

14 May 2018

INSIDE

Economic Overview 2
 Data Event Calendar 7
 Local Data Watch 9
 Key Forecasts 10

NZ ECONOMICS TEAM

Sharon Zollner
Chief Economist
 Telephone: +64 9 357 4094
 E-mail: Sharon.Zollner@anz.com

Phil Borkin
Senior Macro Strategist
 Telephone: +64 9 357 4065
 Email: Philip.Borkin@anz.com

Natalie Denne
Desktop Publisher
 Telephone: +64 4 802 2217
 Email: Natalie.Denne@anz.com

Liz Kendall
Senior Economist
 Telephone: +64 4 382 1995
 Email: Elizabeth.Kendall@anz.com

Kyle Uerata
Economist
 Telephone: +64 4 802 2357
 E-mail: Kyle.Uerata@anz.com

Con Williams
Rural Economist
 Telephone: +64 4 802 2361
 E-mail: Con.Williams@anz.com

Miles Workman
Economist
 Telephone: +64 4 382 1951
 Email: Miles.Workman@anz.com

PAYING ATTENTION

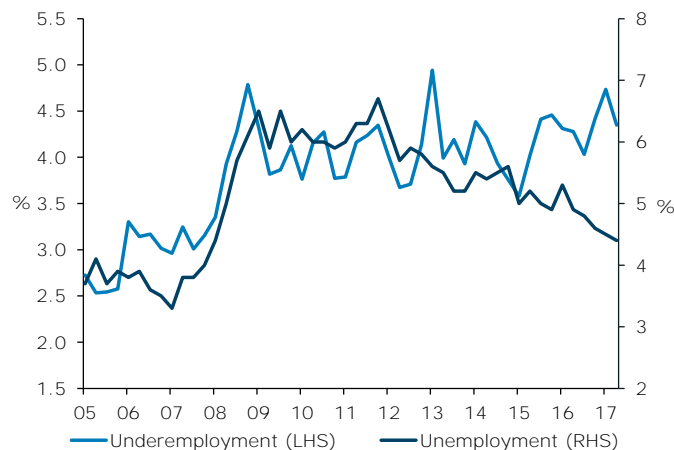
ECONOMIC OVERVIEW

As the RBNZ was at pains to point out in last week’s Monetary Policy Statement, wage inflation is weak, and weaker than one might have expected given the conditions in the labour market, even given the subdued inflation environment. We expect that wage inflation will increase from here. But with underemployment elevated, participation on an upward trend, and overseas workers readily available, we are open to the possibility that there may be more spare capacity in the labour market than the unemployment rate would suggest – and that this could weigh on wage inflation going forward. The Budget is the key event this week: we expect strict adherence to the fiscal targets, but with upside revenue surprises and spending reprioritisation perhaps allowing a few cheap lollipops.

CHART OF THE WEEK

Additional labour can come from not only the unemployed, but also those who are underemployed (who wish to work more hours), those not in the labour force (who might be shoulder-tapped), or people who are overseas.

Unemployment and underemployment rates



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 3% (trend) on average.	Neutral Negative Positive
Unemployment rate	4.0% for 2018 Q4	The unemployment rate should fall further gradually. Conditions are in place for wage inflation to increase.	Neutral Negative Positive
OCR	1.75% by Dec 2018	With plenty of question marks over the outlook for inflation, we believe the RBNZ will be cautious in tightening policy.	Neutral Down Up
CPI	1.7% y/y for 2018 Q4	With capacity constrained and wages expected to rise, we expect domestic and core inflation will lift – albeit gradually.	Neutral Negative Positive

ECONOMIC OVERVIEW

SUMMARY

As the RBNZ was at pains to point out in last week's Monetary Policy Statement, wage inflation is weak, and weaker than one might have expected given the conditions in the labour market, even given the subdued inflation environment. We expect that wage inflation will increase from here. But with underemployment elevated, participation on an upward trend, and overseas workers readily available, we are open to the possibility that there may be more spare capacity in the labour market than the unemployment rate would suggest – and that this could weigh on wage inflation going forward. The Budget is the key event this week: we expect strict adherence to the fiscal targets, but with upside revenue surprises and spending reprioritisation perhaps allowing a few cheap lollipops.

FORTHCOMING EVENTS

GlobalDairyTrade auction (Wednesday, 16 May, early am). Prices to hold up at a reasonable level.

Budget Economic & Fiscal Update 2018 (Thursday, 17 May, 2:00 pm). With the Government emphasising its fiscal targets, we are not expecting much in the way of sweeteners.

