ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

18 June 2018

INSIDE

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WHAT MONEY CAN'T BUY

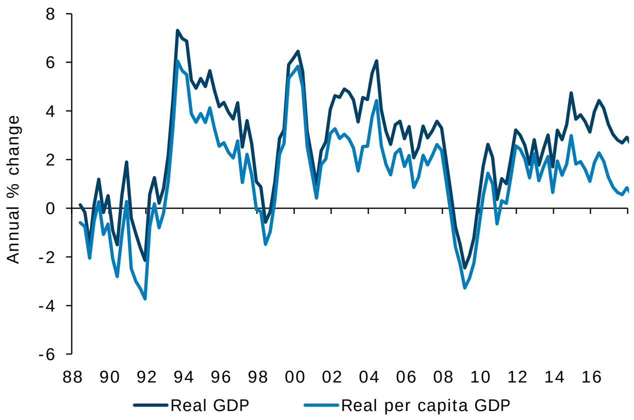
ECONOMIC OVERVIEW

A bill is currently under consultation that will restrict foreign buyers from purchasing residential property in New Zealand. Outcomes are uncertain; we expect the policy may dampen house price inflation, but only temporarily and by a small amount, as foreign buyers currently comprise only a small part of the market. However, a lack of historical data means we cannot draw any firm conclusions about the impact the policy may have had if introduced earlier, or the impact it may have on the next housing cycle. It is clear though that banning foreign buyers is not a quick fix on housing affordability. Housing demand is underpinned by still-low mortgage rates and still-strong net migration, and on the supply side, there are important issues around high construction costs, restricted supply of land, and provision of infrastructure. It is important that the restrictions are not permitted to signal that New Zealand is closed for business. The benefits of openness are large and accrue to all New Zealanders.

CHART OF THE WEEK

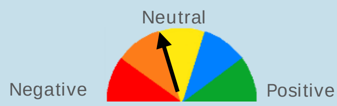
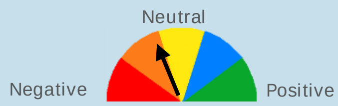
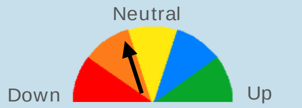
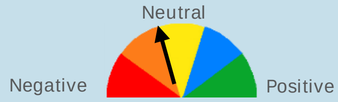
We expect to see a soft print for GDP this week (+0.4% q/q in Q1). We expect the economic cycle has further to run, but growth momentum continues to slow.

GDP and GDP per capita



Source: Statistics New Zealand, ANZ Research

THE ANZ HEATMAP

Variable	View	Comment	Risks around our view
GDP	3.2% y/y for 2018 Q4	The economy is not quite firing on all cylinders. However, we see growth holding around 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

A bill is currently under consultation that will restrict foreign buyers from purchasing residential property in New Zealand. Outcomes are uncertain; we expect the policy may dampen house price inflation, but only temporarily and by a small amount, as foreign buyers currently comprise only a small part of the market. However, a lack of historical data means we cannot draw firm conclusions about the impact that the policy may have had if it was introduced earlier, or the impact it may have on the next housing cycle. It is clear though that banning foreign buyers is not a quick fix on housing affordability. Housing demand is underpinned by still-low mortgage rates and still-strong net migration, and on the supply side, there are important issues around high construction costs, restricted supply of land, and provision of infrastructure. It is important that the restrictions are not permitted to signal that New Zealand is closed for business. The benefits of openness are large and accrue to all New Zealanders.

It's a big week ahead on the data front, with both GDP and Balance of Payments. We expect to see a soft print for GDP of +0.4% q/q (2.6% y/y) in Q1 and stability in the annual current account deficit.

FORTHCOMING EVENTS

GlobalDairyTrade auction (early am, Wednesday 20 June). We expect prices to hold up at a reasonable level.

Balance of Payments – Q1 (10:45am, Wednesday 20 June). The annual current account deficit is expected to be roughly stable.

GDP – Q1 (10:45am, Thursday 21 June). With growth momentum having slowed, we expect a softer print of 0.4% q/q (2.6% y/y).

International Travel and Migration– May (10:45am, Friday 22 June). Net migration inflows are expected to continue gradually easing.

WHAT'S THE VIEW?

