NEW ZEALAND MARKET FOCUS

12 February 2018

INSIDE

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THE VOLATILITY DRAGON AWAKENS

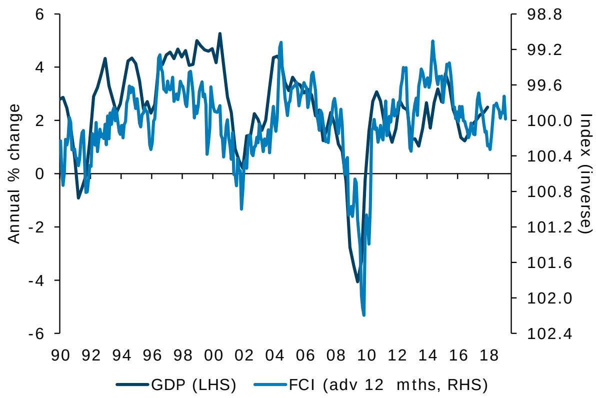
ECONOMIC OVERVIEW

Global financial market volatility has staged a dramatic come-back, raising questions regarding possible contagion, broader asset price corrections and a negative hit to growth. We are watchful and will be keeping a close eye on broader financial conditions (which have tightened only modestly so far). While we think decent global growth can persist for a while and inflation looks unlikely to surge higher, higher volatility is something that looks here to stay as markets transition to a world where central bank liquidity is less abundant. While more 'normal', it does present a less favourable backdrop for risk assets, all else equal. For New Zealand, we see few reasons to change any of our core views yet. A stronger external balance sheet means the economy is more resilient to shocks, although our asset prices have also benefited from low global interest rates, so we can't completely turn a blind eye. But for now, we see it primarily as another factor that leaves us comfortable with our cautious views on the RBNZ, and our belief that at these levels, the NZD will remain on the defensive.

CHART OF THE WEEK

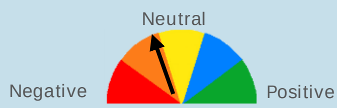
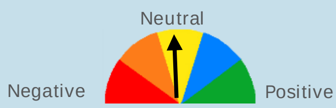
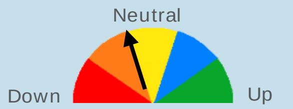
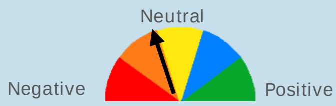
Despite the wild ride in equity markets of late, US financial conditions have tightened only modestly so far.

US GDP vs Financial Conditions Index



Source: Bloomberg, ANZ Research

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.9% y/y for 2018 Q3	The economy is not quite firing on all cylinders and we have become more circumspect near term. However, we see growth holding around 2½-3% on average.	
Unemployment rate	4.5% for 2018 Q3	The unemployment rate should fall a touch more. Wage growth is benign, but conditions for change are emerging.	
OCR	1.75% by Sep 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.	
CPI	1.5% y/y for 2018 Q3	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.	

ECONOMIC OVERVIEW

SUMMARY

Global financial market volatility has staged a dramatic comeback, raising questions regarding possible contagion, broader asset price corrections and a negative hit to growth. We are watchful and will be keeping a close eye on broader financial conditions (which have tightened only modestly so far). While we think decent global growth can persist for a while and inflation looks unlikely to surge higher, higher volatility is something that looks here to stay as markets transition to a world where central bank liquidity is less abundant. While more 'normal', it does present a less favourable backdrop for risk assets, all else equal. For New Zealand, we see few reasons to change any of our core views yet. A stronger external balance sheet means the economy is more resilient to shocks, although our asset prices have also benefited from low global interest rates, so we can't completely turn a blind eye. But for now, we see it primarily as another factor that leaves us comfortable with our cautious views on the RBNZ, and our belief that at these levels, the NZD will remain on the defensive.

FORTHCOMING EVENTS

ANZ Monthly Inflation Gauge – January (1:00pm, Monday, 12 February).

Food Price Index – January (10:45am, Wednesday, 14 February). Food prices typically rise in January on the back of a spike in fruit and vegetable prices.

RBNZ Survey of Expectations – Q1 (3:00pm, Wednesday, 14 February). We see the 2-year-ahead measure of inflation expectations holding around 2%, with the risk skewed towards it easing modestly.

REINZ Housing Market Statistics – January (9:00am, Thursday 15 February). The housing market ended 2017 with better momentum, and we suspect that has by-and-large carried over into 2018.

BNZ-BusinessNZ PMI – January (10:30am, Friday, 16 February). The index plunged in December, perhaps on political uncertainty. However, we would not be surprised if it bounced back somewhat.

BNZ-BusinessNZ PSI – January (10:30am, Monday, 19 February). This gauge should continue to hold at a respectable level.

