NEW ZEALAND MARKET FOCUS

23 April 2018

INSIDE

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COSTS AND BENEFITS

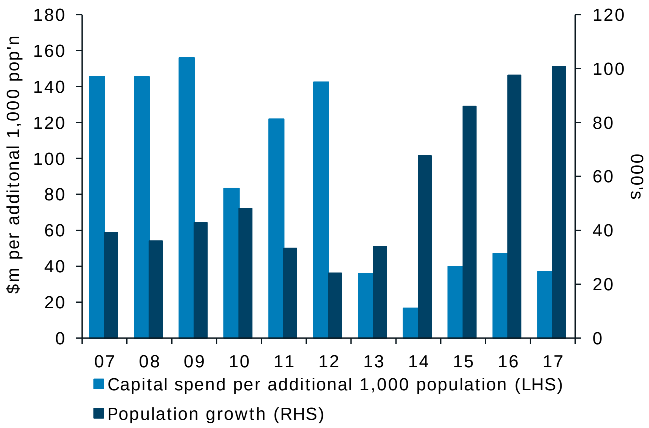
ECONOMIC OVERVIEW

Since taking office, the Government has reiterated its commitment to its fiscal responsibility targets. It has also promised to invest in correcting the so-called "infrastructure deficit". Weighing these objectives is a difficult balance. We think an argument can be made for increasing near-term debt targets for the purpose of growth-enhancing infrastructure spending. The Government books are in a good position and years of strong population growth but constrained Crown capital spending have put significant pressure on infrastructure. In our view, simple, transparent debt financing would be optimal. A long, relatively smooth forward-looking pipeline of appropriately prioritised infrastructure spending, with the option to ramp up if economic activity were to soften, should be the goal. The sector is resource-constrained, but given the long lead time of infrastructure projects, it does not seem an inopportune time to get planning underway.

CHART OF THE WEEK

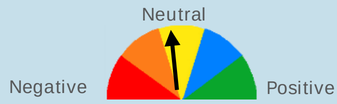
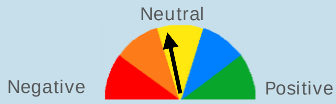
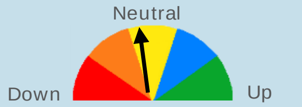
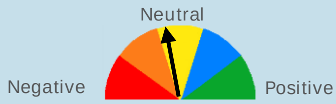
As a result of under-investment in recent years, infrastructure spending is required on a number of fronts.

Figure 1: Net core Crown capital spend per additional 1,000 population (fiscal years)



Source: The Treasury, ANZ Research

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.	
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.	
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.	
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.	

ECONOMIC OVERVIEW

SUMMARY

Since taking office, the Coalition Government has reiterated its commitment to its fiscal responsibility targets. It has also promised to invest in correcting the so-called "infrastructure deficit". Weighing these objectives is a difficult balance. We think an argument can be made for increasing near-term debt targets for the purpose of growth-enhancing infrastructure spending. The Government books are in a good position and years of strong population growth but constrained Crown capital spending have put significant pressure on infrastructure. In our view, simple, transparent debt financing would be optimal. A long, relatively smooth forward-looking pipeline of appropriately prioritised infrastructure spending, with the option to ramp up if economic activity were to soften, should be the goal. The sector is resource-constrained, but given the long lead time of infrastructure projects, it does not seem an inopportune time to get planning underway.

FORTHCOMING EVENTS

Net Migration – March (10:45am, Tuesday 24 April). We think we are past the peak but don't see migration falling quickly. Gradual decline is expected from here.

ANZ-Roy Morgan Consumer Confidence – April (10:00am, Friday 27 April).

Overseas Merchandise Trade – March (10:45am, Friday 27 April). Some bounce-back in imports can be expected. Export earnings are expected to remain steady with durable, broad-based strength.

