

26 March 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

ON TARGET

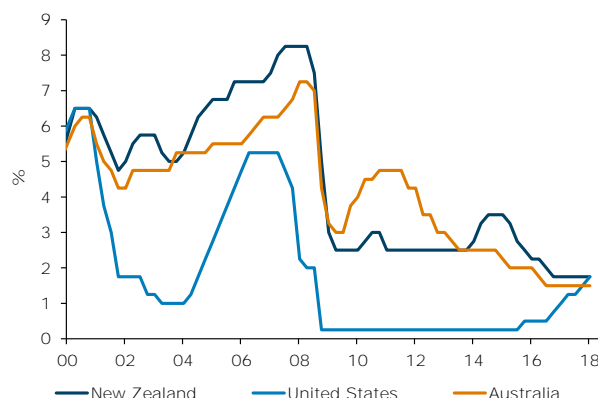
ECONOMIC OVERVIEW

The new **Policy Target's Agreement (PTA)** was signed this morning, with the RBNZ now expected to contribute to supporting "maximum sustainable employment" in the context of its medium-term inflation target. This policy mandate is broadly in line with those in the US and Australia. Although policy rates (and now mandates) in these economies are currently very similar, the policy outlooks are quite different. The RBNZ does not expect to increase interest rates until 2019, whereas the FOMC increased rates last week and expects two more hikes this year. Market pricing for policy in New Zealand is similar to that in Australia, with about a 30% chance of a hike priced for both by year end. Given the similar policy outlooks for the RBA and RBNZ, we expect the NZD/AUD to keep muddling along. However, the NZD/USD will be put on the defensive in 2018. Policy rate differentials and diminishing global liquidity suggest depreciation may be only a matter of time.

CHART OF THE WEEK

We are at a rare point of convergence, but divergent labour market conditions and inflation outlooks underpin different policy path expectations in New Zealand, the US and Australia.

Figure 1: Policy rates in selected economies



Source: Bloomberg, Federal Reserve, RBA, RBNZ

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to 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	4.2% for 2018 Q4	The unemployment rate should fall a touch more. Wage growth is benign, but conditions for change are emerging.	Neutral Negative Positive
OCR	1.75% by Dec 2018	With plenty of question marks over the outlook for inflation, it is still a backdrop where we believe the RBNZ will be cautious in tightening policy.	Neutral Down Up
CPI	1.6% y/y for 2018 Q4	In part due to policy changes and base effects, headline inflation will fall over the next 12 months. But domestic and core inflation should lift gradually.	Neutral Negative Positive

ECONOMIC OVERVIEW

SUMMARY

The new PTA was signed this morning, with the RBNZ now expected to contribute to supporting “maximum sustainable employment” in the context of its medium-term inflation target. This brings New Zealand’s policy mandate in line with those in the US and Australia. Although policy rates (and now mandates) in these economies are currently very similar, the policy outlooks are quite different. The RBNZ does not expect to increase interest rates until 2019, whereas the FOMC increased rates last week and expects two more hikes this year. Market pricing for policy in New Zealand is similar to that in Australia, with about a 30% chance of a hike priced for both by year end. Given the similar policy outlooks for the RBA and RBNZ, we expect the NZD/AUD to keep muddling along. However, the NZD/USD will be put on the defensive in 2018. Policy rate differentials and diminishing global liquidity suggest depreciation may be only a matter of time.

FORTHCOMING EVENTS

RBNZ New Mortgage Lending – February (3:00pm, Monday, 26 March). Housing market turnover is up, which should mean the same for new lending.

ANZ Business Outlook – March (1:00pm, Wednesday, 28 March).

Building Consent Issuance –February (10:45am, Thursday, 29 March). We struggle to see issuance pushing much above current levels as the economy grapples with cost and capacity pressures.

RBNZ Sectoral Lending – February (3:00pm, Thursday, 29 March). Overall private sector credit growth has cooled, but we see it stabilising around current levels.

WHAT’S THE VIEW?

Last week the RBNZ reiterated its cautiously upbeat message on the outlook for the economy and held the OCR at 1.75%, as universally expected. It was positive on the growth outlook and downside risks were broadly downplayed, but inflation is not expected to rise meaningfully any time soon.

We expect this broad spirit of cautiousness to continue for some time yet – particularly with regard to the inflation outlook. The RBNZ’s next move is expected to be a hike, but it is being careful to not give that signal prematurely, given the market’s tendency to pre-empt. Indeed, the February MPS made it clear that the Bank sees risks on both sides. **We do not expect the RBNZ to tighten policy until the second half of 2019.**

This policy backdrop provides the context for the new Policy Targets Agreement (PTA) announced this morning, signed by the Minister of Finance and incoming RBNZ Governor, Adrian Orr. **The RBNZ is now expected to contribute to supporting “maximum sustainable employment” in the context of its overriding medium-term inflation target.** The fact that it is required only to “contribute to” maximum sustainable employment and is not being held solely responsible for such an outcome is an appropriate acknowledgement of the limitations of monetary policy.