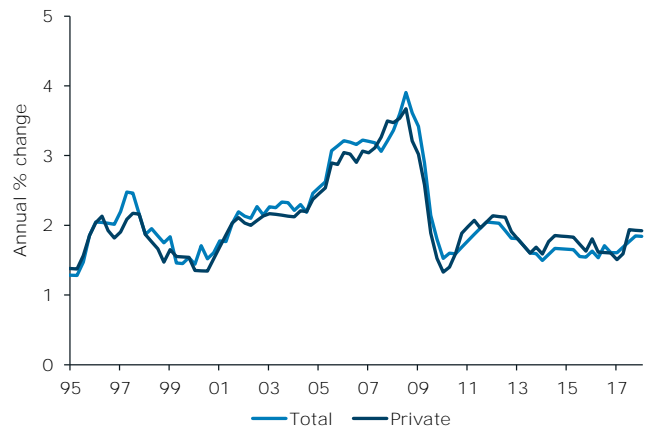
WHAT'S THE VIEW?

Labour market data has received increased attention recently – and for good reason. The RBNZ is moving towards a dual mandate where it targets “maximum sustainable employment” in the context of its medium-term inflation target. And **despite many economists assessing that the economy is currently close to maximum sustainable employment, wage inflation is low.**

After increasing off the lows seen in late 2016, annual wage inflation has plateaued. Our preferred measure of wages – the private sector labour cost index (LCI) – grew 1.9% over the year to the March quarter.

Wage inflation was boosted by the pay settlement for care and support workers in the September quarter of 2017, which accounts for 0.2%pts of the 1.8% y/y increase in the total (public and private sector) LCI. Absent this, underlying wage inflation is running at 1.6% y/y, some 0.5%pts below its historical average of 2.1%. **Given that we are a decade into an economic expansion, it is fair to say that underlying wage inflation is anaemic.**

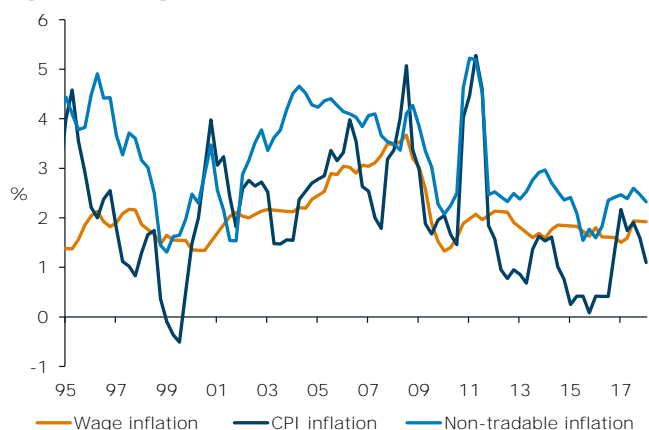
Figure 1: Wage inflation (LCI)



Source: Statistics New Zealand, ANZ Research

Broadly speaking, wages are determined by three things: spare capacity in the labour market, structural factors (including government policy), and inflation expectations. Since the wage measure we focus on, the LCI, is productivity adjusted, we do not consider the effects of productivity here. But it is fair to say that weak productivity growth will have dampened a broader range of wage inflation measures.

Figure 2: Wages and inflation



Source: Statistics New Zealand, ANZ Research

To some extent, low wage inflation is symptomatic of the more general low inflation environment. Forward-looking measures of inflation expectations are anchored around 2% y/y, but have fallen since 2012, which is when the RBNZ became more focused on the midpoint of its 1-3% target band. But **wage expectations are backward looking** in that the current rate of CPI inflation is often the starting point for wage negotiations. And at 1.1%, headline CPI inflation is currently near the bottom of the RBNZ's target band. Wage inflation tends to be more closely related to headline inflation than non-tradable inflation, meaning that weak tradable inflation has likely dampened wage inflation in recent years. On

ECONOMIC OVERVIEW

the other side of the coin, weak CPI inflation means real wage inflation has not been as unusually low as the nominal measure, supporting household spending.