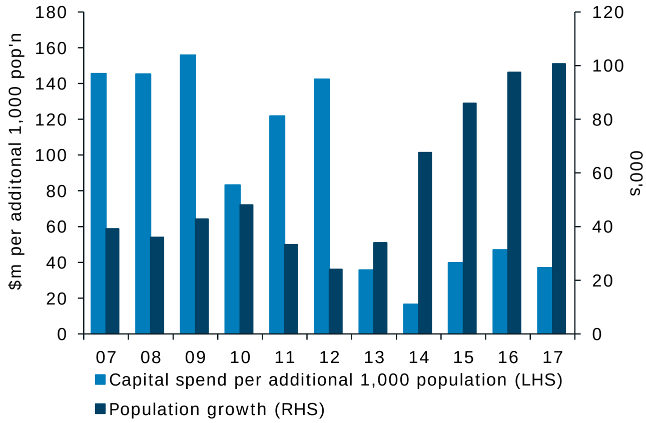
WHAT'S THE VIEW?

Since taking office, the Coalition Government has reiterated its commitment to fiscal responsibility targets, aiming to reduce net core Crown debt to 20% of GDP within five years (currently 22%).

It has also promised to invest in correcting the "infrastructure deficit" that has arisen as a result of years of strong population growth and previous under-investment. In the latest Budget Policy Statement, the Government said it is "facing significant pressure for infrastructure investment following under-investment in core public services in previous years. This is affecting our hospitals, housing, schools and transport system".

Over the past ten years, New Zealand's population has grown by 14% – some 570,000 extra people. Half of that growth has occurred in the past three years, with 100,000 more people per year. About half of the population increase is estimated to have been in Auckland. Providing some offset from the Government's perspective, population growth has also increased the tax base. However, despite the increase in population growth, infrastructure spending (public and private combined) was flat in nominal terms over 2015-2017.[1] And figure 1 below shows that new core Crown capital spending has not kept pace with population growth. New capital spending for each 1,000 additional people has fallen from $142m in fiscal year 2011/12 to $37m in 2016/17.

Figure 1: Net core Crown capital spend per additional 1,000 people and population growth (fiscal years)



Source: The Treasury, ANZ Research

As a result of this under-investment in recent years, infrastructure spending needs to be urgently undertaken on a range of fronts. It is widely acknowledged that we need more houses. But that's only part of the picture. Strong population growth also increases the demands on health, education, transport, and utilities infrastructure. Roughly speaking, every 1,000 houses equates to 2,600 people who need access to hospitals and transport links, and almost 450 school-age children who need to attend primary and secondary schools.[2] Recent briefings to incoming ministers highlight the current extent of infrastructure demand:

- **Housing:** A national shortage of 45,000 homes is estimated, given population growth. The most important factor for improving outcomes is increased supply, but "infrastructure provision, particularly transport and three waters, is a necessary prerequisite for the construction of housing".
- **Transport:** The total distance travelled on our roads has increased 8% over ten years. Boardings on public transport have increased 35%. Auckland has a "transport funding gap".
- **Education:** Comprises the second-largest Government property portfolio valued at $17.2 billion. "Over 91.5% of our… spend is demand

[1] MBIE National Construction Pipeline Report 2017.
[2] In December 2017, there were 2.6 people per house in New Zealand, with 17% of the population school-age.

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driven, predominantly impacted by population growth". And the existing stock of schools is claimed to be in deteriorating condition.

- **Health:** Population growth, along with increasing life expectancy and an ageing population, is also increasing demand for health infrastructure. "We need to invest in hospital developments (driven by the need to replace old assets alongside population growth and movements)."

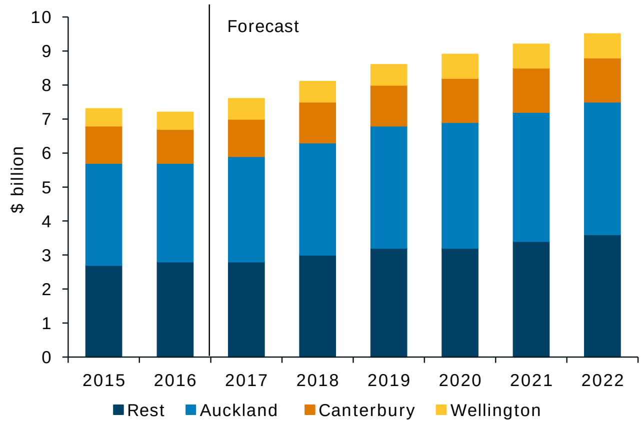
Infrastructure investment, done well, pays for itself through stronger future productivity and GDP growth. It boosts GDP immediately, of course, through the construction effort, but so too would building statues of economists. Much more importantly, the basics – keeping the population housed, healthy, schooled, cyber-connected and efficiently moving – provide the platform upon which high-performing economies are built.