Governance changes announced at the same time bring the RBNZ into line with accepted best practice. Committee decision-making will be legislated as part of the Government’s review of the RBNZ Act. **A formal MPC will start operating from 2019, with three external and four internal members.**

This may change the dynamics and processes of the decision-making process – especially since minutes and a non-attributed vote count will be published. The aim is presumably to reduce the risk of ‘group think’ and extreme views. It may prove challenging to find an ongoing supply of suitably qualified but disinterested candidates for the external roles, but the idea is sound.

Ultimately, today’s announcement is part of the ongoing evolution of flexible inflation targeting and its entrenchment in law (as opposed to just in practice, as it has been).

An international comparison

Importantly, adding a “maximum sustainable employment” target is neither experimental nor revolutionary – it brings the PTA into line with similar agreements in the US and Australia. And in these countries monetary policy is run as flexible inflation targeting, as was already the case in New Zealand.

In the US, **the Federal Reserve has a mandate from Congress to “promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates”** – widely described as the ‘dual mandate’.

In Australia, the RBA is charged with achieving full employment, within the context of its inflation target. In particular, **the RBA has a “duty to maintain price stability, full employment, and the economic prosperity and welfare of the Australian people. To achieve these statutory objectives, the Bank has an ‘inflation target’ and seeks to keep consumer price inflation in the economy to 2-3 per cent, on average, over the medium term”.**

ECONOMIC OVERVIEW

The RBNZ's new agreement is closer to Australia, in that the inflation target takes primacy – a slightly softer dual mandate than the Fed.

In terms of wording, an important distinction is the choice of "maximum *sustainable*" rather than "maximum" employment. The former is a better choice of words in our view, as it is difficult to argue that an interest rate increase would ever advance a goal of maximum employment, in the short term at least. Running the economy too hot for prolonged periods always ends badly.

Practical implications

Modern monetary policy is about smoothing the business cycle within the context of an ultimate medium-term inflation target. That does not change with the addition of a "maximum sustainable employment" objective. In practice, aiming to 'close the output gap' and aiming for 'maximum sustainable employment' while bringing inflation to target amounts pretty much to the same thing.

Consider the current situation, for example. In the February MPS the RBNZ revealed an estimate of the non-accelerating inflation rate of unemployment (NAIRU), which it currently estimates to be 4.7%, close to the current rate of 4.5%.¹ The NAIRU, "full employment" and "maximum sustainable employment" can be taken to be operationally the same thing. Thus, we can conclude that the RBNZ sees employment as currently slightly "over-full". In the February Monetary Policy Statement the output gap was estimated to currently be slightly positive. This is hardly a surprising concurrence – indeed, the unemployment rate is itself an input into the Reserve Bank's estimates of the output gap.

In terms of forecast, the RBNZ said the labour market was "projected to tighten further" as growth was "expected to strengthen". As a result, inflation was "forecast to trend upwards towards the midpoint of the target range". That is, **the labour market, broader activity and non-tradable inflation pressures, (and hence eventually the CPI inflation forecasts), are pointing the same way** for monetary policy settings. This will tend to be the case, as long as the focus is on the medium-term, non-tradable part of inflation, not the noisy, tradable part – in other words, flexible inflation targeting as the RBNZ currently practises it.

This underlines the point that in our view, the practical implications of these changes for the

monetary policy outlook, both immediately and more generally, will be limited. In essence, a "maximum sustainable employment" objective is entirely consistent with the ongoing evolution and entrenchment of current flexible inflation targeting. It might give monetary policy more flexibility to respond to poor labour market outcomes, but only at the margin, as these would typically already have been built into negative output gap estimates in any case.

That said, it is important to note that the level of the NAIRU, or maximum sustainable employment, is not constant. And, like the potential growth rate of the economy, it is unobservable. It will depend on factors such as skills mismatches and labour mobility. **It is going to be anything but a simple task for the RBNZ to estimate it but it is going to have to try.**

It will be important for the mandate to be interpreted symmetrically to ensure that policy biases do not occur. This is of course not a new consideration, but in practice, this may now be slightly more difficult politically; it is a lot easier to explain needing to reduce, rather than increase, unemployment.

So if monetary policy in New Zealand, Australia and the US is run in much the same way, is that why the policy rates are currently similar?

Alas no, it is far more complicated than that. Different monetary policy cycles are huge drivers of capital flows and exchange rates. We turn now to a short description of where the central banks in the three countries see things heading.

International comparison – the current cycle²

As discussed above, the RBNZ believes that the labour market is currently running just a smidgen over maximum sustainable employment. Accordingly, it forecasts inflation to increase, albeit slowly. In its February *MPS*, the RBNZ forecast headline inflation to reach the target midpoint of 2% in 2021, after some temporary weakness due to one-off factors.