Since 2013, labour supply has increased dramatically, reflecting both strong population growth and increasing labour force participation rates. Since 2014, growth in the labour force has averaged 3.3% y/y – almost matching the 3.6% y/y growth in employment over the same time. And the demographic mix of net migration has led to a solid boost to labour supply, as discussed in our recent Market Focus. **This means that despite strong employment growth, the unemployment rate has fallen only gradually, helping keep wage inflation subdued.**

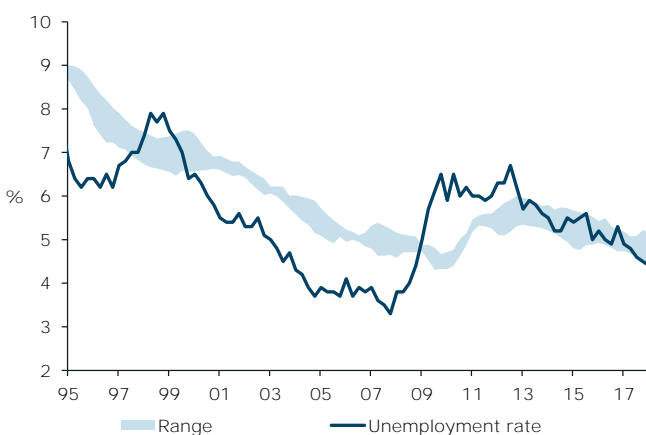
Figure 3: Employment and wage inflation



Source: Statistics New Zealand, ANZ Research

One of the usual measures of spare capacity in the labour market is the “unemployment gap” – the unemployment rate less its sustainable rate (or NAIRU, the Non-Accelerating Inflation Rate of Unemployment).

Figure 4: Unemployment rate and estimates of the NAIRU



Source: Statistics New Zealand, ANZ Research

The NAIRU is determined by a number of factors, including how well the skills and locations of workers match available jobs, and how easy it is to transition between jobs. If jobs and workers are not well matched, unemployment will be higher on average over the cycle. Similarly, if the labour market is very flexible and there are strong incentives to work, the NAIRU will be lower.

We estimate that the NAIRU is currently between 4.4% and 5.1%.¹ **Even using our lowest estimate of the NAIRU, spare capacity in the labour market is estimated to have been absorbed.**

The NAIRU is estimated to have fallen over the past few decades. Labour market reform is likely to have contributed since the 1980s. More recently, **it is possible that strong migration has reduced mismatch in the labour market**, contributing to the falls seen in the NAIRU since 2013. **It is also possible that the use of technology has made job matching more efficient.** But while one can come up with good reasons why the NAIRU might be lower, it is estimated based on wage and price developments. That is, low wage inflation is itself taken as evidence that the NAIRU must be lower. This means that it is also possible that NAIRU estimates are being affected by other persistent deflationary forces.

However, even once the subdued inflation environment and the unemployment gap are taken into account, **wage inflation has been weaker than one might have expected.** Based on our modelling, we estimate that since 2013 quarterly wage inflation has been a little under 0.1%pts weaker than would have been expected each quarter on average.

Figure 5: Wage inflation model



Source: Statistics New Zealand, ANZ Research

Note: Fitted quarterly values have been converted to annual.

¹ Using legit rocket science. The NAIRU is inferred using state-space techniques, similar to those used to track rockets in space. Nonetheless, estimates are subject to considerable uncertainty.

ECONOMIC OVERVIEW

It is possible that subdued public sector wage inflation has been a drag. Generally, public sector wage inflation lags that in the private sector. But that doesn't mean the public sector doesn't have an influence on private sector wages. Prior to 2008, public sector wages grew more strongly than those in the private sector. But since 2008, public sector wage inflation has been very subdued. Restrained Government spending over this time kept public sector wage inflation contained, **and this may have affected wage bargaining in the private sector.**

Figure 6: Public and private LCI wage inflation



Source: Statistics New Zealand, ANZ Research

Another possibility is that threshold effects are at play, with capacity pressures needing to reach a certain point before wage inflation increases – at which point something's got to give and there may be catch up. Other hypotheses have also been put forward that might explain recent weakness in wage inflation, such as automation, globalisation and the "gig economy". Indeed, a combination of reasons is possible.

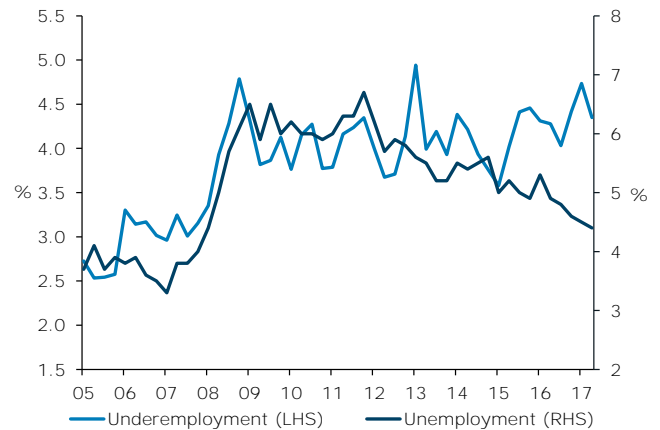
But the other possibility is the most obvious one: we might be wrong. **It is possible that the "unemployment gap" is understating labour market capacity.** In its recent Monetary Policy Statement, the RBNZ acknowledged that a range of measures need to be taken into account when assessing whether the economy is close to "maximum sustainable employment", and that this assessment is always subject to uncertainty. We agree. **In light of continued weakness in wage inflation, we are open to the possibility that there may still be lingering spare capacity in the labour market.**

