

Auckland house prices shifting down a gear

- There was a lot of attention on Auckland house prices last week, notably the distinct change in the price trend.
- Two data releases showed that Auckland house prices have essentially remained flat since December 2017.
- Auckland house prices are coming in for a soft landing as buyer and seller behaviour adjusts.

There was a lot of huffing and puffing about Auckland house prices been blown down last week. Two bits of news prompted the talk. First was the **Quotable Value house price figures for the 3 months to June, which showed Auckland prices were flat over that period.** This measure actually shows prices have now been stagnant since the end of last year – **Auckland prices have stopped dead in the water.** Prices for NZ as a whole fared better, up 0.8% - the strongest 3-month increase since September last year.

Second was the release by **Barfoot & Thompson (B&T)**, the large Auckland real estate agency, of its June sales figures. These showed a **3% dip in prices from May** (although May prices themselves were up around 3% from April). The B&T house price figures are **not adjusted for the composition of sales, so will be influenced by how many high-end homes vs. entry-level homes are sold** from one month to the next. The B&T figures did show over June that the share of high-end sales was slightly down. Even putting aside these impacts, the trend is the same: **the June price is steady on December/January so prices have gone nowhere over the first half of the year.**

So what is happening? **Is it time to roll out some sensational commentary using the words ‘house’ and ‘bust’ in the same sentence?** No, but the market is **coming in for a soft landing**, one that is well underway in Auckland. Auckland house sales turnover has fallen 30% over the past year. Yet over that period the trickle of new listings onto the market has been pretty steady. These two factors together mean that the **number of outstanding listings on the market are up 66%** over the past year, according to realestate.co.nz figures.

Buyer demand has tempered in Auckland, for a variety of reasons. Some key ones are: the **added Loan-to-Value Ratio restrictions; lifts in mortgage rates, and; affordability challenges.** On top of that is psychology: the more it appears that prices are no longer soaring, the more the Fear of Missing Out evaporates. As a market of would-be buyers and sellers, **housing is going through adjustments in behaviour. Buyers are being cautious and can afford to take their time.** Increasingly, we will see the **sell side adjust.** Some of the people with their homes on the market who don’t need to sell will pull out of the market. Others will become more realistic about the price their home will sell for and move to meet the market. Still other would-be sellers will refrain from listing for the time being. We are likely to see a combination of developments in Auckland over coming months. **Prices will remain flat or edge down slightly, the number of new listings coming onto the market will eventually slow, and the total number of homes for sale will start to stabilise.**

Foreign Exchange

- NZD likely to remain well supported as USD remains on the back foot.

Interest Rates

- Interest rates hold onto recent lifts, led by offshore moves.

Week Ahead

- Electronic card transactions, the food price index, and consumer confidence for June.

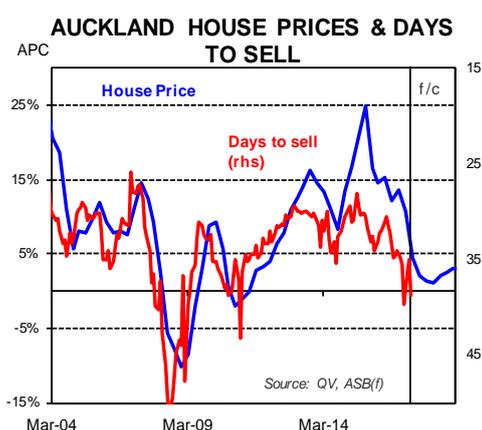
Week in Review

- Business confidence is steady, housing credit growth has slowed, dairy prices dipped last week.

Global Calendars

- US Fed Chief Yellen to testify before Congress; US CPI and UK unemployment data are also key.

