ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

5 June 2018

INSIDE

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ON THE ONE HAND…

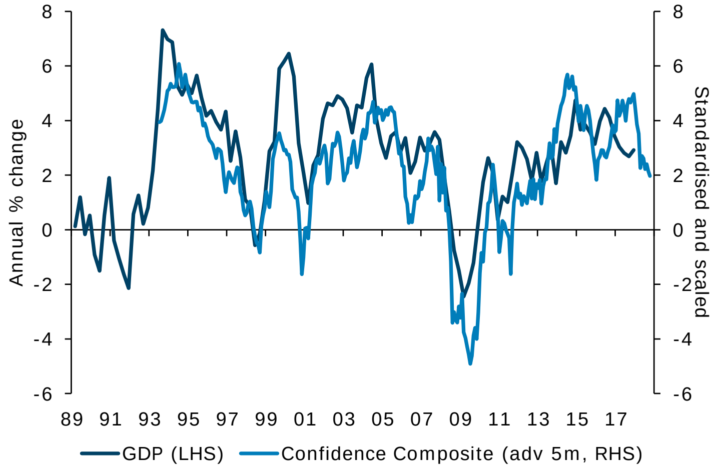
ECONOMIC OVERVIEW

The current economic cycle has been a bit unusual, not least for its lack of general inflation, but also arguably because the broad consensus is that it still has legs yet (which is also our view admittedly). This is despite the cycle starting to get a little 'long in the tooth', and capacity constraints and late-cycle headwinds making themselves felt. That is not to say there aren't risks that could change this picture. Left well enough alone we believe the economy can continue to record reasonable GDP growth around trend. But with the data flow turning more mixed of late, and some key growth drivers of recent years running out of puff, it is timely to take a look at the upside and downside 'home-grown' risks for why growth could be either stronger or weaker than expected.

CHART OF THE WEEK

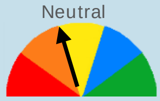
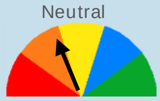
The dataflow has been mixed of late and could point to slowing momentum. Our ANZ Confidence Composite gauge is pointing to GDP growth of around 2% y/y.

ANZ Confidence Composite and GDP growth



Source: ANZ Research, 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 2½-3% (trend) on average.	
Unemployment rate	4.0% for 2018 Q4	The unemployment rate should fall further gradually. Conditions are in place for wage inflation to increase.	
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 constraints and wages expected to rise, we expect domestic and core inflation will lift – albeit gradually.	

ECONOMIC OVERVIEW

SUMMARY

The current economic cycle has been a bit unusual, not least for its lack of general inflation, but also arguably because the broad consensus is that it still has legs yet (which is also our view admittedly). This is despite the cycle starting to get a little 'long in the tooth', and capacity constraints and late-cycle headwinds making themselves felt. That is not to say there aren't risks that could change this picture. In last week's Market Focus we took a look at the outlook for the terms of trade, the key external driver of the New Zealand economic cycle. This week, we turn the focus inward. Left well enough alone we believe the economy can continue to record reasonable GDP growth around trend. But with the data flow turning more mixed of late, and some key growth drivers of recent years running out of puff, it is timely to take a look at the upside and downside 'home-grown' risks for why growth could be either stronger or weaker than expected.

FORTHCOMING EVENTS

GlobalDairyTrade auction (early am, Wednesday 6 June). We expect prices will hold up at a reasonable level.

ANZ Job Ads – May (10:00am, Wednesday 6 June).

Building Work Put in Place – Q1 (10:45am, Wednesday 6 June). Building activity is strong but we expect it softened a little in the first quarter.

ANZ Commodity Prices - May (1:00pm, Wednesday 6 June).

WHAT'S THE VIEW?

The economic cycle appears to be tiring, with headwinds – capacity and credit constraints – starting to outweigh tailwinds – fiscal stimulus and terms of trade. But that is certainly not to say it's all over bar the shouting.

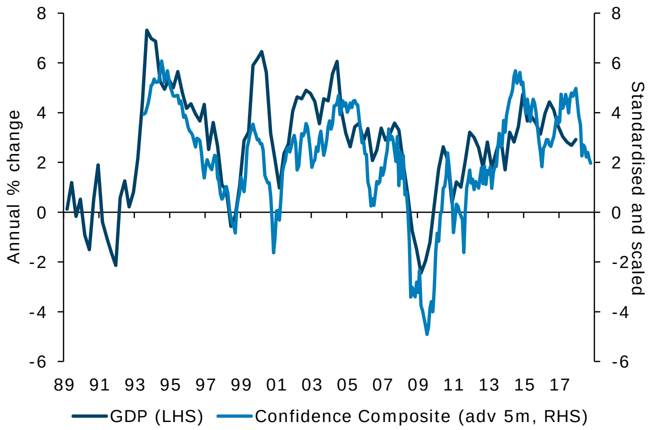
The end of an economic expansion is typically presaged by a build-up of imbalances, both internal and external, including inflationary pressures. The monetary policy response of higher interest rates (and usually a stronger exchange rate to go with it) cools the economy somewhat, and then for New Zealand, the coup de grace is typically provided by some kind of trading partner shock as a catalyst for a more abrupt stop than intended or expected. This results in reduced borrowing, more saving, corrections in overvalued asset prices, and more difficult times for firms and workers. Not a fun process by any means.