By contrast, there is some slack in the Australian labour market at present. The unemployment rate is 5.6% while The RBA's last published estimate of the NAIRU was "around 5% in early 2017".³ Wage inflation has been subdued since that number was published, so this estimate may be lower now. But in any case, there is certainly some spare capacity left.

¹ Jacob, P. & M. Wong (2018) 'Estimating the NAIRU and the Natural Rate of Unemployment for New Zealand', *Reserve Bank of New Zealand Analytical Note*, March 2018.

² Note, one has to be a bit careful comparing central bank forecasts as they are based on different interest rate assumptions. However, the RBNZ, RBA and Fed use broadly similar approaches.

³ Cusbert, T. (2017) 'Estimating the NAIRU and the Unemployment Gap', *Reserve Bank of Australia Bulletin*, June 2017.

ECONOMIC OVERVIEW

Figure 1: Unemployment in selected economies



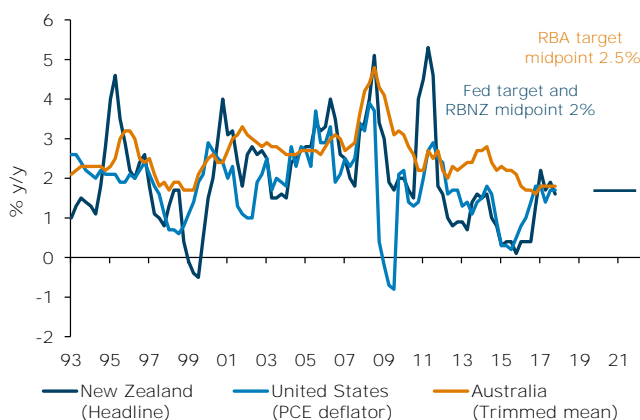
Source: ABS, Bloomberg, US Bureau of Labour Statistics, Statistics NZ, ANZ Research

Accordingly, the Australian inflation outlook is also subdued. Based on current market pricing for the cash rate, Australian inflation is expected to reach 2¼% over 2019/20, within the RBA's target range but below the midpoint. The RBA is projecting the unemployment rate to fall to 5¼% over 2018 and then stabilise, remaining above the NAIRU.

The US labour market, on the other hand, is facing clear capacity pressures. The unemployment rate is 4.1%, well below the Fed's median estimate of long-run unemployment of 4.5%. FOMC projections show the unemployment continuing to fall, reaching 3.6% in 2019 on the back of strong GDP growth.

Inflation in the US is, accordingly, projected to rise. PCE inflation is running at 1.7% y/y, some 0.3%pts below the Fed's target. But with maximum sustainable employment surpassed, the FOMC expects inflationary pressures to increase "in coming months". Inflation is projected to reach 2% in 2019, even given interest rate increases.

Figure 2: Inflation in selected economies



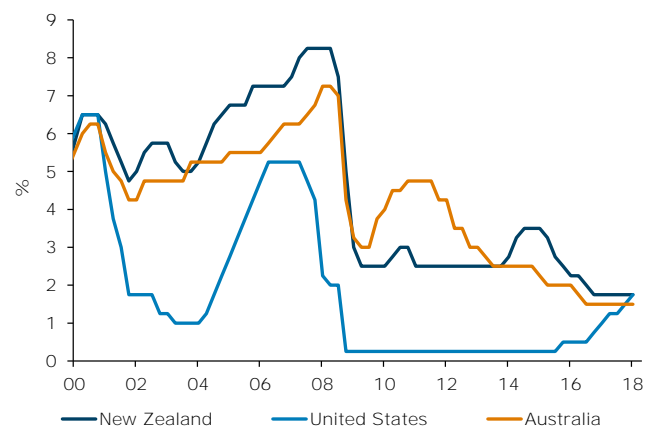
Source: ABS, Bloomberg, USBEA, Statistics NZ, ANZ

Note: This chart focuses on the inflation rates central banks produce forecasts for; the measures are not comparable.

In short then, the Fed sees the most inflation pressure coming, while the RBNZ and RBA are less convinced. In the US, employment is already "over-full" and inflationary pressure is emerging; in NZ the economy is about square and so inflation is expected to increase only gradually after some near-term weakness. And in Australia, spare capacity remains and the inflation outlook is subdued.

Last week the FOMC increased the fed funds rate for the sixth time since end-2015, in an effort to keep inflation pressures contained. **The FOMC median expectation is for two more hikes this year and three in 2019.** The FOMC median expectation is for the fed funds rate to reach 3.4% in 2020. Market pricing is for two more hikes this year – in line with the FOMC median expectation (our *What's Priced In* publication tracks this daily).

Figure 3: Policy rates in selected economies



Source: Bloomberg, Federal Reserve, RBA, RBNZ, ANZ Research

The RBNZ, on the other hand, does not expect to hike interest rates until 2019 – and we agree with that assessment. Market pricing is for no increase in the cash rate until May 2019.