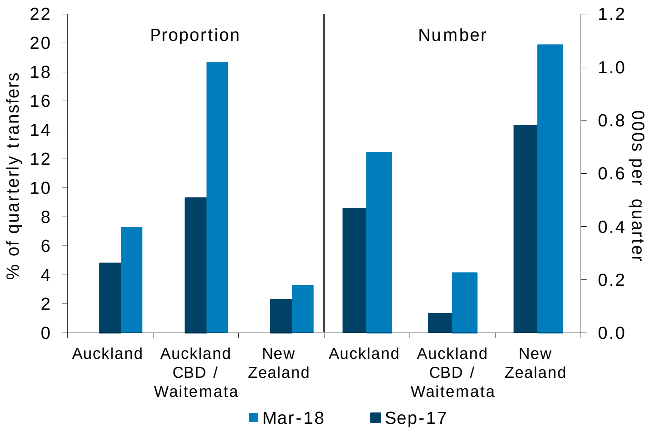
A bill is currently under consultation before the Finance and Expenditure Select Committee **that will restrict foreign buyers from purchasing residential property in New Zealand** (with an exemption for Australians).

The outcomes of the consultation and exact details of the policy are subject to some uncertainty. But as currently proposed, the Government's amendment to the Overseas Investment Act will prohibit any person who is not a New Zealand resident or citizen, unless special consent is given, from purchasing residential property (including through a company or a trust), **unless the property is for non-residential use or will increase housing supply and will be on-sold once built.**

The impact foreign buyers have had on the property market in recent years is subject to uncertainty. In particular, data on foreign purchases of residential property only started to be collected fairly recently (by LINZ and now Stats NZ). With the help of these data, we can get a sense for the impact foreign buyers are having on the market. These data capture foreign purchases, defined as purchases where no New Zealand citizens or residents are buyers, with the proportion currently around 3% nationally. One proviso is that it is possible that non-residents could be funding transactions through (or with) residents, meaning the proportion of foreign buyers may be understated.

We expect that restricting foreign buyers will eliminate an element of current demand – but only a small portion. It is unclear whether the definition of "foreign" in the data will exactly map the final restrictions imposed, but for what it's worth the proportion of foreign buyers appears small both in absolute terms and also when compared to Australia. Foreign buyers are estimated to comprise 7-13% of transactions in Australia (despite build-to-buy restrictions on foreign residential property ownership there).

Figure 1: Residential property transfers to non-New Zealand residents or citizens



Source: Statistics New Zealand, ANZ Research

Our expectation is that the new policy will reduce house price inflation – although probably not by much. Estimates are subject to considerable uncertainty, but we expect the effect of the restrictions on house prices in New Zealand is likely to be small. There were just under 20,000 house sales in New Zealand in the March quarter, and we know that foreign buyers comprised just over 3%

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of property transfers, with about a quarter of them likely to be Australians (based on tax residency data). Making reasonable assumptions about the impact on house sales, we estimate that the restriction might reduce house prices by half a percentage point, relative to a counterfactual scenario where foreign buyers were still in the market.[1] It is possible that foreign investors will find ways to get around the policy, eg by purchasing via New Zealand residents. **To the extent that there is policy avoidance, the effect will be muted.**

Estimates are subject to considerable uncertainty because domestic and foreign buyers may have different attributes. For example, foreign buyers are less likely to be funded through the New Zealand banking system, they are less likely to be constrained by the high level of house prices relative to New Zealand incomes, and the calculus by which foreign buyers make decisions is probably different (eg comparing New Zealand to other international markets). It is possible that the "usual" relationships with sales and prices (used below) do not capture these differences.

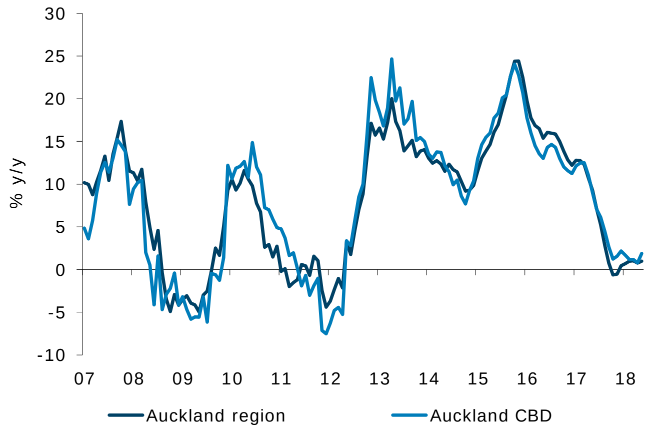
One thing that is clear, however, is that some regions will be affected more than others. There is significant regional dispersion in the degree to which foreigners are active across markets. The proportion of property transfers to foreign buyers is high in Auckland, at 7% in the March quarter. This is particularly the case in Auckland central, where 19% of sales were to foreigners in the March quarter. Foreign purchases are also high in Hamilton city (6%) and Queenstown (10%). Wellington, by contrast, has a low proportion of foreign buyers (1.6%).