WHAT'S THE VIEW?

Global financial market volatility has awoken from its slumber. Equity markets in particular have experienced a wild ride of late, with major US bourses swinging about meaningfully on both an inter- and intra-day basis over the past week, to be down around 9% from their (all-time) highs. It is a similar story in Europe and Asia. After holding near historic lows for the majority of 2017, the VIX measure of US equity volatility has spiked to around 30, which, outside of a brief period in 2015, is the highest since 2011.

Ultimately it appears that markets have finally come to the realisation that abundant global liquidity conditions are not going to last forever. Certainly, as we wrote in last week's *Market Focus*, global growth momentum is strong at present, and this is leading to speculation that inflation is finally set to make a comeback, particularly in the US. Indeed, US average hourly earnings growth, at 2.9% y/y in January, is at its highest level since 2009, which has helped cement expectations for ongoing Fed policy normalisation. The US 10-year bond yield is now at 2.85% – effectively the highest in close to four years. But it is not just a US story. The BoE surprised last week with a more hawkish tone than anticipated, noting that monetary policy will "need to be tightened somewhat earlier and by a somewhat greater extent" than previously expected. The ECB still appears to be inching towards the exit door. These normalisation signals are broadening.

Lofty asset valuations were always going to be questioned once the central bank sugar pill dose started to be reduced. For some time, the ongoing promise of cheap and abundant liquidity has underpinned broader asset values while encouraging the accumulation of debt. Even as central banks started to highlight greater concerns over financial stability risks and talked about the need to normalise policy, markets continued to take a relatively sanguine view, knowing that that process would occur only in a gradual fashion. But with a few more inflation rumblings starting to surface, a switch does appear to have been flicked.

So have we hit a watershed moment for markets? Are the benign conditions of the past few years now behind us? How worried should we be? Time will tell, but we offer some thoughts.

- **A bout of market volatility is long overdue.** We have been in a remarkably benign period where volatility across financial markets has been abnormally low. It was never a sustainable situation, and in fact was far from a healthy one in that it has arguably led to excessive risk taking. But because it has been so long since we've seen decent market swings, it all feels quite dramatic. For context, despite major US equity indices plunging sharply over the past week, they are just back where they were in November last year.

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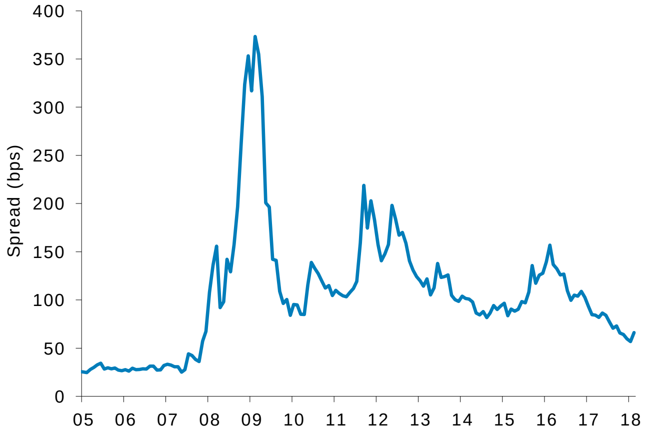
- **At this stage, signs of contagion into other asset classes is relatively limited.** Corporate bond spreads have widened in the US and Europe, but off historically tight levels, and they remain well below where they were even at the start of 2017. It is the same story in Australia (Figure 1). Gold prices have yet to spike higher like they typically do in a broad risk-off event. While safe-haven currencies such as the JPY and CHF have strengthened a little, moves have been modest. So far, the NZD and AUD have remained relatively immune. But as servants of history will know, these things can change very quickly.

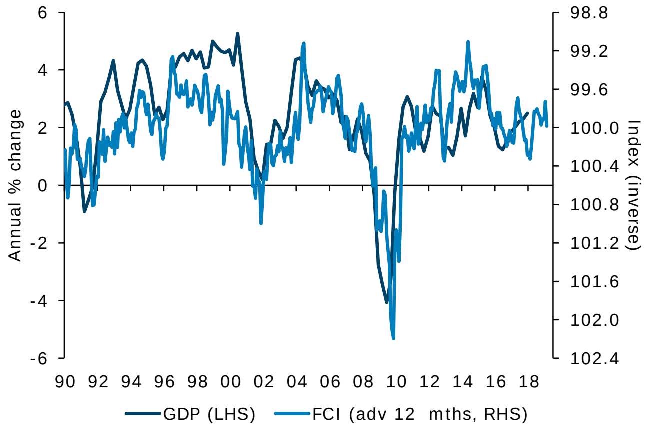
Figure 1: iTraxx Australian 5-year investment grade credit spread



Source: Bloomberg, ANZ Research

- **Broader financial conditions have not moved a great deal so far.** While there is a confidence channel to watch too, broader financial conditions will determine whether these market jitters have negative feedback implications for growth. A brief market adjustment will be forgotten quickly. A broader market rout will not. Right now, our US financial conditions index has experienced only a modest tightening.

