NEW ZEALAND ECONOMICS
ANZ ECONOMIC OUTLOOK

DECEMBER 2014

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KEEP ON KEEPING ON

NEW ZEALAND ECONOMIC OUTLOOK

The economy continues to enjoy an unusual mix of solid domestic-focused growth but low inflation. We can’t see anything local to derail this locomotive. The main risk is rather the global environment.

GLOBAL OUTLOOK

The global expansion remains uneven. We’ve pencilled in modest growth over the projection period, with central bankers doing ‘whatever it takes’. The problem is that this deflects attention from fiscal policy and the need for structural reform in many economies. With financial markets threatening to wobble again, there is more downside risk than up.

EXPORT COMMODITY PRICES

While dairying remains weak, most of the other main primary sectors look reasonably solid. The outlook is clouded, however, by a number of complex and overlapping forces. Currently we have a milk price forecast of $4.70/kg MS for 2014/15 and remain optimistic of a $6.50 kg MS outcome in 2015/16. Both have downside risk at present though.

LABOUR MARKET

Reasonable economic growth implies the same for the labour market, which we expect to continue strengthening – albeit at different speeds across sectors and regions. The unemployment rate is set to fall below 5%. It would fall further were it not for assumed continued improvements in the supply side of the labour market. Wages will lift, but a strong focus on productivity will help temper the impact on unit labour costs and inflation.

FISCAL POLICY

The fiscal accounts are on track for a return to OBEGAL surpluses by 2015/16. With the outlook for nominal GDP a tad weaker than previously expected, progress rebuilding fiscal buffers (surpluses) will be slower. There is little loot for a spend-up.

INFLATION

Annual inflation is expected to fall below 1% by the end 2014 and remain well below the midpoint of the inflation target until well into 2016. Persistently low inflation is raising the question as to whether the new Goldilocks paradigm of low inflation and strong growth is sustainable. We expect the RBNZ to lift the OCR from late 2015 to keep future aggregate inflation outcomes around the target midpoint.

EXCHANGE RATE

The currency story is increasingly USD-centric. Solid domestic growth and the associated positive real yield and term premiums remain NZD supportive. However, this is competing with the strengthening US economy. It is a different story on a trade-weighted basis, illustrated by strong support for NZD crosses against the EUR and JPY. Finally, there is a fair chance the NZD/AUD hits all-time highs.

INTEREST RATES

With four OCR hikes under the belt and inflation nowhere to be seen (yet), the RBNZ is well advanced in its tightening cycle. We are mindful that while the US Federal Reserve is set to lift the Fed Funds rate in March, other factors should dampen the rise in global bond yields.
### KEY ECONOMIC FORECASTS

#### Calendar Years

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<th>2011</th>
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*Operating balance excluding gains and losses, June years. Forecasts and text finalised 16 December 2014.

### KEY FORECAST ASSUMPTIONS:

- The NZD is assumed to end 2014 at 78 US cents and gradually ease to 69 US cents by late 2016.
- Net annual permanent and long-term (PLT) migration inflows are assumed to peak at around 55,000 persons by mid-2015 and taper off over the projection period, ending 2017 at around 25,000 persons.
- The value of earthquake reconstruction work is equivalent to $40bn in 2013 dollars. This will be spread across residential ($20bn), commercial and social assets ($15bn), and infrastructure ($5bn). More than 50% of this work is assumed to be completed by the end of 2017. The economic impact will be partly diluted by contractionary fiscal policy, equivalent to around 2½% of GDP over the projection period.
- Dubai oil prices are assumed to trade within a USD55 to USD80 per barrel range over the forecast period.
- Potential growth is expected to remain around 2¼-3% in the early part of the projections and around 2½-2¾% over the medium term.
- Average bank funding costs (as opposed to marginal funding costs) are assumed to continue to gradually decline from current levels. This will push the neutral OCR from around 4-4½% at present towards the 4½ - 4¾% zone by the end of the projection period.
NEW ZEALAND ECONOMIC OUTLOOK

SUMMARY
The New Zealand economy continues to enjoy an unusual mix of solid domestic-focused growth but low inflation. We can’t see anything local to derail this locomotive. The main risk to the Goldilocks economy is rather the global environment. The international price of New Zealand’s main export commodity, dairy products, has more than halved this year, with prospects of a V-shaped bounce-back slim. But even that looks containable as long as the global economy holds it together.

THE EXPANSION ROLLS ON
Growth in the New Zealand economy in the year to June 2014 was 3.5%, with growth having averaged nearly 3% over the past two years.

Domestic demand is strong: investment is growing nearly 8% a year; annual consumption growth is around 3.0%. While the residential rebuild effort in Christchurch is peaking, new residential investment activity is increasing in much of the country, spearheaded by more building in Canterbury and Auckland. Business and consumer confidence are well off their highs, but still consistent with an economy that is trying to grow considerably faster than it sustainably can. The unemployment rate has fallen under 5½%. Extremely strong net migration has as much to do with lower departures as it does with higher arrivals, testament to a certain confidence that New Zealand is a good bet as a place to live and work.

It’s not all rosy – a halving of global dairy prices is a shot across the bows – but all up, the New Zealand economy is continuing to enjoy a period of solid growth.

Looking forward, the construction sector pipeline is still massive, comprising a city rebuild, addressing Auckland housing shortages, and various infrastructure projects. Financial conditions are still stimulatory despite the NZD remaining high. Commodity prices outside of dairying are strong. Headwinds from restrictive fiscal policy are fading. Add in better productivity growth, rapidly growing connections with Asia, gains from utilising an abundant natural resource endowment, and a reasonable political climate and you have a decent economic script.

Global dairy prices have halved while the NZD has remained robust. That’s going to cause some issues, but it’s far from terminal for the economy, such is the support from other facets. However, two consecutive years of a low dairy payout could be a different story.

Risks noted, it all adds up to a pretty solid outlook; we’re picking around 3% growth over the year ahead.

PARTY POLICE REMAIN ON STANDBY
An OCR on hold at just 3.5% is not what one would normally predict in this kind of environment. However, the Reserve Bank’s hands are somewhat tied by the fact that there is a generalised lack of inflation across the economy. Normally, with a 3+% growth trajectory and capacity strain, an inflation problem would have emerged by now (Figure 1), and interest rates would be firmly on the way up. But these are not normal times.

FIGURE 1. CAPACITY INDICATORS AND NON-TRADABLE INFLATION

![Figure 1. Capacity Indicators and Non- Tradable Inflation](image)

Source: Statistics NZ, NZIER, ANZ

It would indeed be churlish to complain about the current combination of strong growth and low inflation. But it does have an element of “too good to last” about it, given we believe the speed limit of the economy is no more than 3% a year (though that’s very respectable across peers). Even if it does not show up in CPI inflation because of global inflation suppressants, over-exuberance could lead to deterioration in financial stability and structural vulnerability metrics – such as debt ratios and the current account deficit – that the nation has made hard-won progress on lowering in recent years.