While the nationwide impact is likely to be small, effects of policy will be felt more heavily in regions with a higher proportion of foreign buyers. Indeed, prices could fall in central Auckland if domestic buyers do not fill the gap. In other regions, house prices may not be affected at all.

The central Auckland market is dominated by apartments; prices there have been flat since mid-2017, with Auckland CBD house prices moving in line with those in the wider Auckland region. The moderation in Auckland house price inflation seen from late 2016 was driven by a generalised softening in the market, which we ascribe to credit headwinds, investor caution and RBNZ loan-to-value restrictions (the data in figure 2 is based on settlement, not sale, so shows the moderation happening a bit later).

There has been no discernible impact on house prices in central Auckland as a result of the proposed restrictions on foreign buyers – at least so far. But perhaps this is not particularly surprising, as the expected impact is ambiguous – some investors might have been scared off by the change of official tone, while others might have raced to get in before the restrictions take effect.

Figure 2: House price inflation in Auckland



Source: QV, ANZ Research

Indeed, there is some evidence for the latter argument. The proportion of sales to buyers that were not New Zealand citizens or residents was 3.3% in March 2018 – up from 2.3% in September last year. The rise in the proportion of sales to foreigners was driven by a modest increase in sales to overseas buyers in the context of a fall in total sales. But the increase was particularly pronounced in central Auckland. It may reflect a desire by foreign buyers to bring forward purchases ahead of restrictions being implemented, or it could simply reflect relative wariness amongst domestic investors (or even owner-occupiers) compared with investors from offshore. Despite this increase, the proportion of sales to foreign buyers remains small.

Once the policy is implemented, house price inflation may be lower – but only temporarily, though the impact on the house price level should be more persistent (albeit small, based on current sales numbers). In some ways, the loan-to-value ratio restrictions that were imposed by the RBNZ on investors in 2016 worked in a similar way to the foreign-buyer restrictions, in that they eliminate a chunk of buyers from the market. Accordingly, a similar one-off (small) adjustment in the price level is likely to occur, which implies a temporary moderating impact on house price inflation. **Of course, there are a myriad of factors affecting the property market and other policies at play, so the overall**

[1] We assume 2-2.5% of buyers are shut out and that some are replaced by other domestic buyers at the same price (a third, say), meaning house sales might be 1-2% lower in the near term. RBNZ modelling has found that a 5% drop in sales is associated with 1.5% lower house prices – so the ban could potentially reduce house prices by half a percentage point nationwide, assuming no policy avoidance.

outlook is not clear cut. We will discuss these more fully in our next ANZ Property Focus.

With the impact on house price inflation likely small, **we expect the policy will have a negligible immediate impact on housing affordability**. **However, importantly, this does not mean that the policy could not have a bigger impact in the future (or equally, that it would not have had a bigger impact if introduced earlier).** Data produced by LINZ goes back to end-2015 and suggest the proportion of foreign buyers was flat between then and end-2017. However, we do not know the percentage of houses that were being bought by foreigners prior to this or during previous cycles – it could have been larger. The causality between foreign purchases and house price inflation runs both ways, of course, with foreign buyers likely to be attracted by capital gains just as domestic investors are, and the new policy therefore may well contribute to a smaller peak in house price inflation next time round. Without complete data on their impact on sales over the last housing cycle, it is very hard to know. And as we have mentioned, non-residents could have been funding transactions through (or with) residents, so the true impact of foreign buyers could be larger than the data suggests.