Australia market pricing is similar – with about a 30% chance of a hike priced for both by year end. This is despite more advanced labour market improvement in New Zealand and inflation that is closer to the target midpoint.

The policy rate is slightly lower in Australia than in New Zealand. Policy strategy may be different in Australia; the RBA's objective is to achieve its inflation target "over time", which can be interpreted loosely, whereas the RBNZ has stated that it interprets its medium-term target as "projected inflation... comfortably within the target range in the latter half of the three year [forecast] period" (although this interpretation may change with the new Governor).⁴

⁴ Ford, D., Kendall, E. & A. Richardson (2015), 'Evaluating Monetary Policy', *Reserve Bank of New Zealand Bulletin*, November 2015.

ECONOMIC OVERVIEW

Thus, divergent labour market conditions – and outlooks for inflationary pressure – underpin different policy outlooks in the three countries. It is therefore ironic that, as the chart above shows, the policy rates in the three countries are unusually similar at the moment.

In practice, one can't compare the levels of interest rates and draw simple conclusions about who has the more stimulatory policy. That is because we come to yet another unobservable, unmeasurable, inconstant and crucial input to monetary policy setting: the neutral interest rate.

The "neutral" interest rate is that rate at which monetary policy is neither stimulatory nor a headwind for the economy as a whole. It depends on, among other things, productivity growth, household saving behaviour, and inflation expectations. The RBNZ puts considerable effort into assessing this rate, because it determines how stimulatory a given interest rate setting actually is.⁵ Traditionally this rate has been pretty high for New Zealand, a small, far-flung country with a poor savings record that's reliant on foreigners for capital. In the US, the world's default safe-haven market, it's much lower. Australia lies between the two. The neutral rate will also depend on the inflation target and the credibility of the central bank.

In all, **the neutral interest rate is hard to estimate** and typically a central bank learns about its level from its mistakes, **when inflation doesn't return to target as quickly as expected.** But in any case, given differences and neutral rates plus the fact that economic cycles are typically broadly correlated between the three countries, a convergence of the type shown in figure 4 is quite unusual and unlikely to be sustained.

What does it mean for currencies?

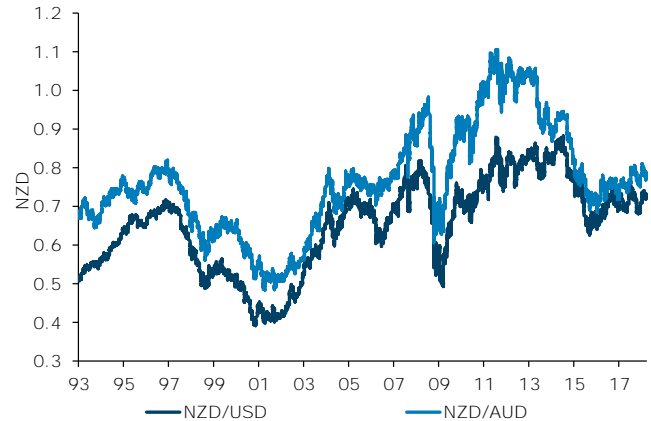
Given the similar policy outlooks for the RBA and RBNZ, we expect the NZD/AUD to keep muddling along. But we will be watching global trade developments closely, given increased protectionism is likely to hurt the AUD more in the first instance.

The NZD remains high relative to the USD, but we think it will be put on the defensive in 2018.

As discussed in our *Market Focus* on the 12th of March, commodity prices are currently supporting the NZD. But interest rate differentials with the US and decreasing global liquidity suggest depreciation may be only a matter of time – and any bouts of risk aversion are also likely to send the NZD lower. That

consideration appears to be getting more relevant as 2018 progresses.

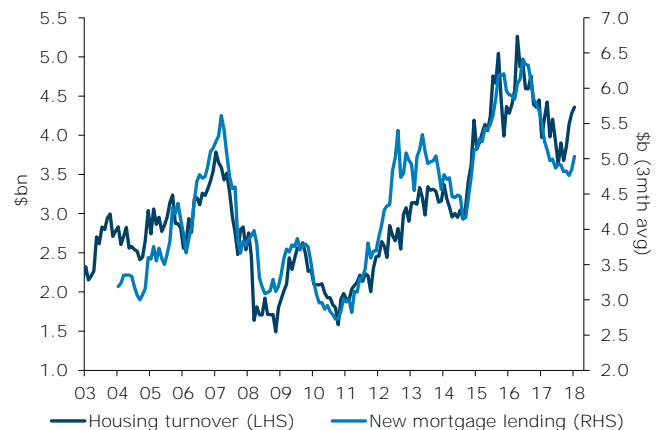
Figure 4: NZD/USD and NZD/AUD exchange rates



Source: Bloomberg, ANZ Research

Turning to the week ahead, RBNZ New Mortgage Lending data for February will be released on Monday. REINZ data for February showed that **housing market turnover has improved and stabilised.** **We expect a similar recovery in new lending, with new investor lending remaining soft.** Investors now make up 21% of new lending – well below the 35% share seen in mid-2016.