Accordingly, IMF work finds that **infrastructure spending is more effective than other fiscal spending in terms of delivering GDP growth dividends.**[3] Investment in infrastructure boosts the capital stock and thus increases the productive potential of the economy directly. And over and above that, it can have productivity and connectivity benefits. Enabling workers to commute efficiently to where they can be most productive (from a dwelling in which they can afford to live) is an obvious win for productivity, as is fast, reliable broadband, even if Netflix has been a major beneficiary. Investment infrastructure can also be associated with a "crowding-in" of private sector investment, such as through partnered work, or increased business confidence.

Because infrastructure is long lasting and benefits future taxpayers, increasing debt to fund infrastructure spending makes sense – subject to some conditions:

1. **Not all infrastructure projects are created equal.** Pragmatism needs to be the order of the day. What will get the job done to an acceptable standard at the least cost? In an ideal world, infrastructure projects would be measured against the yardstick of hard-nosed economic costs and benefits, not political ones. In the real world, the most robust infrastructure investment decisions tend to be made at arm's length from politicians, whatever their colours. With voters so impassioned about transport in particular, it's sensible to acknowledge that conflicting incentives will always exist and need to be appropriately managed. New Zealand led the world in this regard with the partial devolution of decision-making to the NZ Transport Agency. Politicians should determine the prioritisation of outcomes, but experts, broadly speaking, the means by which these outcomes are achieved.
2. **To smooth the load and share the benefits fairly, regional dispersion makes sense.** While Auckland has had the greatest population growth, new infrastructure is sorely needed in much of the rest of the country too. Evidence for agglomeration benefits is hard to find, but the strains resulting from rapid Auckland growth are clearly evident. It therefore makes sense for the hurdle for investment outside Auckland to be lower, in order to meet the needs of the regions and keep them attractive places to live.

Figure 2: Forecast infrastructure spending by region (public and private)



Source: MBIE, ANZ Research

3. **Given capacity pressures, phasing is important.** Resources are limited. Projects need phasing so they don't end up competing with each other and crowding out private sector activity – either directly, through construction cost inflation, or indirectly, via broader inflation pressures, resulting in higher interest rates. Similarly, activity needs to be smoothed and planned well in advance, so that businesses who tender for the work have the necessary continuity to maintain capacity.
4. **Sustainability of the fiscal position is crucial.** Fiscal responsibility is important to keep financing costs contained, to ensure money is not wasted, and to boost the coffers for a rainy day. New Zealand's current fiscal position is world class, with net debt of just 4% of GDP once the Super Fund is taken into account. Of course, like many countries, we have a largely ignored long-term fiscal sustainability problem associated with our ageing population, but borrowing for infrastructure spending is very different from tax cuts or social

[3] IMF (2014), 'Is it time for an infrastructure push? The macroeconomic effects of public investment', IMF World Economic Outlook, Chapter 2, October 2014.

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spending that encourage current consumption. It is an investment in future economic growth, of which we'll need plenty to address the aforementioned long-term fiscal issues. To be sure, rating agencies would not look favourably on a spending blow-out, but we do think there is room to move.