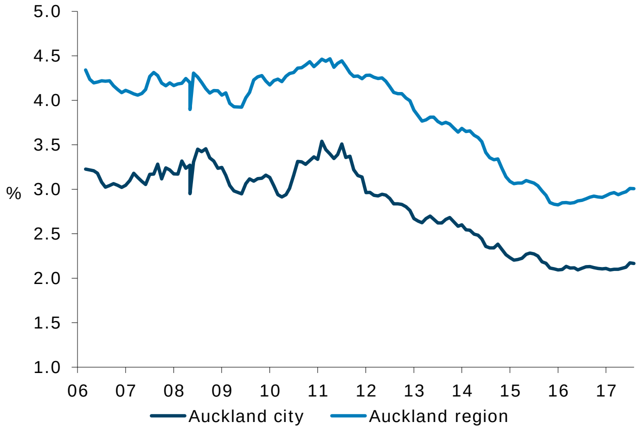
With any new policy, one must be wary of unintended negative consequences. As currently drafted, the new legislation would have a carve out for foreign purchases of non-residential property – it will be important for this to operate smoothly, so that the restrictions do not impinge on business operations or reduce the desirability of New Zealand as an investment destination. In another quirk, foreigners are probably less likely to fund their purchases through the New Zealand banking system. To the extent that foreign buyers are replaced by domestic purchasers, credit growth in New Zealand could increase – but probably only marginally.

If foreigners can only invest in new builds, restricting foreign buyers also has the potential to increase cyclicality in apartment building. In Australia, foreign investors are only allowed to invest in new builds (or substantial renovations), which appears to have led to a risk of over-supply of apartments in certain markets. **As it is currently drafted, the amended Overseas Amendment Act would restrict all foreign purchases of residential property, unless the property was built by the investor and on-sold promptly to a New Zealander** – in practice this is considerably stricter than in Australia (where foreign investors are not required to sell). This may be an unappealing proposition for investors; indeed, it is probably designed to be. Given this difference, and also given that the concentration of foreign buyers is much smaller in New Zealand to start with, we do not expect any more (or less) of a boom-bust apartment supply dynamic to play out as a result of the proposed restrictions.

Indeed, a greater risk would seem to be that, rather than leading to a building boom, housing supply could be impinged as a result of the restriction. A key question is the degree to which foreign investors will be willing to participate in the development and construction of new homes. We are told that foreign investors participate significantly in the Auckland apartment market, and given that finance for large development projects can be difficult to obtain, a restriction on foreign buyers could significantly curb supply by making pre-sale targets more difficult to achieve. Thus even if foreign investors are not heavily involved in new building directly, their contribution to demand could be playing an important role in contributing to confidence amongst property developers.

What about the implications for rents? As interest rates have fallen, rental yields nationally have declined; asset returns tend to exhibit similar long-term trends due to arbitrage. **In recent years, rental yields have fallen more significantly in the Auckland region.** This likely reflects expectations of ongoing strong capital gains or reduced perceptions of risk, with investors willing to accept lower returns out of rents.

Figure 3: Gross rental yields in Auckland



Source: MBIE, QV, ANZ Research

Rental yields in Auckland CBD have fallen in the same way as those in wider Auckland, if not slightly less. That suggests that **a significant "speculative" dynamic is not at play in central Auckland, despite foreigners participating more heavily there.** And any "speculation" that is happening in wider Auckland is perhaps not being driven by investors at all. Owner-occupiers (and indeed first

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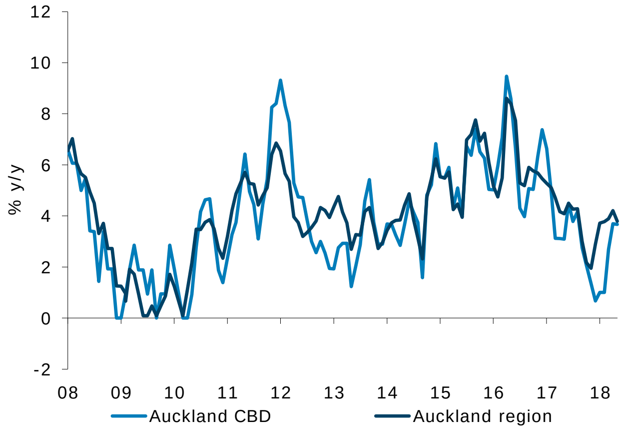
home buyers) can bid up house prices on speculation that house prices will continue rising just as much as investors can.

Figure 4: Rental inflation in Auckland



Source: MBIE, ANZ Research

The foreign buyer restrictions, combined with other proposed policies that will (quite deliberately) make investment in property less attractive, can be expected to make capital gains look less assured, or property investment generally appear a more risky proposition. **Investors may seek compensation by charging higher rents.** Demand to live in a house is relatively inelastic compared to demand to purchase a house. This means that any increases in costs can flow through into rents relatively easily, as long as household income growth and the housing supply balance are amenable. Indeed it is possible that this is already happening in advance of policy changes, with rental inflation having increased through late 2017. The significant increase in rents in Auckland CBD suggests the current environment is conducive to rent increases.