Asset prices – Auckland house prices in particular – are also at eye-watering levels. The Reserve Bank is therefore keeping the housing market on a tight leash – they now have more tools on hand than just interest rates, and have proven that they are not afraid to use them. The combination of very strong net migration and low mortgage rates (by New Zealand standards) would typically be feeding a house price boom by now (Figure 2). Speed limits on high-LVR mortgage lending are therefore here to stay for some time yet, though other prudential policy mechanisms may be introduced to try to level out the playing field between first home buyers and property investors.
While there are obvious focal points such as housing to be wary of, the economy’s balance sheet is in better shape than prior to previous downturns. Credit growth is low; the economy is still deleveraging. The fiscal accounts are headed into surplus and net government debt will peak under 30% of GDP. The current account is sub 5%. Household debt has eased from 162% of disposable income to 154% (Figure 3). The household savings rate is improving, and has been positive for the past five years. Such metrics do not firewall the New Zealand economy from adverse developments. However, the economy does not have the same build-up of imbalances that have typically preceded prior downturns.

The greatest threat to the presaged soft landing for the New Zealand economy lies offshore. New Zealand has already been feeling the pain in the fact that global dairy prices have halved since February, while the NZD remains stubbornly high due to the marked differential between New Zealand’s more business-as-usual interest rates and crisis-level rates around much of the world (Figure 4). But the risks are broader than just dairy. New Zealand has put a great many eggs in the China basket in recent years, and this is now a vulnerability as their growth slows. Europe has made little progress on fixing its structural vulnerability, and debt sustainability issues will come quickly to the fore in a low-growth environment. The crashing oil price has gone well beyond being “good news” for global growth and is now damaging broader hard commodity prices and some riskier financial assets as investors ponder what it might be telling us about global growth prospects. Global financial markets and asset prices are yet to prove that they can cope with a normalisation in US monetary policy after years of extremely low rates. We haven’t forgotten what happened in mid-October, even if global equity markets seem to have.

The economy is well past the ‘recovery’ stage, with an expansion well established. Annual growth is past its peak and more risks are manifesting in some sectors (i.e. dairying). But this moderation needs to be put in perspective. The economy is transitioning from bouncing off lows to less stellar growth off a higher level. Resource availability (i.e. labour and capital) and how effectively they are utilised are now just as relevant as the state of underlying demand.

We conclude with a summary of our take on the default path for the economy in the years ahead.

- Annual average growth hovers around 3% through till mid-2016 and then eases to the high 2’s over the following two years.
- We’ve pencilled in a modest pace of consumption growth. We believe the change in consumers’ spending patterns since the GFC has
been structural, with new estimates showing the household saving rate has been on the right side of the ledger for the past 5 years. While it’s a pity that this has not been reflected in our bank balances, a persistent change in our savings behaviour is a key assumption, with a strong investment centricity also underpinning our forecasts. Further capital deepening is needed to underpin supply-side performance. If a construction boom is to be absorbed without generating across-the-board inflation, consumption needs be restrained. Think of it as saving and investing in tomorrow at the expense of today.

- The labour market is expected to perform strongly. Given the labour market recovery is well established and much of the available slack has already been used up, employment growth is expected to moderate over the projections. We expect 2.8% growth in employment over 2014, 1.8% over 2015 and slightly above 1% pa over 2016 and 2017. The moderation in employment growth is due to both demand and supply-side facets. We assume that labour force participation remains at historically high levels, but slightly higher growth in employment than in the working age population is expected to push the unemployment rate below 5% by early next year, where it remains over the projection period. Despite increasing pressures on labour market capacity and continuing skill shortages, wage pressures are expected to remain moderate.

- Courtesy of the falling terms of trade and the domestic demand-focused nature of the expansion, New Zealand’s annual merchandise trade deficit is expected to widen over 2015 and to remain there for much of the projection period. This sees the current account deficit widen from around 2.5% at the start of the projection period to above 5% over the latter part.

A STURDY SHIP

New Zealand is one of regrettably few countries who can say that they are in structurally better shape than they were preceding the Global Financial Crisis. Debt levels across the economy may still be high, but at least they are lower than they were, and the deleveraging process has been orderly, without an asset price crunch. Inflation has not emerged as a problem, partly due to global disinflationary forces but also due, we believe, to an under-appreciated increase in productivity growth across the New Zealand economy. Firms are lean and mean, and working smarter. If trouble does emerge offshore, New Zealand has plenty of ammunition to hand – the policy rate is 3.5%, the NZD is still very high, and there is plenty of leeway on the fiscal front. It wouldn’t be a comfortable journey, but New Zealand is well placed to ride out any storms that may arise. And if the global economy holds it together, as we assume (albeit with some ankle, knee and finger crossing), there is little sign that this expansion is ready to expire any time soon. We may be set for slower growth, but a deceleration should not be confused with a downturn.

NEW ZEALAND NATIONAL ACCOUNTS FORECAST

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1 Percentage point contribution to growth
GLOBAL OUTLOOK

SUMMARY
The global expansion remains uneven, with better growth in the US, prospects in Europe and Japan subdued, and more questions being asked of China’s outlook. We’ve seen temporary growth variability across the majors before but the world is fundamentally coupled as opposed to decoupled. We’ve pencilled in modest growth over the projection period, with central bankers doing ‘whatever it takes’. The problem is that this deflects attention from fiscal policy and the need for structural reform in many economies. With financial markets threatening to wobble again, there is more downside risk than up.

MIXED MESSAGES
Policy rates have been parked at historically low levels since the GFC more than five years ago. That was a necessary part of the healing process but five years on it’s telling us something about the continued challenges in getting the global economy moving again.

Recent data highlights a very mixed picture. The US economy remains on track for solid growth, Europe is flat-lining, China is slowing, and Japan is in reverse again. Even Australia is battling.

Tensions remain. A better-looking US economy – the world’s largest – is welcome. However, huge uncertainties surround how nations who borrowed heavily during the era of incredibly low US interest rates will cope once the US Fed starts to normalise rates in 2015. QE has driven a disconnect versus economic fundamentals across a range of asset classes. There is a microeconomic reform agenda to lift global growth, but nations seem caught in the rip of populism. Precipitous declines in prices for some key commodities such as oil – while an implicit income boost for many countries – portend financial stresses in some pockets such as high-yield bonds.