Figure 2: US GDP vs Financial Conditions Index



Source: Bloomberg, ANZ Research

- **There remain plenty of questions over the outlook for inflation from here.** If inflation is truly set to be unleashed and surprise on the upside, forcing central banks into a more aggressive and synchronised global tightening cycle, this would no doubt present a significant challenge for asset markets. But evidence of a lift in inflation is still only tentative. Beyond a commodity-induced lift in headline inflation, core inflation measures generally remain subdued and below target in most parts of the world. And on the commodity front you'd have to question how high prices could go if the USD were to stage a comeback – not to mention the fact that hard commodities, including oil, have taken a hit in the recent bout of risk aversion. The disruptive impact of technology continues to have a deflationary influence. All up, it would take a brave person to say that central banks are dramatically behind the curve.

- **There is also circularity to consider.** How much volatility and asset price weakness can central banks withstand before it actually starts to derail hiking plans? Right now, most central bank speakers have downplayed the impact. But funnily enough, recent history has taught us that the path to lower interest rates has often been via higher ones. In any case, in a world of excessive leverage, poor productivity, extended asset valuations and lower neutral rates, even small lifts in interest rates will be potent in their impact on growth expectations – and hence future inflation.

The dramatic change in the mood of global markets certainly leaves us a little wary and watchful. But our view right now is that these moves will not be enough to derail the global growth cycle and we still see it unlikely that inflation is set to surge higher. That said, it does now appear that higher volatility is here to stay. Markets have been shaken out of their extreme complacency and we don't see that reversing. If anything, it was 2017's extremely low volatility that was unusual. But all else equal, even if it is more 'normal', this new higher volatility backdrop will present more headwinds for risk assets going forward.

What does that mean for New Zealand? Well as long as things don't escalate or broaden, we see few implications for our wider views as things currently stand.

Importantly, the New Zealand economy does not have the same degree of external imbalances it has had in the past. The current account deficit, at around 2½% of GDP, is well below

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average and looks set to narrow a little more in the near term. For comparison, it was near 8% in 2008. Net external debt, at 54% of GDP, compares favourably with close to 85% at the time of the GFC. The maturity profile of our external debt has lengthened considerably, buying us time in the case of a tightening of global funding conditions. The economy is not bullet proof, but a stronger external balance sheet does mean we are more resilient to global financial market shocks than we've been previously. Perhaps this is the reason why the NZD has been seemingly immune to the increased risk aversion.

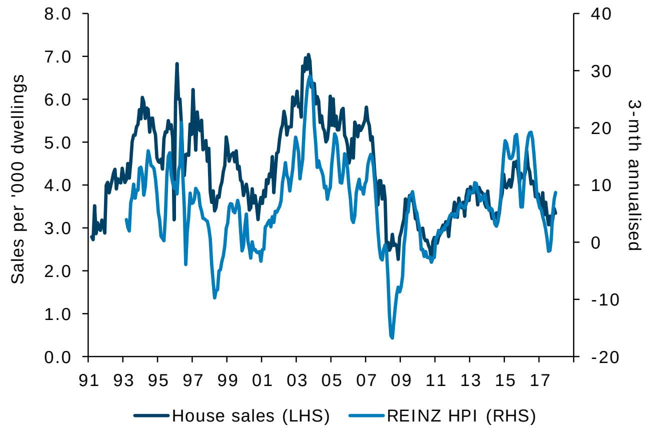
But New Zealand has points of vulnerability that mean we can't be a completely dispassionate observer of recent developments. Just like much of the rest of the world, local asset values (housing especially) have benefited from low global interest rates, so it would be naïve to think the reverse won't be the case on the ongoing normalisation in central bank policies. New Zealand's wholesale interest rate curve has already steepened sharply, and it is probably only a question of time before longer-term mortgage rates start to rise to reflect that. Even if the RBNZ keeps the short end anchored, there will be fewer places for borrowers to hide (especially those rolling off lower fixed rates).

It reinforces our view that the RBNZ will remain ultra-cautious when it comes to tightening. We don't see the RBNZ joining the central bank hiking club for some time yet, with the same reflationary signals just not yet as evident locally as they perhaps are in some other parts of the world.

It is also an environment where we believe the NZD will remain on the defensive. In fact, we are now of the view that the kiwi probably reached its 2018 peak last month and have tweaked our FX forecasts lower accordingly to now show the NZD/USD continuing to ease over the course of 2018. We previously saw it holding up through the middle of this year before this 'regime shift' hit us. The spirit of our forecasts hasn't changed, just the timing.