This economic cycle has been a bit unusual: the increase in household debt is certainly an imbalance, but external metrics such as the current account deficit and net external debt are contained compared to historical experience. And most importantly, broad inflation pressures are lacking. We are nearly a decade into an economic expansion complete with a housing boom, yet inflation is still low and subsequently, so too are interest rates. But late-cycle capacity and debt headwinds are at play and key drivers of the recent cycle – residential building, tourism, and migration – are at or close to their peaks.

It is fair to say that **the data flow has been a bit lukewarm of late**, particularly with regards to business and household sentiment:

- The key own activity measure from our ANZ Business Outlook survey eased 8 points over April and May. Together with consumer confidence, our Confidence Composite gauge is pointing to GDP growth slowing to only around 2% y/y.
- Retail sales disappointed in Q1, with volumes rising just 0.1% q/q, compared with market expectations of 1% growth.
- The Truckometer Heavy Traffic Index has lost momentum through the first half of the year.
- Our discussions with businesses suggest that a number of industries are facing challenges, particularly related to profitability and increasing costs. Construction firms are particularly downbeat.
- That is on top of a likely drag from net exports in Q1, signalled by recent trade data.

Figure 1: ANZ Confidence Composite and GDP growth



Source: ANZ Research, Statistics NZ

At ANZ we are about to kick off our latest formal forecast process (although in practice our forecasts are always 'under review'), where we will weigh up the economic outlook for the New Zealand economy over the next few years. **As we form our views, we will be considering a number of risks to the outlook.**

ECONOMIC OVERVIEW

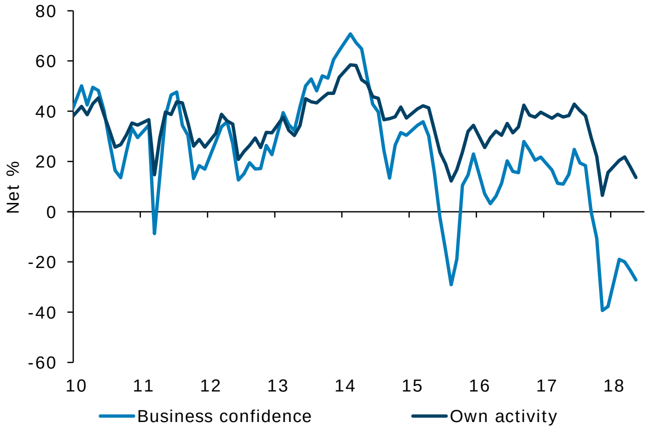
This week we explore some of the domestic risks we are seeing – on both sides of the ledger.

On the downside, there are a number of domestic factors that could see GDP growth cool from here.

1. Businesses could follow through on their pessimism.

Businesses are downbeat, with a net 27% of firms pessimistic about the outlook, according to our ANZ Business Outlook. Confidence has been trending downward since the middle of last year. Businesses' reported activity has remained positive, but has also fallen in 2018.

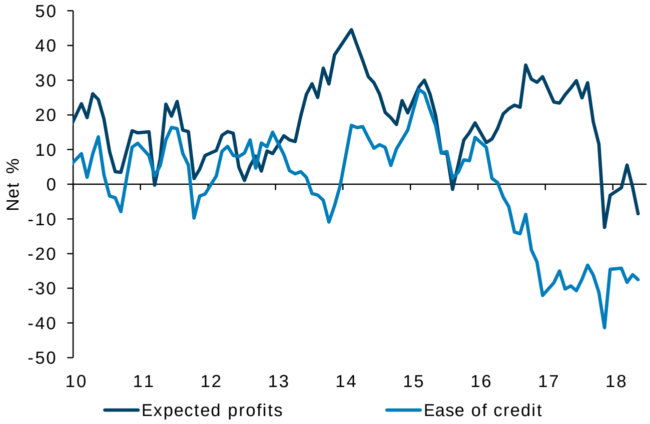
Figure 2: ANZ business confidence and own activity



Source: ANZ Research

A dip after the election suggests wariness about the policy environment has played a part (eg some small businesses we speak to are worried about the impact of higher minimum wages), but the downward trend preceded the election and has persisted well into this year. There's more going on. **Margins are being squeezed, with profit expectations in the red, and businesses finding it difficult to get credit.**

