

Offshore events rising to the fore

- Donald Trump fails to pass healthcare reform legislation, raises questions over his ability to pass tax reform.
- Brexit set to formally get underway, but the to-do list is immense.
- The French election dawns closer.

It has been a busy week for events offshore, which continue to impact both New Zealand's economy and financial markets. It does not look as if there is any respite either, with plenty ahead in the coming weeks.

Firstly, **US President Donald Trump's Administration failed its first major test**, with the American Healthcare Amendment Act failing to garner enough support to even make it to the vote. While the impact of this specific act is mainly limited to the US, it **has generated plenty of international volatility**. This is because **questions are now being asked of the Administration's ability to pass other keystone legislation**. This includes US fiscal stimulus and tax reform, which has a much greater direct impact on New Zealand via potential additional demand for NZ exports, although counter balanced with a possible increase in trade restrictions. **Whatever the outcome of tax reform, Trump is already living up to the findings in the ASB NZD Barometer (see more [here](#))**. **Importers and exporters alike picked Donald Trump as the most likely source of volatility in foreign exchange markets over the coming 12 months**. He was placed ahead of European elections, NZ elections and Brexit.

The last of that list is due to get underway this week, with **the UK Government set to trigger Article 50 on Wednesday**. This is the formal beginning of the Brexit negotiations with the EU, which must be completed inside 2 years. This is generally seen as an ambitious timeline, with a massive list of issues to be discussed. As well as trade between the Union and the UK, issues such as EU legislation, border control (between the Republic of Ireland and Northern Ireland), defence and of course immigration also need to be settled. On top of that, **many of the deals in place between the UK and the rest of the world are actually currently between the EU and the rest of the world**. That means the **UK needs to re-establish almost its entire relationship with huge expanses of the globe across a massive range of issues**. Not only does the UK need to find a way to address all this issues, but **the divorce bill with the EU also needs to be agreed, with some estimates as high as GBP 50bn**. Getting all this settled within 2 years is clearly a tall-task. If this is not achieved then the UK reverts to World Trade Organisation rules, which could generate **an adverse situation for UK exporters, as well as those looking to export to the UK**.

In the meantime, **French Presidential elections are drawing closer**, with the 1st round on April 27. If there is not a clear victor, a run-off between the two highest polling candidates takes place on May 7. Current polling has far-right candidate Marine Le Pen, of the National Front, in the lead on around 27%. **However, her share of the vote is only expected to rise to around 28% of the vote in round 2**. This compared to Emmanuel Macron, from the En Marche! Party (centralist, pro-business). Polling shows him rising from 26% all the way to 62% in round 2. However, polling did not have Brexit and Donald Trump as favourites either. Should Le Pen win, she has said she will hold a referendum on France's place in Europe, although the UK's experience may make her think twice.

Foreign Exchange

- Currency markets were quiet last week, likely to be quiet again over the coming week.

Interest Rates

- NZ yield curve flattens, quiet week ahead for interest rate markets.

Week Ahead

- ANZ Business Confidence, building consents, RBNZ credit growth.

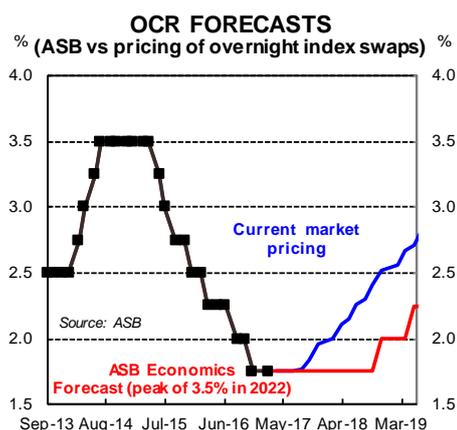
Week in Review

- Travel and migration, prices up at GDT auction, RBNZ keeps cash rate unchanged, trade balance.

Global Calendars

- Australian job vacancies, US consumer confidence and PCE deflator, UK GDP.

Chart of the Week: NZ interest rate pricing slowly declining



The RBNZ again held the OCR steady at last week's [Review](#), as was expected. The decision and accompanying statement further **tempered expectations for a rate hike in the near future**. Prior to the announcement, the odds of a rate hike before the end of 2017 stood at around 50%. **This declined to around 40% post-meeting**. The first move from the Bank is now not priced in until March 2018.