Chart of the Week: New timely house price measure



Due to house price measurement issues (such as B&T prices being impacted by compositional changes) we have **tended to focus on QV’s quarterly House Price Index.** The most recent figures released last week for Q1 show Auckland house **prices up 0.8% qoq (ASB seasonal-adjustment) and 10.6% higher over year.** However, as recent data have suggested, the **slowdown in price growth appears to have accelerated in Q2.**

As a result, this **week’s release of the REINZ’s house sales and price figures for June will be particularly timely.** Specifically, the REINZ’s new House Price Index (launched April 2017) should reduce even more the impact on figures of month-to-month shifts in sales composition. And given the delay of Core Logic data, the **measure is the most up-to-date read on house prices,** as it is based off unconditional sales over the one month. In 2017 to date, this index had shown a marginal fall in Auckland house prices and a 0.8% increase for NZ overall. On this measure, it is conceivable that Auckland house price growth turns negative in the year to June 2017.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7278	0.7317	0.7207	0.6958	0.7252	FLAT	0.7150	0.7450
NZD/AUD	0.9574	0.9534	0.9565	0.9512	0.9673	FLAT	0.9400	0.9650
NZD/JPY	82.89	82.34	79.41	81.65	72.82	FLAT	81.70	84.20
NZD/EUR	0.6385	0.6409	0.6430	0.6607	0.6543	FLAT/UP	0.6300	0.6490
NZD/GBP	0.5649	0.5629	0.5646	0.5681	0.5601	FLAT	0.5660	0.5730
TWI	78.5	78.4	77.6	77.3	77.6	FLAT	77.00	80.00

^Weekly support and resistance levels * Current is as at 9.30 am Monday; week ago as at Monday 5pm.

NZD moves were relatively modest over the past week, with the NZD down slightly against the USD and the EUR and up slightly against the JPY and AUD. We expect the NZD and AUD to perform well this week, supported by a weak USD and encouraging Chinese economic activity.

We expect the USD to remain under pressure this week. The USD highlight is Federal Reserve Chair Janet Yellen's appearance on Wednesday and Thursday before the House and Senate committees. Later this week, we expect US inflation remained soft in June, which is likely to reinforce expectations the Federal Reserve pace of interest rate normalisation will not be as aggressive as what is implied by the FOMC's long-term median Fed funds rate projection.

Short-term outlook:	Key data	Date	Time (NZT)	Market
<p>NZ DOLLAR (past 3 months)</p>	NZ Electronic Card Spending, June %mom	11/07	10.45 am	+0.8%
	Fed Chair testimony to Congress	13/07	12.30 am	-
	Fed Beige Book	13/07	6.00 am	-
	CH Trade Balance, June \$b	13/07	-	43
	US CPI, June % yoy	15/07	12.30 am	1.7%
	Key events: NZD: Jun Electronic Card Spending (Tue); Jun Business NZ PMI (Fri). AUD: Jun business confidence & May housing finance (Tue); Jul consumer sentiment (Wed). USD: Jun NFIB business confidence (Tue); Fed Beige Book (Thu); Jun CPI, retail sales & industrial production (Fri). CNY: Jun CPI (Monday); Jun trade balance (Thu). EUR: May industrial production (Wed); May trade balance (Fri). GBP: May unemployment rate & average weekly earnings (Wed).			
	Speakers: FOMC: non-voter Williams (Tue); voter Brainard (Wed & Fri), Chair Yellen (Wed & Thu), non-voter George (Thu), voter Evans (Fri). ECB: Coeure (Tue). BoE: Haldane & Broadbent (Tue).			

