEW

Figure 4: Private sector debt, selected OECD countries

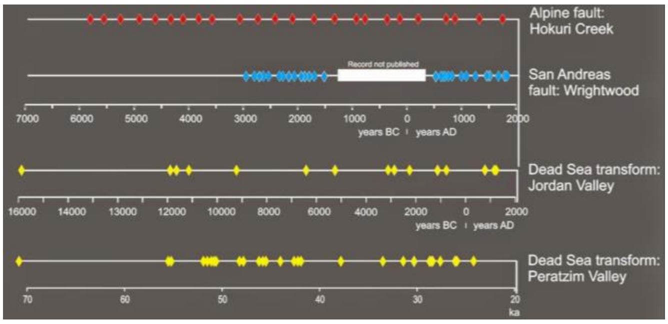


Source: Haver Analytics

Third, a decent global economic shock (which some would argue we are overdue for) would obviously have implications on New Zealand's growth performance. The year-long recession following the Global Financial Crisis is a case in point. And while the Government's revenue is pro-cyclical and tied to the performance of the economy, Government expenditure is far less so. In fact, there are some components of spending, such as unemployment benefits, that would naturally increase if the economy cooled. Spending is therefore far stickier, and so any hit to growth would naturally have an immediate impact on the Government's fiscal position. **Retaining a 'rainy day' coffer for such an eventuality is quite sensible.**

And we should include literally rainy days. Global warming means the infrastructure bill from extreme weather events is likely to rise. And then there's 'shaky days'. With the most common recurrence period for the Alpine Fault being 300 years (and a remarkably reliable sequence of quakes over 8000 years, figure 5), we are now officially on borrowed time, with the last major rupture having occurred in 1717. The maximum recorded gap is 510 years; the shortest 140. Unfortunately each year the quake doesn't occur is not a bullet dodged: pressure continues to inexorably build, and the longer between quakes, the larger the eventual rupture.

Figure 5: Mr Reliable – estimated historical quakes: Alpine Fault vs. three other major transform faults

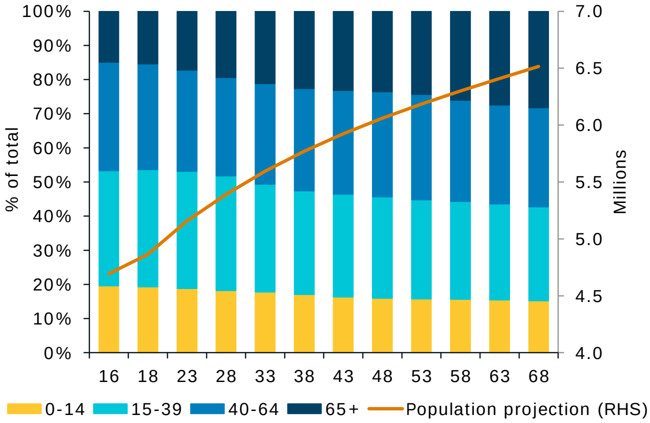


Source: Julian's Rock and Ice Blog, GNS Science

But fourth, as well as the possibility of unpredictable shocks, there is an entirely predictable slow-motion fiscal train wreck looming that politicians of all stripes are knowingly averting their eyes from. **New Zealand has a looming fiscal time-bomb in the shape of a rapidly ageing population and a generous, non means-tested superannuation system.** Under current incomes, tax rates, superannuation rates, retirement age and life expectancy projections, a median individual will receive about 40% more in superannuation than they will pay in income tax during their working life.

That is clearly not going to work, even if we weren't sitting in an economy where the percentage of the population of retirement age is going to keep increasing for many years yet (figure 6).

Figure 6: Statistics NZ age population projections

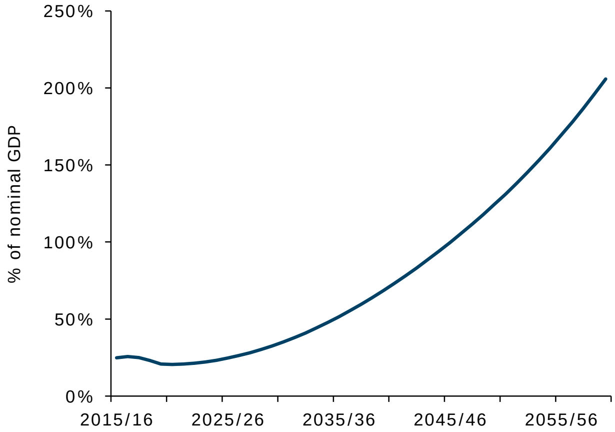


Source: Statistics NZ

As figure 7 shows, the implications for the long-term fiscal position are not pretty. This is the Treasury's own projections, based on carrying forward current policies. **This isn't a question of economic theory. It's a question of maths.** The slower we go, the bigger the mess: the longer reform is put off, the more abrupt the required adjustment becomes. Saving a little more in the Budget now is not going to solve the problem, admittedly, but profligacy would certainly bring the inevitable day of reckoning closer.