Figure 5: New mortgage lending and housing turnover

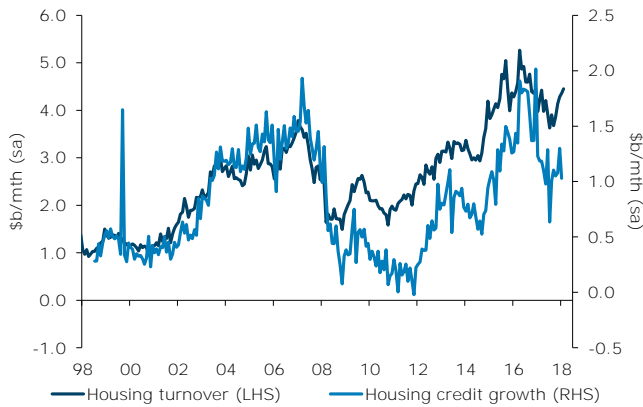


Source: RBNZ, REINZ, ANZ Research

RBNZ Sectoral Lending will also be out on Thursday. Growth in housing credit has been relatively stable of late, growing 5.6% y/y in January. **We see housing credit growth stabilising around current levels.** High-LVR lending restrictions, credit rationing by banks and tempered expectations of capital gains will put a lid on further growth. But we don't see credit growth moderating further, given that the housing market has stabilised.

⁵ See, for example, Richardson, A. & R. Williams (2015), "Estimating New Zealand's Neutral Interest Rate", *RBNZ Analytical Note*, September 2015.

ECONOMIC OVERVIEW

Figure 6: Housing turnover and credit growth

Source: RBNZ, REINZ, ANZ Research

Other data out this week will give us an indication of how economic activity is tracking in 2018. Our *ANZ Business Outlook* for March will be out on Wednesday and Building Consent Issuance for February will be released on Thursday. The level of construction activity remains high, supporting activity. However, we struggle to see consent issuance pushing much above current levels as the economy grapples with cost and capacity pressures.

LOCAL DATA

GlobalDairyTrade Auction. A solid dairy auction (GDT-TWI -1.2%; WMP 0.1%), which will support underlying farmer earnings despite a difficult production year.

International Travel and Migration – February. A net inflow of 4,970 migrants (sa) was recorded in February, reaffirming our view that the cycle remains in gradual easing mode.

RBNZ OCR Review. The RBNZ retained its cautiously upbeat message, with policy set to remain on hold for some time yet.