It was only a couple of months ago that a hike this November was 100% priced in by the market. Since then, there have been a number of changes. The RBNZ's February MPS and March OCR have very much underlined **the Bank is in no hurry to make any changes to rates**. In addition, the surprising **deceleration in GDP in Q4 2016**, plus the downward revision to Q3's growth, has called into question the need for rate hikes in the near future. **The changes in the international situation have also taken the pressure off global interest rates**. All this has helped the market re-assess the need and speed of rate hikes, bringing **pricing closer to our forecast for no move until late 2018**.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7019	0.7037	0.7219	0.7231	0.6698	FLAT/DOWN	0.6920	0.7120
NZD/AUD	0.9203	0.9116	0.9356	0.9496	0.8925	FLAT	0.9100	0.9300
NZD/JPY	77.84	79.18	81.37	73.03	75.47	FLAT/DOWN	76.50	79.00
NZD/EUR	0.6476	0.6540	0.6821	0.6441	0.5992	FLAT	0.6400	0.6550
NZD/GBP	0.5622	0.5682	0.5751	0.5572	0.4750	FLAT	0.5500	0.5700
TWI	76.4	76.3	78.4	76.9	71.6	FLAT/DOWN	76.00	79.00

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

It was a reasonably quiet week in currency markets last week with few major data releases or events to move markets. The most anticipated event domestically, the **RBNZ OCR Review**, resulted in a muted market reaction as the **RBNZ left rates on hold and maintained a neutral bias**. The small lift in dairy prices overnight Wednesday supported the NZD for a short time, but this was not sustained. Late on Friday it was announced that **Trump's US healthcare amendment bill had failed to make it to a vote** after there wasn't enough support for the Bill. Despite calling into question Trump's ability to get enough support to pass further Bills, including tax reforms, the **impact on the USD has so far proved minor**.

With another very quiet week ahead on the data front, any **further policy developments in the US are likely to be a key driver of currency movements**. However, there could also be **some volatility in the GBP on Wednesday night when the UK is set to trigger Article 50 of the Lisbon Treaty, the formal exit notification**.

Short-term outlook:	Key data	Date	Time (NZT)	Market
NZ DOLLAR (past 3 months) 	NZ Building Consents, February	31/03	10:45 am	-
	NZ Business Confidence, March	31/03	1.00 pm	-
	NZ Credit Growth, February	31/03	3.00 pm	-
	US PCE Deflator, % yoy	1/04	1.30 am	2.1%
	Key events: NZD: Feb building consents & Mar business confidence (Fri). USD: Mar consumer confidence (Wed); Q4 final GDP (Thu); Feb PCE deflator (Fri). AUD: Feb private sector credit (Fri). EUR: Mar German IFO business climate index (today); Mar CPI (Fri). GBP: Article 50 is triggered (Wed); Q4 final GDP estimate & Q4 balance of payments (Fri). CNY: Mar manufacturing & non-manufacturing PMIs (Fri). Speakers: RBA: Debelle (Tue). Fed: George & Kaplan (Wed), Rosengren, Williams & Mester (Thu), Kapan (Fri), Kashkari & Bullard (Sat).			

Medium-term outlook:

Last Quarterly Economic Forecasts

Our FX forecasts were updated in mid-December with the short- and medium-term outlook tweaked. Further out, the NZD is now expected to depreciate vs. the USD over the next 18 months. The driver is USD strength due to the expected fiscal stimulus US President Trump is forecast to deliver. This spending should be inflationary, pushing the US Federal Reserve into lifting the Fed Funds rate faster than previously expected. Capital inflows to the US are also expected to support the USD. We expect the USD to strengthen (NZD/USD weaken) once the fiscal policies are signed into effect. Meanwhile, also supporting the USD, the Federal Reserve hiked policy rates in March and signalled two more rate hikes were likely in 2017 (which we expect in June and December).

Despite the revision, 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 0.94-0.96.

We revised our GBP forecast lower in late October and have pushed the Pound a touch lower again in December's update. We believe the fundamental down-trend in the GBP will remain intact, and expect the NZD/GBP to continue to gradually lift toward the mid-0.60's by 2018.