Medium-term outlook:

Last Quarterly Economic Forecasts

Our FX forecasts were updated in early May to reflect the weaker near-term outlook for the USD. Expected fiscal stimulus from US President Trump was the main driver of near-term USD strength in our previous FX forecasts. However, difficulties in getting other reforms through Congress have highlighted uncertainties around the timing of the fiscal stimulus. **As a result, we expect the NZD/USD to now appreciate to around 0.7300 by the end of 2017. Further out, the NZD is now expected to further appreciate vs. the USD over the next 18 months.** Firstly, the risk of the RBNZ starting a tightening cycle is rising, but the first hike is still not expected until the end of 2018. Further, the ongoing recovery in dairy prices and continued increase in tourism earnings will help the current account deficit narrow even further, supporting the NZD. While we are expecting ongoing NZD/USD strength, a further rate hike by the Federal Reserve in September will limit NZD strength over 2017. **We expect the USD to stabilise once the fiscal policies are signed into effect, however, this may now not occur until 2019.**

The NZD remains supported by relatively high Terms of Trade, relatively high interest rates, increased offshore investor demand and a structural improvement in the current account deficit. **Given these factors are NZD-supportive, combined with the fact the RBNZ signalled it had finished its easing cycle at the November MPS, we see little sustained downward pressure on the NZD.** Over 2017, we expect the NZD/AUD to remain in a relatively high range of 0.93-0.96.

We revised our GBP forecast higher in May on the basis the UK economy has held up better than expected following the UK's vote to leave the EU. We had, however, expected the UK election to reaffirm a Conservative majority, supporting the Pound. But, the surprise hung Parliament has dented the Pound. We expect the NZD/GBP to largely remain with a range of 0.55-0.57 until the end of 2019, though there is increased risk the cross rate drifts higher if UK political uncertainty remains rife.

In the near term we continue to see NZD/JPY hold above 75. Further out, the prospect for more BOJ easing should weaken the JPY, holding NZD/JPY at 77 over 2017.

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	1.75	1.75	1.75	1.75	2.25	FLAT
90-day bank bill	1.98	1.99	1.94	1.99	2.42	FLAT
2-year swap	2.37	2.41	2.24	2.47	2.27	FLAT
5-year swap	2.94	2.97	2.73	3.04	2.29	FLAT
5-year benchmark gov't stock	2.69	2.71	2.46	2.62	2.00	FLAT
NZSX 50	7622	7589	7434	7013	6998	FLAT

^Weekly support and resistance levels * Current is as at 9.30am Monday; week ago as at Monday 5pm.

Interest rates lifted sharply at the end of June and into the start of July following global moves higher. **NZ interest rates stabilised somewhat over the past week** with yields down on week-ago levels. Nonetheless, **interest rates remain higher than levels which prevailed throughout June**, with longer-term interest rates 20-25 basis points higher.

Monetary policy settings expectations in Europe appear to be one catalyst for recent lifts in global interest rates, with markets positioning ahead of the upcoming European Central Bank meeting. We expect the ECB will announce its tapering programme at the 20 July meeting. Meanwhile, **weak demand at bond auctions in France and Spain last week further reinforced the European-led lift in longer-term yields.**

In the US, interest rates lifted higher (particularly the 10-year Treasury Bond yield) following the release of the Federal Reserve Meeting Minutes. The US Fed meeting minutes showed that financial stability concerns were growing among members along with concerns that low unemployment, if sustained, could cause a rapid lift in inflation. The strong lift in US employment data out over the weekend also reinforces the Fed's outlook for rate hikes.

Short-term outlook:

Key data

Date

Time (NZT)

Market

NZ Electronic Card Spending, June %mom

11/07

10.45 am

+0.8%

Fed Chair testimony to Congress

13/07

12.30 am

-

Fed Beige Book

13/07

6.00 am

-

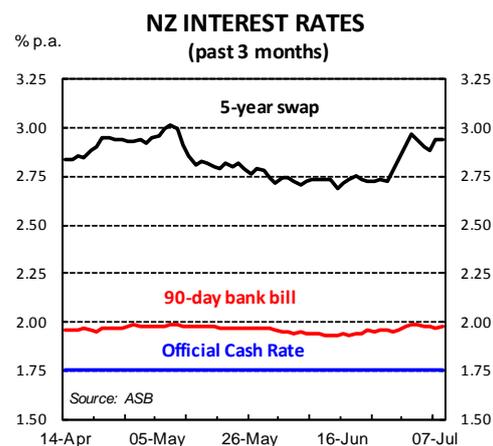
US CPI, June % yoy

15/07

12.30 am

1.7%

Comment: Looking ahead, we expect financial markets to remain relatively quiet this week with no major economic releases scheduled. **In NZ**, markets will be waiting on **next week's CPI release** which is a key release ahead of the August Monetary Policy Statement. **In the EU**, markets are waiting on **next Thursday's ECB meeting**, with market participants expecting an announcement on bond purchase tapering. **In the US**, markets are waiting on the **FOMC meeting at the end of July.**