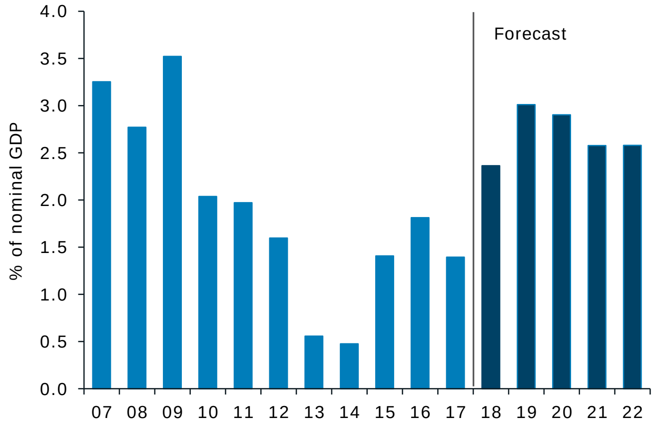
5. **Incentives need to be aligned via a fair sharing of the costs and benefits of the spending.** It is important that those providing infrastructure – be it central government, councils or the private sector – face the right incentives to provide sufficient, quality infrastructure. At present, for example, local government struggles to capture the value of housing infrastructure provision, which instead tends to accrue to land bankers through rising land values. As a workaround, the Housing Infrastructure Fund provides councils with cash for this purpose. But rising costs are still threatening the viability of fast-tracking development in Auckland's north-west. Given construction costs and land prices tend to move together with the broader housing cycle, a solution whereby the council directly gets a share of the value uplift would be preferable. In another case of misaligned incentives, provision of drinking water is assigned to local government, but the political incentives for perennially cash-strapped councils favour provision of more visible, "glamorous" infrastructure – until something goes horribly wrong.

So what does all that mean right now? Given the urgent need, **we think that more infrastructure investment should be undertaken and funded from the central Government balance sheet.** We are not alone in this view. In a recent interview, RBNZ Governor Adrian Orr said he is a "big believer" that New Zealand is under-invested in infrastructure. Likewise, the IMF's recent Article IV assessment stated: "the strong fiscal position provides space to accommodate the needs from strong economic and population growth".

The Government does have a sizeable pipeline of infrastructure spending budgeted currently. In the Half Year Economic and Fiscal Update (HYEFU), core Crown capital spending of $42bn was forecast to 2021/22, with $2bn devoted to the KiwiBuild program.

But now the Government says that it has subsequently identified a number of areas where significant investment is required to maintain current infrastructure. They have signalled that an additional $10bn in infrastructure spending will need to be directed to health, with hospital buildings reportedly needing urgent repair. Schools, too, have significant deferred maintenance requirements. Maintaining infrastructure won't necessarily add to the productive potential of the economy in the same way as new capital would, but is essential to maintain productive potential.

Figure 3: HYEFU forecasts: net core Crown capital spend (% of nominal GDP)



Source: The Treasury, ANZ Research

We await details in the May Budget, but it appears the new Government has had to adjust its pre-election plans in light of these unexpected costs to remain within its self-imposed debt constraints. As well as reducing spending elsewhere, a degree of rationing of infrastructure spending will be required. The Government has already signalled that it plans to shift spending from major motorway projects to regional roads and light rail to Auckland airport.

We don't think strict rationing of infrastructure spending is necessary at this point in time. There is nothing sacrosanct about the essentially arbitrary round-figure target for Crown debt of 20% of GDP in five years. **The Government's books are in great shape** and it can borrow on favourable terms. Interest rates are very low and the Reserve Bank is still trying to get inflation up, rather than down, meaning a bit more activity and inflation pressure in the economy will be smiled upon for a while yet. Capacity pressures in the economy are elevated, to be sure – particularly in residential construction. But firms that are involved in infrastructure provision do not compete with those in the residential space as much as one might think. **We think there is an economic argument for increasing infrastructure spending with a long, paced pipeline of projects.**

Can the Government have its cake and eat it too, boosting infrastructure spending without breaching its self-imposed debt limits? Increasing revenue by increasing taxes was ruled out for this term, and the new Government has probably already bent that promise as far as it can with the planned introduction of an Auckland fuel excise on 1 September. It is fair enough that the region benefiting from the investment should be asked to contribute

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more to its funding. But poorer households who spend a greater proportion of their income on fuel will be hit hardest. Revenue increases can't be pushed too far and debt must play a part.