In the near term we continue to see NZD/JPY hold above 70. Further out, the prospect for more BOJ easing should weaken the JPY, pushing NZD/JPY above 84 in 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	2.00	2.25	FLAT
90-day bank bill	1.98	1.95	1.99	2.20	2.33	FLAT
2-year swap	2.36	2.32	2.36	2.05	2.30	FLAT
5-year swap	2.97	2.99	2.99	2.19	2.62	FLAT
5-year benchmark gov't stock	2.51	2.51	2.58	1.96	2.39	FLAT
NZSX 50	7074	7052	7053	7265	6663	FLAT

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

The **NZ yield curve flattened slightly over the week**, with shorter-term rates lifting slightly and longer-term rates edging lower over the week.

The **RBNZ delivered a neutral statement at the March OCR review**, which saw very little immediate market reaction. However, short-term interest rates did climb slightly higher over the days subsequent, despite longer-term rates easing following moves offshore.

Heading into the weekend, **US markets remained relatively calm in the wake of news that Donald Trump's healthcare amendment act failed to make it to a vote** after indications it would not pass. While healthcare itself is not a major economic policy, it does raise doubts with market participants over the Trump Administration's ability to get other policies, including fiscal stimulus and tax reform, over the line. Moves in US rates were relatively modest and we may see very limited movement in NZ rates as a result.

Short-term outlook:	Key data	Date	Time (NZT)	Market
<p>NZ INTEREST RATES (past 3 months)</p> <p>Source: ASB</p>	NZ Building Consents, February	31/03	10:45 am	-
	NZ Business Confidence, March	31/03	1.00 pm	-
	NZ Credit Growth, February	31/03	3.00 pm	-
	US PCE Deflator, % yoy	1/04	1.30 am	2.1%
	<p>Comment: There is very little in the way of major market movers this week and as a result, we expect interest rates to largely trend sideways. At the end of the week, the usual end-of-month flurry of second-tier data is unlikely to influence NZ market pricing. Meanwhile, the key US data release is the Private Consumption Expenditure deflator, which is likely to pick up, but not alter views on Fed rate hikes. FOMC voter Robert Kaplan noted last week that a brief period where US inflation overshoots the Fed's 2% target "is not going to trigger faster rate hikes".</p>			

Medium-term outlook:

Last Quarterly Economic Forecasts

The **RBNZ continued to hold the OCR at its record-low of 1.75% at its March OCR Review**. The **RBNZ retained its neutral policy stance**, as in February and November, whilst keeping a cautious eye on global developments: "numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly." **The RBNZ sees the global environment as a key downside risk**.

The **RBNZ dismissed the recent weak GDP figures as partly due to temporary factors** and remains confident in NZ's growth outlook will be supported by population growth, construction and increased household spending. The **RBNZ was pleased with the recent depreciation in the TWI**, although noted further depreciation is required. **The RBNZ remains cautious on the dairy price outlook**.

The **RBNZ addressed likely volatility in upcoming headline inflation figures**. Higher petrol and food prices are supporting inflation in the near term and will likely see headline annual inflation lift close to 2% in upcoming figures. However, given these are one-off moves, the impact on inflation is not likely to be sustained. As a result, inflation is likely to dip back below 2% over 2017. **The RBNZ reminded that a sustainable move to the 2% mid-point of the target band is not likely until the medium term**.

The RBNZ's March Monetary Policy Statement OCR projections show the OCR remaining at 1.8% well into 2019. The RBNZ's outlook has a 25bp hike built in by early 2020. **We continue to view OCR increases as a long way off, towards the end of 2018**. In contrast, market pricing implies an early 2018 start.

Key international data for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Australia Job Vacancies, February	30/03	1:30 pm	2.2	-	-
Australia Private Sector Credit, February, %mom	31/03	1:30 pm	0.2	0.5	0.5
Japan, CPI ex food and energy, February, %yoy	31/03	12:30 pm	0.2	0.1	0.4
Eurozone, CPI, March, %yoy	31/03	10:00 pm	2.0	1.8	-
US PCE Deflator, February, %yoy	01/04	1:30 am	1.9	2.1	2.1

Guy Debelle, Deputy Governor at the Reserve Bank of Australia, is due to speak at the FX Week Australia Conference in Sydney at 9.00 am AEDT.