Turning to this week's domestic data calendar, REINZ housing market figures for January will be watched to see if the better momentum over late 2017 has carried into 2018. After slowing sharply over the majority of last year, the housing market experienced a bounce over the final few months of last year. Nationwide sales volumes are up around 10% from their lows, the median number of days to sell is back at its lowest level since April 2017 and house prices (based on the REINZ House Price Index) have risen for five consecutive months (after falling over the prior three). We don't see the market taking off strongly again, but certainly there is the odd anecdote that the market, especially in Auckland, has started 2018 on a solid footing. With the RBNZ having eased its LVR restrictions a smidgen already, they will be wary of the potential for a second wind.

Figure 3: Nationwide house sales and prices



Source: Statistics NZ, ANZ Research

The focus of our January Monthly Inflation Gauge out this afternoon is once again whether or not price pressures are broadening beyond housing. In December, the Gauge lifted 0.4% m/m, which saw annual inflation hold at 2.8%. In seasonally adjusted terms, the Gauge rose 0.3% m/m, which is in line with the average experienced over the past six months. Rents made the strongest contribution in the month, seeing the overall housing group contribute two thirds of the monthly increase in the overall Gauge. Outside of this, the Underlying Ex-housing Gauge rose just 0.1% m/m, illustrating that a generalised inflation story remains elusive.

Related to the inflation picture, we expect the RBNZ's Survey of Expectations for Q1 to show broadly stable inflation expectations, although the risks are that they fall modestly. In the December quarter, the key two-year-ahead measure fell for a second consecutive quarter from 2.09% to 2.02%. That is down from 2.17%, but still well up from the recent low of 1.63%. We expect a result again close to 2%, which would have very little in the way of implications for the RBNZ's thinking. However, the recent downward surprise in the Q4 CPI figures, the pop higher in the NZD, and the impact of the new Government's tertiary education subsidies together are likely to see annual inflation fall back towards 1% in Q1. The risk is that inflation expectations follow suit, given their tendency to be influenced by past inflation outcomes.

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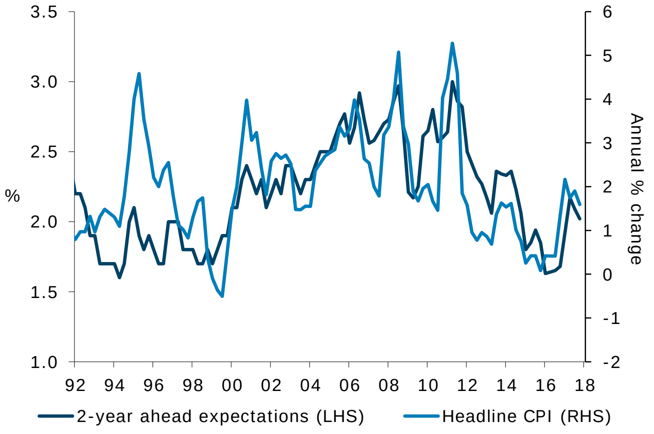
Figure 4: Headline inflation and inflation expectations



Source: Statistics NZ, RBNZ ANZ Research

Finally, the BusinessNZ manufacturing and services sector indicators for January could continue to provide conflicting signals on the near-term growth picture. In December, the PMI plunged 6.5 points to 51.2 – the lowest since 2012. At the time, it was suggested that this was due to political uncertainty, although we also wonder whether fears over a possible drought were weighing too. It contrasted markedly with the PSI measure, which at 56.0 is holding at a solid level still – even if it is off its highs from earlier in the year.

LOCAL DATA

ANZ Commodity Price Index – January. The world price index rose 0.7% m/m, while the NZD price index fell 2.9% m/m.

Labour Market Statistics – Q4. Employment rose 0.5% m/m and together with a 0.1%pt fall in the participation rate, the unemployment rate fell to a nine year low of 4.5%. LCI private sector wage growth was modest at 0.4% m/m (1.9% y/y).

GlobalDairyTrade Auction. The GDT-TWI rose 6.0%, while whole milk powder prices rose 8%.

ANZ Truckometer – January. The Heavy Traffic Index rose 4.1% m/m, while the Light Traffic Index fell 0.5% m/m.