Accordingly, the Government is considering alternative funding mechanisms such as infrastructure bonds and public private partnerships (PPPs) in some areas such as transport. However, developing special-purpose funding vehicles and negotiating with ratings agencies about what they truly represent will bring about delays to projects. In addition, funding costs may end up higher than they need to be.

In particular, when it comes to PPPs, they can be very successful but there are also many examples of high-profile failures globally, particularly for very large projects. PPPs need to be very carefully designed, and given some very high-profile cost overruns on large projects in the last year, it may not be a simple matter to persuade the private sector to take on the construction cost risk at an acceptable price – nor for private sector players to obtain financing for the project at anything like the rate the central Government could obtain. A PPP should be considered for reasons of efficiency, risk sharing and cost savings, not to massage the fiscal books.

Stepping back, ratings agencies may look askance at any of these funding measures if they perceive them to be an opaque or risky complication of the Government books. **In our view, simple, transparent debt financing would be preferable to workarounds to satisfy an arbitrary target.**

Ideally, there should be scope to ramp up investment in a downturn. At such times, public investment can support growth and is least likely to crowd out private activity. It would be helpful to have a few priority projects in the back pocket "ready to roll". If a negative global shock were to hit before the Reserve Bank had normalised interest rates, this alternative stimulus would be even more important.

Currently, of course, the infrastructure sector is very busy, **but given the long lead times for large infrastructure projects, it does not seem an inopportune time to get planning underway.** We are hearing that some firms involved in roading infrastructure in particular are concerned about an "air-pocket" emerging in the pipeline as a result of project cancellations. The new Government naturally has different priorities from its predecessor, including for infrastructure – that is how democracy works. But it is important that those priorities be about outcomes, not pre-determining the means by which a perceived desirable outcome is achieved. Robust cost-benefit analysis must underlie decision-making at the project level. And at present there is no shortage of projects out there that stack up.

THE WEEK AHEAD

Turning to the week ahead, **net migration data for March will be out on Tuesday.** Net migrant inflows retraced in February, driven by softer arrivals, following a strong read in January. Looking through the monthly volatility, our overall view remains unchanged: **we expect net inflows will gradually ease over the coming year or so.**

Our **ANZ-Roy Morgan Consumer Confidence Survey** will give the latest read on sentiment in the household sector. In recent surveys, households have been chipper, in contrast to the more pessimistic tone coming from business surveys.

Overseas Merchandise Trade data for March will also be out on Friday. **Exports should continue to perform reasonably well**, given a widespread positive price backdrop and a contained NZD. Livestock export volumes could be softer over the next couple of months due to the lagged effects of the dry early-summer conditions. This will be offset to some extent by higher fruit exports due to an earlier harvest this year and larger crops.

We expect a rebound in vehicle imports from February, which were artificially low due to biosecurity disruptions (Brown Marmorated Stink Bug). Oil and petrol imports have been sluggish recently too despite higher local prices, so there could well be some uplift due. **All up, we expect a small monthly deficit of $100m.** This, along with base effects, will see the annual deficit push back toward $2.9bn. With the annual deficit having been around the $2.5bn mark in recent months, the widening in the annual deficit may provide some topside resistance for the NZD.

LOCAL DATA

BNZ-BusinessNZ PSI – March. The PSI ticked up from 55.0 to 58.8, rebounding from recent softening, and pointing to solid expansion in the services sector.

Food prices – March. Food prices rose 1% in March – a seasonally strong increase.

REINZ Housing Market Statistics – March. Sales fell 4.5% in March (-0.3% y/y, 3-month moving average), with prices up 0.5% m/m (3.9% y/y 3mma).

GlobalDairyTrade Auction (GDT). The GDT-TWI rose 2.7%, with whole milk powder up 0.9%.