We’ve pencilled in moderate growth for our trading partners overall, but with clear divergences:

- **A solid US outlook.** The US is on track for 3% growth, with broadening momentum a stronger labour market. With that will come a firmer USD and a lift in interest rates by the FOMC. This will tighten financial conditions but in somewhat of a chicken-and-egg fashion; rates will not keep moving up if the economy cannot handle it (including the USD impact). And the bigger question is how the rest of the global economy and emerging markets respond to even small lifts in the global cost of capital, for which the US is the bellwether. We’ll see bouts of unease in 2015.

- **Subdued activity in the Eurozone.** High sovereign indebtedness and limited economic flexibility is going head-to-head with an ECB keen to push firmly on the accelerator.

- **Moderate growth in Australia.** Financial conditions are supportive despite the high (but falling) AUD. However, the terms of trade have been hammered and structural issues (waning productivity growth and high cost structures) need addressing. Moderate growth is typically okay; but it won’t feel like that to the average Australian with the unemployment rate to remain above 6%.

- **Sub-7% pa growth is assumed for China over the next few years.** China’s ongoing battles with structural rigidities, rising debt levels, and weakness in the property sector will need to be monitored closely. Our forecasts assume the Chinese authorities will successfully manage the transition away from an investment-driven model without the economy falling into the abyss, although growth momentum will invariably slow. The Chinese economy is roughly double the size it was seven years ago, and China is becoming an increasingly influential player on the world stage.

- **Trading partner growth is expected to average around 4% per annum over the next few years.** That’s broadly in line with trend but the mix means it won’t feel like it. The risks are tilted to the downside.

GLOBAL ECONOMIC GROWTH FORECAST

<table>
<thead>
<tr>
<th>Calendar years</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014(f)</th>
<th>2015(f)</th>
<th>2016(f)</th>
<th>2017(f)</th>
</tr>
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<tbody>
<tr>
<td>United States</td>
<td>1.6</td>
<td>2.3</td>
<td>2.2</td>
<td>2.3</td>
<td>3.2</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Australia</td>
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<td>3.6</td>
<td>2.1</td>
<td>2.8</td>
<td>3.0</td>
<td>3.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.4</td>
<td>1.7</td>
<td>1.6</td>
<td>0.3</td>
<td>1.6</td>
<td>1.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.7</td>
<td>-0.7</td>
<td>-0.4</td>
<td>0.8</td>
<td>1.3</td>
<td>2.0</td>
<td>1.8</td>
</tr>
<tr>
<td>China</td>
<td>9.3</td>
<td>7.8</td>
<td>7.7</td>
<td>7.5</td>
<td>6.8</td>
<td>6.7</td>
<td>6.4</td>
</tr>
<tr>
<td>Trading Partner Growth</td>
<td>3.4</td>
<td>3.3</td>
<td>3.0</td>
<td>3.6</td>
<td>3.9</td>
<td>3.8</td>
<td>3.6</td>
</tr>
</tbody>
</table>
SUMMARY

While dairying remains weak, most of the other main primary sectors look reasonably solid. The outlook is clouded, however, by a number of complex and overlapping forces. Exposure to these forces varies significantly. For those soft commodity markets where prices are so low as to be below the cost of production, slower supply growth beckons as lower prices feed through to the farm-gate of major exporters. For dairying this should eventually provide support for prices as the market rebalances. Currently we have a milk price forecast of $4.70/kg MS for 2014/15 and remain optimistic of a $6.50 kg MS outcome in 2015/16. Both have downside risk at present though.

CHANGING DYNAMICS

There are more clouds on the horizon than rays of sunshine for soft commodity markets in 2015. Key macro drivers of a weaker outlook include:

- **Weaker economic growth outside of the US.** This will dampen consumption growth in some key import markets.

- **Geopolitical ructions** disrupting trade flows and import demand in some key import regions (mainly Europe and the Middle East).

- **Lower feed costs for the Northern Hemisphere** boosting the competitiveness of key competing exporters and products.

- **Generally lower commodity prices for key inputs**, such as oil, weighing on both the cost curve and sentiment.

- **Pretty good (broadly speaking) seasonal conditions** in most of the major producing regions and for key competitors.

- **The rise of the USD making imported food products more expensive** in some key emerging import markets. The flipside is a weaker NZD.

**Exposure to these forces varies significantly between the different primary sectors**, implying quite diverse outlooks for 2015/16. At present international dairy prices are experiencing the full force of many of these dynamics, whereas other sectors have been sheltered. They are not immune though; the effects can take a while to work through.

One of the best examples of a sheltered sector so far is beef, with prices at record highs. The domestic and US markets between them account for approximately 65% of New Zealand beef consumption, meaning exposure to weaker demand from other markets has been limited. Combined with strong demand in the US and a significant shortage of domestic US product this is supporting record prices. **But there are risks that the boom could be short and sharp.** Two key risks are:

1. **The price and supply of substitutes.** Chicken and pork production is set to rise due to lower grain prices.

2. **Russian sanctions and its poor economic outlook could disrupt trade.** Russia is the largest net importer of beef. As the rouble falls and economic growth weakens, beef consumption will come under pressure. This will see more cheap South American beef appear in NZ’s markets.

While preferential market access and other market dynamics provide some comfort, the recent record-breaking run is unlikely to continue at quite the same clip in 2015/16. **So while the outlook for many New Zealand primary sectors remains solid into 2015, these key macro drivers need to be watched carefully as they can easily seep their way into markets.**

International dairy prices have been on the receiving end of many of these dynamics in recent times. While the demand side may look a little weaker (or should we say less optimistic), it's the supply side that will re-balance the market. Weaker international prices, which are below the cost curve for all major exporters, are now starting to feed through to the farm-gate in the major producing regions. **This will slow supply growth over the first half of 2015 and help rebalance the market.**

In some commodity markets, such as oil and iron ore, large low cost producers are trying to buy or maintain market share by squeezing marginal players out. It is quite different in soft commodity markets, where millions of individual farmers make production decisions according to price signals. As such, there is a fundamental difference: short-term supply is governed by seasonal conditions, production life-cycle, price signals/margins and storage life. This is much more the case today than 10 years ago due to the opening up of markets and changes in Northern Hemisphere subsidy programs. There are some large companies in the food supply chain, but ultimately they are reliant on the individual farmers’ production decisions. **This limits their ability to take a stand in the marketplace in instances where commodity prices fall significantly.** As soft commodity prices drop below the cost of production for major producers, the turnaround in supply is likely to be not too far off.

However, it’s still fair to say at this juncture that the outlook for dairy prices in the upcoming season is finely balanced.
Reasonable economic growth implies the same for the labour market, which we expect to continue strengthening – albeit at different speeds across sectors and regions. The unemployment rate is set to fall below 5%. It would fall further were it not for assumed continued improvements in the supply side of the labour market with migration-assisted climbs in the working age population and workforce participation at historically high levels. Wages will lift, but a strong focus on productivity will help temper the impact on unit labour costs and inflation.