Electronic Card Transactions – January. Total retail spending rose 1.4% m/m, while core spending rose 1.0% m/m.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
12-Feb	NZ	ANZ Monthly Inflation Gauge - Jan	--	0.4%	13:00
	AU	Credit Card Purchases - Dec	--	A$27.9B	13:30
	AU	Credit Card Balances - Dec	--	A$52.2B	13:30
	CH	New Yuan Loans CNY - Jan	2050.0B	584.4B	12-15 Feb
	CH	Money Supply M1 YoY - Jan	13.5%	11.8%	12-15 Feb
	CH	Money Supply M2 YoY - Jan	8.2%	8.2%	12-15 Feb
13-Feb	US	Monthly Budget Statement - Jan	$51.0B	$51.3B	08:00
	AU	ANZ-RM Consumer Confidence Index - 11-Feb	--	122.7	11:30
	AU	NAB Business Conditions - Jan	--	13	13:30
	AU	NAB Business Confidence - Jan	--	11	13:30
	UK	CPI MoM - Jan	-0.6%	0.4%	22:30
	UK	CPI YoY - Jan	2.9%	3.0%	22:30
	UK	CPI Core YoY - Jan	2.6%	2.5%	22:30
	UK	RPI MoM - Jan	-0.7%	0.8%	22:30
	UK	RPI YoY - Jan	4.1%	4.1%	22:30
	UK	RPI Ex Mort Int.Payments (YoY) - Jan	4.1%	4.2%	22:30
	UK	PPI Input NSA MoM - Jan	0.6%	0.1%	22:30
	UK	PPI Input NSA YoY - Jan	4.1%	4.9%	22:30
	UK	PPI Output NSA MoM - Jan	0.2%	0.4%	22:30
	UK	PPI Output NSA YoY - Jan	3.0%	3.3%	22:30
	UK	PPI Output Core NSA MoM - Jan	0.2%	0.3%	22:30
	UK	PPI Output Core NSA YoY - Jan	2.3%	2.5%	22:30
	UK	House Price Index YoY - Dec	4.9%	5.1%	22:30
14-Feb	US	NFIB Small Business Optimism - Jan	105.7	104.9	00:00
	NZ	Food Prices MoM - Jan	--	-0.8%	10:45
	AU	Westpac Consumer Conf Index - Feb	--	105.1	12:30
	AU	Westpac Consumer Conf SA MoM - Feb	--	1.8%	12:30
	JN	GDP SA QoQ - Q4 P	0.2%	0.6%	12:50
	JN	GDP Annualized SA QoQ - Q4 P	1.0%	2.5%	12:50
	JN	GDP Nominal SA QoQ - Q4 P	0.4%	0.8%	12:50
	JN	GDP Deflator YoY - Q4 P	0.0%	0.1%	12:50
	NZ	2Yr Inflation Expectation - Q1	--	2.0%	15:00
	GE	GDP SA QoQ - Q4 P	0.6%	0.8%	20:00
	GE	GDP WDA YoY - Q4 P	3.0%	2.8%	20:00
	GE	GDP NSA YoY - Q4 P	2.2%	2.3%	20:00
	GE	CPI MoM - Jan F	-0.7%	-0.7%	20:00
	GE	CPI YoY - Jan F	1.6%	1.6%	20:00
	GE	CPI EU Harmonized MoM - Jan F	-1.0%	-1.0%	20:00
	GE	CPI EU Harmonized YoY - Jan F	1.4%	1.4%	20:00
	EC	Industrial Production SA MoM - Dec	0.1%	1.0%	23:00
	EC	Industrial Production WDA YoY - Dec	4.2%	3.2%	23:00
	EC	GDP SA QoQ - Q4 P	0.6%	0.6%	23:00
	EC	GDP SA YoY - Q4 P	2.7%	2.7%	23:00
15-Feb	US	MBA Mortgage Applications - 9-Feb	--	0.7%	01:00
	US	CPI MoM - Jan	0.3%	0.2%	02:30
	US	CPI YoY - Jan	1.9%	2.1%	02:30
	US	CPI Ex Food and Energy MoM - Jan	0.2%	0.2%	02:30
	US	CPI Ex Food and Energy YoY - Jan	1.7%	1.8%	02:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
15-Feb	US	Retail Sales Advance MoM - Jan	0.2%	0.4%	02:30
	US	Retail Sales Ex Auto MoM - Jan	0.5%	0.4%	02:30
	US	Retail Sales Ex Auto and Gas - Jan	0.4%	0.4%	02:30
	US	Retail Sales Control Group - Jan	0.4%	0.3%	02:30
	US	Business Inventories - Dec	0.3%	0.4%	04:00
	NZ	REINZ House Sales YoY - Jan	--	-10.1%	09:00
	AU	Consumer Inflation Expectation - Feb	--	3.7%	13:00
	AU	Employment Change - Jan	15.0k	34.7k	13:30
	AU	Unemployment Rate - Jan	5.5%	5.5%	13:30
	AU	Full Time Employment Change - Jan	--	15.1k	13:30
	AU	Part Time Employment Change - Jan	--	19.5k	13:30
	AU	Participation Rate - Jan	65.6%	65.7%	13:30
	AU	RBA FX Transactions Market - Jan	--	A$1279M	13:30
	EC	Trade Balance SA - Dec	€22.3B	€22.5B	23:00
	EC	Trade Balance NSA - Dec	€27.0B	€26.3B	23:00
16-Feb	US	Empire Manufacturing - Feb	18.0	17.7	02:30
	US	Initial Jobless Claims - 10-Feb	228k	221k	02:30
	US	Continuing Claims - 3-Feb	1928k	1923k	02:30
	US	PPI Final Demand MoM - Jan	0.4%	-0.1%	02:30
	US	PPI Final Demand YoY - Jan	2.5%	2.6%	02:30
	US	PPI Ex Food and Energy MoM - Jan	0.2%	-0.1%	02:30
	US	PPI Ex Food and Energy YoY - Jan	2.1%	2.3%	02:30
	US	Philadelphia Fed Business Outlook - Feb	22.0	22.2	02:30
	US	Industrial Production MoM - Jan	0.2%	0.9%	03:15
	US	Capacity Utilization - Jan	78.0%	77.9%	03:15
	US	NAHB Housing Market Index - Feb	72	72	04:00
	US	Total Net TIC Flows - Dec	--	$33.8B	10:00
	US	Net Long-term TIC Flows - Dec	--	$57.5B	10:00
	NZ	BusinessNZ Manufacturing PMI - Jan	--	51.2	10:30
	NZ	Non Resident Bond Holdings - Jan	--	61.10%	15:00
	GE	Wholesale Price Index MoM - Jan	--	-0.3%	20:00
	GE	Wholesale Price Index YoY - Jan	--	1.8%	20:00
	UK	Retail Sales Ex Auto Fuel MoM - Jan	0.6%	-1.6%	22:30
	UK	Retail Sales Ex Auto Fuel YoY - Jan	2.4%	1.3%	22:30
	UK	Retail Sales Inc Auto Fuel MoM - Jan	0.6%	-1.5%	22:30
	UK	Retail Sales Inc Auto Fuel YoY - Jan	2.5%	1.4%	22:30
17-Feb	US	Import Price Index MoM - Jan	0.6%	0.1%	02:30
	US	Import Price Index YoY - Jan	3.0%	3.0%	02:30
	US	Export Price Index MoM - Jan	0.3%	-0.1%	02:30
	US	Export Price Index YoY - Jan	--	2.6%	02:30
	US	Housing Starts - Jan	1231k	1192k	02:30
	US	Housing Starts MoM - Jan	3.30%	-8.20%	02:30
	US	Building Permits - Jan	1300k	1300k	02:30
	US	Building Permits MoM - Jan	0.0%	-0.2%	02:30
	US	U. of Mich. Sentiment - Feb P	95.5	95.7	04:00