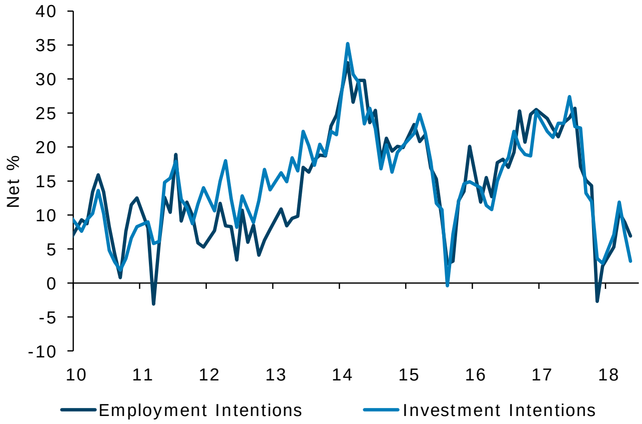
Figure 3: Expected profits and ease of credit



Source: ANZ Research

It is possible that firms are following through on their pessimism. Investment and employment intentions remain positive but have softened. And pessimism could weigh on economic activity more broadly. That said, while our confidence composite has softened, it's important to note that it is pointing to ongoing GDP growth, even if at a more moderate pace.

Figure 4: Investment and employment intentions



Source: ANZ Research

2. Credit conditions could tighten.

Another possible catalyst for a slowing in GDP growth would be a further tightening in credit conditions. Businesses report that it is difficult to access credit and we have written before about how credit availability was a headwind to growth and the housing market over 2017 as banks worked to close a "funding gap". But it is possible that credit conditions could tighten further, particularly if caution amongst financial institutions were to increase in the face of greater political scrutiny and/or there was a shock to global liquidity. Global interest rates are rising and liquidity is tightening, meaning that funding may become more expensive. If sustained, banks will have to respond to this by increasing interest rates or tightening non-price lending terms – both of which could crimp activity.

3. Agricultural challenges could affect production.

Primary sector firms, particularly those in the dairy industry, are facing a number of challenges. Environmental concerns and regulatory compliance costs are creating long-term challenges for the sector. Conditions for dairy returns are favourable right now courtesy of the lower NZD and decent global prices, but Mycoplasma Bovis is making operating difficult, especially for those farmers directly affected. The disease is only known to affect a relatively small proportion of cows in our national dairy herd and is unlikely to impact our competitiveness in international markets (because other export markets already have the disease). But it will weigh on production and

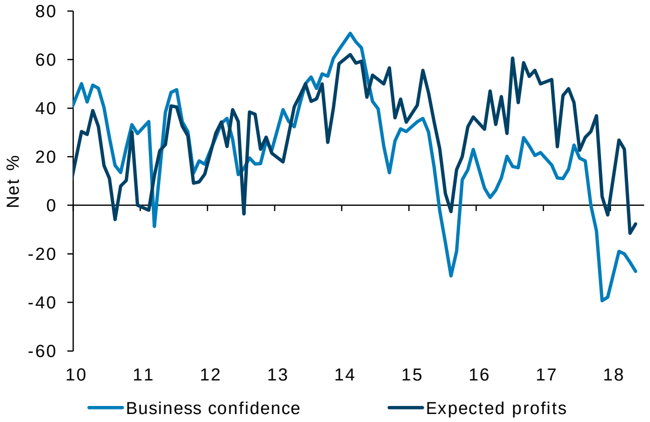
ECONOMIC OVERVIEW

profits in the industry, with cows being culled and farmers bearing some of the costs of eradication. The magnitude of the impact will depend in part on the scope of the problem, which remains to be seen. Debt levels amongst dairy farms also remain high, presenting an additional constraint. And a shortage of labour is a perennial issue. Combined, these challenges present risks to agricultural production and returns, which could have flow-on effects to other industries.

4. Construction industry challenges could weigh on activity.

By all accounts construction activity is at a strong level and we expect it will remain so, with solid underlying demand in place for both residential and non-residential work. But **firms are facing significant challenges, and these are weighing on the industry.**

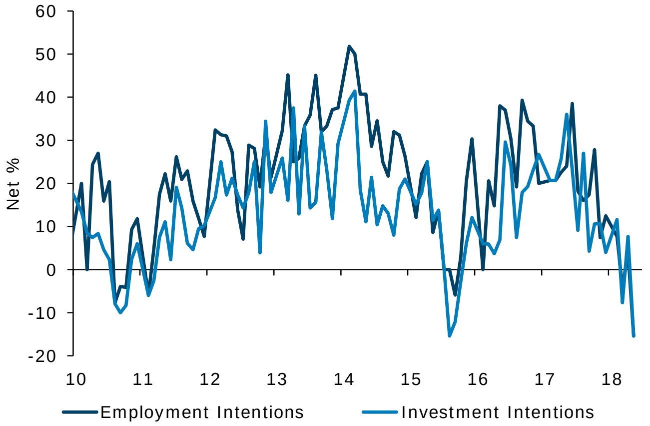
Figure 5: ANZ business confidence and profits – construction industry



Source: ANZ Research

These challenges appear to be impacting both hiring and investment by firms, with employment intentions at the lowest they have been since 2009, and investment intentions having declined markedly.