CPI – Q1. Headline inflation was slightly stronger than expected, up 0.5% q/q. This saw annual inflation drop from 1.6% in Q4 to 1.1% y/y. Tradable prices fell 0.1% q/q (-0.4% y/y), while non-tradable prices rose 0.9% q/q (2.3% y/y). Inflation remains elusive outside of housing.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
23-Apr	JN	Nikkei PMI Mfg - Apr P	--	53.1	12:30
	NZ	Credit Card Spending MoM - Mar	--	0.7%	15:00
	NZ	Credit Card Spending YoY - Mar	--	7.0%	15:00
	GE	Markit/BME Manufacturing PMI - Apr P	57.5	58.2	19:30
	GE	Markit Services PMI - Apr P	53.7	53.9	19:30
	GE	Markit/BME Composite PMI - Apr P	54.8	55.1	19:30
	EC	Markit Manufacturing PMI - Apr P	56.1	56.6	20:00
	EC	Markit Services PMI - Apr P	54.6	54.9	20:00
	EC	Markit Composite PMI - Apr P	54.8	55.2	20:00
24-Apr	US	Chicago Fed Nat Activity Index - Mar	0.27	0.88	00:30
	US	Markit Manufacturing PMI - Apr P	55.2	55.6	01:45
	US	Markit Services PMI - Apr P	54.1	54.0	01:45
	US	Markit Composite PMI - Apr P	--	54.2	01:45
	US	Existing Home Sales - Mar	5.55M	5.54M	02:00
	US	Existing Home Sales MoM - Mar	0.2%	3.0%	02:00
	NZ	Net Migration SA - Mar	--	4970	10:45
	AU	ANZ-RM Consumer Confidence Index - 22-Apr	--	116	11:30
	JN	PPI Services YoY - Mar	0.5%	0.6%	11:50
	AU	CPI QoQ - Q1	0.5%	0.6%	13:30
	AU	CPI YoY - Q1	2.0%	1.9%	13:30
	AU	CPI Trimmed Mean QoQ - Q1	0.5%	0.4%	13:30
	AU	CPI Trimmed Mean YoY - Q1	1.8%	1.8%	13:30
	GE	IFO Business Climate - Apr	102.8	103.2	20:00
	GE	IFO Expectations - Apr	99.5	100.1	20:00
	GE	IFO Current Assessment - Apr	106.0	106.5	20:00
	UK	Public Finances (PSNCR) - Mar	--	£18.6B	20:30
	UK	Central Government NCR - Mar	--	-£1.9B	20:30
	UK	Public Sector Net Borrowing - Mar	£1.3B	-£0.3B	20:30
	UK	PSNB ex Banking Groups - Mar	£3.0B	£1.3B	20:30
	UK	CBI Trends Total Orders - Apr	4	4	22:00
	UK	CBI Trends Selling Prices - Apr	--	18	22:00
25-Apr	US	FHFA House Price Index MoM - Feb	0.6%	0.8%	01:00
	US	S&P CoreLogic CS 20-City MoM SA - Feb	0.68%	0.75%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - Feb	6.35%	6.40%	01:00
	US	New Home Sales - Mar	630k	618k	02:00
	US	New Home Sales MoM - Mar	1.9%	-0.6%	02:00
	US	Richmond Fed Manufact. Index - Apr	16	15	02:00
	US	Conf. Board Consumer Confidence - Apr	126.0	127.7	02:00
	US	MBA Mortgage Applications - 20-Apr	--	4.9%	23:00
26-Apr	AU	Import Price Index QoQ - Q1	1.2%	2.0%	13:30
	AU	Export Price Index QoQ - Q1	4.1%	2.8%	13:30
	GE	GfK Consumer Confidence - May	10.8	10.9	18:00
	UK	Finance Loans for Housing - Mar	37000	38120	20:30
	UK	CBI Retailing Reported Sales - Apr	-2	-8	22:00
	UK	CBI Total Dist. Reported Sales - Apr	--	5	22:00
	EC	ECB Main Refinancing Rate - Apr	0.00%	0.00%	23:45
	EC	ECB Marginal Lending Facility - Apr	0.25%	0.25%	23:45
	EC	ECB Deposit Facility Rate - Apr	-0.40%	-0.40%	23:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
27-Apr	US	Initial Jobless Claims - 21-Apr	230k	232k	00:30
	US	Continuing Claims - 14-Apr	1850k	1863k	00:30
	US	Advance Goods Trade Balance - Mar	-$74.7B	-$75.9B	00:30
	US	Wholesale Inventories MoM - Mar P	0.6%	1.0%	00:30
	US	Durable Goods Orders - Mar P	1.4%	3.0%	00:30
	US	Durables Ex Transportation - Mar P	0.4%	1.0%	00:30
	US	Cap Goods Orders Nondef Ex Air - Mar P	0.6%	1.4%	00:30
	US	Cap Goods Ship Nondef Ex Air - Mar P	0.4%	1.4%	00:30
	US	Kansas City Fed Manf. Activity - Apr	17	17	03:00
	NZ	ANZ Consumer Confidence Index - Apr	--	128	10:00
	NZ	ANZ Consumer Confidence MoM - Apr	--	0.2%	10:00
	NZ	Trade Balance NZD - Mar	200M	217M	10:45