Overseas Merchandise Trade – February. The monthly trade balance came in better than expected at \$217m (-\$100m exp), courtesy of lower vehicle and crude oil imports. Lower vehicle imports can be attributed to recent biosecurity disruptions, which reflect a timing issue more than a material drop in demand. Export performance was better than expected. The combination saw the annual deficit pull-back to -\$3.0 billion, a level we have traded around for the last two years.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Mar	UK	Finance Loans for Housing - Feb	39000	40117	21:30
	CH	Foreign Direct Investment YoY CNY - Feb	--	0.3%	26-28 Mar
27-Mar	US	Chicago Fed Nat Activity Index - Feb	0.15	0.12	01:30
	US	Dallas Fed Manf. Activity - Mar	33.5	37.2	03:30
	AU	ANZ-RM Consumer Confidence Index - 25-Mar	--	118.5	11:30
	JN	PPI Services YoY - Feb	0.7%	0.7%	12:50
	GE	Import Price Index MoM - Feb	-0.3%	0.5%	19:00
	GE	Import Price Index YoY - Feb	-0.3%	0.7%	19:00
	EC	M3 Money Supply YoY - Feb	4.6%	4.6%	21:00
	EC	Economic Confidence - Mar	113.3	114.1	22:00
	EC	Business Climate Indicator - Mar	1.36	1.48	22:00
	EC	Industrial Confidence - Mar	6.9	8.0	22:00
	EC	Services Confidence - Mar	16.5	17.5	22:00
	EC	Consumer Confidence - Mar F	0.1	0.1	22:00
28-Mar	US	S&P CoreLogic CS 20-City MoM SA - Jan	0.60%	0.64%	02:00
	US	S&P CoreLogic CS 20-City YoY NSA - Jan	6.1%	6.3%	02:00
	US	Richmond Fed Manufact. Index - Mar	22	28	03:00
	US	Conf. Board Consumer Confidence - Mar	131.0	130.8	03:00
	NZ	ANZ Activity Outlook - Mar	--	20.4	13:00
	NZ	ANZ Business Confidence - Mar	--	-19.0	13:00
	GE	GfK Consumer Confidence - Apr	10.7	10.8	19:00
	UK	CBI Retailing Reported Sales - Mar	7	8	23:00
	UK	CBI Total Dist. Reported Sales - Mar	--	27	23:00
	UK	Nationwide House PX MoM - Mar	0.2%	-0.3%	28 Mar - 4 Apr
	UK	Nationwide House Px NSA YoY - Mar	2.6%	2.2%	28 Mar - 4 Apr
29-Mar	US	MBA Mortgage Applications - 23-Mar	--	-1.1%	00:00
	US	Advance Goods Trade Balance - Feb	-\$74.2B	-\$75.3B	01:30
	US	Wholesale Inventories MoM - Feb P	0.5%	0.8%	01:30
	US	GDP Annualized QoQ - Q4 T	2.7%	2.5%	01:30
	US	Personal Consumption - Q4 T	3.8%	3.8%	01:30
	US	GDP Price Index - Q4 T	2.3%	2.3%	01:30
	US	Core PCE QoQ - Q4 T	1.9%	1.9%	01:30
	US	Pending Home Sales MoM - Feb	2.0%	-4.7%	03:00
	US	Pending Home Sales NSA YoY - Feb	--	-1.7%	03:00
	NZ	Building Permits MoM - Feb	--	0.2%	10:45
	UK	GfK Consumer Confidence - Mar	-10	-10	12:01
	JN	Retail Sales MoM - Feb	0.6%	-1.6%	12:50
	JN	Retail Trade YoY - Feb	1.7%	1.5%	12:50
	AU	Job vacancies - Feb	--	2.7%	13:30
	AU	Private Sector Credit MoM - Feb	0.3%	0.3%	13:30
	AU	Private Sector Credit YoY - Feb	4.9%	4.9%	13:30
	GE	Unemployment Change (000's) - Mar	-15k	-22k	20:55
	GE	Unemployment Claims Rate SA - Mar	5.3%	5.4%	20:55
	UK	Net Consumer Credit - Feb	1.4B	1.4B	21:30
	UK	Net Lending Sec. on Dwellings - Feb	3.4B	3.4B	21:30
	UK	Mortgage Approvals - Feb	66.0k	67.5k	21:30
	UK	Money Supply M4 MoM - Feb	--	1.5%	21:30
	UK	M4 Money Supply YoY - Feb	--	4.3%	21:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
29-Mar	UK	M4 Ex IOFCs 3M Annualised - Feb	--	5.5%	21:30
	UK	Current Account Balance - Q4	-£24.0B	-£22.8B	21:30
	UK	Index of Services MoM - Jan	0.2%	0.0%	21:30
	UK	Index of Services 3M/3M - Jan	0.6%	0.6%	21:30
	UK	GDP QoQ - Q4 F	0.4%	0.4%	21:30
	UK	GDP YoY - Q4 F	1.4%	1.4%	21:30
	UK	Total Business Investment QoQ - Q4 F	0.0%	0.0%	21:30
	UK	Total Business Investment YoY - Q4 F	2.1%	2.1%	21:30
	CH	BoP Current Account Balance - Q4 F	--	\$62.2B	UNSPECIFIED
30-Mar	GE	CPI MoM - Mar P	0.5%	0.5%	01:00
	GE	CPI YoY - Mar P	1.7%	1.4%	01:00
	GE	CPI EU Harmonized MoM - Mar P	0.5%	0.5%	01:00
	GE	CPI EU Harmonized YoY - Mar P	1.6%	1.2%	01:00
	US	Personal Income - Feb	0.4%	0.4%	01:30
	US	Personal Spending - Feb	0.2%	0.2%	01:30
	US	PCE Deflator MoM - Feb	0.2%	0.4%	01:30
	US	PCE Deflator YoY - Feb	1.7%	1.7%	01:30
	US	PCE Core MoM - Feb	0.2%	0.3%	01:30
	US	PCE Core YoY - Feb	1.6%	1.5%	01:30
	US	Initial Jobless Claims - 24-Mar	230k	229k	01:30
	US	Continuing Claims - 17-Mar	1865k	1828k	01:30
	US	Chicago Purchasing Manager - Mar	62.0	61.9	02:45
	US	U. of Mich. Sentiment - Mar F	102.0	102.0	03:00
	JN	Tokyo CPI YoY - Mar	1.3%	1.4%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Mar	0.9%	0.9%	12:30
	JN	Tokyo CPI Ex-Fresh Food, Energy YoY - Mar	0.5%	0.5%	12:30
	JN	Industrial Production MoM - Feb P	5.0%	-6.8%	12:50
	JN	Industrial Production YoY - Feb P	2.3%	2.5%	12:50
31-Mar	CH	Non-manufacturing PMI - Mar	--	54.4	14:00
	CH	Manufacturing PMI - Mar	--	50.3	14:00
	CH	Composite PMI - Mar	--	52.9	14:00