**STRENGTHENING**

The labour market lags the growth cycle but is now making up for lost time. The economy added 72,000 jobs in the September 2014 year. Total employment is roughly 9% above mid-2009 lows, with the strengthening evident in both HLFS and QES measures of employment/filled jobs. Employment in most sectors and regions is on the up, although Canterbury and the construction sector remain standouts.

Forward gauges of demand point to continued employment gains. This is starting to put pressure on capacity, as highlighted by more reports of skills shortages. Numbers on the jobseekers allowance who are work-ready have fallen to a five-year low. The unemployment rate, at 5.4% of the labour force, is at a 5½ year low, while the employment rate has risen to 65.5% of the working age population, the highest in close to six years. There is, however, still spare capacity within the labour market, with average hours per worker still below historical averages.

The supply side of the labour market has performed well and is partly meeting the increased demand so far. Courtesy of strengthening net permanent and long-term immigration (both a cause and effect), annual growth in the working age population reached a decade high in September and is expected to strengthen further into 2015. More than half of the turnaround in net immigration has been due to fewer people leaving, much of which reflects a turnaround in net migration inflows to/from Australia. Combined with increasing numbers of returning residents, this suggests a close degree of labour market attachment. Increasing net immigration and more competition for jobs has helped cap wage inflation, which has remained moderate for this stage of the cycle.

While there are concerns that the ageing of the population will lower aggregate labour force participation, the participation rate as it stands is the third highest on record. There has been a steady increase in participation in the over-55s age group, for both lifestyle and balance sheet reasons. We expect this trend to continue, supporting overall labour force participation. If the participation rate were down at historical norms, the unemployment rate would in theory be sub-3% rather than the 5.4% rate seen in Q3 (abstracting from the skills question).

**With the economy on a moderating growth trajectory, so too will be demand for labour.** Surveyed employment intentions and job advertising suggest we are past the peak for annual HFLS employment growth. We expect this to moderate from around 2% at present to around 1.3% in 2015 and 1.2% in 2016. Initially this will outstrip labour force growth, with the unemployment rate likely to drift below 5% by early 2015, but subsequent growth in employment is likely to move in line with working age population growth. Capacity bottlenecks are expected, with firms finding it increasingly difficult to attract the right employee as the unemployment rate falls.

We’re expecting modest rates of wage inflation going forward. A sub 5% unemployment is “tight” skills-wise but not extreme. Annual private sector wage growth is expected to settle around 3½% by late next year. Along with steady employment growth, this provides a decent platform for household incomes and spending.

We’re critically assuming that a continued strong focus on productivity growth will temper the impact of rising wages on unit labour costs (and potentially inflation). A decent microeconomic platform will help ease frictions in some pockets (i.e. Christchurch and construction). But as the cycle matures and the unemployment rate remains low, market forces and signals will invariably send wages a tad higher.
SUMMARY

The fiscal accounts are on track for a return to OBEGAL surplus by 2015/16. Given the outlook for nominal GDP is a tad weaker than we previously expected, progress in rebuilding fiscal buffers (via surpluses) will be slower and there will be very little loot available for a spend-up. The more important element to fiscal policy is the microeconomic agenda, which is a long-term precursor to better macroeconomic outcomes.

ON THE RIGHT TRACK

The broad trends in the fiscal accounts are unchanged. The Government is on track to turn material deficits into surpluses. Tax revenue is projected to outstrip spending; restraint remains the watchword, with tight Budgets flagged in upcoming years. Net debt (as a share of GDP) is close to peaking and is expected to decline towards the end of the projection period.

Progress toward meeting fiscal objectives is, however, looking a little slower. The nominal side of the economy is not as strong, and this will have repercussions for the public finances.

FISCAL FORECASTS

<table>
<thead>
<tr>
<th>June years</th>
<th>2014</th>
<th>2015(f)</th>
<th>2016(f)</th>
<th>2017(f)</th>
<th>2018(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OBEGAL ($bn)</td>
<td>-2.9</td>
<td>-0.5</td>
<td>0.3</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>- as % of GDP</td>
<td>-1.3</td>
<td>-0.2</td>
<td>0.1</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Operating Balance ($bn)</td>
<td>2.8</td>
<td>2.0</td>
<td>3.0</td>
<td>3.5</td>
<td>4.6</td>
</tr>
<tr>
<td>- as % of GDP</td>
<td>1.2</td>
<td>0.8</td>
<td>1.2</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Net Core Crown Debt ($bn)</td>
<td>59.9</td>
<td>64.0</td>
<td>68.2</td>
<td>69.2</td>
<td>69.1</td>
</tr>
<tr>
<td>- as % of GDP</td>
<td>25.6</td>
<td>27.0</td>
<td>27.7</td>
<td>26.8</td>
<td>25.7</td>
</tr>
<tr>
<td>Core Crown residual cash ($bn)</td>
<td>-4.1</td>
<td>-4.3</td>
<td>-4.0</td>
<td>-1.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Bond Tender Programme ($bn)</td>
<td>8.0</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Rather than focus on the exact numbers, we emphasise that it is the trend in the fiscal accounts that matters and this trend will remain one of improvements. A couple of hundred million is neither here nor there, when we consider total spending and revenue sits around $80 billion.

Slower progress does mean less of a buffer to absorb adverse developments, however. A projected underlying surplus of around 0.5% of GDP three years out is trivial given how much the fiscal accounts can sway with economic developments. The bottom line here is limited scope for a good old-fashioned spend-up. Getting value for money, driving productivity uplifts, and an investment-style approach to Crown management will remain features for years to come.

A contractionary fiscal stance of around 2½% of GDP in the next four years will keep the OCR lower than otherwise, helping to lean against the boost provided by the Canterbury rebuild. Tight fiscal policy will also help take pressure off the NZD at the margin, though to get serious about it you need to be running surpluses of 5-10% of GDP. That’s not going to happen any time soon.

THE BIGGER PICTURE

Despite obvious pressures, fiscal policy is moving in the right direction. Our fiscal position and framework remain world class and stand out as a beacon compared to profligate peers overseas. Watch for New Zealand to be put up as a poster-child in the fiscal arena.

The unappreciated fiscal story is the significance of the microeconomic agenda. It’s adding to the economy’s supply-side backbone (welfare reforms, deeper capital markets, and unlocking natural resources), but also helping alleviate pressure points and disarm potential economic saboteurs. One example is the Auckland property market. It needs an across-the-board action plan; green-fields and brown-fields development, good planning, cheaper consenting, investigations into construction costs etc. We don’t have a clear-cut solution but progress is being made. In sum, we still have market frictions but they aren’t sufficient to dominate the landscape.