Figure 6: Investment and employment intentions – construction industry



Source: ANZ Research

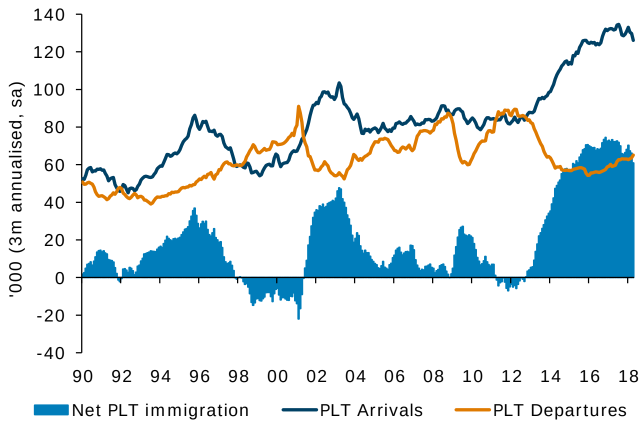
Should these challenges worsen, it could impact the industry's ability to complete projects (including delivering on Kiwibuild), reducing activity and weighing on GDP growth. Resource pressures could make firms wary about tendering for projects, particularly if labour is not available or costs could blow out.

More broadly, cost pressures could squeeze margins to the point that more firms come under significant pressure. Another risk is that finance availability could make operating more difficult, particularly if credit conditions tighten or foreign investment restrictions impact financing for large-scale property development projects and apartment blocks.

5. Population growth could be weaker.

Strong population growth, owing primarily to very strong migration inflows, is supporting GDP growth (per capita GDP growth is only around 1% y/y at the moment, and has been declining since mid-2016). Our expectation is that net immigration will fall gradually; positive flows will still support GDP growth over the medium term, but the impetus is expected to lessen over time.

Figure 7: Net permanent and long-term immigration



Source: Statistics NZ

However, **the outlook for migration is very uncertain.** A more abrupt reduction is possible. And if that were to happen, population growth would provide less support to growth going forward. Were global labour markets to strengthen relative to New Zealand's (particularly Australia's), departures could lift quickly.

The outlook for immigration is also subject to policy uncertainty. The Government and its coalition partners campaigned on reducing immigration, and over the weekend we saw the Government announce changes to how easily international students will be able to work post their studies. The impact is unclear at this stage but is likely to see further reductions in international student numbers. We're intending to delve into this topic more shortly.

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6. The OCR could increase sooner than we expect.

Domestic inflationary pressures could be stronger than currently anticipated and this could see interest rates rise more quickly than we currently expect. This would dampen GDP growth over the medium term, in order to keep a lid on inflation. However, for the Reserve Bank to be confident about a stronger outlook for inflation pressure, we suspect it might need to see stronger activity in the short term (or conditions that would lead to that).

Switching tack, there are also a number of upside risks that could see GDP growth heat up further from here.

1. Households could choose not to rebuild their saving buffers.

We estimate that the household saving rate is currently hovering around -3% of disposable income. Our expectation is that households will use income gains in the next few years to rebuild their saving buffers, and that this will keep consumption growth contained. Households are constrained by high house prices and debt levels and we expect these will keep a lid on spending. Besides, according to our ANZ Consumer Confidence survey, households are hardly feeling exuberant; confidence is at about average levels. Nonetheless, it is possible that income gains could be perceived as a sure thing, encouraging households to spend – and history tells us that **kiwis typically aren't that great at saving.** This could result in stronger consumption and GDP growth in the near term (but the piper would have to be paid at some point).

2. We could see housing market resurgence.

A key catalyst for greater household spending might be resurgence in the housing market. We have been saying for a while that there are a number of offsetting forces at play when it comes to housing, and a change in conditions could easily tip the balance. With interest rates low, population growth still strong and pent-up demand possible, it is conceivable that the housing market could gather momentum from here – particularly if some of the headwinds that are keeping price pressures contained were to wane.