What matters for wages is not the number of people who are (or are not) employed, but the marginal labour that is available, given labour demand. Marginal labour can come from four sources: people who are unemployed, people who are employed but wish to work more hours, people who are not in the

labour force, and people who are overseas. The unemployment rate only captures the first of these.

The underemployment rate – which measures the proportion of people who are employed but would prefer to work more hours – is elevated. So even though many people are employed, some are willing to supply more labour. This means that **firms may not need to increase wages to expand – they can simply offer more hours.**

Figure 7: Unemployment and underemployment rates



Source: Statistics New Zealand, ANZ Research

The participation rate has been on an upward trend – with 71% of people over the age of 15 participating in the labour force, compared with 68% in 2013. As employment has grown, more people have entered the workforce – and the participation rate has trended upwards, with women and older workers increasingly entering employment from outside the labour force. At some point, ageing in the population is likely to put downward pressure on participation rates. But with people living longer, the trend toward increased participation of older workers may continue. **More non-participants may be willing to enter the labour force as jobs come available.**

Figure 8: Participation rate and unemployment rate



Source: Statistics New Zealand, ANZ Research

ECONOMIC OVERVIEW

And as discussed last week, **overseas workers are readily available**, which provides an unmeasured pool of labour.

Effectively, the pool of potential workers may be even larger than the labour force data suggest – because workers are willing to work more hours, enter the labour force, or relocate from overseas. **And this may be contributing to subdued wage inflation.**

Our expectation is that wage inflation will pick up, supported by a tightening labour market, higher inflation, and government policies, with increases in the minimum wage and other policy changes on the cards. Indeed, such policy changes could incite some catch-up in wages more broadly. But the boost may prove temporary, and a pick-up in wage inflation is not guaranteed. **If spare capacity in the labour market is greater than we expect, wage inflation may continue to be weak.**

We expect that wage and price pressures will broaden in time, albeit gradually. And given that, we think that interest rates will eventually need to increase – with an OCR hike pencilled in for August next year. But inflation pressures remain benign, and a lot could happen between now and then.

THE WEEK AHEAD

On the data front, we have **BNZ-BusinessNZ PSI** for April and the **GlobalDairyTrade auction**. As discussed in our recent [Dairy Update](#), we expect dairy prices to remain supported at elevated levels. The key event this week will be **the Budget Economic & Fiscal Update 2018**. As discussed in our [Preview](#), we expect to see strict adherence to the Budget Responsibility Rules, including a projected return of net core Crown debt to 20% of GDP within five years. Consistent with this, the Government has announced that it has reprioritised around \$700m in spending over four years.

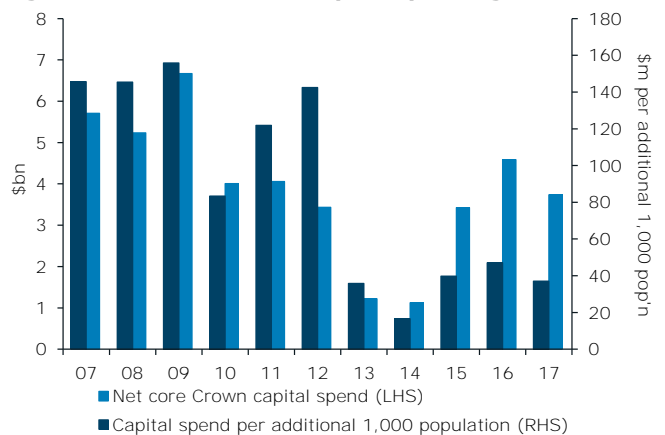
Revenues should get a small bump from the new “Amazon tax” (GST on online purchases under \$400), the removal of negative gearing on investment property, and the targeting of foreign and multinational companies on the tax front. In addition, the starting point for the Government’s books is stronger than forecast in the 2017 Half Year Update. **But given the focus on the debt target, there will be little room for additional sweeteners of any significant size.**

The Government has reconfirmed \$42bn in new capital spending over five years (unchanged from December). We should get a firmer signal in the Budget on how this will be allocated between the likes of hospitals, schools and transport.