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

We expect the near-term data flow to be a little more mixed, reflecting headwinds the economy is currently facing. Inflation pressures are likely to remain contained.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 12 Feb (1:00pm)	ANZ Monthly Inflation Gauge – Jan	--	--
Wed 14 Feb (10:45am)	Food Price Index – Jan	Up	Food prices typically rise solidly in January months.
Wed 14 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Stable	The 2-year-ahead measure of inflation expectations should be steady around 2%.
Thu 15 Feb (9:00am)	REINZ Housing Market Statistics – Jan	Stable	The market has rebounded modestly over recent months. We expect more stable results going forward, but with annual price growth to tick up a touch.
Fri 16 Feb (10:30am)	BNZ-BusinessNZ PMI – Jan	More cautious	The gauge plunged last month. Will it just be a one off?
Mon 19 Feb (10:30am)	BNZ-BusinessNZ PSI – Jan	Holding firm	Despite the softer housing market activity (notwithstanding a recent bounce), services sector activity is holding firm.
Tue 20 Feb (10:45am)	PPI – Q4	Bounce	Both input and output prices are likely to be boosted by the jump in crude oil prices.
Wed 21 Feb (early am)	GlobalDairyTrade Auction	Supported	Although the prospects for local supply have improved, lower GDT volumes should help provide some support to prices.
Fri 23 Feb (10:45am)	Retail Trade Survey – Q4	Bounce	After a soft Q3, we expect a better performance from sales volumes over the quarter.
Tue 27 Feb (10:45am)	Overseas Merchandise Trade – Jan	Import strength	Import growth has been strong of late, but we suspect we'll see more modest growth over the coming months.
Tue 27 Feb (3:00pm)	RBNZ New Mortgage Lending – Jan	Stabilising	With housing market turnover lifting off lows, new mortgage lending should do the same.
Wed 28 Feb (10:45am)	International Travel and Migration – Jan	Peaked	We don't see net inflows falling quickly, but we do believe that a peak has been seen.
Wed 28 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Wed 28 Feb (3:00pm)	RBNZ Sectoral Lending – Jan	Modest	We see overall private sector credit growing in a fashion that keeps the ratio of credit to GDP roughly stable.
Thu 1 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Thu 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Off highs	After hitting an all-time high in Q3, we see the terms of trade falling modestly in the quarter.
Fri 2 Mar (10:00am)	ANZ-Roy Morgan Consumer Confidence – Feb	--	--
Fri 2 Mar (10:45am)	Building Consent Issuance – Jan	Capped	Due to costs, capital and capacity constraints, we continue to believe issuance will struggle to push much above current levels.
Mon 5 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Wed 7 Mar (early am)	GlobalDairyTrade Auction	Supported	Although the prospects for local supply have improved, lower GDT volumes should help provide some support to prices.
Wed 7 Mar (10:45am)	Building Work Put in Place – Q4	Lift	Residential building work is likely to be higher, but consent issuance suggests a softer trend over 1H 2018.
Thu 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Thu 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Mixed	The vagaries and swings in milk production and livestock slaughtering will throw the numbers around no doubt.
Fri 9 Mar (10:45am)	Electronic Card Transactions – Feb	Modest	We see households looking to rebuild precautionary saving, resulting in a modest underlying pace of spending growth.
On balance		**Data watch**	**The data pulse has turned a little more mixed. Domestic inflation is low, but should lift gradually.**