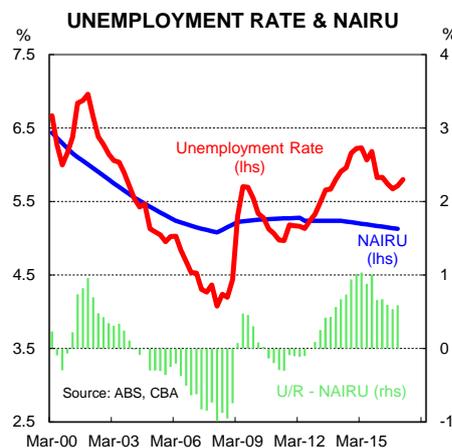
Leading indicators of Australian employment have firmed. In particular, business surveys point to a lift in hiring intentions. The official job advertisement series should show a lift in advertisements over the three months to February.

Australian investor credit for housing has accelerated while credit growth to business has slowed. Neither outcome is desirable. We expect to see a lift in business credit over the month while housing credit should stabilise at 0.5% growth over the month.

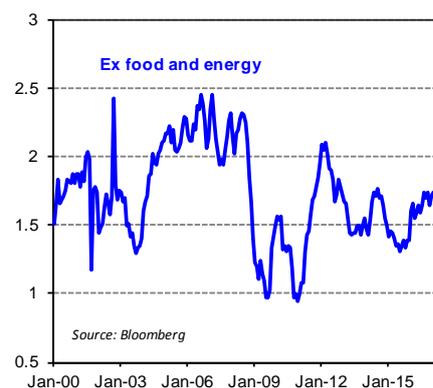
We expect the Bank of Japan's preferred inflation measure, which excludes fresh food and energy, to accelerate modestly to a still-very-weak 0.4%pa. This is stronger than the recent low point of only 0.1%pa reported in December but is well below the BoJ's target of 2.0%pa.

Headline and core Eurozone CPI inflation in February came in at 2% and 0.9%pa respectively. The ECB projects headline and core CPI inflation of 1.7% and 1.1% by the year-end, respectively. Declining labour market slack and a gradual fading of crisis-related factors that have held down wage growth over the past few years suggest core CPI quickened at an annual pace of 1% in March.

A pick-up in oil prices will likely flow through to stronger **US headline inflation**. The gradual acceleration in wage growth, as US labour market slack eases, will in time lead to stronger core inflation.



US PCE INFLATION
Core Private Consumption deflator



NZ Data Preview: a look at the week ahead

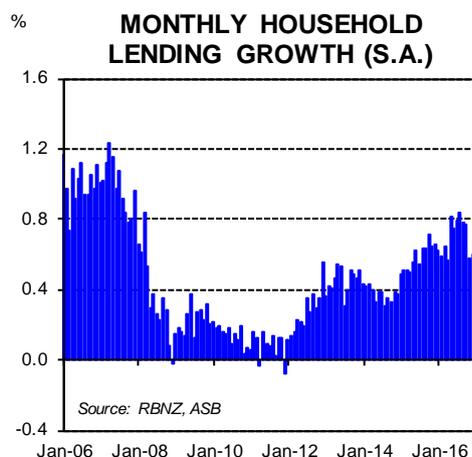
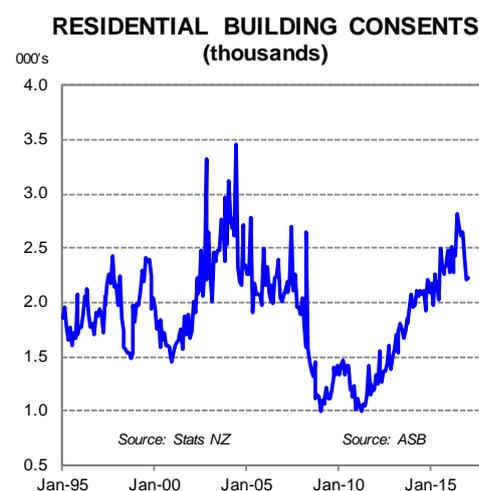
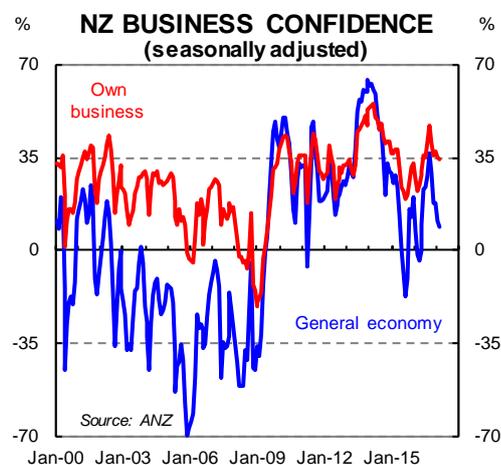
Data	Date	Time (NZT)	Previous	Market expects	ASB expects
ANZ Business Confidence, March, Index	31/03	1:00 pm	16.6	-	-
Building Consents, February, %mom	31/03	10:45 am	0.8	-	-
RBNZ Credit Growth, Household, %mom	31/03	3:00 pm	0.55	-	-