FIGURE 1. UNDERLYING OPERATING BALANCE

Source: ANZ, NZ Treasury.
INFLATION

SUMMARY
Annual inflation is expected to fall below 1% by the end 2014 and remain well below the midpoint of the inflation target until well into 2016. Persistently low inflation is raising the question as to whether the new Goldilocks paradigm of low inflation and strong growth is sustainable. While a number of influences are expected to keep annual inflation below the inflation target range, we expect some of these to pass in time, with the RBNZ having to lift the OCR from late 2015 to keep future aggregate inflation outcomes around the target midpoint.

HOW LOW CAN YOU GO?
We expect annual inflation to temporarily fall below 1% by the end of the year and into 2015. This reflects the impact of the still-high NZD and falling global energy and food prices, which are likely to add further disinflationary impetus to tradable prices. Combined with this are the impacts of strengthening net immigration, which – whilst adding to demand – is helping to contain wage inflation and address capacity bottlenecks within the economy. Despite the economy being in a position of excess demand, measures of core inflation remain low.

Having such a low rate of inflation is not totally surprising as it is a global phenomenon. However, forecasters (including ourselves) have now over-estimated inflation for years. Back in the December 2012 MPS, for example, the RBNZ has projected that CPI inflation would end 2014 at 1.8%, with the forecast consensus generally higher than that. Annual CPI inflation has been below the midpoint of the inflation target for the past three years, with sub-2% core inflation for the last four. With the New Zealand economy posting reasonable rates of growth in this period, the question remains whether the current spate of low inflation reflects transitory or more enduring features.

Of the deflationary factors we can identify, falling oil prices, the high NZD, the falling yen (which feeds into car prices), net migration boosts to labour supply, and subdued credit growth relative to nominal GDP fall into the category of “temporary but persistent”. There are potentially some more enduring influences too, with better productivity growth suppressing unit labour costs, households both saving and spending as opposed to simply spending (intensifying retail competition), better-anchored inflation expectations, and technological change altering market dynamics.

Surveyed measures of inflation expectations have eased in some surveys and remain clustered around the midpoint of the inflation target; that’s helpful. Pockets of pricing pressure remain, most notably in the construction sector, but to date they have not filtered through into more generalised price lifts – a welcome dynamic.

Our projections assume both transitory and enduring influences will continue to feature. Annual CPI inflation is expected to gradually lift over 2015. Annual non-tradable inflation is expected to lift from 2.5% at present to above 3% by late 2016, with domestically generated inflation lifting as the expansion matures and wages firm. Administrative price changes will also affect the inflation profile. By construction, inflation invariably settles around 2% in the RBNZ projections. The RBNZ is mandated to deliver precisely this and we expect they will be up to the task.

FIGURE 1. RBNZ CPI INFLATION FORECASTS

CPI FORECAST

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Qtr % chg</th>
<th>Ann % chg</th>
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<tbody>
<tr>
<td>Mar-14</td>
<td>0.3</td>
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<tr>
<td>Jun-14</td>
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<tr>
<td>Sep-14</td>
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<td>1.0</td>
</tr>
<tr>
<td>Dec-14 (f)</td>
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</tr>
<tr>
<td>Mar-15 (f)</td>
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</tr>
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<td>Jun-15 (f)</td>
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<td>Sep-15 (f)</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Dec-15 (f)</td>
<td>0.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Mar-16 (f)</td>
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<td>1.7</td>
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<td>Jun-16 (f)</td>
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<td>Sep-16 (f)</td>
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<tr>
<td>Dec-16 (f)</td>
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<td>Mar-17 (f)</td>
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<td>Jun-17 (f)</td>
<td>0.6</td>
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<td>Sep-17 (f)</td>
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<tr>
<td>Dec-17 (f)</td>
<td>0.3</td>
<td>2.1</td>
</tr>
</tbody>
</table>
**SUMMARY**

The currency story is increasingly USD-centric. Solid domestic growth and the associated positive real yield and term premiums remain NZD supportive. However, this is competing with the strengthening US economy – which is rapidly closing the gap to New Zealand – and its associated USD bull market. It is a different story on a trade-weighted basis, illustrated by strong support for NZD crosses against the EUR and JPY. Finally, while we expect NZD/AUD to remain above long-run averages, NZD/AUD in the lower-mid 0.90’s looks to have fully priced in NZD outperformance but there is a fair chance this cross hits all-time highs.

**RETURN TO TREND**

Strong economies don’t tend to have weak currencies. Strong net immigration, high domestic confidence, an improving housing market, and increasing labour market utilisation are supporting the NZD. The RBNZ is talking about (eventually) lifting rates for a reason; the economy looks in good shape. Growth is slowing, but from an above-trend rate towards trend; 3% growth is not something to be sniffed at.

Courtesy of best-in-class yields and a solid growth outlook, the NZD will remain supported during times where global drivers are on the back foot. However, yield and economic growth are a well-trodden path and a well-known story. As recent falls in the AUD illustrate, yield and growth are not always enough to stem currency declines.

Potential downside risks to the economy – and thus the NZD – continue to dominate global market thinking. The candidate is pretty clear; dairy prices have halved, the terms of trade are in retreat and the RBNZ is repeatedly saying the NZD is unjustifiably and unsustainably high.

Whilst compelling, it’s only part of the story. It’s the potential for a sustained drop in dairy prices carrying into the 2015/16 season that we’re watching closely. Such a scenario would necessitate an adjustment in both the NZD and the OCR. But that’s a scenario at present, as opposed to our core view, which envisages dairy prices lifting in Q2 2015. We still have an economy set for trend growth; the tightening in financial conditions (high NZD, lower commodity prices) is insufficient to roll the economy. The RBNZ still has a soft tightening bias despite falls in dairy prices.

**COMMODITY RISKS**

While dairy dominates commodity discussions with regards to New Zealand, non-dairy prices remain at historically high levels – see the chart below.

**FIGURE 1: DAIRY A LEADER OR AN OUTLIER?**

Source: ANZ

**THE GLOBAL OUTLOOK**

We retain a strong USD bias strategically, but expect the short-term environment to remain range-bound and reasonably currency specific, giving local factors a turn in the driving seat. Our core medium-term view continues to anticipate ongoing improvements in the US economy and tighter liquidity and continued deleveraging pressures in China, which results in a broadly stronger USD. But in the near term somewhat more confusing dynamics are likely to play out as markets debate the Fed’s reaction to global growth dynamics.

The news out of China is hardly stellar – structural challenges remain large, commodity prices remain under downward pressure, and the data is patchy. However, the data surprise index is showing modest improvement and, importantly, the monetary policy environment appears to have become more stimulatory. The recent rate cut will help, but the story is broader than that. While China’s structural challenges remain large, we are cautious about assuming that those structural challenges will be manifest in an unending flow of poor short-term news. There seems to be enough good news to challenge the consensus in the near term, particularly given ANZ expectations that the RMB will remain strong.