	NZ	Exports NZD - Mar	4.98B	4.46B	10:45
	NZ	Imports NZD - Mar	4.85B	4.24B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Mar	-2900M	-3019M	10:45
	UK	GfK Consumer Confidence - Apr	-7	-7	11:01
	JN	Tokyo CPI YoY - Apr	0.8%	1.0%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Apr	0.8%	0.8%	11:30
	JN	Retail Sales MoM - Mar P	0.0%	0.5%	11:50
	JN	Retail Trade YoY - Mar	1.5%	1.7%	11:50
	JN	Industrial Production MoM - Mar P	0.5%	2.0%	11:50
	JN	Industrial Production YoY - Mar P	2.0%	1.6%	11:50
	AU	PPI QoQ - Q1	--	0.6%	13:30
	AU	PPI YoY - Q1	--	1.7%	13:30
	UK	Nationwide House PX MoM - Apr	--	-0.2%	18:00
	UK	Nationwide House Px NSA YoY - Apr	--	2.1%	18:00
	GE	Import Price Index MoM - Mar	0.1%	-0.6%	18:00
	GE	Import Price Index YoY - Mar	0.0%	-0.6%	18:00
	GE	Unemployment Change (000's) - Apr	-15k	-19k	19:55
	GE	Unemployment Claims Rate SA - Apr	5.3%	5.3%	19:55
	UK	Index of Services MoM - Feb	0.1%	0.2%	20:30
	UK	Index of Services 3M/3M - Feb	0.6%	0.6%	20:30
	UK	GDP QoQ - Q1 A	0.3%	0.4%	20:30
	UK	GDP YoY - Q1 A	1.4%	1.4%	20:30
	EC	Economic Confidence - Apr	112.0	112.6	21:00
	EC	Business Climate Indicator - Apr	1.28	1.34	21:00
	EC	Industrial Confidence - Apr	5.8	6.4	21:00
	EC	Services Confidence - Apr	15.9	16.3	21:00
	EC	Consumer Confidence - Apr F	--	0.4	21:00
	JN	BoJ 10-Yr Yield Target - Apr	--	0.00%	UNSPECIFIED
	JN	BoJ Policy Balance Rate - Apr	--	-0.10%	UNSPECIFIED
28-Apr	US	Employment Cost Index - Q1	0.7%	0.6%	00:30
	US	GDP Annualized QoQ - Q1 A	2.0%	2.9%	00:30
	US	Personal Consumption - Q1 A	1.2%	4.0%	00:30
	US	GDP Price Index - Q1 A	2.2%	2.3%	00:30
	US	Core PCE QoQ - Q1 A	2.5%	1.9%	00:30
	US	U. of Mich. Sentiment - Apr F	98.0	97.8	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
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 declines 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)	ANZ Monthly Inflation Gauge – April	**--**	**--**
Tue 8 May (3:00pm)	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 Monetary Policy Statement	On hold	With inflation pressures increasing only gradually, we expect the RBNZ will be 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.
Fri 11 May (10:45am)	Food Prices – April	Flat	Sometimes food prices go up in April; sometimes they go down. We're picking broadly flat.
Mon 14 May (10:30am)	BNZ-BusinessNZ PSI – April	Pare back	After a strong bounce in March, a slight moderation wouldn't be surprising. Overall, remaining solid.
Thu 17 May (10:45am)	Budget Economic & Fiscal Update 2018	Balancing act	With an infrastructure deficit on one hand and a tough debt target on the other, trade-offs will be weighed.
Mon 21 May (10:45am)	Net migration – April	Peaked	We don't see migration inflows falling quickly, but we believe we are past the peak, with gradual decline from here.
Mon 21 May (10:45am)	Retail Trade – Q1	Reasonable	It looks like it was another reasonable quarter for retail spending. We expect moderation over the medium term.
Thu 24 May (10:45am)	Overseas Merchandise Trade – April	Steady	Export earnings are expected to remain steady with durable, broad-based strength.
Thu 30 May (9:00am)	Building Consents – March	Plateau	We are in an environment where issuance will struggle to push higher.
Thu 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.
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)	0.5	**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	2.8	3.8	3.4	3.6	3.7	3.5	4.0	4.2
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