More broadly, amongst the debate about foreign ownership it is important not to lose focus on other important issues pertaining to housing affordability, particularly on the supply side. Eliminating foreign buyers is certainly not a quick fix for the problem, though it will help at the margin.

In particular, not only are mortgage rates still historically low; population growth against a backdrop of constrained housing supply has been a major contributor to the run-up in house prices – as was seen in the 1990s, and as has happened in other supply-constrained housing markets internationally. This has meant that investment in residential property has been a good bet. Since 2012, house prices in New Zealand have risen 70%, and residential property has provided favourable returns relative to other asset classes. When it comes to causality, it is therefore entirely possible that strong increases in house prices have contributed to demand from foreign buyers, more than the other way around.

To address housing affordability, the issue of constrained housing supply needs to be addressed, and land availability is crucial. Increasing the supply of residential land and relaxing restrictions on how land can be used would help. Lower levels of immigration could also help stem rising house prices, but this would make it more difficult for businesses to source labour, particularly in industries like construction.

It is not easy to solve the problem by simply building more houses because the construction industry is facing capacity and capital constraints, and infrastructure investment needs to occur at the same time. **Policies aimed at expanding construction industry capacity and reducing costs would help.** Construction costs are high by international standards, contributing to elevated house prices and housing supply that is slow to respond. This includes labour and materials costs, but also processes and red tape – with bureaucratic delays adding to uncertainty and contributing to cost escalation. **Initiatives to boost construction industry productivity are a step in the right direction.** On that front, some of the initiatives associated with KiwiBuild (such as prefabricated housing) could prove useful.

It is also important to view the issue of foreign ownership in a broader economic context. The fact is, New Zealand is reliant on foreign funds to do business. We have a poor saving record, and investment by foreigners is an important part of our economic landscape. It has been shown to have benefits for productivity, opportunities and wages.[2]

Although the housing market represents only a small part of foreign investment, restrictions do move us in the direction of increased protectionism. In a global economy where trade and free flow of capital have large economic benefits, we need to be careful that we do not send a signal that New Zealand is closed for business, or that foreigners – and foreign capital – are not welcome here. The impact of foreign buyers on our housing market is relatively small. But the benefits of openness are broad and large – and they contribute to the living standards of all New Zealanders.

[2] Mark Holden (August 2016). "Economic impacts of foreign direct investment", Treasury Insight.

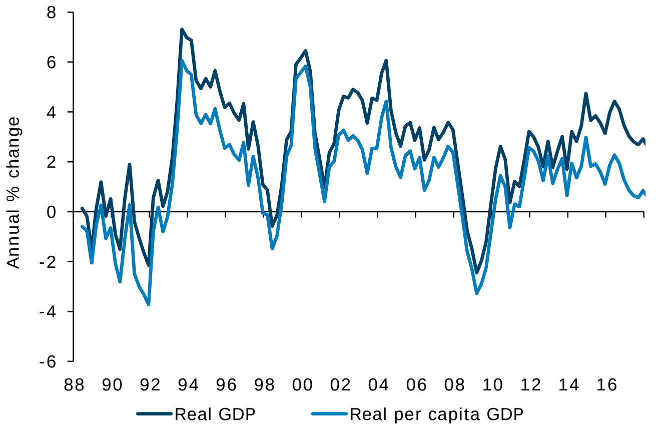
ECONOMIC OVERVIEW

THE WEEK AHEAD

It's a big week on the data front: **Balance of Payments and GDP data are out for Q1.** GDP growth is expected to register a relatively soft print of 0.4% q/q in Q1. There is perhaps some modest upside risk to our quarterly pick, but only at the margin.

Momentum in the economy continues to slow. Annual growth is expected to moderate from 2.9% to 2.6%. This implies that the economy is currently growing below its trend rate (about 3% y/y). Annual growth has moderated from the 4½% annual pace experienced in mid-2016. And if GDP is in line with our expectations, it would imply a fall in per capita GDP of 0.2% q/q, to be up just 0.6% y/y. The services sector is expected to make the strongest contribution to growth in Q1.