ECONOMIC OVERVIEW

Figure 7: Long-term fiscal projections: net core crown debt (net of Super Fund)



Source: The Treasury, ANZ

The Super Fund is not a panacea. The Fund has assets of around $37.8bn, and the return performance has been phenomenal at over 10% per year since its inception. However, total superannuation costs were estimated at over $13bn in 2016/17, and are forecast to rise to over $17bn by 2021/22. Even if this fund performance continued (which is highly questionable), the pool of assets would hardly make a dent in the long-term costs.

What about KiwiSaver? In June 2017, $40.8bn was invested in KiwiSaver, with 2.7m members (although a large proportion of those were non-contributing members). But that implies an average KiwiSaver balance of just $15k (there will be large skew to this admittedly). A median income earner putting 3% into KiwiSaver throughout their working life (and not saving elsewhere) will not have a comfortable retirement, even assuming superannuation payments remain at current levels, which as the chart above shows, they simply can't.

And this isn't all new saving either. **Debate continues to run on whether KiwiSaver is increasing total saving across the economy or merely diverting it** via the various incentives in place. The household saving rate is certainly pretty disappointing at present (the latest official statistics put it at -3% of disposable income). To be fair, the total national saving rate has been better, rising to 8.8% of GDP in the year to March 2017, which is a 13-year high. However, we'd still argue there is room for improvement.

Turning back to last week's Budget, for all it has stressed the unpleasant surprises it has discovered since taking power, the Government has found itself in an easier position than many international peers, and its first Budget reflects that. The economy is going well, revenue has been higher than expected, the starting point for debt is low, and the Reserve Bank is in an indulgent mood.

The Budget was prudent but not austere. So what did they spend the money on?

- **Health:** $4bn, including $2.3bn for DHBs, $750m for urgent hospital building, free doctor visits for under 14s. An infinite amount could be spent on health. NZ will be increasingly running to stand still in this area.
- **Education:** $1.9bn, including $395m for new schools and classrooms, $370m for 1500 more teachers, and $590m for early childhood services. An excellent start to the necessary catch-up, but it is unclear where the new teachers will come from.
- **Housing:** $1bn for public/affordable housing (on top of Kiwibuild), including 6400 more state houses. Throwing money at the problem is not going to solve the affordable housing crisis on its own. Tax changes need to a bigger part of the solution, but it's complicated.
- **Justice:** Waikeria prison on hold, replaced by 600 "rapid build modular units". 1800 new police officers. A bit self-defeating in one sense, in that more police officers will result in more convictions, all else equal.
- **Immigration:** more money for labour inspectors and screening staff. Absolutely necessary.
- **Biosecurity:** peanuts in light of the Mycoplasma bovis outbreak. The costs are ballooning.
- **Environment:** $100m green investment fund to encourage private sector investment in low emissions. Like housing, it's not about the money allocated in the Budget. In this case, it's about changes in legislation.

As we have outlined, **we would prefer to see a bit more investment in growth-enhancing infrastructure in addition to the $42bn already announced. But prudence as a broad concept is well justified.** We are nearly a decade into the economic cycle, and saving during the good times is what any financial adviser would recommend. The economy will continue to have downs as well as ups, and fiscal policy can help smooth them, if it has the firepower. And longer term, New Zealand's fiscal books face severe challenges that cannot be solved by a little scrimping here and there. The unsustainable superannuation scheme has to be tackled, and the sooner the better. But for now, a prudent Budget is a good start.

ECONOMIC OVERVIEW

THE WEEK AHEAD

The main event on the data front this week is Overseas Merchandise Trade for April (out Thursday).