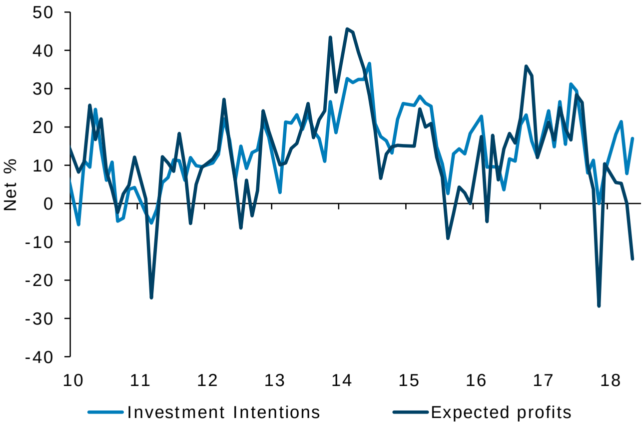
One way this could happen would be if uncertainty on the part of investors were to dissipate. Policy changes have altered the calculus for property investment, but rental yields remain favourable (at least in some regions) and property is still attractive relative to some other investments.

A stronger housing market could encourage more residential investment and boost household spending. That said, we think the link between house prices and consumption is now a bit more complicated, with housing affordability a concern for many. Nonetheless, we think a stronger housing market would boost GDP growth. But it would likely also increase financial stability risks – potentially laying the groundwork for a more marked economic slowdown in the future.

3. Business investment could gather pace.

Capacity constraints are biting for businesses at a time when interest rates are at historic lows. In this environment, investment could start to grow at a faster pace as firms try to increase productive capacity, particularly if the outlook for returns was expected to be favourable. We think business confidence would need to improve before firms would be willing to sink returns into capital expenditure, but interest rates and capacity constraints are supportive. Indeed, in our most recent Business Outlook survey, it was interesting to note higher investment intentions in the retail industry despite lower expected profitability. This may well be related to both the decreasing availability – and anticipated increasing cost – of labour.

Figure 8: Expected profits and investment intentions – retail industry



Source: ANZ Research

4. A productivity miracle could occur.

Productivity-enhancing measures are another way that firms can increase productive capacity. However, productivity growth has been lacklustre this cycle, and it can be difficult to predict. We would be reluctant to forecast a boon in productivity without a significant catalyst, but it is nonetheless a possibility in the current environment with businesses activity coming up against capacity constraints and skilled labour difficult to come by. We expect we would need to see a decent lift in investment first. If there were easy wins, firms would have done them by now.

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5. The Government could loosen its purse strings.

Another way GDP growth could be stronger is if the Government loosened the purse strings and undertook greater investment in infrastructure. Certainly, there is room for more investment in this area, given strong rates of population growth in recent years and the resulting infrastructure deficit. But we don't see this as a near-term risk; the Government remains intent on fiscal prudence. Down the track, however, we think that stronger Government spending could well be on the cards.

6. Weak inflation could result in more expansionary monetary policy.

Wage and price inflation have been weak for some time, and it is possible that the deflationary forces that are at play could be quite persistent. Our current expectation is that inflation will increase gradually towards the inflation target, with an interest rate hike warranted by August 2019. But we wouldn't rule out interest rates staying lower for longer (or even perhaps going lower) if inflation needs a bit more of a nudge. For the Reserve Bank to change its stance, developments might need to be consistent with weaker GDP growth in the short term. But expansionary monetary policy would likely result in stronger GDP growth down the track.

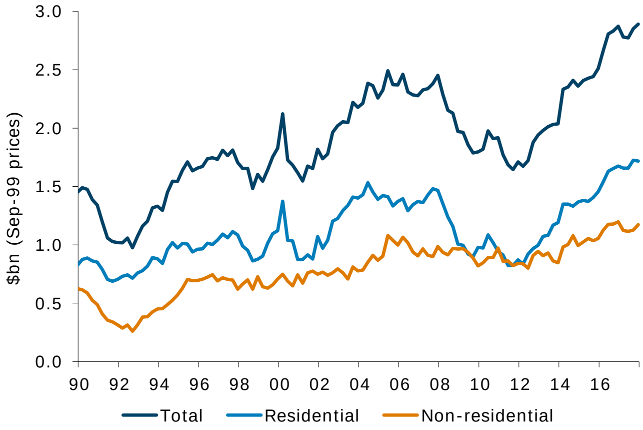
We'll continue to mull these risks over in coming weeks and weigh them up. *Our next ANZ Quarterly Economic Outlook, which will include our updated forecasts, will be released around the end of June.*

THE WEEK AHEAD

Building Work Put in Place data will give a steer on construction activity for Q1. We expect that building work softened in the first quarter of 2018, consistent with a moderation in residential consents through the end of 2017. The softening in building volumes on the residential side is expected to be only partially offset by an increase in volumes on the non-residential side. For the record, we are picking a 0.2% fall in building volumes. But this anticipated pull-back is in the context of building activity that is at an already elevated level.

The Building Work Put in Place Survey will also provide the next piece of the puzzle as we form our views on GDP in Q1. Retail trade data was weaker than expected in Q1, rising just 0.1% q/q, and presents mild downside risk to our current 0.6% q/q forecast for GDP growth. In per capita terms, retail volumes fell 0.4% q/q, to be up 1.5% y/y.