The recent move to a 17-country TWI reduces the weights of both the EUR (-16% to 10.8%) and the JPY (-6.7% to 6.3%) in the trade weighted index. This is perhaps fortuitous as the ECB and BoJ policy settings are moving in the opposite direction to the RBNZ, although there are offsets via the inclusion of ASEAN currencies. Both Europe and Japan are struggling with stagnant economies and deflationary
EXCHANGE RATE

concerns. 2015 is likely to be characterised by expanding central bank balance sheets and weaker currencies for both economies.

NZD/USD: USD BULL TREND

We expect NZD/USD to continue a steady decline over 2015 as the Fed begins the long road towards policy normalisation. The road will not be a smooth transition to USD strength, with New Zealand’s yield advantage ensuring the NZD/USD remains higher than long-run averages and sought on dips. We also expect USD gains to tail off after the first few US interest rate hikes have been concluded. There are three wild cards. The first is the potential for former emerging market darlings to respond negatively to pending lifts in the global cost of capital, of which the US is the key benchmark. USD diversification could easily be replaced by reversification. The second is a sharp uptick in volatility and market unease in response to pending lifts in the Fed Funds rate; October’s bout of unease will not be the last. The third is for commodities in general to follow their historical experience where busts follow booms. There have been three periods of associated pick-up in commodity volatility in the past couple of hundred years. The first was at the start of the 20th century and the second after 1971. Oil prices suggest we may be on the cusp of another.

NZD/AUD: STRUCTURALLY HIGHER

The RBA and RBNZ are again on divergent policy paths and NZD/AUD has broken back toward post-float highs. Markets are pricing a rate cut in the first half of 2015 from the RBA, and while the hurdle to cuts seems high, RBA Governor Stevens has not ruled it out. Contrast this with the RBNZ, where Governor Wheeler explicitly reiterated the RBNZ’s tightening bias, and there is little wonder that NZD/AUD is again threatening to make a new post-float high. Add to this soft commodities (NZD-centric) proving generally more resilient in the face of the hard commodity (AUD-centric) sell-off, and it is reasonable to expect NZD/AUD to remain elevated.

However, ANZ does not expect the RBA to cut rates; in fact our forecasts are for the RBA to move to increase interest rates in November 2015 – before the RBNZ (ANZ’s forecast for the RBNZ’s next hike is December 2015) – but markets are in no mood to listen to this message. Risks around ANZ forecasts look unusually wide, while markets continue to express divergent policy paths for the RBA and RBNZ.

NZD/GBP: SECOND TO USD

Fundamentally we expect GBP to strengthen against NZD as the BoE moves to normalise policy. Similar to the US, we expect GBP gains to be most prominent in the initial stages of the BoE transition to raise rates; we expect the process to slow significantly once the process becomes more ingrained in market expectations. We expect the BoE to begin this process marginally after the FOMC, so this cross should lag NZD/USD moves. However, there is more uncertainty in our forecasts for the NZD/GBP, given the close proximity and greater trade linkages between the UK and the Eurozone. Risks here lie with a slower than forecast decline for the NZD/GBP due to continued weakness in Europe.

NZD/EUR: STABLE, WITH RISKS

Markets look to have fully priced further monetary policy accommodation in the Eurozone. This is likely to take the form of some form of quantitative easing (QE) involving the purchase of EU sovereign bonds. The ECB is also expected to maintain negative deposit rates throughout 2015, ensuring those with capital in Europe seek safe investments with real yield. A deflationary and recessionary mind-set in Europe is likely to make New Zealand investments attractive. This cross has both upside and downside risks in 2015, with a further deterioration in European activity likely to see EUR/USD outpace NZD/USD declines, and successful implementation of policies aimed at union-wide integration the main upside risk for EUR.

NZD/JPY: ELEVATED

Japan is undergoing the largest expansion of its monetary base (relative to its balance sheet) in modern history. This commitment to reflating the Japanese economy should ensure JPY remains weak over the foreseeable future, and that investment flows will seek high-yielding assets such as the NZD. We expect this to keep the NZD/JPY elevated, with any periodic bouts of weakness an opportunity to buy NZD with JPY assets.

The process of Abenomics may have also passed the point of no return: any attempts to back away from reform at this stage would also see JPY continue to decline, as the BoJ is well on its way to fully monetising Japanese government debt.
## EXCHANGE RATE FORECASTS (AVERAGE OF QUARTER)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>NZD/USD</th>
<th>NZD/AUD</th>
<th>NZD/JPY</th>
<th>NZD/GBP</th>
<th>NZD/EUR</th>
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<td>0.51</td>
<td>0.64</td>
<td>80.9</td>
</tr>
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<td>Sep-14</td>
<td>0.77</td>
<td>0.89</td>
<td>85.0</td>
<td>0.48</td>
<td>0.62</td>
<td>76.1</td>
</tr>
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<td><strong>0.78</strong></td>
<td><strong>0.94</strong></td>
<td><strong>92.0</strong></td>
<td><strong>0.49</strong></td>
<td><strong>0.62</strong></td>
<td><strong>78.0</strong></td>
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<td>0.76</td>
<td>0.89</td>
<td>88.2</td>
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<td>76.4</td>
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<td>0.89</td>
<td>88.1</td>
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<td>0.63</td>
<td>76.0</td>
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<td>86.9</td>
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<td><strong>0.41</strong></td>
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INTEREST RATES

SUMMARY
The OCR is on hold for a year, but still biased up, though there is considerable "skew" around our central forecast, such are the uncertainties. With four OCR hikes under the belt and inflation nowhere to be seen (yet), the RBNZ is well advanced in its tightening cycle. This gives local interest rates plenty of capacity to absorb much of the gradual rise in global long-term interest rates that we forecast. We are also mindful that while the US Federal Reserve is set to lift the Fed Funds rate in March, markets expect the RBA to cut, Chinese growth is slowing, and the ECB has yet to fully implement full-blown QE. These factors should dampen the rise in global bond yields.

A BOX OF FLUFFIES
The outlook for the economy still looks reasonable. Growth is running at a rate at which available resources across the economy are being absorbed, which biases inflation up. It’s the same story for the OCR. We’re not talking anything major on either front, but rather a "drift" bias.

Low inflation (refer to page 10) means the RBNZ can also “grease the wheels of the economy” a little longer by keeping rates lower than would otherwise be the case. There are a host of reasons why inflation – and hence interest rates – are being kept lower than would otherwise be the case.