Medium-term outlook:

Last Quarterly Economic Forecasts

The RBNZ continued to hold the OCR at its record-low of 1.75% at its June OCR Review. In May, the RBNZ surprised markets by retaining its neutral policy stance, despite the stronger than expected Q1 CPI result and Q2 RBNZ inflation expectations data.

At the June OCR review, the RBNZ acknowledged the major developments since the May Monetary Policy Statement. **GDP growth proved weaker than expected, the TWI has appreciated and energy prices have declined.** However, providing some offset, the **higher Terms of Trade and Budget 2017** are all positive for medium-term growth prospects. While the **RBNZ's assessment of events was broadly in line with our expectations, some market participants were surprised that the RBNZ did not use firmer language on the NZD.** The RBNZ 'merely' noted the higher NZD was partly due to export prices.

At the May MPS, a key point of difference between our view and the **RBNZ's was our medium-term milk price assumption.** We see scope for the RBNZ to revise this up in light of **Fonterra's confident opening season milk price forecast.** However, we will have to wait for the August MPS to confirm if this is the case.

The **RBNZ's view of the inflation outlook remained unchanged from the May MPS and OCR Review.** The RBNZ reiterated that the Q1 strength was largely due to temporary rises in petrol and food prices and that inflation was likely to be volatile over the next few quarters. This is in line with our view and we are expecting inflation to dip back below 2% in Q2 as the recent falls in oil prices weigh on tradable inflation. Looking forward, we expect tightening domestic capacity pressures and improving global growth to lift inflation back towards the 2% mid-point of the target band by late 2019.

We continue to expect the RBNZ to leave the OCR on hold at 1.75% until late 2018.

Key international data for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Japan Current Account Balance, May, ¥bn	10/07	11:50 am	1951.9	1792.8	-
China CPI, June, %yoy	10/07	1:30 pm	1.5	1.6	1.5
Australia Owner-Occupier Loan Value, May, %mom	11/07	1:30 pm	-1.1	-	2.5
UK ILO Unemployment Rate, May, %mom	12/07	8:30 pm	4.6	4.6	4.6
EZ Industrial Production, May, %mom	12/07	9:00 pm	0.5	1.0	0.4
US Fed chief Yellen to give testimony to Congress	12/07	-	-	-	-
Australia Consumer Confidence, July, %mom	12/07	12:30 pm	-1.8	-	-
China Trade Balance, June, USDbn	13/07	-	40.8	43.0	35.0
US CPI, June, %yoy	15/07	12:30 am	1.9	1.7	1.6

Already-released customs data suggest **Japan's current account surplus** remained large, at around 4% of GDP. Japan's trade surplus is benefiting from a pick-up in the world economy and lower commodity prices.

The recovery in **China's vegetable price inflation** should have been offset by lower non-food inflation in June.

There's been a moderate rise in **loans to owner-occupiers in Australia**, indicating some switching away from investor lending. Total lending is also expected to show a modest rise. It appears higher interest rates to investors are crimping demand.

Given **Australia's** previous **consumer sentiment** index fell 1.8%, a rise for July is likely on the cards. Improving jobs market data over past few months may also lift sentiment. However, political infighting in the Federal Government is a negative.

China's current account surplus has moderated to about 1.5% of GDP on account of high commodity prices and China's economic transition. Demand for China's exports remains decent, according to the PMI survey, while China's steady economic growth is supportive of import demand.