Figure 9: Volume of building work put in place



Source: Statistics NZ

Our recent *Agri Focus* discussed our views on the dairy market in detail. While the industry is facing some challenges, conditions for dairy returns remain favourable. This week we have a GlobalDairyTrade auction on early Wednesday morning, where we expect prices will maintain a reasonable level.

Our ANZ Commodity Price Index will give a further steer on the outlook for the terms of trade, and ANZ Job Ads will reveal whether firms are following through on their lower employment intentions from our business confidence survey.

LOCAL DATA

RBNZ FSR. Risks have not changed materially over the past six months. The financial system is sound, but house prices and debt remain high. Loan-to-value ratio restrictions were unchanged.

Building Consents – April. Total dwelling consent issuance fell 3.7% m/m in April. Some payback was expected after very strong growth in March. Consents remain at a high level overall.

ANZ Business Outlook – May. Business confidence and firms' views of their own activity both eased 4 points in May.

ANZ-Roy Morgan Consumer Confidence - May. Consumer confidence was steady at 121 in May, sitting slightly above its historical average, with both current and future conditions indexes little changed.

Overseas Trade Indexes – Q1. The OTI goods terms of trade fell 1.9% q/q in Q1, off their Q4 all-time high. The outlook remains positive.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
5-Jun	JN	Nikkei PMI Services - May	--	52.5	12:30
	JN	Nikkei PMI Composite - May	--	53.1	12:30
	AU	BoP Current Account Balance - Q1	-A$9.9B	-A$14.0B	13:30
	AU	Net Exports of GDP - Q1	0.5	-0.5	13:30
	CH	Caixin PMI Composite - May	--	52.3	13:45
	CH	Caixin PMI Services - May	52.9	52.9	13:45
	AU	RBA Cash Rate Target - Jun	1.50%	1.50%	16:30
	GE	Markit Services PMI - May F	52.1	52.1	19:55
	GE	Markit/BME Composite PMI - May F	53.1	53.1	19:55
	EC	Markit Services PMI - May F	53.9	53.9	20:00
	EC	Markit Composite PMI - May F	54.1	54.1	20:00
	UK	Official Reserves Changes - May	--	-$17M	20:30
	UK	Markit/CIPS Services PMI - May	53.0	52.8	20:30
	UK	Markit/CIPS Composite PMI - May	53.4	53.2	20:30
	EC	Retail Sales MoM - Apr	0.5%	0.1%	21:00
	EC	Retail Sales YoY - Apr	1.7%	0.8%	21:00
6-Jun	US	Markit Services PMI - May F	55.7	55.7	01:45
	US	Markit Composite PMI - May F	--	55.7	01:45
	US	JOLTS Job Openings - Apr	6350	6550	02:00
	US	ISM Non-Manf. Composite - May	57.6	56.8	02:00
	NZ	ANZ Job Advertisements MoM - May	--	-2.1%	10:00
	NZ	Volume of All Buildings SA QoQ - Q1	0.5%	1.4%	10:45
	NZ	ANZ Commodity Price - May	--	1.0%	13:00
	AU	GDP SA QoQ - Q1	0.8%	0.4%	13:30
	AU	GDP YoY - Q1	2.7%	2.4%	13:30
	GE	Markit Construction PMI - May	--	50.9	19:30
	GE	Markit Retail PMI - May	--	51.0	20:10
	EC	Markit Retail PMI - May	--	48.6	20:10
	US	MBA Mortgage Applications - 1-Jun	--	-2.9%	23:00
7-Jun	US	Nonfarm Productivity - Q1 F	0.6%	0.7%	00:30
	US	Unit Labor Costs - Q1 F	2.8%	2.7%	00:30
	US	Trade Balance - Apr	-$49.0B	-$49.0B	00:30
	NZ	QV House Prices YoY - May	--	7.6%	05:00
	AU	AiG Perf of Construction Index - May	--	55.4	10:30
	AU	Trade Balance - Apr	A$1000M	A$1527M	13:30
	GE	Factory Orders MoM - Apr	0.8%	-0.9%	18:00
	GE	Factory Orders WDA YoY - Apr	3.6%	3.1%	18:00
	AU	Foreign Reserves - May	--	A$72.8B	18:30
	UK	Halifax House Prices MoM - May	1.0%	-3.1%	19:30
	UK	Halifax House Price 3Mths/Year - May	1.9%	2.2%	19:33
	EC	GDP SA QoQ - Q1 F	0.4%	0.4%	21:00
	EC	GDP SA YoY - Q1 F	2.5%	2.5%	21:00
	CH	Foreign Reserves - May	$3107.0B	3124.9B	UNSPECIFIED
8-Jun	US	Initial Jobless Claims - 2-Jun	221k	221k	00:30
	US	Continuing Claims - 26-May	1740k	1726k	00:30
	US	Consumer Credit - Apr	$14.000B	$11.622B	07:00
	JN	BoP Current Account Balance - Apr	¥2076.5B	¥3122.3B	11:50
	JN	BoP Current Account Adjusted - Apr	¥2094.5B	¥1772.3B	11:50