Growth in residential building consents has stalled, with the number of residential consents now 1.7% below year-ago levels. StatsNZ noted that the trend in consents peaked in August 2016, and has since fallen 15%. In light of continued supply shortages, particularly in Auckland and Wellington, this trend of falling consents is disappointing. We expect to see a recovery in building consents demand given the underlying supply shortfall. But if we don't see a recovery soon, we may have to revise our view of 2017 construction growth lower.

Business confidence edged lower in February, a surprising result given that summer months usually provide a boost to confidence. Offshore political developments may be weighing on optimism for the general outlook and could continue to do so in March. Own-activity expectations remain solid and indicate the NZ economy is still on track to grow 3.4% over 2017.

Household credit growth eased slightly in January, in line with the more subdued housing market. We expect household credit growth will continue to slow, driven by easing housing credit growth. On the other hand, consumer credit growth has been lifting. In fact, consumer credit growth has accelerated for 5 consecutive months.

Agricultural credit growth has been reasonably stable recently and has halved from growth rates seen in early 2016. Higher milk prices have lessened the demand for credit to cover operating costs. However, with many farmers' cash flows likely to remain tight for a few more months, a floor will remain under agricultural credit growth. **Business credit growth** has eased recently, but reasonable levels of business confidence are likely to continue to support business credit demand.



Data Recap: weekly recap

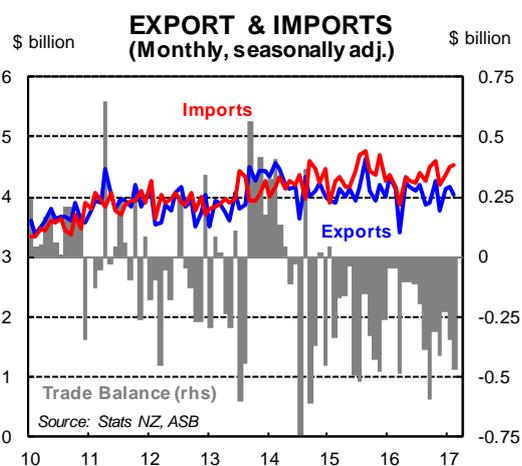
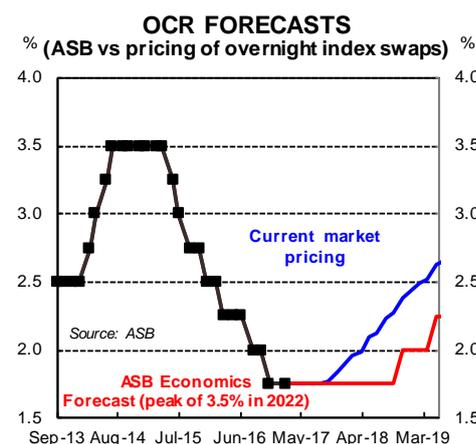
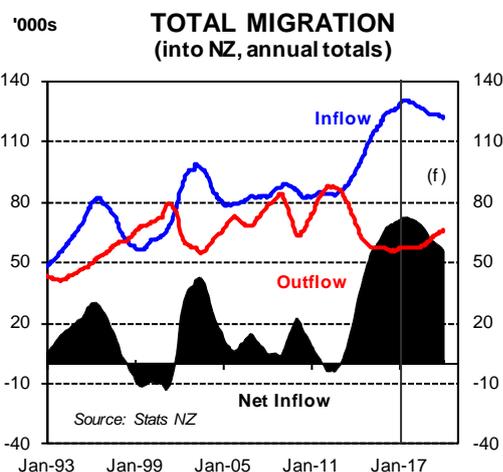
Data	Date	Actual	Market forecast	ASB Forecast
International Travel & Migration, February, Net Migration	21/03	6,000	-	6,460
GlobalDairyTrade auction, whole milk powder, % change	21/03	2.9	-12.4	-
RBNZ Official Cash Rate announcement, %	23/03	1.75	1.75	1.75
Trade balance, February, \$mn	24/03	-18	-180	+127