The Treasury will maintain an upbeat economic outlook that will flatter the fiscal books. We expect a set of economic forecasts that is a bit more optimistic than our own view, which will provide the basis for projected growth in tax revenues over the next five years. **We expect to see slightly smaller improvements in the OBEGAL surpluses forecast and a slower decline in net core Crown debt** than in the Half Year Update. **Given our expectations for higher revenue projections, that should correspond to no change in the NZDMO’s bond issuance guidance.** However, due to our less rosy growth outlook, we see future upside risk to the issuance profile. Markets will be on the lookout for any details about potentially funding infrastructure spending off the Crown’s balance sheet through the use of special purpose vehicles outside of the DMO.

We think there is room for a bit more capital spending. New Zealand’s fiscal accounts are in a strong position. There is a clear infrastructure deficit, and done well, infrastructure investment pays for itself through stronger future productivity and GDP growth (beyond the initial impetus to growth). The focus should be on transparent debt financing of a long, relatively smooth forward-looking pipeline of prioritised infrastructure spending, with the option to ramp up if economic activity were to soften.

Figure 9: Net core crown capital spending



Source: The Treasury, Statistics New Zealand, ANZ Research

LOCAL DATA

ANZ Truckometer – April. The ANZ Truckometer Heavy Traffic Index bounced 1.4% m/m in April, but points to softer GDP growth mid-year.

ANZ Monthly Inflation Gauge – April. The Gauge fell 0.3% m/m for a third consecutive month. Inflation outside housing remains elusive.

RBNZ 2-year-ahead inflation expectations – Q2. Dipped 0.1%pts, but remains close to 2%.

ECONOMIC OVERVIEW

Electronic Card Transactions – April. Retail spending fell 2.2% m/m in an abnormally weak print.

RBNZ Monetary Policy Statement. The RBNZ is firmly on hold, signalling it is comfortable on the fence.

Minister of Finance Pre-Budget Speech. There were no surprises, with the Government restating its intention to increase capital spending by \$10bn.

REINZ Housing Market Statistics – April. Nationwide price pressures remain stable, with the regions playing catch up.

BNZ-BusinessNZ PMI – April. A strong result, with production, new orders and deliveries all lifting toward the 60-point mark.

Food Prices – April. Broadly steady, up 0.1% m/m.