Figure 5: GDP and GDP per capita



Source: Statistics New Zealand, ANZ Research

The economy is facing headwinds. Businesses are facing credit and capacity constraints, along with margin pressure and policy uncertainty – and these headwinds are flowing through to activity, with the recent data flow looking fairly lacklustre. At the same time, construction and net immigration – key drivers of recent growth – are expected to have topped out, and we believe consumption growth will cool in the face of a softer housing market.

That said, we don't expect the cycle to completely roll over just yet. Despite headwinds, the economy appears resilient and doesn't have the degree of imbalances (especially external) that have often been the catalyst to tip the cycle over in the past. Supported by strong income growth (in large part a result of elevated export prices) and fiscal expansion, our base case is that the economy will grow around trend (or thereabouts) over the next couple of years.

A few more downside risks are becoming evident, and we expect it will be difficult to achieve strong rates of growth from here. Our forecast is that the economy will grow around trend but not above over the next few years. This is relevant for the RBNZ, with growth at least at trend needed to push core inflation pressures higher. In an environment where the economy is tiring under its own weight, we see inflation increasing only very gradually, with interest rates on hold for the time being.

We expect the seasonally adjusted current account deficit will widen. We have a $3.0bn seasonally adjusted deficit pencilled in, which is around $1.0bn larger than in Q4. This reflects a widening in the goods deficit. Quarterly trade figures can be volatile, and an outcome in line with our expectations would be consistent with normal quarterly volatility. We are not expecting any changes to recent trends. **The annual deficit is expected to be broadly stable.** With nominal GDP expected to lift, the annual deficit is expected to widen only slightly to 2.7% of GDP. **International Travel and Migration data** will be released on Friday**.** We expect that net immigration inflows will continue gradually easing from their current high level of 67,000 people per year.

A little shine has come off the dairy story of late. We expect further price slippage at this week's **GlobalDairyTrade (GDT) auction on Wednesday,** but only toward the bottom of recent ranges. Higher end of season inventories and increased GDT volumes both appear to be weighing a little. Whole milk powder prices have pulled back to the bottom of the USD3,200-$3,300/t range with increased end of season inventory. There has been some nervousness regarding Chinese demand recently too, but auction participant rates have remained robust so far. Trade tensions appear to be benefiting demand for New Zealand dairy products, but if things deteriorate too much the balance could easily be tipped in the opposite direction (i.e. all commodity prices take a hit and/or global growth is negatively impacted).

New Zealand sourced skim milk powder (SMP) has continued to maintain a decent premium due to tight supply. However, an increase in GDT supply has been signalled into December, which will help relieve some of the current pressure (i.e. prices lower). Trade tensions have weighed on US SMP prices recently too, but with an orderly exit of European intervention stocks occurring at present there shouldn't be too much downward pressure. Lastly milkfat prices disappointed at the last auction, further increases in GDT supply has the potential to cap prices despite European milkfat prices continuing to push higher.

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LOCAL DATA

REINZ Housing Market Statistics – May. The housing market is as stable as it gets, with monthly house sales flat at 6,500 per month and house price inflation easing gradually to 3.8% y/y (3mma) currently.

ANZ Truckometer – May. The ANZ Truckometer Heavy Traffic Index rose 3.0% m/m in May, which saw annual growth recover from a softer patch in Q1.

Electronic Cards Transactions – May. Today's data point to genuine weakness in electronic card spending through Q2. After April's weak print, nominal spending increased 0.4% in May.

ANZ Monthly Inflation Gauge – May. In annual terms, the Gauge is up 2.3% and has been losing momentum since February.

Food Price Index – May. Food prices decreased 0.1% in the year to May.

BNZ-BusinessNZ PMI – May. Fell 4.6 points to 54.5.