Net migration continues to run at record annual highs. The country gained 71,333 new residents over the last 12 months, up from 71,305 in the 12 months to January. This is despite a small dip in the month's net gain, to 6,000 from 6,420 (seasonally adjusted). That is now 6 months in a row with a net gain of 6,000 or more. If that trend continues, it won't take long for net migration to move past 72,000 in a year. Annual tourism marked another record high, with the annual total stepping up to 3.54mn. Monthly arrivals did dip 1.9% though, although that may have been due to the timing of the Chinese New Year again, which was earlier than usual. It was also by some distance the busiest February on record, with over 380,000 visitors arriving (non-seasonally adjusted).

Dairy prices firmed at last week's auction. Whole milk powder (rose 2.9%) and anhydrous milk fat rose 3.0% and butter lifted 4.9%. Overall auction prices increased 1.7%. The auction result also beat expectations. For example, WMP futures pricing had indicated a fall in the 4% to 6% range. Moreover, the result partially reverses the weak result from the previous auction where WMP prices had fallen 12.4%. **Some of the surprise may be due to Latin America buyers entering the market.** These buyers may be seeking alternatives to Argentinian product (Argentina is a major WMP exporter), with dairy production there still weak following floods. Over the remainder of this season, **we expect prices to track sideways.** However, heading into next season and as the late season NZ production fillip clears markets, we expect WMP prices to remain well-supported.

The RBNZ left the OCR on hold at 1.75%, as widely expected, with a continued neutral stance. Varying risks remain broadly balanced. The RBNZ has noted indications of stronger global growth but talked up the global political risks. The RBNZ has downplayed some of the recent domestic growth weakness and is encouraged by the lower NZ dollar. The RBNZ's policy summary remains the same as in the past two announcements. **We continue to expect the RBNZ will leave the OCR on hold until late 2018.** Market pricing continues to imply an OCR increase as early as next March.

NZ's trade balance was marginally weaker than expected over February, with a \$18m deficit compared to our forecast of a small surplus of \$127m. Most of the weakness versus expectations came via weaker-than-expected export values. In part, weaker dairy export prices and volumes explained the **downside surprise.** We expect that some of this downside in prices reflects timing factors. Meanwhile, dairy production has improved this year, so dairy export volumes will also improve later in 2017. **February import values were unsurprisingly flat in seasonally-adjusted terms.** In terms of trend, imports remain strong, reflecting robust domestic demand.



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 27 Mar	12:50	JN	BOJ Summary of Opinions at March 15-16					
	12:50	JN	PPI services	Feb	y%ch	0.5	~	~
	14:30	CH	Industrial profits	Feb	y%ch	2.3	~	~
Tue 28 Mar	11:00	AU	RBA's Debelle speech in Sydney					
	11:30	AU	ANZ Roy Morgan Weekly Consumer Confidence	Mar	Index	112.0	~	~
Wed 29 Mar	12:50	JN	Retail trade	Feb	y%ch	1.0	~	~
	12:50	JN	Retail sales	Feb	m%ch	0.5	~	~
	12:50	JN	Department store, supermarket sales	Feb	%	-1.1	~	~
	18:00	JN	Small business confidence	Mar	Index	47.7	~	~
Thu 30 Mar	~	CH	BoP current account balance	Q4 F	CNY bn	37.6	~	~
	13:00	AU	HIA new home sales	Feb	m%ch	-2.2	~	~
	13:30	AU	Job vacancies	Feb	%	2.2	~	~
	14:00	CH	Swift global payments	Feb	CNY bn	1.7	~	~
Fri 31 Mar	10:45	NZ	Building permits	Feb	m%ch	0.8	~	~
	12:30	JN	Jobless rate	Feb	%	3.0	~	~
	12:30	JN	Job-to-applicant ratio	Feb	~	1.4	~	~
	12:30	JN	Overall household spending	Feb	y%ch	-1.2	~	~
	12:30	JN	National CPI	Feb	y%ch	0.4	~	~
	12:50	JN	Industrial production	Feb P	m%ch	-0.4	~	~
	13:00	NZ	ANZ activity outlook	Mar	~	37.2	~	~
	13:00	NZ	ANZ business confidence	Mar	~	16.6	~	~
	13:30	AU	Private sector credit	Feb	m%ch	0.2	~	~
	14:00	CH	Manufacturing PMI	Mar	Index	51.6	51.5	~
17:00	JN	Vehicle production	Feb	y%ch	3.8	~	~	
17:00	JN	Housing starts	Feb	y%ch	12.8	~	~	