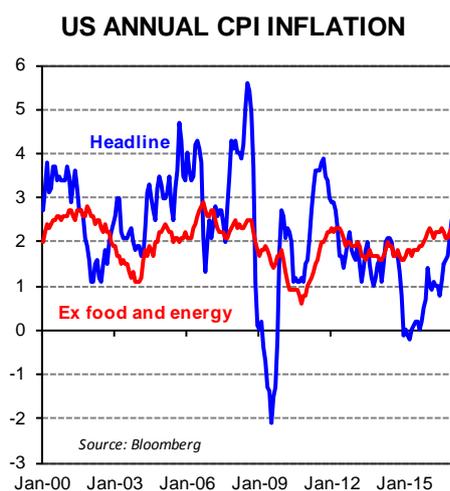
We anticipate **UK ILO unemployment** in June will be unchanged at 4.6% yoy. The UK general election weighed on economic sentiment so we believe weekly earnings (including bonus) will decline towards 2%.

We anticipate May **Eurozone industrial production data** will print around 0.4%. A robust pace of industrial production growth is consistent with strong May Eurozone PMI data.

US Federal Reserve chief Janet Yellen is due to give her testimony to Congress on the outlook for US growth and inflation. A tapering of bond purchases may also be discussed. The testimony will be repeated over the following week to the US Senate.

We expect a small rise in **US retail sales for June** following May's 0.3% fall. Ex-auto and gas sales figures could veer toward 0.3%.

US CPI was surprisingly soft in May and caused market participants and some Federal Open Market Committee members to be cautious about tightening monetary policy. Weak wages growth and low inflation expectations are a headwind to a large pick up in CPI inflation.



NZ Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Electronic Card Transactions, June, %mom	11/07	10:45 am	-0.4	-	0.8
Food Price Index, June, %mom	13/07	10:45 am	2.4	-	0.8
Consumer confidence, June	13/07	1:00 pm	123.9	-	-

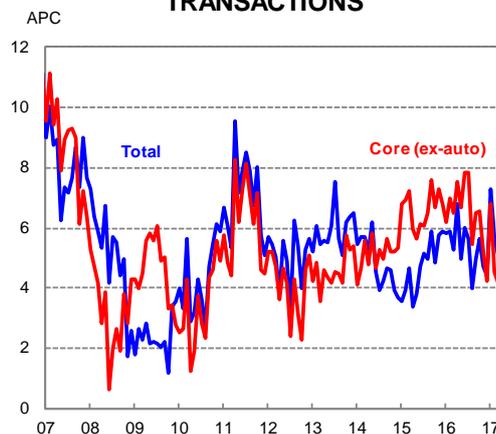
Electronic card spending was soft over May, particularly as fuel prices fell.

However, we expect a strong June on the back of a surge in the Lions Tour-related spending. With this in mind, we expect hospitality spending to lead the way, and for consumables and apparel spending to also be strong. However, petrol prices fell again over the month, which will take the top off an otherwise bumper month. **All up, we expect total card spending to rise 0.8% over the month.**

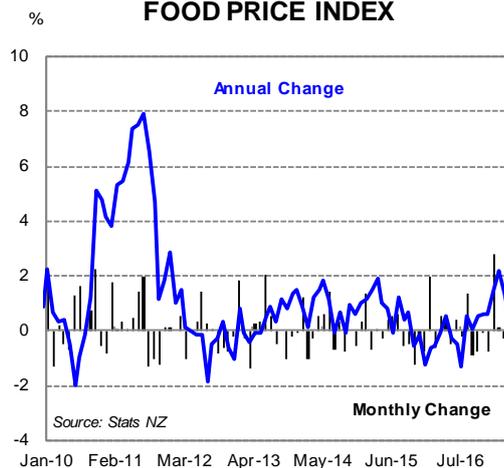
Fruit and vegetable prices have risen strongly over the last two months as wet weather has disrupted production. In particular, fruit and vegetable prices rose 8.2% mom in May. While fruit and vegetable prices tend to remain elevated in the winter months, we expect some payback after last month's particularly strong result. This is one of the final indicators for our Q2 CPI forecast. We will release our CPI preview shortly after the release.