	ACTUAL			FORECAST (END MONTH)						
FX RATES	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	0.72	0.70	0.69	0.67	0.66	0.65	0.65	0.65
NZD/AUD	0.924	0.942	0.94	0.92	0.93	0.93	0.94	0.93	0.93	0.93
NZD/EUR	0.590	0.587	0.59	0.56	0.54	0.52	0.51	0.50	0.50	0.50
NZD/JPY	77.26	76.91	77.70	74.2	71.8	69.0	66.0	64.4	63.1	62.4
NZD/GBP	0.520	0.516	0.51	0.50	0.49	0.47	0.46	0.45	0.45	0.45
NZ$ TWI	73.2	73.3	74.5	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	2.05	1.96	1.96	1.96	1.96	2.05	2.30	2.47
NZ 10-yr bond	2.94	2.72	2.90	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	2.36	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

	20 Mar	16 Apr	17 Apr	18 Apr	19 Apr	20 Apr
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.95	2.03	2.03	2.04	2.06	2.06
NZGB 05/21	2.04	2.11	2.10	2.10	2.11	2.12
NZGB 04/23	2.33	2.38	2.38	2.38	2.39	2.41
NZGB 04/27	2.83	2.83	2.83	2.82	2.84	2.87
NZGB 04/33	3.17	3.22	3.22	3.20	3.22	3.25
2 year swap	2.25	2.33	2.32	2.31	2.31	2.31
5 year swap	2.71	2.75	2.74	2.73	2.74	2.76
RBNZ TWI	74.68	75.55	75.50	75.37	75.18	74.69
NZD/USD	0.7223	0.7337	0.7340	0.7316	0.7306	0.7207
NZD/AUD	0.9358	0.9441	0.9443	0.9432	0.9373	0.9399
NZD/JPY	76.85	78.68	78.59	78.45	78.48	77.58
NZD/GBP	0.5151	0.5131	0.5121	0.5149	0.5138	0.5149
NZD/EUR	0.5867	0.5934	0.5933	0.5913	0.5908	0.5866
AUD/USD	0.7718	0.7770	0.7772	0.7757	0.7795	0.7672
EUR/USD	1.2312	1.2364	1.2371	1.2373	1.2367	1.2288
USD/JPY	106.40	107.24	107.08	107.23	107.41	107.66
GBP/USD	1.4022	1.4298	1.4333	1.4209	1.4220	1.4000
Oil (US$/bbl)	63.40	66.22	66.52	68.47	68.29	68.38
Gold (US$/oz)	1313.52	1343.22	1342.84	1349.24	1347.74	1336.36
NZX 50	8487	8406	8345	8369	8373	8323
Baltic Dry Freight Index	1122	1025	1052	1124	1201	1281
NZX WMP Futures (US$/t)	3150	3280	3260	3265	3300	3310

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