Exports should remain buoyed by solid prices. The ANZ Commodity Price Index continued its trend higher in April with broad-based support remaining. While livestock product exports are expected to remain tighter in April due to lingering effects of the early-mid-summer dry snap, decent volumes of all other products, especially forestry, pip fruit and kiwifruit should provide an offset. An earlier and larger harvest for New Zealand's main horticultural crops should start to show through more strongly in April.

The import side should remain business as usual. It's a little early to tell whether or not the dip in consumer confidence will weigh on consumption imports. This effect is likely to be delayed in April, but could pick-up in May as lower confidence and NZD weigh on retail activity causing some caution among importers (who may look to run down inventories). Rising oil prices are likely to play an offsetting effect in April too and there could still be a little more catch-up in vehicle imports from the fall in February.

All up we expect a small monthly surplus of $100m, which will see the annual deficit widen to $3.3bn as the strong April 2017 surplus drops out.

LOCAL DATA

GlobalDairyTrade. Dairy prices were pretty steady, with whole milk powder, which makes up about half of annual sales, up 0.2% to USD3226/t; skim milk powder up 3% and butter up 2.4%. The overall price index lifted 1.9% with an average price of USD3,637/t.

Budget 2018. The Government's first budget contained few surprises, with prudence being the key theme. See our Budget 2018 review.

Net Migration – April. Net migrant inflows slowed to 4,930 (sa) from 5,380 in March.