BNZ-BusinessNZ PSI – April. The PSI eased to 55.9 from 58.6, but remains elevated.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
14-May	AU	Credit Card Purchases - Mar	--	A\$25.3B	13:30
	AU	Credit Card Balances - Mar	--	A\$52.7B	13:30
15-May	AU	ANZ-RM Consumer Confidence Index - 13-May	--	119.6	11:30
	AU	RBA May Meeting Minutes	--	--	13:30
	CH	Retail Sales YoY - Apr	10.0%	10.1%	14:00
	CH	Retail Sales YTD YoY - Apr	9.8%	9.8%	14:00
	CH	Industrial Production YoY - Apr	6.4%	6.0%	14:00
	CH	Industrial Production YTD YoY - Apr	6.7%	6.8%	14:00
	CH	Fixed Assets Ex Rural YTD YoY - Apr	7.4%	7.5%	14:00
	GE	GDP SA QoQ - Q1 P	0.4%	0.6%	18:00
	GE	GDP WDA YoY - Q1 P	2.4%	2.9%	18:00
	GE	GDP NSA YoY - Q1 P	1.7%	2.3%	18:00
	UK	Claimant Count Rate - Apr	--	2.4%	20:30
	UK	Jobless Claims Change - Apr	--	11.6k	20:30
	UK	Average Weekly Earnings 3M/YoY - Mar	2.6%	2.8%	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Mar	2.9%	2.8%	20:30
	UK	ILO Unemployment Rate 3Mths - Mar	4.2%	4.2%	20:30
	UK	Employment Change 3M/3M - Mar	129k	55k	20:30
	EC	Industrial Production SA MoM - Mar	0.7%	-0.8%	21:00
	EC	Industrial Production WDA YoY - Mar	3.7%	2.9%	21:00
	EC	GDP SA QoQ - Q1 P	0.4%	0.4%	21:00
	EC	GDP SA YoY - Q1 P	2.5%	2.5%	21:00
	GE	ZEW Survey Current Situation - May	85.2	87.9	21:00
	GE	ZEW Survey Expectations - May	-8.2	-8.2	21:00
	EC	ZEW Survey Expectations - May	--	1.9	21:00
	US	Mortgage Delinquencies - Q1	--	5.17%	15-19 May
	US	MBA Mortgage Foreclosures - Q1	--	1.19%	15-19 May
16-May	US	Empire Manufacturing - May	15.0	15.8	00:30
	US	Retail Sales Advance MoM - Apr	0.3%	0.6%	00:30
	US	Retail Sales Ex Auto MoM - Apr	0.5%	0.2%	00:30
	US	Retail Sales Ex Auto and Gas - Apr	0.4%	0.3%	00:30
	US	Retail Sales Control Group - Apr	0.4%	0.4%	00:30
	US	Business Inventories - Mar	0.1%	0.6%	02:00
	US	NAHB Housing Market Index - May	70.0	69.0	02:00
	US	Total Net TIC Flows - Mar	--	\$44.7B	08:00
	US	Net Long-term TIC Flows - Mar	--	\$49.0B	08:00
	JN	GDP SA QoQ - Q1 P	0.0%	0.4%	11:50
	JN	GDP Annualized SA QoQ - Q1 P	-0.1%	1.6%	11:50
	JN	GDP Nominal SA QoQ - Q1 P	0.1%	0.3%	11:50
	JN	GDP Deflator YoY - Q1 P	0.3%	0.1%	11:50
	AU	Westpac Consumer Conf Index - May	--	102.4	12:30
	AU	Westpac Consumer Conf SA MoM - May	--	-0.6%	12:30
	AU	Wage Price Index QoQ - Q1	0.6%	0.6%	13:30
	AU	Wage Price Index YoY - Q1	2.1%	2.1%	13:30
	CH	New Home Prices MoM - Apr	--	0.42%	13:30
	NZ	Non Resident Bond Holdings - Apr	--	59.0%	15:00
	GE	CPI MoM - Apr F	0.0%	0.0%	18:00
	GE	CPI YoY - Apr F	1.6%	1.6%	18:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
16-May	GE	CPI EU Harmonized MoM - Apr F	-0.1%	-0.1%	18:00
	GE	CPI EU Harmonized YoY - Apr F	1.4%	1.4%	18:00
	EC	CPI Core YoY - Apr F	0.7%	0.7%	21:00
	EC	CPI YoY - Apr F	1.2%	1.3%	21:00
	EC	CPI MoM - Apr	0.3%	1.0%	21:00
	US	MBA Mortgage Applications - 11-May	--	-0.4%	23:00
17-May	US	Housing Starts - Apr	1310k	1319k	00:30
	US	Housing Starts MoM - Apr	-0.4%	1.9%	00:30
	US	Building Permits - Apr	1350k	1379k	00:30
	US	Building Permits MoM - Apr	-2.1%	4.4%	00:30
	US	Industrial Production MoM - Apr	0.6%	0.5%	01:15
	US	Manufacturing (SIC) Production - Apr	0.5%	0.1%	01:15
	US	Capacity Utilization - Apr	78.4%	78.0%	01:15
	NZ	PPI Output QoQ - Q1	--	1.0%	10:45
	NZ	PPI Input QoQ - Q1	--	0.9%	10:45
	AU	Consumer Inflation Expectation - May	--	3.6%	13:00
	AU	Employment Change - Apr	20.0k	4.9k	13:30
	AU	Unemployment Rate - Apr	5.5%	5.5%	13:30
	AU	Full Time Employment Change - Apr	--	-19.9k	13:30
	AU	Part Time Employment Change - Apr	--	24.8k	13:30
	AU	Participation Rate - Apr	65.5%	65.5%	13:30
	AU	RBA FX Transactions Market - Apr	--	A\$874M	13:30
	AU	RBA FX Transactions Government - Apr	--	-A\$985M	13:30
	AU	RBA FX Transactions Other - Apr	--	A\$3758M	13:30
	NZ	Budget 2018	--	--	14:00
	EC	Construction Output MoM - Mar	--	-0.5%	21:00
	EC	Construction Output YoY - Mar	--	0.4%	21:00
18-May	US	Initial Jobless Claims - 12-May	215k	211k	00:30
	US	Continuing Claims - 5-May	1778k	1790k	00:30
	US	Philadelphia Fed Business Outlook - May	21.2	23.2	00:30
	US	Leading Index - Apr	0.4%	0.3%	02:00
	JN	Natl CPI YoY - Apr	0.7%	1.1%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Apr	0.8%	0.9%	11:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - Apr	0.4%	0.5%	11:30
	GE	Wholesale Price Index MoM - Apr	--	0.0%	18:00
	GE	Wholesale Price Index YoY - Apr	--	1.2%	18:00
	GE	PPI YoY - Apr	1.8%	1.9%	18:00
	GE	PPI MoM - Apr	0.3%	0.1%	18:00
	EC	ECB Current Account SA - Mar	--	€35.1B	20:00
	EC	Current Account NSA - Mar	--	€22.7B	20:00
	EC	Trade Balance SA - Mar	€21.1B	€21.0B	21:00
	EC	Trade Balance NSA - Mar	--	€18.9B	21:00