ANZ/Roy Morgan consumer confidence picked up over June. The pick-up came on the back of Budget tax cuts and income support announcements, while the bullish Fonterra milk price forecast has boosted sentiment in the regions. Meanwhile, generally confidence remains supported by relatively low interest rates and the robust labour market. This month may also get a boost from the feel-good factor around the Lions tour and America's Cup. **With this in mind, we expect a similarly strong result over July.**

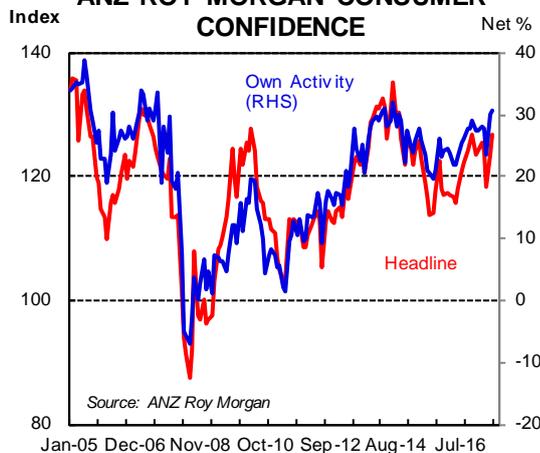
RETAIL ELECTRONIC CARD TRANSACTIONS



FOOD PRICE INDEX



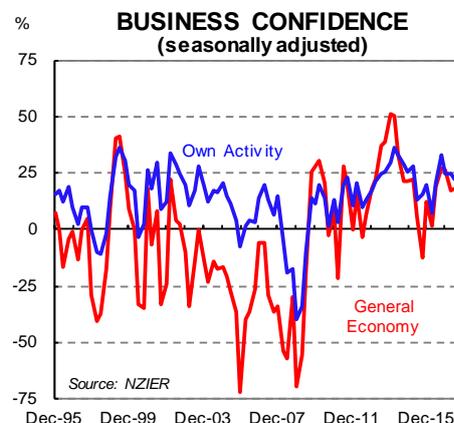
ANZ ROY MORGAN CONSUMER CONFIDENCE



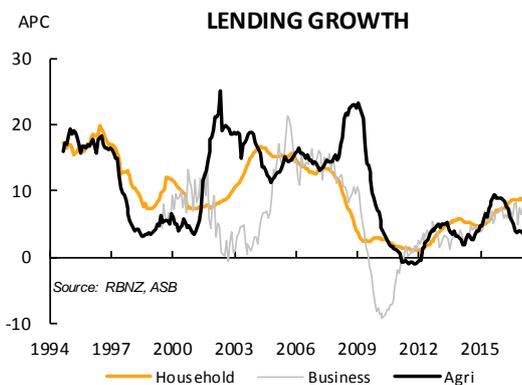
Data Recap: weekly recap

Data	Date	Actual	Market forecast	ASB Forecast
Quarterly Survey of Business Opinion, Business Confidence (Q2) s.a.)	04/07	17.8	-	-
RBNZ Credit Aggregates, May, Household, %mom	04/07	0.4	-	-
GlobalDairyTrade auction, whole milk powder, % change	04/07	2.6	-	-2 to 0