- The elevated NZD and aggressive retail competition is suppressing tradable inflation.
- Global inflation nuances are weak and interest rates low, with the latter keeping the NZD more elevated than domestic fundamentals would normally warrant.
- Technology (online shopping, availability of real-time information and prices) is changing market pricing dynamics.
- The economy appears able to run a little faster without fuelling inflation; potential growth is higher courtesy of rising productivity, investment, high labour force participation and strong net immigration.
- Some structural forces are dampening the pass-through from the demand side of economy and non-tradable inflation. In short, we’re not seeing the usurping of spare capacity flow into pricing as normal.
- Inflation expectations have moderated, and arguably inflation may not be the historical threat of the past. In fact prior to the 1970s, inflation wasn’t a concern.

- Credit growth is low and households are saving in aggregate. That combo is not inflationary and we’re not seeing the spillover from housing-related activity into the broader domestic economy.

With 100 basis points of tightening already delivered – yet to be fully felt across the economy – and inflation low, the RBNZ therefore has the luxury of time on its side.

Our central scenario is for gradual increases in the OCR. We’ve pencilled in a further 100 basis points of tightening over the projection period. That’s takes the OCR back towards a level we consider somewhat neutral, as opposed to firmly jumping on the brakes.

However, there is now some clear “skew” around that central scenario.

- The global scene looks precarious in some pockets. Both Europe and Japan are cranking up the printing presses, which will keep the NZD high, a key consideration for inflation and the OCR. Prospects have soured somewhat for China. It now looks like the RBA will be cutting rates in 2015. Having the RBNZ too far out of step doesn’t pass the smell test to us.

- There are downside economic risks to manage, notably the potential for the dairy payout to be weak for two seasons and not just one. One year of a low payout is manageable; two years will require the NZD to adjust and could see a lower OCR.

- Upside domestic risks remain, most notably in the form of the Auckland housing market, fuelled by shortages, still-low mortgage rates, and booming net immigration. That’s a combination that typically fuels domestic growth and inflationary side-effects.

- While we can point to structural suppressants of inflation, some are also cyclical, and their power could fade as the likes of the NZD turns, particularly if sentiment towards the USD firms.

We’re mindful of the risks, but our baseline of modest growth and gradual lifts in inflation dominates. The key message, however, is that everything is conditional on the likes of the NZD, the global scene holding together, commodity prices finding a floor, some clarity over the drivers of inflation emerging, and the New Zealand economy achieving solid growth. That’s a lot of
ducks to line up in what is a highly uncertain environment – a lot can happen in a year.

With the OCR on hold for now and the resumption in the tightening cycle some months away, we expect short-end interest rates to hold fairly steady through to mid-2015. Market pricing is broadly consistent with the RBNZ’s and our own projections up front, but diverges thereafter. The central scenario is not necessarily the median outcome and markets are naturally conservative. Given the degree of uncertainty, and the amount of “carry” on offer, we expect interest rates to continue to trade below what the RBNZ’s and our projections imply.

FIGURE 1. OCR EXPECTATIONS

Source: ANZ, RBNZ, Bloomberg

GLOBAL BEAT

New Zealand long-end interest rates continue to move to a global beat, with local yields at the year’s lows. This move has surprised many investors, particularly now that the Fed has brought its QE program to an end, and given the improvement in the tone of US data. We do expect US bond yields to rise, but in the near term, yields remain low thanks to the global low inflation environment, and in response to the expansion of monetary policy stimulus in Japan and Europe. The US is slowly normalising policy, but Japan and Europe are certainly not!

Looking ahead, we expect the US Federal Reserve to start lifting the fed funds rate (FFR) from March 2015. The Fed has made significant headway in getting unemployment down and has, practically speaking, achieved the “full employment” component of its dual mandate. It has made less progress towards getting inflation up towards its 2% target (annual CPI stands at 1.7% and the core PCE deflator stands at 1.6%), and global oil price developments will not make this job any easier.

While there is an element of truth to the idea that, having gotten the unemployment rate down, future policy decisions will be more closely aligned to how inflation evolves, we are also mindful that current FFR settings are unsustainable. A zero FFR was appropriate when the unemployment rate was 7.5% and inflation was 1.5% (as was the case a year ago), but at the moment, unemployment is lower, and inflation higher than they were. We are also mindful that current monetary policy settings are causing significant asset price imbalances. Inflating asset prices was a deliberate strategy on the part of the Fed, but now that the “emergency” is behind us, policy needs to normalise. As US monetary policy normalises, we also expect bond yields to rise.

FIGURE 2. NZ AND US INTEREST RATES

Source: ANZ, RBNZ, Bloomberg

Europe is a different story entirely. Growth is weak, inflation is turning into deflation, and the region is a long way from getting its fiscal house in order, and in fact, it now has the highest debt to GDP ratio it has ever had. The one thing that has given Europe more wiggle-room has been low interest rates, but even then, as the debt ratios suggest, progress has been poor. Europe’s inability to weather higher interest rates won’t prevent the market from trying to lift them (after all, that’s the discipline you’d expect the “invisible hand” of the market to wield). However, the ECB and other government agencies might step in, and it is this threat that is preventing yields from rising too far in Europe.

Against this backdrop, and given the choices available to international investors, we see scope for New Zealand bond yields to absorb a good degree of the gradual lift in global bond yields that we expect to see in coming years. Indeed, a circa 4% yield on a New Zealand 10-year bond stands in stark contrast to the 0.7% available in Germany, 1.0% in France, 1.9% in the UK and 2.2% in the US. Not one developed market offers better yields than New Zealand, forcing investors to turn to the likes of Turkey, Iceland, Russia, South Africa and...
Greece for better yields. As such, our forecasts incorporate only a mild rise in New Zealand interest rates from here, with the 10-year bond yield rising to 4.6% by the end of 2015, and the spread between New Zealand and US bonds contracting by 0.2%.

**NZ/AU REALITY CHECKS**

One obvious development over the past quarter has been the re-widening of the spread between New Zealand and Australian 10-year bonds. This has occurred as the Australian market has moved to price in cuts and as the RBNZ has reiterated its (conditional) intention to continue gently lifting interest rates in coming years. We do not expect the RBA to ease policy, and instead expect them to be on hold for an extended period.

Markets typically like to sway expectations one way or the other, with little opportunity generated by assuming rates will stay still. Given the low inflation environment, and slowing growth in Australia (real GDP has been slowing all year and nominal GDP shrank by 0.1% in Q3) it’s no surprise that markets are toying with the idea of cuts. The recent release of the Australian Financial System Inquiry (which recommended a lift in tier one capital ratios) has only added fuel to the fire, as it implies lending margins higher than otherwise.

New Zealand market pricing is likely to be affected by the increasing prospect of RBA rate cuts. Given that the New Zealand cash rate is already 100bps higher than that in Australia, it’s hard to see the RBNZ “out-hiking” the RBA in a relative sense over 2015, yet this is what markets are pricing in, as Figure 3 shows. Whether it’s the Australian market distancing itself from cuts or the New Zealand market pricing in more neutrality, or both, some correction in the divergence in market pricing and expectations seems likely. Either way, we expect New Zealand bonds to outperform their Australian counterparts.