KEY FORECASTS AND RATES

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
GDP (% qoq)	0.6	**0.5**	**0.6**	**0.9**	**0.9**	**0.8**	**0.7**	**0.7**	**0.7**	**0.6**
GDP (% yoy)	2.7	**2.9**	**2.7**	**2.6**	**2.9**	**3.2**	**3.3**	**3.1**	**2.8**	**2.6**
CPI (% qoq)	0.5	0.1	**0.5**	**0.3**	**0.6**	**0.2**	**0.6**	**0.6**	**0.7**	**0.1**
CPI (% yoy)	1.9	1.6	**1.1**	**1.4**	**1.5**	**1.6**	**1.7**	**2.1**	**2.2**	**2.0**
Employment (% qoq)	2.2	0.5	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	4.2	3.7	**3.2**	**3.6**	**1.8**	**1.6**	**1.4**	**1.3**	**1.2**	**1.2**
Unemployment Rate (% sa)	4.6	4.5	**4.3**	**4.3**	**4.2**	**4.2**	**4.1**	**4.1**	**4.1**	**4.2**
Current Account (% GDP)	-2.5	**-2.6**	**-2.3**	**-2.5**	**-2.8**	**-3.0**	**-3.0**	**-2.9**	**-2.9**	**-2.9**
Terms of Trade (% qoq)	0.8	**-1.6**	**-1.5**	**-0.9**	**0.1**	**0.1**	**0.2**	**0.0**	**0.1**	**0.1**
Terms of Trade (% yoy)	12.4	**4.5**	**-0.9**	**-3.1**	**-3.8**	**-2.2**	**-0.5**	**0.4**	**0.4**	**0.4**

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Retail ECT (% mom)	0.9	-0.4	0.0	-0.6	0.0	0.4	0.5	1.3	0.5	1.4
Retail ECT (% yoy)	4.5	5.2	4.5	2.0	4.4	2.9	1.3	4.3	3.3	3.4
Credit Card Billings (% mom)	1.1	1.0	0.4	0.7	-0.6	0.8	1.1	0.9	0.6	--
Credit Card Billings (% yoy)	6.6	7.5	8.4	7.0	6.5	5.0	3.0	9.1	6.3	--
Car Registrations (% mom)	-2.6	3.8	-2.6	-4.8	9.6	-1.5	2.2	1.2	-4.4	2.5
Car Registrations (% yoy)	3.0	13.7	11.1	6.2	13.5	15.6	7.3	7.3	4.7	6.2
Building Consents (% mom)	-2.1	1.3	0.4	2.8	6.4	-2.1	-9.6	9.6	-9.6	--
Building Consents (% yoy)	3.8	4.7	-7.8	-1.9	13.6	7.3	-7.2	13.3	3.8	--
REINZ House Price Index (% yoy)	9.1	6.7	5.4	3.3	2.8	3.7	3.4	3.5	3.8	--
Household Lending Growth (% mom)	0.5	0.4	0.6	0.3	0.4	0.5	0.4	0.5	0.5	--
Household Lending Growth (% yoy)	8.3	7.9	7.6	7.1	6.7	6.5	6.3	6.1	5.9	--
ANZ Roy Morgan Consumer Conf.	121.7	123.9	127.8	125.4	126.2	129.9	126.3	123.7	121.8	126.9
ANZ Business Confidence	11.0	14.9	24.8	19.4	18.3	0.0	-10.1	-39.3	-37.8	--
ANZ Own Activity Outlook	37.7	38.3	42.8	40.3	38.2	29.6	22.2	6.5	15.6	--
Trade Balance ($m)	547	62	243	92	-1174	-1165	-841	-1233	640	--
Trade Bal ($m ann)	52588	53218	53530	53742	53982	54085	54759	56003	56497	--
ANZ World Comm. Price Index (% mom)	-0.2	3.2	2.1	-0.8	-0.8	0.8	-0.3	-0.9	-1.9	0.7
ANZ World Comm. Price Index (% yoy)	23.7	26.3	24.6	21.1	16.3	11.5	10.4	6.0	3.2	4.1
Net Migration (sa)	5790	5940	6300	5720	5450	5250	5640	5660	5700	--
Net Migration (ann)	71885	71964	72305	72402	72072	70986	70694	70354	70016	--
ANZ Heavy Traffic Index (% mom)	-2.2	4.0	-0.5	-6.0	6.5	-1.5	2.9	1.1	-4.2	4.1
ANZ Light Traffic Index (% mom)	-1.4	1.2	1.2	-2.2	2.7	-0.1	-0.6	1.5	-1.7	-0.5