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
Mon 26 Mar (3:00pm)	RBNZ New Mortgage Lending – Feb	Up	Housing market turnover is up, which should mean the same for new lending.
Wed 28 Mar (1:00pm)	ANZ Business Outlook – Mar	--	--
Thu 29 Mar (10:45am)	Building Consent Issuance – Feb	Capped	We struggle to see issuance pushing much above current levels as the sector grapples with cost and capacity pressure.
Thu 29 Mar (3:00pm)	RBNZ Sectoral Lending – Feb	Modest	Overall private sector credit growth has cooled, but we see it stabilising around current levels.
Tue 3 Apr (10:00am)	NZIER Quarterly Survey of Business Opinion – Q1	Steady	Sentiment is likely to remain below its pre-election levels, but we wouldn't be surprised to see a modest bounce. We will be watching for any intensification of reported margin pressures.
Wed 4 Apr (early am)	GlobalDairyTrade Auction	More pressure	Supply conditions continue to improve, while demand remains steady. Prices could head lower.
Wed 4 Apr (10:00am)	ANZ-Roy Morgan Consumer Confidence – Mar	--	--
Thu 5 Apr (10:00am)	ANZ Job Ads – Mar	--	--
Thu 5 Apr (1:00pm)	ANZ Commodity Price Index – Mar	--	--
9-13 Apr	REINZ Housing Market Statistics – Mar	Steady	The market has should remain stable around current levels. Annual house price growth should remain contained.
Wed 11 Apr (10:00am)	ANZ Truckometer – Mar	--	--
Wed 11 Apr (1:00pm)	ANZ Monthly Inflation Gauge – Mar	--	--
Thu 12 Apr (10:45am)	Electronic Card Transactions – Mar	Modest	The underlying pace of spending is expected to remain modest even though supportive forces remain.
Fri 13 Apr (10:30am)	BNZ-BusinessNZ PMI – Mar	Softening?	The index has softened over recent months, giving a slightly weaker signal for near-term economic momentum.
Mon 16 Apr (10:30am)	BNZ-BusinessNZ PSI – Mar	Holding firm	Services sector activity has been holding firm and is expected to remain a supportive force for the cycle for a while.
Mon 16 Apr (10:45am)	Food Price Index – Mar	Flat	From a seasonal perspective, an outturn around flat seems on the cards.
Wed 18 Apr (early am)	GlobalDairyTrade Auction	More pressure	Supply conditions continue to improve, while demand remains steady. Prices could head lower.
Thu 19 Apr (10:45am)	CPI – Q1	1.1% y/y	On the back of tertiary education fee reductions and base effects, headline inflation looks set to fall to near the bottom of the RBNZ's target band.
On balance		Data watch	The data pulse is a little more 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	0.6	0.6	0.7	0.1	0.6
CPI (% yoy)	1.6	1.1	1.4	1.5	1.6	1.7	2.1	2.2	2.0	2.0
Employment (% qoq)	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	3.7	3.2	3.6	1.8	1.6	1.4	1.3	1.2	1.2	1.2
Unemployment Rate (% sa)	4.5	4.3	4.3	4.2	4.2	4.1	4.1	4.1	4.2	4.1
Current Account (% GDP)	-2.7	-2.3	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Terms of Trade (% qoq)	0.8	-1.4	-0.8	0.1	0.1	0.0	0.1	0.2	0.1	0.1
Terms of Trade (% yoy)	7.3	1.8	-0.1	-1.4	-2.1	-0.6	0.3	0.4	0.3	0.5