**FIGURE 3: AUSTRALIA AND NEW ZEALAND POLICY EXPECTATIONS**

Source: ANZ Research, RBA, RBNZ, Bloomberg

**NEW ZEALAND INTEREST RATE FORECASTS (END OF QUARTER)**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>OCR</th>
<th>90-day</th>
<th>2-year swap</th>
<th>5-year swap</th>
<th>10-year bond</th>
<th>US 10-year bond</th>
<th>AU 10-year bond</th>
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<td>2.7</td>
<td>2.7</td>
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<td>4.1</td>
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<tr>
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<td>Dec-14(e)</td>
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<td>4.9</td>
<td>4.7</td>
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## ECONOMIC FORECASTS

### Real Gross Domestic Product

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<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
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<td>0.6</td>
<td>0.6</td>
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<td>Total GDP, AAPC</td>
<td>2.8</td>
<td>3.1</td>
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<td>3.0</td>
<td>3.0</td>
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<td>3.0</td>
<td>2.9</td>
<td>2.7</td>
<td>2.7</td>
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</table>

### Real GDP Components

- **Private Consumption, QPC**: 0.2 to 0.7
- **Private Consumption, AAPC**: 0.3 to 0.6
- **Public Consumption, QPC**: 1.4 to 1.2
- **Public Consumption, AAPC**: 1.7 to 2.7
- **Residential Investment, QPC**: 11.1 to 11.0
- **Residential Investment, AAPC**: 18.9 to 18.4
- **Other Investment, QPC**: -1.2 to 3.0
- **Other Investment, AAPC**: 9.0 to 8.1
- **Gross National Expenditure, QPC**: 1.2 to 6.6
- **Gross National Expenditure, AAPC**: 4.8 to 6.6
- **Exports, QPC**: 2.8 to 2.9
- **Exports, AAPC**: 2.6 to 4.9
- **Imports, QPC**: 1.9 to 3.2
- **Imports, AAPC**: 8.0 to 8.7

### Prices

- **Headline CPI, QPC**: 0.3 to 0.1
- **Headline CPI, APC**: 1.5 to 1.0
- **Non-tradable CPI, QPC**: 1.1 to 0.4
- **Non-tradable CPI, APC**: 3.0 to 2.7
- ** Tradable CPI, QPC**: -0.7 to 0.1
- ** Tradable CPI, APC**: -0.6 to 0.1

### External Accounts

- **Ann. Balance on Goods, % of GDP**: 12.4 to 0.5
- **Ann. Balance on Services, % of GDP**: 0.6 to 0.8
- **Ann. Balance on Invisibles, % of GDP**: -4.3 to 0.5
- **Ann. CAB, % of GDP**: -2.6 to 1.4
- **Net Int'l Inv't Position, % of GDP**: -66.9 to -65.3

### Terms of Trade (SNA basis)

- **Export Prices, QPC**: -1.4 to -4.1
- **Export Prices, APC**: 11.0 to 5.3
- **Import Prices, QPC**: -1.5 to -1.2
- **Import Prices, APC**: 3.7 to 0.8
- **Terms of Trade, QPC**: 0.1 to -3.0
- **Terms of Trade, APC**: 14.7 to 9.9

### Labour Market

- **Employment, QPC**: 0.9 to 0.5
- **Employment, APC**: 3.7 to 3.7
- **Labour Force, QPC**: 0.8 to 0.1
- **Labour Force, APC**: 3.4 to 2.8
- **Unemployment Rate, sa**: 6.0 to 5.6
- **Participation Rate, sa**: 69.3 to 68.9
- **QES Private Sector Wages, APC**: 2.9 to 3.1
- **QES Public Sector Wages, APC**: 1.8 to 1.3

**Forecasts in bold**
- QPC – quarterly % change
- APC – annual % change
- AAPC – average annual % change
- sa – seasonally adjusted
KEY ECONOMIC INDICATORS

NEW ZEALAND COMPARED TO MAIN TRADING PARTNERS (LATEST AVAILABLE FIGURES)

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<th></th>
<th>NZ</th>
<th>Australia</th>
<th>USA</th>
<th>Japan</th>
<th>UK</th>
<th>China</th>
<th>Germany</th>
<th>South Korea</th>
<th>Taiwan</th>
<th>Malaysia</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>Indonesia</th>
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<td>Population, in millions</td>
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<td>23</td>
<td>318</td>
<td>127</td>
<td>64</td>
<td>1,361</td>
<td>81</td>
<td>50</td>
<td>23</td>
<td>30</td>
<td>7</td>
<td>5</td>
<td>250</td>
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<td>Area in 1,000 km²</td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>Inhabitants per km²</td>
<td>268</td>
<td>7,741</td>
<td>9,827</td>
<td>378</td>
<td>244</td>
<td>9,597</td>
<td>357</td>
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<td>330</td>
<td>1</td>
<td>1</td>
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<td>629</td>
<td>388</td>
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<td>Change in real terms (%)</td>
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<td>2.7</td>
<td>2.5</td>
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<td>5.3</td>
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<tr>
<td>Nominal GDP per capita</td>
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<td>57,662</td>
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<td>12,928</td>
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<td>NZ exports to ... NZDm (FOB)</td>
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<td>1,544</td>
<td>10,901</td>
<td>952</td>
<td>1,734</td>
<td>1,016</td>
<td>943</td>
<td>729</td>
<td>1,015</td>
<td>958</td>
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<td>Share of NZ Exports (%)</td>
<td>n/a</td>
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<td>NZ imports from ... NZDm (VFD)</td>
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<td>2,174</td>
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<td>Share of NZ Imports (%)</td>
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<td>11.1</td>
<td>6.6</td>
<td>2.6</td>
<td>16.7</td>
<td>4.8</td>
<td>4.7</td>
<td>1.6</td>
<td>4.3</td>
<td>0.2</td>
<td>4.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Current Account balance</td>
<td>-2.5</td>
<td>-3.5</td>
<td>-2.3</td>
<td>-0.1</td>
<td>-4.4</td>
<td>1.7</td>
<td>7.3</td>
<td>6.2</td>
<td>12.3</td>
<td>5.9</td>
<td>1.8</td>
<td>18.6</td>
<td>-3.2</td>
</tr>
</tbody>
</table>

REAL GDP GROWTH

90 DAY INTEREST RATE

LONG-TERM GOVERNMENT BOND YIELD

CURRENT ACCOUNT BALANCE

NZX50 SHARE PRICE INDEX

Source: ANZ, Statistics NZ, Bloomberg, OECD
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