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Dec-17	Jan-18	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZD/USD	0.710	0.740	0.725	0.71	0.70	0.69	0.67	0.66	0.65	0.65
NZD/AUD	0.909	0.914	0.928	0.92	0.92	0.93	0.93	0.94	0.93	0.93
NZD/EUR	0.591	0.595	0.592	0.57	0.56	0.54	0.52	0.51	0.50	0.50
NZD/JPY	79.99	80.53	78.90	76.7	74.2	71.8	69.0	66.0	64.4	63.1
NZD/GBP	0.525	0.523	0.525	0.53	0.52	0.50	0.49	0.48	0.47	0.47
NZ$ TWI	73.0	74.2	74.8	72.1	71.0	69.8	67.9	66.7	65.6	65.4
INTEREST RATES	Dec-17	Jan-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	1.88	1.89	1.91	1.90	1.93	1.95	1.98	2.00	2.08	2.34
NZ 10-yr bond	2.72	2.90	2.96	2.85	3.05	3.25	3.40	3.45	3.50	3.50
US Fed funds	1.50	1.50	1.50	1.50	1.75	2.00	2.25	2.25	2.50	2.50
US 3-mth	1.69	1.77	1.82	1.75	2.00	2.20	2.45	2.45	2.70	2.70
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	1.80	1.78	1.76	1.80	2.00	2.30	2.30	2.30	2.30	2.30

	9 Jan	5 Feb	6 Feb	7 Feb	8 Feb	9 Feb
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.87	1.89	1.89	1.89	1.90	1.91
NZGB 03/19	1.78	1.78	1.78	1.77	1.77	1.77
NZGB 05/21	2.13	2.13	2.13	2.09	2.07	2.05
NZGB 04/23	2.39	2.45	2.45	2.41	2.40	2.39
NZGB 04/27	2.81	2.98	2.98	2.95	2.96	2.95
2 year swap	2.19	2.18	2.16	2.17	2.17	2.15
5 year swap	2.67	2.76	2.76	2.74	2.74	2.73
RBNZ TWI	74.84	74.77	74.77	75.22	74.22	74.58
NZD/USD	0.7173	0.7311	0.7310	0.7307	0.7224	0.7255
NZD/AUD	0.9172	0.9210	0.9286	0.9302	0.9248	0.9286
NZD/JPY	80.92	80.30	79.80	79.73	79.17	78.92
NZD/GBP	0.5301	0.5182	0.5235	0.5266	0.5198	0.5246
NZD/EUR	0.6014	0.5866	0.5891	0.5922	0.5899	0.5921
AUD/USD	0.7820	0.7938	0.7872	0.7855	0.7812	0.7813
EUR/USD	1.1928	1.2462	1.2409	1.2339	1.2247	1.2252
USD/JPY	112.82	109.85	109.17	109.11	109.60	108.80
GBP/USD	1.3532	1.4109	1.3965	1.3875	1.3898	1.3827
Oil (US$/bbl)	62.96	64.15	63.39	61.79	61.15	59.20
Gold (US$/oz)	1314.96	1336.73	1342.81	1327.68	1311.58	1316.65
Electricity (Haywards)	8.85	5.28	7.04	7.12	8.33	9.21
Baltic Dry Freight Index	1395	1082	1095	1097	1106	1125
NZX WMP Futures (US$/t)	2885	3235	3235	3300	3300	3260

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