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DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
8-Jun	JN	Trade Balance BoP Basis - Apr	¥742.3B	¥1190.7B	11:50
	JN	GDP SA QoQ - Q1 F	-0.1%	-0.2%	11:50
	JN	GDP Annualized SA QoQ - Q1 F	-0.4%	-0.6%	11:50
	JN	GDP Nominal SA QoQ - Q1 F	-0.3%	-0.4%	11:50
	JN	GDP Deflator YoY - Q1 F	0.5%	0.5%	11:50
	GE	Trade Balance - Apr	€20.2B	€24.7B	18:00
	GE	Current Account Balance - Apr	€20.0B	€29.1B	18:00
	GE	Exports SA MoM - Apr	-0.3%	1.8%	18:00
	GE	Imports SA MoM - Apr	0.6%	-0.2%	18:00
	GE	Industrial Production SA MoM - Apr	0.3%	1.0%	18:00
	GE	Industrial Production WDA YoY - Apr	2.8%	3.2%	18:00
	GE	Labor Costs SA QoQ - Q1	--	0.4%	18:00
	GE	Labor Costs WDA YoY - Q1	--	1.5%	18:00
	CH	Trade Balance - May	$32.70B	$28.38B	UNSPECIFIED
	CH	Exports YoY - May	11.1%	12.7%	UNSPECIFIED
	CH	Imports YoY - May	18.9%	21.5%	UNSPECIFIED
9-Jun	US	Wholesale Trade Sales MoM - Apr	--	0.3%	02:00
	US	Wholesale Inventories MoM - Apr F	0.0%	0.0%	02:00
	CH	PPI YoY - May	3.9%	3.4%	13:30
	CH	CPI YoY - May	1.8%	1.8%	13:30

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 been lacklustre recently. We expect the cycle has legs yet, but it's not all smooth sailing. The economy is grappling with late-cycle headwinds and some of the recent drivers of growth are expected to have peaked. Inflation is subdued and expected to increase gradually. Interest rate rises are expected eventually.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 6 June (early am)	GlobalDairyTrade auction	Steady	We expect prices to hold up at a reasonable level.
Wed 6 June (10:00 am)	ANZ Job Ads - May	--	--
Wed 6 June (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 June (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 June (early am)	GlobalDairyTrade auction	Steady	We expect prices to hold up at a reasonable level.
Wed 20 June (10:45am)	Balance of Payments – Q1	Solid	The annual current account deficit is likely to narrow reflecting (earlier) solid export earnings.
Thu 21 June (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.
Fri 22 June (10:45am)	International Travel and Migration - May	Easing	Net migration inflows are expected to continue gradually easing.
Wed 27 June (10:45am)	Overseas Merchandise Trade – May	Steady	Export earnings are expected to remain solid, underpinned by broad-based strength in commodity price. Higher oil prices and solid domestic demand should support imports and keep the trade balance in check.
Wed 27 June (1:00pm)	ANZ Business Outlook – June	--	--
Thu 28 June (1:00pm)	RBNZ OCR decision	Feeling the pulse	No change in message, with rates on hold for some time yet. We will be looking for the RBNZ's take on economic momentum in light of the more mixed data pulse.
Fri 29 June (10:00am)	ANZ Consumer Confidence – June	--	--
Fri 29 June (10:45am)	Building Consents - May	Bobbing	Dwelling consents expected to keep bobbing around at high levels; increases on the non-residential side may continue.
On balance		**Data watch**	**The data pulse has been lacklustre, but still positive. Domestic inflation is low and 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)	1.5	-1.9	**-0.8**	**0.1**	**0.1**	**0.0**	**0.1**	**0.2**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.9	2.0	**-0.1**	**-1.4**	**-2.1**	**-0.6**	**0.3**	**0.4**	**0.3**	**0.5**