*P = Preliminary

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 27 Mar	09:00	EC	M3 money supply	Feb	y%ch	4.9	~	~
	15:30	US	Dallas Fed manufacturing activity	Mar	Index	24.5	20.5	~
	18:15	US	Fed's Evans speaks on Economy and Policy in Madrid					
	18:15	EC	ECB's Praet takes part in panel discussion in Madrid					
	23:30	US	Fed's Kaplan speaks in College Station, Texas					
Tue 28 Mar	04:03	UK	Nationwide house PX	Mar	m%ch	0.6	~	~
	13:30	US	Advance goods trade balance	Feb	\$bn	-68.8	-66.9	~
	13:30	US	Wholesale inventories	Feb P	m%ch	-0.2	0.2	~
	13:30	US	Retail inventories	Feb	m%ch	0.8	~	~
	14:00	US	S&P CoreLogic CS 20-city	Jan	m%ch	0.9	0.8	~
	14:45	US	Markit US services PMI	Mar P	Index	53.8	54.0	~
	14:45	US	Markit US composite PMI	Mar P	Index	54.1	~	~
	15:00	US	Conf. Board consumer confidence	Mar	Index	114.8	113.0	~
15:00	US	Richmond Fed Manufacturing Index	Mar	~	17.0	14.0	~	

	17:45	US	Fed's George speaks in Midwest City, OK						
	18:00	US	Fed's Kaplan speaks in Dallas						
Wed 29 Mar	09:30	UK	Net consumer credit	Feb	£bn	1.4	~	~	
	09:30	UK	Money supply M4	Feb	m%ch	0.9	~	~	
	12:00	US	MBA mortgage applications	Mar	%	-2.7	~	~	
	14:20	US	Fed's Evans speaks on Economy and Policy in						
	15:00	US	Pending home sales	Feb	m%ch	-2.8	2.4	~	
	16:30	US	Fed's Rosengren speaks at Economic Club of Boston						
	18:15	US	Fed's Williams speaks to Forecaster's Club of New York						
Thu 30 Mar	10:00	EC	Economic confidence	Mar	Index	108.0	~	~	
	13:30	US	GDP annualized	Q4 T	q%ch	1.9	2.0	~	
	13:30	US	Core PCE	Q4 T	q%ch	1.2	~	~	
	13:30	US	Initial jobless and continuing claims	Mar	~	~	~	~	
	14:45	US	Fed's Mester speaks in Chicago on Payment System Improvement						
	16:00	US	Dallas Fed's Kaplan speaks in Washington						
	16:15	US	Fed's Williams speaks at Learning Community Event in New York						
Fri 31 Mar	~	US	Revisions: industrial production						
	00:01	UK	GfK consumer confidence	Mar	~	-6.0	~	~	
	00:01	UK	Lloyds business barometer	Mar	~	40.0	~	~	
	09:30	UK	Current account balance	Q4	£bn	-25.5	~	~	
	09:30	EC	ECB's Coeure speaks in Brussel						
	09:30	UK	GDP	Q4 F	q%ch	0.7	~	~	
	10:00	EC	CPI core	Mar A	y%ch	0.9	~	~	
	13:30	US	Personal income	Feb	%	0.4	0.4	~	
	13:30	US	PCE deflator	Feb	m%ch	0.4	0.1	~	
	14:45	US	Chicago Purchasing Manager	Mar	Index	57.4	57	~	
	15:00	US	Fed's Kashkari answers questions at Banking Conference						
	15:00	US	Uni. of Michigan sentiment	Mar F	Index	97.6	98.0	~	

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