

Economic Weekly

12 November 2018

Time will tell

The RBNZ's quarterly Monetary Policy Statement showed minor tweaks to the economic forecasts, with most of the changes being around heightened concern on the risks to these forecasts. The downside risks to growth have increased due to both domestic and global factors. But complicating the risk assessment, upside risks to its inflation forecasts have increased. Time will ultimately tell which risk becomes reality and hence the direction of the OCR. Read more about the RBNZ decision on Page 2. On last week's super-strong labour market report, we conclude that time will also tell on the underlying state of the labour market and the economy, as the outcome doesn't quite fit with other signals we are seeing in the economy (see chart of the week below).

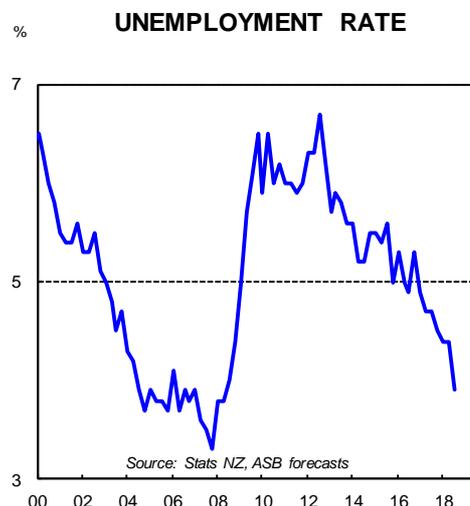
Key events and views

| | |
|--------------------------------------|--|
| Key Insights | RBNZ November Monetary Policy Statement Review. |
| Foreign exchange | NZD higher across the board on the much stronger-than-expected Q3 employment report. |
| Interest rates | NZ yields higher on the unexpectedly sharp fall in the Q3 unemployment rate. |
| Domestic events | It's a relatively quiet week ahead with no major NZ data due for release. |
| International events | Australian employment, UK and US CPI, Japan GDP. |
| Calendars | NZ and international calendar of upcoming economic events. |

Chart of the Week: Too good to be true?

The major development last week was the very surprising Q3 labour market report (read our full review [here](#)). According to the official measure of employment, the Household Labour Force Survey (HLFS), labour demand remained very strong and the labour market tightened considerably. The market created a net 1.1% increase in jobs (over double market expectations) while **the unemployment rate fell to a 10-year low, despite some relatively reliable economic indicators suggesting the opposite may have been more likely.**

The **figures feel a bit too good to be true**, and we do remain a little sceptical of the official figures as the HFLS has been known in the past to be somewhat volatile and deliver some surprisingly results. **It is quite possible that much of the strength is simply reversed out next quarter. Meanwhile, the Quarterly Employment Survey did imply a slowdown in employment demand, more in line with our expectations.**



November 2018 MPS review: Upside, downside, in the risk basket

- The RBNZ kept the OCR on hold at 1.75%, and reiterated its expectation to keep the OCR at this level into 2020.
- The RBNZ noted both upside (inflation) and downside risks (growth).
- Although an OCR cut is still possible, this risk looks to have diminished since the last RBNZ assessment.

In their November Monetary Policy Statement, the RBNZ kept the OCR on hold at 1.75%, and reiterated its expectation to keep the OCR at this level into 2020. The RBNZ noted both upside and downside risks to its economic outlook, and the data dependency of any future move.

Respectable growth outlook

The RBNZ's growth outlook for the second half of 2018 was cut slightly, while the 2019 outlook was mostly unchanged. Given our weaker GDP growth forecasts, we had seen the risk the RBNZ cut its growth outlook by a fraction more.

The RBNZ remains mindful of the downside risks presented by weak business confidence, **noting that if firms' investment and hiring declines due to weak business confidence or compressed profit margins, growth will be weaker than expected.** The RBNZ examines this outcome in its alternative scenario, in which annual GDP growth remains below 3% and results in the OCR being reduced by 75 basis points. ASB's current GDP forecasts do not have GDP growth reaching 3% until Q4 2019.

The RBNZ continues to expect key drivers of GDP growth to include increased fiscal stimulus, low interest rates and a supportive dollar. The RBNZ has allowed for weaker GDP growth in the near term due to the impact of high petrol prices (reducing household consumption) and evidence of weaker activity reported within the Q3 Quarterly Survey of Business Opinion. However, **there is a hint within the MPS that the RBNZ remains somewhat sceptical of the weak levels of business confidence** (as are we, given the strong fundamentals supporting the economy). The RBNZ notes *"recent business visits indicated that firms plan to invest in physical capital and automation in response to difficulty finding workers and increasing labour costs"*.

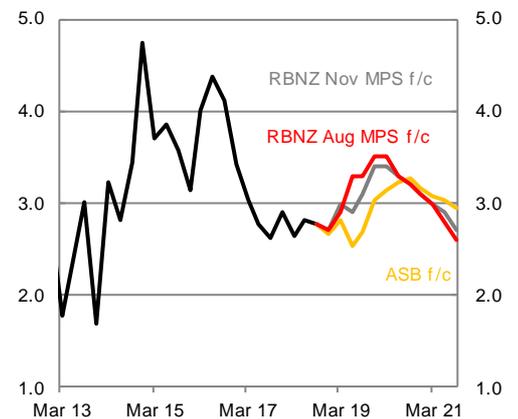
The RBNZ is not only worried about the downside risks to growth from weak business confidence, but it also is concerned about the downside risks presented by the global outlook and the possibility that net export contribution to growth is weaker than expected.