BNZ-BusinessNZ PSI – May. Up 0.9 points to 57.3.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
19-Jun	US	NAHB Housing Market Index - Jun	70.0	70.0	02:00
	AU	ANZ-RM Consumer Confidence Index - 17-Jun	--	123.0	11:30
	AU	House Price Index QoQ - Q1	-1.0%	1.0%	13:30
	AU	House Price Index YoY - Q1	1.7%	5.0%	13:30
	AU	RBA June Meeting Minutes	--	--	13:30
	EC	ECB Current Account SA - Apr	--	€32.0B	20:00
	EC	Current Account NSA - Apr	--	€40.6B	20:00
	EC	Construction Output MoM - Apr	--	-0.3%	21:00
	EC	Construction Output YoY - Apr	--	0.8%	21:00
20-Jun	US	Housing Starts - May	1312k	1287k	00:30
	US	Housing Starts MoM - May	1.9%	-3.7%	00:30
	US	Building Permits - May	1350k	1364k	00:30
	US	Building Permits MoM - May	-1.0%	-0.9%	00:30
	NZ	Westpac Consumer Confidence - Q2	--	111.2	10:00
	NZ	BoP Current Account Balance NZD - Q1	0.050B	-2.770B	10:45
	NZ	Current Account GDP Ratio YTD - Q1	-2.8%	-2.7%	10:45
	AU	Westpac Leading Index MoM - May	--	0.19%	12:30
	AU	Skilled Vacancies MoM - May	--	-0.5%	13:00
	GE	PPI YoY - May	2.5%	2.0%	18:00
	GE	PPI MoM - May	0.4%	0.5%	18:00
	UK	CBI Trends Total Orders - Jun	1	-3	22:00
	UK	CBI Trends Selling Prices - Jun	--	19	22:00
	US	MBA Mortgage Applications - 15-Jun	--	-1.5%	23:00
21-Jun	US	Current Account Balance - Q1	-$129.0B	-$128.2B	00:30
	US	Existing Home Sales - May	5.53M	5.46M	02:00
	US	Existing Home Sales MoM - May	1.3%	-2.5%	02:00
	NZ	GDP SA QoQ - Q1	0.5%	0.6%	10:45
	NZ	GDP YoY - Q1	2.7%	2.9%	10:45
	AU	RBA FX Transactions Market - May	--	A$538M	13:30
	AU	RBA FX Transactions Government - May	--	-A$630M	13:30
	AU	RBA FX Transactions Other - May	--	-A$6776M	13:30
	UK	Public Finances (PSNCR) - May	--	-£9.7B	20:30
	UK	Public Sector Net Borrowing - May	£5.0B	£6.2B	20:30
	UK	PSNB ex Banking Groups - May	£6.3B	£7.8B	20:30
	UK	Bank of England Bank Rate - Jun	0.50%	0.50%	23:00
	UK	BoE Asset Purchase Target - Jun	435B	435B	23:00
	UK	BoE Corporate Bond Target - Jun	£10B	£10B	23:00
22-Jun	US	Initial Jobless Claims - 16-Jun	220k	218k	00:30
	US	Continuing Claims - 9-Jun	1710k	1697k	00:30
	US	Philadelphia Fed Business Outlook - Jun	29	34.4	00:30
	US	FHFA House Price Index MoM - Apr	0.5%	0.1%	01:00
	US	Leading Index - May	0.4%	0.4%	02:00
	EC	Consumer Confidence - Jun A	0.0	0.2	02:00
	NZ	Net Migration SA - May	--	4930	10:45
	JN	Natl CPI YoY - May	0.6%	0.6%	11:30
	JN	Natl CPI Ex Fresh Food YoY - May	0.7%	0.7%	11:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - May	0.3%	0.4%	11:30
	JN	Nikkei PMI Mfg - Jun P	--	52.8	12:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
22-Jun	NZ	Credit Card Spending MoM - May	--	0.6%	15:00
	NZ	Credit Card Spending YoY - May	--	7.0%	15:00
	GE	Markit/BME Manufacturing PMI - Jun P	56.2	56.9	19:30
	GE	Markit Services PMI - Jun P	52.2	52.1	19:30
	GE	Markit/BME Composite PMI - Jun P	53.3	53.4	19:30
	EC	Markit Manufacturing PMI - Jun P	55.0	55.5	20:00
	EC	Markit Services PMI - Jun P	53.8	53.8	20:00
	EC	Markit Composite PMI - Jun P	53.9	54.1	20:00
23-Jun	US	Markit Manufacturing PMI - Jun P	56.3	56.4	01:45
	US	Markit Services PMI - Jun P	56.5	56.8	01:45
	US	Markit Composite PMI - Jun P	--	56.6	01:45