Retail Trade Survey – Q1. Total retail sales volumes rose a meagre 0.1% q/q, following a (downwardly revised) 1.4% q/q lift in Q4.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-May	NZ	Credit Card Spending MoM - Apr	--	1.0%	15:00
	NZ	Credit Card Spending YoY - Apr	--	7.2%	15:00
22-May	US	Chicago Fed Nat Activity Index - Apr	0.48	0.10	00:30
	AU	ANZ-RM Consumer Confidence Index - 20-May	--	120.8	11:30
	UK	Public Finances (PSNCR) - Apr	--	£0.5B	20:30
	UK	Central Government NCR - Apr	--	£19.9B	20:30
	UK	Public Sector Net Borrowing - Apr	£7.1B	-£0.3B	20:30
	UK	PSNB ex Banking Groups - Apr	£8.5B	£1.3B	20:30
	UK	CBI Trends Total Orders - May	2	4	22:00
	UK	CBI Trends Selling Prices - May	18	18	22:00
23-May	US	Richmond Fed Manufact. Index - May	8	-3	02:00
	JN	Nikkei PMI Mfg - May P	--	53.8	12:30
	AU	Westpac Leading Index MoM - Apr	--	-0.22%	12:30
	AU	Skilled Vacancies MoM - Apr	--	0.9%	13:00
	AU	Construction Work Done - Q1	1.3%	-19.4%	13:30
	GE	Markit/BME Manufacturing PMI - May P	57.9	58.1	19:30
	GE	Markit Services PMI - May P	53.1	53.0	19:30
	GE	Markit/BME Composite PMI - May P	54.6	54.6	19:30
	EC	Markit Manufacturing PMI - May P	56.0	56.2	20:00
	EC	Markit Services PMI - May P	54.7	54.7	20:00
	EC	Markit Composite PMI - May P	55.1	55.1	20:00
	UK	CPI MoM - Apr	0.5%	0.1%	20:30
	UK	CPI YoY - Apr	2.5%	2.5%	20:30
	UK	CPI Core YoY - Apr	2.2%	2.3%	20:30
	UK	Retail Price Index - Apr	279.8	278.3	20:30
	UK	RPI MoM - Apr	0.5%	0.1%	20:30
	UK	RPI YoY - Apr	3.4%	3.3%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Apr	3.3%	3.4%	20:30
	UK	PPI Input NSA MoM - Apr	1.0%	-0.1%	20:30
	UK	PPI Input NSA YoY - Apr	5.8%	4.2%	20:30
	UK	PPI Output NSA MoM - Apr	0.3%	0.2%	20:30
	UK	PPI Output NSA YoY - Apr	2.3%	2.4%	20:30
	UK	PPI Output Core NSA MoM - Apr	0.3%	0.1%	20:30
	UK	PPI Output Core NSA YoY - Apr	2.1%	2.2%	20:30
	UK	House Price Index YoY - Mar	4.4%	4.4%	20:30
	UK	CBI Retailing Reported Sales - May	--	-2	22:00
	UK	CBI Total Dist. Reported Sales - May	--	6	22:00
	US	MBA Mortgage Applications - 18-May	--	-2.7%	23:00
24-May	US	Markit Manufacturing PMI - May P	56.5	56.5	01:45
	US	Markit Services PMI - May P	54.8	54.6	01:45
	US	Markit Composite PMI - May P	--	54.9	01:45
	US	New Home Sales - Apr	679k	694k	02:00
	US	New Home Sales MoM - Apr	-2.2%	4.0%	02:00
	EC	Consumer Confidence - May A	0.5	0.4	02:00
	US	FOMC Meeting Minutes - 2-May	--	--	06:00
	NZ	Trade Balance NZD - Apr	198M	-86M	10:45
	NZ	Exports NZD - Apr	4.85B	4.85B	10:45
	NZ	Imports NZD - Apr	4.65B	4.94B	10:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-May	NZ	Trade Balance 12 Mth YTD NZD - Apr	-3770M	-3421M	10:45
	GE	Exports QoQ - Q1	-0.5%	2.7%	18:00
	GE	Imports QoQ - Q1	-0.5%	2.0%	18:00
	GE	GDP SA QoQ - Q1 F	0.3%	0.3%	18:00
	GE	GDP WDA YoY - Q1 F	2.3%	2.3%	18:00
	GE	GDP NSA YoY - Q1 F	1.6%	1.6%	18:00
	GE	GfK Consumer Confidence - Jun	10.8	10.8	18:00
	UK	Retail Sales Ex Auto Fuel MoM - Apr	0.4%	-0.5%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Apr	0.4%	1.1%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Apr	0.8%	-1.2%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Apr	0.2%	1.1%	20:30
25-May	US	Initial Jobless Claims - 19-May	220k	222k	00:30
	US	Continuing Claims - 12-May	1750k	1707k	00:30
	US	House Price Purchase Index QoQ - Q1	0.7%	1.6%	01:00
	US	FHFA House Price Index MoM - Mar	--	0.6%	01:00
	US	Existing Home Sales - Apr	5.55M	5.60M	02:00
	US	Existing Home Sales MoM - Apr	-0.9%	1.1%	02:00
	US	Kansas City Fed Manf. Activity - May	20.0	26.0	03:00
	JN	Tokyo CPI YoY - May	0.5%	0.5%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - May	0.6%	0.6%	11:30
	JN	Tokyo CPI Ex-Fresh Food, Energy YoY - May	0.3%	0.3%	11:30
	GE	IFO Business Climate - May	102.0	102.1	20:00
	GE	IFO Expectations - May	98.5	98.7	20:00
	GE	IFO Current Assessment - May	105.5	105.7	20:00
	UK	UK Finance Loans for Housing - Apr	--	37567	20:30
	UK	Index of Services MoM - Mar	0.1%	-0.2%	20:30
	UK	Index of Services 3M/3M - Mar	0.3%	0.4%	20:30
	UK	GDP QoQ - Q1 P	0.1%	0.1%	20:30
	UK	GDP YoY - Q1 P	1.2%	1.2%	20:30
	UK	Exports QoQ - Q1 P	0.5%	-0.9%	20:30
	UK	Imports QoQ - Q1 P	0.1%	0.4%	20:30
	UK	Total Business Investment QoQ - Q1 P	--	0.3%	20:30
	UK	Total Business Investment YoY - Q1 P	--	2.6%	20:30
26-May	US	Durable Goods Orders - Apr P	-1.4%	2.6%	00:30
	US	Durables Ex Transportation - Apr P	0.5%	0.1%	00:30
	US	Cap Goods Orders Nondef Ex Air - Apr P	0.6%	-0.4%	00:30
	US	Cap Goods Ship Nondef Ex Air - Apr P	0.4%	-0.8%	00:30
	US	U. of Mich. Sentiment - May F	98.8	98.8	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
Thu 24 May (10:45am)	Overseas Merchandise Trade – April	Steady	Export earnings are expected to remain steady with durable, broad-based strength.
Wed 30 May (9:00am)	Building Consents – March	Plateau	We are in an environment where issuance will struggle to push higher.
Wed 30 May (10:45am)	RBNZ Financial Stability Report	Not yet	With the housing market stable, we think the RBNZ will be looking to ease LVR restrictions – but not quite yet.
Thu 31 May (1:00 pm)	ANZ Business Outlook– May	--	--
Fri 1 Jun (10:00 am)	ANZ Consumer Confidence – May	--	--
Fri 1 Jun (10:45 am)	Terms of Trade – Q1	High	The terms of trade remains at lofty heights.
Wed 6 Jun (early am)	GlobalDairyTrade auction	Steady	We expect prices to hold up at a reasonable level.
Wed 6 Jun (10:00 am)	ANZ Job Ads - May	--	--
Wed 6 Jun (10:45 am)	Building Work Put in Place – Q1	A little	Building activity is at a high level, but we expect it softened a little in the first quarter of the year.
Wed 6 Jun (1:00 pm)	ANZ Commodity Prices - May	--	--
11-14 June	REINZ Housing Market Statistics – May	Holding pattern	With a number of opposing forces operating on the market, we expect continued stability, for now at least.
Mon 11 June (10:45am)	Economic Survey of Manufacturing – Q1	Solid	Underlying activity expected to remain solid, in line with recent indicators, though these figures can be thrown around.
Tue 12 June (10:00am)	ANZ Truckometer	--	--
Tue 12 June (10:45am)	Electronic Card Transactions - May	Questions	With questions over last month’s weak print, we’ll get a sense of the signal in the data, with some bounce back expected.
Tue 12 June (1:00pm)	ANZ Monthly Inflation Gauge	--	--
Wed 13 June (10:45am)	Food Prices - May	Stronger side	Food prices in May are generally on the stronger side. We’re expecting a solid increase, after a weak print in April.
Fri 15 June (10:30am)	BNZ-BusinessNZ PMI - May	Tested	Last month’s stellar result may be tested, but robust levels to nonetheless be maintained.
Mon 18 June (10:30am)	BNZ-BusinessNZ PSI - May	Robust	Robust services sector activity likely to be maintained, after a strong run.
Wed 20 Jun (early am)	GlobalDairyTrade auction	Steady	We expect prices to hold up at a reasonable level.
Wed 20 Jun (10:45am)	Balance of Payments – Q1	Solid	The annual current account deficit is likely to narrow reflecting solid export earnings.
Thu 21 Jun (10:45am)	GDP – Q1	Stable	Our expectation is for similar growth momentum from late-2017 to persist into early-2018, with another 0.6% q/q print.
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**	**0.7**	**0.5**	**0.6**	**0.3**	**0.7**
CPI (% yoy)	1.6	1.1	**1.4**	**1.6**	**1.7**	**1.9**	**2.1**	**2.1**	**2.1**	**2.1**
Employment (% qoq)	0.4	0.6	**0.6**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	3.7	3.1	**3.8**	**2.1**	**2.2**	**2.1**	**1.9**	**1.7**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.5	4.4	**4.1**	**4.0**	**3.9**	**4.0**	**3.9**	**3.9**	**3.8**	**4.0**
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**