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All \$ values in local currency.

Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

The data flow has turned a little more mixed, reflecting headwinds the economy is currently facing, but is still generally providing a positive signal overall. Inflation pressures are likely to remain contained.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 16 May (early am)	GlobalDairyTrade auction	Steady	We expect prices to hold up at a reasonable level.
Thu 17 May (2:00 pm)	Budget Economic & Fiscal Update 2018	No lolly scramble	With the Government emphasising its fiscal targets, we are not expecting much in the way of sweeteners.
Mon 21 May (10:45am)	Net migration – April	Peaked	We don't see migration inflows falling quickly, but we believe we are past the peak, with gradual decline from here.
Mon 21 May (10:45am)	Retail Trade – Q1	Reasonable	It looks like it was another reasonable quarter for retail spending. We expect moderation over the medium term.
Thu 24 May (10:45am)	Overseas Merchandise Trade – April	Steady	Export earnings are expected to remain steady with durable, broad-based strength.
Wed 30 May (9:00am)	Building Consents – March	Plateau	We are in an environment where issuance will struggle to push higher.
Wed 30 May (10:45am)	RBNZ Financial Stability Report	Not yet	With the housing market stable, we think the RBNZ will be looking to ease LVR restrictions – but not quite yet.
Thu 31 May (1:00 pm)	ANZ Business Outlook– May	--	--
Fri 1 Jun (10:00 am)	ANZ Consumer Confidence – May	--	--
Fri 1 Jun (10:45 am)	Terms of Trade – Q1	High	The terms of trade remains at lofty heights.
Wed 6 Jun (early am)	GlobalDairyTrade auction	Steady	We expect prices to hold up at a reasonable level.
Wed 6 Jun (10:00 am)	ANZ Job Ads - May	--	--
Wed 6 Jun (10:45 am)	Building Work Put in Place – Q1	A little	Building activity is at a high level, but we expect it softened a little in the first quarter of the year.
Wed 6 Jun (1:00 pm)	ANZ Commodity Prices - May	--	--
11-14 June	REINZ Housing Market Statistics – May	Holding pattern	With a number of opposing forces operating on the market, we expect continued stability, for now at least.
Mon 11 June (10:45am)	Economic Survey of Manufacturing – Q1	Solid	Underlying activity expected to remain solid, in line with recent indicators, though these figures can be thrown around.
Tue 12 June (10:00am)	ANZ Truckometer	--	--
Tue 12 June (10:45am)	Electronic Card Transactions - May	Questions	With questions over last month's weak print, we'll get a sense of the signal in the data, with some bounce back expected.
Tue 12 June (1:00pm)	ANZ Monthly Inflation Gauge	--	--
Wed 13 June (10:45am)	Food Prices - May	Stronger side	Food prices in May are generally on the stronger side. We're expecting a solid increase, after a weak print in April.
Fri 15 June (10:30am)	BNZ-BusinessNZ PMI - May	Tested	Last month's stellar result may be tested, but robust levels to nonetheless be maintained.
Mon 18 June (10:30am)	BNZ-BusinessNZ PSI - May	Robust	Robust services sector activity likely to be maintained, after a strong run.
Wed 20 Jun (early am)	GlobalDairyTrade auction	Steady	We expect prices to hold up at a reasonable level.
On balance		Data watch	The data pulse is mixed, but generally positive. Domestic inflation is low, but should lift gradually.