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 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 remain supported by (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.
Wed 4 July (10:00am)	ANZ Job Ads – June	--	--
Wed 4 July (1:00pm)	ANZ Commodity Price Index – June	--	--
Tue 10 July (10:00am)	ANZ Truckometer – June	--	--
Tue 10 July (10:45am)	Electronic Card Transactions - June	Questions	With a couple more months of data, we will let the dust settle and assess the underlying strength of card spending.
Tue 10 July (1:00pm)	ANZ Monthly Inflation Gauge – June	--	--
10 – 14 July	REINZ Housing Market Statistics – June	Holding pattern	With a number of opposing forces operating on the market, we expect continued stability, for now at least.
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	**0.4**	**0.9**	**0.9**	**0.8**	**0.7**	**0.7**	**0.7**	**0.6**	**0.6**
GDP (% yoy)	2.9	**2.6**	**2.6**	**2.9**	**3.0**	**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)	0.2	0.5	0.5	1.2	0.4	1.4	-0.5	1.5	-2.2	0.4
Retail ECT (% yoy)	5.0	3.5	1.9	5.0	3.8	4.1	4.0	6.7	1.4	4.2
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	-0.3	0.7	0.8	-4.8	3.5	-9.4	-3.7	-0.4	12.4
Car Registrations (% yoy)	13.5	15.6	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0	-0.6
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)	2.9	3.8	3.4	3.6	3.7	3.5	4.0	4.1	3.7	3.7
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	1.5
ANZ World Comm. Price Index (% yoy)	16.3	11.5	10.4	6.0	3.2	4.1	5.0	5.8	7.1	5.4
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	3.0
ANZ Light Traffic Index (% mom)	2.7	-0.1	-0.6	1.5	-1.7	-0.5	-0.2	2.2	-0.5	1.1

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	0.69	0.70	0.69	0.67	0.66	0.65	0.65	0.65
NZD/AUD	0.934	0.925	0.93	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	76.75	74.2	71.8	69.0	66.0	64.4	63.1	62.4
NZD/GBP	0.514	0.526	0.52	0.50	0.49	0.47	0.46	0.45	0.45	0.45
NZ$ TWI	72.5	72.9	73.7	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	2.02	2.01	2.01	2.00	1.99	2.07	2.32	2.48
NZ 10-yr bond	2.84	2.73	2.91	3.05	3.30	3.40	3.35	3.60	3.65	3.65
US Fed funds	1.75	1.75	2.00	2.00	2.00	2.25	2.25	2.50	2.50	2.50
US 3-mth	2.36	2.30	2.33	2.25	2.50	2.70	2.70	2.95	2.95	2.95
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00
AU 3-mth	2.04	1.98	2.06	1.90	1.80	1.80	1.80	2.05	2.30	2.30

	15 May	11 Jun	12 Jun	13 Jun	14 Jun	15 Jun
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.01	2.00	2.00	2.00	1.99	2.00
NZGB 05/21	2.00	2.05	2.05	2.05	2.04	2.02
NZGB 04/23	2.29	2.33	2.33	2.34	2.32	2.29
NZGB 04/27	2.74	2.81	2.81	2.82	2.79	2.75
NZGB 04/33	3.09	3.16	3.16	3.18	3.15	3.10
2 year swap	2.20	2.24	2.24	2.25	2.24	2.24
5 year swap	2.67	2.71	2.71	2.71	2.69	2.67
RBNZ TWI	72.42	73.89	73.77	73.73	73.86	73.65
NZD/USD	0.6909	0.7029	0.7026	0.7029	0.7039	0.6949
NZD/AUD	0.9200	0.9246	0.9235	0.9271	0.9316	0.9332
NZD/JPY	75.93	77.33	77.45	77.71	77.42	76.90
NZD/GBP	0.5103	0.5263	0.5247	0.5274	0.5240	0.5227
NZD/EUR	0.5797	0.5965	0.5962	0.5977	0.5953	0.5979
AUD/USD	0.7510	0.7603	0.7608	0.7583	0.7555	0.7442
EUR/USD	1.1918	1.1783	1.1785	1.1762	1.1824	1.1610
USD/JPY	109.91	110.01	110.24	110.55	110.00	110.66
GBP/USD	1.3539	1.3355	1.3391	1.3330	1.3432	1.3278
Oil (US$/bbl)	71.31	66.10	66.36	66.64	66.89	65.06
Gold (US$/oz)	1309.16	1295.53	1297.53	1295.02	1304.81	1278.94
NZX 50	8709	8960	8959	8977	8978	8976
Baltic Dry Freight Index	1468	1387	1390	1404	1433	1445
NZX WMP Futures (US$/t)	3210	3170	3170	3175	3175	3170

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