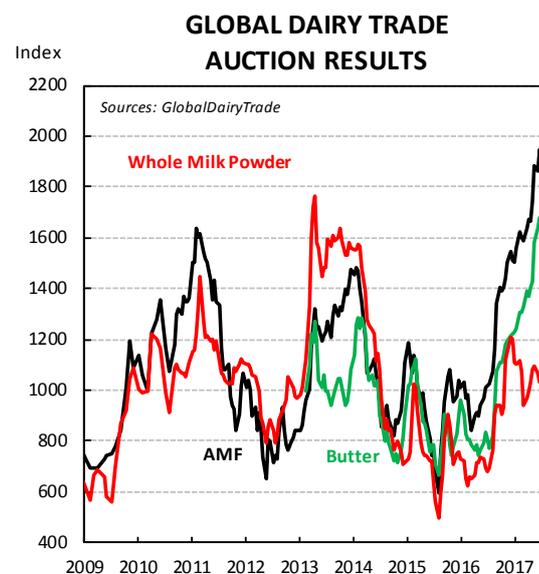
General business confidence was quite steady on Q1's survey results. Firms' domestic trading activity views eased slightly, both for the quarter just experienced, as well as expectations for the quarter ahead. All key activity indicators remain above long-term averages and point to good underlying momentum. **We expect growth will reaccelerate after its slower pace over 2016Q4 and 2017Q1**, with part of that story being the resurgent agriculture sector that isn't fully captured in this particular survey. The survey does suggest, though, that **labour market pressures will continue to ratchet up over time**. Employment intentions and experienced employment both edged up further. And the difficulty of finding skilled labour is at its highest since mid-2005. Inflation pressures will follow suit, but the RBNZ still has plenty of time before it needs to start unwinding the interest rate stimulus the economy is still benefitting from. **We continue to expect the RBNZ will remain on hold until late 2018.**



Annual housing credit growth slowed for the fifth consecutive month in May; the slowest growth rate since March 2016. We have expected housing credit growth to continue to slow as higher deposit requirements (a result of last year's Loan-to-Value restrictions last year) and higher long-term mortgage rates dampen demand. We expect these factors to continue to weigh on lending activity over 2017, reinforced by the rapid decline in agriculture credit growth. **Meanwhile, consumer credit growth consolidated its recent increases.** Similarly, **business credit growth held steady at recent levels.**



Dairy prices dipped by 0.4% at last week's auction. However key product, WMP, bucked the trend, rising 2.6%. The WMP rise contrasted with futures prices prior to the auction; futures prices had pointed to a WMP being flat to down 2%. **All up, prices are in a holding pattern.** The 2.6% WMP price lift effectively cancels out last auction's 3.3% fall. Meaningful NZ production data will be thin on the ground, over July and August, as production is very low over winter. Meanwhile, Fonterra has set its new season production growth forecast at 3%, but the first real test of that number won't be until when production ramps up in the spring. **For our part, we expect slightly firmer total NZ production growth this season of 4%. All up, we continue to expect a 2017/18 milk price of \$6.75/kg.**



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 10 Jul	07:15	CH	Money supply M2	Jun	y%ch	9.6	9.5	~
	09:50	JN	Machine orders	May	m%ch	-3.1	~	~
	09:50	JN	BoP current account adjusted	May	¥bn	1,807.4	~	~
	10:30	JN	BOJ Kuroda speaks at Branch Managers' meeting					
	11:30	CH	CPI	Jun	y%ch	1.5	1.5	~
	15:00	JN	Eco watchers survey current	Jun	Index	48.6	~	~
	10-14 Jul	NZ	REINZ house sales and prices	Jun	y%ch	~	~	~
Tue 11 Jul	08:45	NZ	Card spending retail	Jun	m%ch	-0.4	~	0.8
	09:30	AU	ANZ Roy Morgan Weekly Consumer	Jul	Index	114.5	~	~
	09:50	JN	Money stock M2	Jun	y%ch	3.9	~	~
	09:50	JN	Money stock M3	Jun	y%ch	3.4	~	~
	11:30	AU	NAB business conditions	Jun	~	12.0	~	~
	11:30	AU	Home loans (No. of owner-occupiers)	May	m%ch	-1.9	~	2.5
	16:00	JN	Machine tool orders	Jun P	y%ch	24.5	~	~
Wed 12 Jul	08:00	NZ	ANZ Truckometer Heavy	Jun	m%ch	4.1	~	~
	09:50	JN	PPI	Jun	m%ch	0.0	~	~
	10:30	AU	WBC consumer confidence index	Jul	Index	96.2	~	~
	11:30	AU	Credit card purchases	May	\$bn	22.9	~	~
	14:30	JN	Tertiary industry index	May	m%ch	1.2	~	~
Thu 13 Jul	~	CH	Trade balance	Jun	CNY bn	281.6	266.7	~
	08:45	NZ	Food prices	Jun	m%ch	2.4	~	0.8
	11:00	NZ	ANZ consumer confidence index	Jul	Index	127.8	~	~
	11:00	AU	Consumer inflation expectation	Jul	%	3.6	~	~
	12:00	JN	Tokyo average office vacancies	Jun	~	3.4	~	~
Fri 14 Jul	07:20	JN	Nationwide department sales	Jun	y%ch	0.0	~	~
	08:30	NZ	BusinessNZ manufacturing PMI	Jun	Index	58.5	~	~
	14:30	JN	Industrial production	May F	m%ch	-3.3	~	~
	14:30	JN	Capacity utilization	May	m%ch	4.3	~	~