KEY FORECASTS AND RATES

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
GDP (% qoq)	0.6	0.6	0.9	0.9	0.8	0.7	0.7	0.7	0.6	0.6
GDP (% yoy)	2.9	2.8	2.8	3.1	3.2	3.3	3.1	2.8	2.6	2.5
CPI (% qoq)	0.1	0.5	0.3	0.6	0.2	0.7	0.5	0.6	0.3	0.7
CPI (% yoy)	1.6	1.1	1.4	1.6	1.7	1.9	2.1	2.1	2.1	2.1
Employment (% qoq)	0.4	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Employment (% yoy)	3.7	3.1	3.8	2.1	2.2	2.1	1.9	1.7	1.5	1.4
Unemployment Rate (% sa)	4.5	4.4	4.1	4.0	3.9	4.0	3.9	3.9	3.8	4.0
Current Account (% GDP)	-2.7	-2.3	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Terms of Trade (% qoq)	0.8	-1.4	-0.8	0.1	0.1	0.0	0.1	0.2	0.1	0.1
Terms of Trade (% yoy)	7.3	1.8	-0.1	-1.4	-2.1	-0.6	0.3	0.4	0.3	0.5

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

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

KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Mar-18	Apr-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
NZD/USD	0.724	0.705	0.70	0.70	0.69	0.67	0.66	0.65	0.65	0.65
NZD/AUD	0.942	0.934	0.92	0.92	0.93	0.93	0.94	0.93	0.93	0.93
NZD/EUR	0.587	0.583	0.58	0.56	0.54	0.52	0.51	0.50	0.50	0.50
NZD/JPY	76.91	77.05	76.18	74.2	71.8	69.0	66.0	64.4	63.1	62.4
NZD/GBP	0.516	0.514	0.51	0.50	0.49	0.47	0.46	0.45	0.45	0.45
NZ\$ TWI	73.3	72.5	72.9	70.8	69.6	67.8	66.5	65.4	65.2	65.1
INTEREST RATES	Mar-18	Apr-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	1.96	2.02	2.03	2.01	2.01	2.00	1.99	2.07	2.32	2.48
NZ 10-yr bond	2.72	2.84	2.72	3.05	3.30	3.40	3.35	3.60	3.65	3.65
US Fed funds	1.75	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.50	2.50
US 3-mth	2.31	2.36	2.34	2.25	2.50	2.70	2.70	2.95	2.95	2.95
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00
AU 3-mth	2.03	2.04	1.93	1.90	1.80	1.80	1.80	2.05	2.30	2.30

	11 Apr	7 May	8 May	9 May	10 May	11 May
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.00	2.04	2.05	2.05	2.06	2.05
NZGB 05/21	2.08	2.05	2.04	2.07	2.02	2.00
NZGB 04/23	2.35	2.33	2.32	2.35	2.30	2.28
NZGB 04/27	2.79	2.77	2.76	2.79	2.76	2.73
NZGB 04/33	3.18	3.14	3.13	3.16	3.12	3.09
2 year swap	2.26	2.28	2.28	2.28	2.22	2.21
5 year swap	2.71	2.74	2.73	2.75	2.68	2.67
RBNZ TWI	75.65	73.55	73.60	73.27	72.75	72.90
NZD/USD	0.7367	0.7003	0.6980	0.6983	0.6932	0.6969
NZD/AUD	0.9506	0.9331	0.9358	0.9371	0.9261	0.9229
NZD/JPY	78.75	76.53	76.05	76.56	76.02	76.22
NZD/GBP	0.5190	0.5176	0.5164	0.5149	0.5100	0.5143
NZD/EUR	0.5953	0.5876	0.5876	0.5880	0.5831	0.5833
AUD/USD	0.7750	0.7505	0.7458	0.7451	0.7486	0.7543
EUR/USD	1.2375	1.1917	1.1879	1.1875	1.1890	1.1943
USD/JPY	106.90	109.28	108.96	109.64	109.66	109.39
GBP/USD	1.4196	1.3529	1.3516	1.3561	1.3590	1.3542
Oil (US\$/bbl)	66.82	70.73	69.06	71.14	71.36	70.70
Gold (US\$/oz)	1346.80	1312.94	1309.96	1308.86	1316.51	1319.30
NZX 50	8454	8588	8595	8620	8638	8677
Baltic Dry Freight Index	979	1384	1432	1465	1453	1472
NZX WMP Futures (US\$/t)	3225	3235	3230	3225	3215	3210

IMPORTANT NOTICE

This document is intended for ANZ's institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is for informational purposes and nothing contained within is intended to be a recommendation, invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document, ANZ does not make any representation as to the accuracy of the views expressed in this document. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (**Liability**) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. **This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.**

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please [click here](#) or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 Cth).

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (**ANZ Royal Bank**). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).



IMPORTANT NOTICE

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (**ANZ Representative Office**) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64-9-357 4094, e-mail nzeconomics@anz.com, <http://www.anz.co.nz>