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Retail ECT (% mom)	-0.5	0.0	0.4	0.5	1.2	0.5	1.4	-0.6	1.5	-2.2
Retail ECT (% yoy)	2.0	4.4	2.9	1.3	4.3	3.3	3.4	3.3	6.0	0.8
Credit Card Billings (% mom)	0.7	-0.6	0.8	1.0	0.9	0.6	-0.6	0.7	1.0	--
Credit Card Billings (% yoy)	7.1	6.5	5.0	3.0	9.1	6.3	4.6	7.0	7.2	--
Car Registrations (% mom)	-4.8	9.5	-1.1	1.7	0.8	-4.7	3.3	-9.4	-3.6	-0.6
Car Registrations (% yoy)	6.2	13.5	15.6	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0
Building Consents (% mom)	3.8	5.8	-1.8	-9.4	9.6	-9.1	0.2	6.5	14.7	--
Building Consents (% yoy)	-1.9	12.9	7.6	-7.2	13.1	4.3	4.2	-0.6	18.1	--
REINZ House Price Index (% yoy)	3.3	2.8	3.8	3.4	3.6	3.7	3.5	4.0	4.1	3.8
Household Lending Growth (% mom)	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	7.1	6.7	6.5	6.3	6.2	5.9	5.8	5.7	5.7	--
ANZ Roy Morgan Consumer Conf.	125.4	126.2	129.9	126.3	123.7	121.8	126.9	127.7	128.0	120.5
ANZ Business Confidence	19.4	18.3	0.0	-10.6	-39.3	-37.8	..	-19.0	-20.0	-23.4
ANZ Own Activity Outlook	40.3	38.2	29.6	22.0	6.5	15.6	..	20.4	21.8	17.8
Trade Balance ($m)	92	-1174	-1165	-840	-1222	614	-664	172	-86	--
Trade Bal ($m ann)	53742	53982	54085	54759	55999	56476	57251	57456	58068	--
ANZ World Comm. Price Index (% mom)	-0.8	-0.8	0.8	-0.3	-0.9	-1.9	0.7	2.8	1.2	1.0
ANZ World Comm. Price Index (% yoy)	21.1	16.3	11.5	10.4	6.0	3.2	4.1	5.0	5.8	7.1
Net Migration (sa)	5750	5480	5280	5660	5680	5710	6240	4930	5480	4930
Net Migration (ann)	72402	72072	70986	70694	70354	70016	70147	68943	67984	67038
ANZ Heavy Traffic Index (% mom)	-6.0	6.5	-1.5	2.9	1.1	-4.2	4.1	-2.5	-0.3	1.4
ANZ Light Traffic Index (% mom)	-2.2	2.7	-0.1	-0.6	1.5	-1.7	-0.5	-0.2	2.2	-0.5