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 10 Jul	09:30	EC	Sentix investor confidence	Jul	Index	28.4	~	~
	15:00	US	Labor market conditions index change	Jun	Index	2.3	~	~
	20:00	US	Consumer credit	May	\$bn	8.2	15.0	~
Tue 11 Jul	00:01	UK	BRC sales like-for-like	Jun	y%ch	-0.4	~	~
	04:05	US	Fed's Williams speaks in Sydney					
	11:00	US	NFIB small business optimism	Jun	~	104.5	~	~
	15:00	US	JOLTS job openings	May	~	6,044	~	~
	15:00	US	Wholesale inventories	May F	m%ch	0.3	0.3	~
	17:00	US	Fed's Brainard speaks in New York					
	09:30	UK	Claimant count rate	Jun	%	2.3	~	~
Wed 12 Jul	09:30	UK	Jobless claims change	Jun	000	7.3	~	~
	09:30	UK	ILO unemployment rate 3 months	May	%	4.6	~	~
	09:30	UK	Employment change 3M/3M	May	000	109.0	~	~
	10:00	EC	Industrial production	May	m%ch	0.5	~	~
	13:30	US	Fed Releases Chair Yellen's testimony to Congress					
	15:00	US	Yellen to appear before U.S. House Panel					
	19:00	US	U.S. Federal Reserve releases Beige Book					
	19:15	US	Fed's George speaks in Denver on the Economic Outlook					
Thu 13 Jul	00:01	UK	RICS house price balance	Jun	%	17.0	~	~
	09:30	UK	Bank of England Credit Conditions & Bank Liabilities Surveys					
	13:30	US	PPI final demand	Jun	m%ch	0.0	0.0	~
	13:30	US	Initial jobless and continuing claims	Jul	~	~	~	~
	15:00	US	Fed Chair Yellen Testifies before Senate					
	16:30	US	Fed's Evans speaks at Rocky Mountain Summit in Victor, Idaho					
	19:00	US	Monthly Budget Statement	Jun	~	~	~	~
Fri 14 Jul	07:00	EC	EU27 new car registrations	Jun	%	7.6	~	~
	10:00	EC	Trade balance	May	€bn	19.6	~	~
	13:30	US	CPI	Jun	m%ch	-0.1	0.1	~
	13:30	US	Real average weekly earnings	Jun	y%ch	0.6	~	~
	13:30	US	Retail sales advance	Jun	m%ch	-0.3	0.1	~
	14:15	US	Industrial production	Jun	m%ch	0.0	0.3	~
	14:15	US	Capacity utilization	Jun	%	76.6	76.7	~
	14:30	US	Fed's Kaplan speaks in Mexico City					
	15:00	US	Uni. of Michigan sentiment	Jul P	Index	95.1	~	~

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