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Retail ECT (% mom)	-0.4	0.1	-0.5	-0.1	0.3	0.5	1.3	0.5	1.4	-0.3
Retail ECT (% yoy)	5.2	4.5	2.0	4.4	2.9	1.3	4.3	3.3	3.4	3.3
Credit Card Billings (% mom)	1.0	0.3	0.7	-0.6	0.8	1.0	0.9	0.6	-0.6	0.7
Credit Card Billings (% yoy)	7.6	8.3	7.1	6.5	5.0	3.0	9.1	6.3	4.6	7.0
Car Registrations (% mom)	3.9	-2.6	-4.7	9.5	-0.8	1.6	1.3	-4.7	2.3	-8.9
Car Registrations (% yoy)	13.7	11.1	6.2	13.5	15.6	7.3	7.3	4.7	6.2	-4.2
Building Consents (% mom)	1.6	0.7	2.2	5.6	-2.1	-9.9	9.4	-9.5	0.2	--
Building Consents (% yoy)	5.1	-7.9	-1.9	13.1	7.4	-7.4	13.1	3.7	4.1	--
REINZ House Price Index (% yoy)	6.7	5.4	3.3	2.9	3.8	3.4	3.6	3.7	3.5	4.0
Household Lending Growth (% mom)	0.4	0.6	0.3	0.4	0.5	0.5	0.5	0.5	0.4	--
Household Lending Growth (% yoy)	7.9	7.6	7.1	6.7	6.5	6.3	6.2	5.9	5.8	--
ANZ Roy Morgan Consumer Conf.	123.9	127.8	125.4	126.2	129.9	126.3	123.7	121.8	126.9	127.7
ANZ Business Confidence	14.9	24.8	19.4	18.3	0.0	-10.6	-39.3	-37.8	..	-19.0
ANZ Own Activity Outlook	38.3	42.8	40.3	38.2	29.6	22.0	6.5	15.6	..	20.4
Trade Balance (\$m)	62	243	92	-1174	-1165	-840	-1232	596	-566	217
Trade Bal (\$m ann)	53218	53530	53742	53982	54085	54759	55999	56476	57189	57440
ANZ World Comm. Price Index (% mom)	3.2	2.1	-0.8	-0.8	0.8	-0.3	-0.9	-1.9	0.7	2.8
ANZ World Comm. Price Index (% yoy)	26.3	24.6	21.1	16.3	11.5	10.4	6.0	3.2	4.1	5.0
Net Migration (sa)	5940	6310	5750	5470	5270	5660	5690	5720	6270	4970
Net Migration (ann)	71964	72305	72402	72072	70986	70694	70354	70016	70147	68943
ANZ Heavy Traffic Index (% mom)	4.0	-0.5	-6.0	6.5	-1.5	2.9	1.1	-4.2	4.1	-2.5
ANZ Light Traffic Index (% mom)	1.2	1.2	-2.2	2.7	-0.1	-0.6	1.5	-1.7	-0.5	-0.2

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)						
	Jan-18	Feb-18	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZD/USD	0.740	0.721	0.724	0.71	0.70	0.69	0.67	0.66	0.65	0.65
NZD/AUD	0.914	0.924	0.940	0.92	0.92	0.93	0.93	0.94	0.93	0.93
NZD/EUR	0.595	0.590	0.586	0.57	0.56	0.54	0.52	0.51	0.50	0.50
NZD/JPY	80.53	77.26	75.87	76.7	74.2	71.8	69.0	66.0	64.4	63.1
NZD/GBP	0.523	0.520	0.512	0.51	0.50	0.49	0.47	0.46	0.45	0.45
NZ\$ TWI	74.2	73.2	74.6	72.0	70.8	69.6	67.8	66.5	65.4	65.2
INTEREST RATES	Jan-18	Feb-18	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
NZ 90 day bill	1.89	1.92	1.97	1.90	1.91	1.94	1.95	1.95	2.04	2.29
NZ 10-yr bond	2.90	2.94	2.78	3.05	3.20	3.35	3.40	3.35	3.60	3.65
US Fed funds	1.50	1.50	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.50
US 3-mth	1.78	2.01	2.29	2.10	2.25	2.50	2.70	2.70	2.95	2.95
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75
AU 3-mth	1.78	1.79	2.00	1.90	1.90	1.80	1.80	1.80	2.10	2.10

	23 Feb	19 Mar	20 Mar	21 Mar	22 Mar	23 Mar
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.92	1.93	1.95	1.96	1.96	1.96
NZGB 05/21	2.06	2.05	2.04	2.06	2.06	2.02
NZGB 04/23	2.41	2.34	2.33	2.35	2.34	2.30
NZGB 04/27	2.96	2.84	2.83	2.84	2.81	2.76
NZGB 04/33	3.32	3.19	3.17	3.19	3.18	3.12
2 year swap	2.18	2.27	2.25	2.25	2.24	2.23
5 year swap	2.72	2.73	2.71	2.72	2.70	2.66
RBNZ TWI	75.44	74.50	74.68	74.21	74.43	74.45
NZD/USD	0.7302	0.7218	0.7223	0.7166	0.7247	0.7233
NZD/AUD	0.9306	0.9366	0.9358	0.9327	0.9374	0.9401
NZD/JPY	78.05	76.62	76.85	76.20	76.54	75.75
NZD/GBP	0.5221	0.5147	0.5151	0.5098	0.5122	0.5121
NZD/EUR	0.5932	0.5872	0.5867	0.5834	0.5883	0.5858
AUD/USD	0.7843	0.7706	0.7718	0.7684	0.7731	0.7699
EUR/USD	1.2295	1.2293	1.2312	1.2283	1.2318	1.2353
USD/JPY	106.89	106.15	106.40	106.33	105.62	104.74
GBP/USD	1.3971	1.4024	1.4022	1.4056	1.4149	1.4132
Oil (US\$/bbl)	63.55	62.06	63.40	65.17	64.30	65.88
Gold (US\$/oz)	1328.71	1311.64	1313.52	1315.75	1329.85	1347.33
NZX 50	8302	8492	8487	8608	8601	8515
Baltic Dry Freight Index	1185	1143	1136	1122	1117	1122
NZX WMP Futures (US\$/t)	3240	3145	3150	3190	3190	3190

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>