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Mar-18	Apr-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
NZD/USD	0.724	0.705	0.69	0.70	0.69	0.67	0.66	0.65	0.65	0.65
NZD/AUD	0.942	0.934	0.92	0.92	0.93	0.93	0.94	0.93	0.93	0.93
NZD/EUR	0.587	0.583	0.59	0.56	0.54	0.52	0.51	0.50	0.50	0.50
NZD/JPY	76.91	77.05	76.65	74.2	71.8	69.0	66.0	64.4	63.1	62.4
NZD/GBP	0.516	0.514	0.51	0.50	0.49	0.47	0.46	0.45	0.45	0.45
NZ$ TWI	73.3	72.5	72.8	70.8	69.6	67.8	66.5	65.4	65.2	65.1
INTEREST RATES	Mar-18	Apr-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	1.96	2.02	1.98	2.01	2.01	2.00	1.99	2.07	2.32	2.48
NZ 10-yr bond	2.72	2.84	2.84	3.05	3.30	3.40	3.35	3.60	3.65	3.65
US Fed funds	1.75	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.50	2.50
US 3-mth	2.31	2.36	2.33	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	2.03	2.04	1.94	1.90	1.80	1.80	1.80	2.05	2.30	2.30

	18 Apr	14 May	15 May	16 May	17 May	18 May
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.04	2.03	2.01	2.01	2.00	2.00
NZGB 05/21	2.10	1.99	2.00	2.04	2.04	2.03
NZGB 04/23	2.38	2.27	2.29	2.34	2.36	2.37
NZGB 04/27	2.82	2.71	2.74	2.80	2.83	2.86
NZGB 04/33	3.20	3.07	3.09	3.16	3.20	3.24
2 year swap	2.31	2.20	2.20	2.22	2.24	2.23
5 year swap	2.73	2.66	2.67	2.71	2.74	2.74
RBNZ TWI	75.37	72.88	72.42	72.30	72.61	72.45
NZD/USD	0.7316	0.6950	0.6909	0.6887	0.6888	0.6907
NZD/AUD	0.9432	0.9203	0.9200	0.9192	0.9155	0.9212
NZD/JPY	78.45	76.10	75.93	75.82	76.17	76.53
NZD/GBP	0.5149	0.5114	0.5103	0.5111	0.5104	0.5137
NZD/EUR	0.5913	0.5800	0.5797	0.5840	0.5841	0.5876
AUD/USD	0.7757	0.7552	0.7510	0.7492	0.7523	0.7511
EUR/USD	1.2373	1.1982	1.1918	1.1791	1.1793	1.1772
USD/JPY	107.23	109.50	109.91	110.10	110.58	110.78
GBP/USD	1.4209	1.3590	1.3539	1.3473	1.3496	1.3469
Oil (US$/bbl)	68.47	70.96	71.31	71.49	71.49	71.28
Gold (US$/oz)	1349.24	1319.80	1309.16	1291.45	1287.70	1293.04
NZX 50	8369	8713	8709	8556	8603	8657
Baltic Dry Freight Index	1124	1476	1468	1403	1305	1273
NZX WMP Futures (US$/t)	3265	3210	3210	3240	3205	3210

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