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Retail ECT (% mom)	0.0	0.4	0.5	1.2	0.5	1.4	-0.6	1.5	-2.2	--
Retail ECT (% yoy)	4.4	2.9	1.3	4.3	3.3	3.4	3.3	6.0	0.8	--
Credit Card Billings (% mom)	-0.6	0.8	1.0	0.9	0.6	-0.5	0.7	1.1	0.6	--
Credit Card Billings (% yoy)	6.5	5.0	3.0	9.1	6.3	4.6	7.1	7.4	7.0	--
Car Registrations (% mom)	9.5	-1.1	1.7	0.8	-4.7	3.3	-9.4	-3.6	-0.6	--
Car Registrations (% yoy)	13.5	15.6	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0	--
Building Consents (% mom)	6.2	-1.6	-9.4	9.7	-9.1	0.3	6.3	13.0	-3.7	--
Building Consents (% yoy)	12.9	7.8	-7.2	13.1	4.4	4.4	-0.7	18.3	15.3	--
REINZ House Price Index (% yoy)	2.8	3.8	3.4	3.6	3.7	3.5	4.0	4.1	3.8	--
Household Lending Growth (% mom)	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	6.7	6.5	6.3	6.2	5.9	5.8	5.7	5.7	5.8	--
ANZ Roy Morgan Consumer Conf.	126.2	129.9	126.3	123.7	121.8	126.9	127.7	128.0	120.5	121.0
ANZ Business Confidence	18.3	0.0	-10.6	-39.3	-37.8	..	-19.0	-20.0	-23.4	-27.2
ANZ Own Activity Outlook	38.2	29.6	22.0	6.5	15.6	..	20.4	21.8	17.8	13.6
Trade Balance ($m)	-1174	-1165	-840	-1222	614	-662	184	-156	263	--
Trade Bal ($m ann)	53982	54085	54759	55999	56476	57252	57452	58074	58703	--
ANZ World Comm. Price Index (% mom)	-0.8	0.8	-0.3	-0.9	-1.9	0.7	2.8	1.2	1.0	--
ANZ World Comm. Price Index (% yoy)	16.3	11.5	10.4	6.0	3.2	4.1	5.0	5.8	7.1	--
Net Migration (sa)	5470	5270	5650	5680	5700	6210	4920	5380	4930	--
Net Migration (ann)	72072	70986	70694	70354	70016	70147	68943	67984	67038	--
ANZ Heavy Traffic Index (% mom)	6.5	-1.5	2.9	1.1	-4.2	4.1	-2.5	-0.3	1.4	--
ANZ Light Traffic Index (% mom)	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	Apr-18	May-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
NZD/USD	0.705	0.702	0.70	0.70	0.69	0.67	0.66	0.65	0.65	0.65
NZD/AUD	0.934	0.925	0.92	0.92	0.93	0.93	0.94	0.93	0.93	0.93
NZD/EUR	0.583	0.601	0.60	0.56	0.54	0.52	0.51	0.50	0.50	0.50
NZD/JPY	77.05	76.44	77.25	74.2	71.8	69.0	66.0	64.4	63.1	62.4
NZD/GBP	0.514	0.526	0.53	0.50	0.49	0.47	0.46	0.45	0.45	0.45
NZ$ TWI	72.5	72.9	73.8	70.8	69.6	67.8	66.5	65.4	65.2	65.1
INTEREST RATES	Apr-18	May-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	2.02	2.02	2.00	2.01	2.01	2.00	1.99	2.07	2.32	2.48
NZ 10-yr bond	2.84	2.73	2.82	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	2.36	2.30	2.31	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	2.04	1.98	2.00	1.90	1.80	1.80	1.80	2.05	2.30	2.30

	1 May	28 May	29 May	30 May	31 May	1 Jun
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.02	2.00	2.01	2.01	2.02	2.01
NZGB 05/21	2.06	2.00	2.02	2.01	1.99	2.01
NZGB 04/23	2.35	2.28	2.30	2.28	2.27	2.29
NZGB 04/27	2.80	2.72	2.74	2.73	2.73	2.75
NZGB 04/33	3.17	3.08	3.09	3.08	3.08	3.10
2 year swap	2.28	2.20	2.19	2.21	2.22	2.24
5 year swap	2.72	2.66	2.62	2.63	2.64	2.66
RBNZ TWI	73.39	73.04	73.04	72.99	73.38	73.77
NZD/USD	0.7011	0.6952	0.6914	0.6962	0.7017	0.6982
NZD/AUD	0.9337	0.9191	0.9201	0.9226	0.9254	0.9225
NZD/JPY	76.88	76.05	75.28	75.81	76.43	76.47
NZD/GBP	0.5120	0.5215	0.5219	0.5243	0.5265	0.5231
NZD/EUR	0.5828	0.5964	0.5986	0.5986	0.6007	0.5989
AUD/USD	0.7509	0.7565	0.7515	0.7545	0.7583	0.7569
EUR/USD	1.2031	1.1658	1.1551	1.1628	1.1679	1.1659
USD/JPY	109.65	109.38	108.87	108.89	108.93	109.54
GBP/USD	1.3695	1.3332	1.3249	1.3277	1.3328	1.3346
Oil (US$/bbl)	67.25	67.88	66.73	68.21	67.04	65.81
Gold (US$/oz)	1308.53	1298.31	1303.78	1297.58	1304.11	1293.40
NZX 50	8436	8645	8636	8648	8659	8636
Baltic Dry Freight Index	1327	1077	1057	1042	1090	1156
NZX WMP Futures (US$/t)	3400	3245	3215	3225	3240	3205

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