Inflation: wandering up

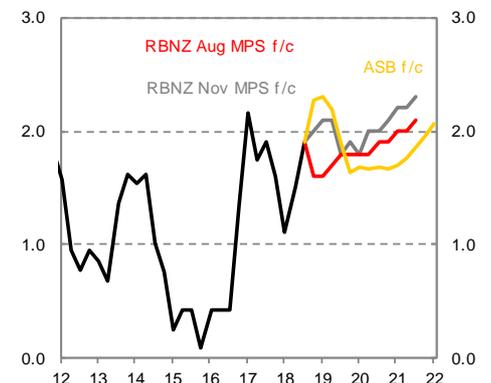
The RBNZ's inflation forecasts have firmed compared to the August MPS, across most of the forecast horizon. The near-term firming largely reflects the recent spike in fuel costs. However, as expected, the RBNZ continued to note that it will look through these movements as appropriate. On that front, the RBNZ now expects headline CPI to hit 2% in Q4 2018, but this is expected to ease again over 2019.

On the medium-term outlook, the tick up in both core and non-tradable inflation recently appears to have made the **RBNZ more confident that domestic capacity pressures will support core inflation rising back to the mid-point of the inflation target.** On top of this, the RBNZ noted the upside risk stemming from higher cost pressures. Costs are rising via a number of avenues at the moment, including: wages; higher petrol prices; and higher general import costs due to the lower NZD. In particular, **the RBNZ sees the risk that firms could pass on cost**

GDP GROWTH OUTLOOK
(annual % change)



CONSUMER PRICE INDEX



pressures sooner (or to a greater degree) than currently expected given businesses' already-squeezed margins, and stated it will be closely watching firms' pricing behaviour in coming quarters. However, at this stage, RBNZ business visits suggest that many firms will continue to absorb higher costs, rather than pass them on to consumers (refer to Box C in the [MPS](#)).

The RBNZ's headline CPI forecast is stronger than our own, with its non-tradable forecast now more in line with our own view. All else equal, the RBNZ's latest inflation forecasts suggest an earlier start to the tightening cycle than in the August MPS – **the inflation outlook now sits above 2% in the medium term.**

Other ups and downs

The RBNZ sees global growth as strong, but downside risks have grown further since the September MPS. Global growth is also expected to slow over 2019. The RBNZ points out that solid overall growth masks weakness and heightened risks in specific regions. Indeed, the strong US economy is offsetting weaker outlooks in other regions such as Europe and Asia. The RBNZ also remains wary of protectionist moves weighing further on global growth. The RBNZ maintains the view was that trade tensions raise the risk that trade barriers could undermine global growth.

More positively, **the RBNZ notes that domestic financial conditions in New Zealand have eased this year**, even as the OCR remained steady. The RBNZ notes that wholesale interest rates are lower (particularly longer maturities), mortgage rates have fallen, and the exchange rate has depreciated. The New Zealand dollar TWI is around 3% lower than its January 2018 level, and around 10% below its 2017 peak.

Labour market upbeat

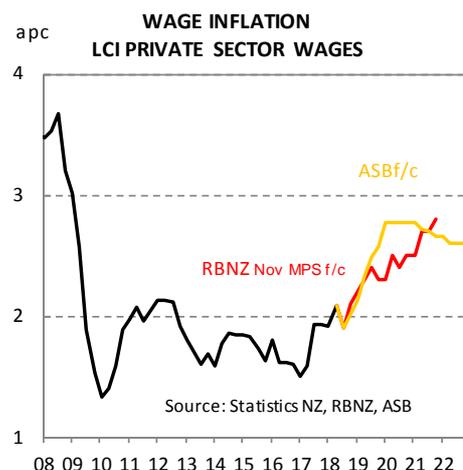
The RBNZ labour market projections in the MPS look somewhat dated as they do not incorporate last week's 'surprise' Q3 Household Labour Force Survey (HLFS) outturns (see our [Labour Market Review](#)). **The starting point for the labour market is undeniable stronger than the November MPS assessment that employment was "near its maximum sustainable level"**. In the November MPS, the RBNZ adjudged that evidence on whether employment is above its maximum sustainable level was "mixed".

Over the medium term, the labour market is projected to tighten as employment growth outpaces (the immigration-led slowing) growth in the working age population. As such, the unemployment rate is projected to ease further, troughing at 4.1% in late 2020/early 2021. **We note that the lower starting point for the Q3 unemployment rate (3.9%) and the re-emergence of volatility in the HLFS survey figures will add another layer of complexity to the RBNZ forecast process and policy deliberations.**

The firmer RBNZ outlook for non-tradable inflation is consistent with a firmer outlook for wage inflation. According to the November MPS forecasts, wage growth is expected to increase as the labour market tightens and the minimum wage increases and higher headline inflation lift overall wages. **Our view is that wage inflation will lift more quickly than the RBNZ forecasts. This suggests some risk of the OCR moving up sooner, if higher wages flow through into medium-term inflationary pressure.**

Market reaction

There was limited immediate market reaction to the statement. The NZD initially eased against the USD and other major majors, but has subsequently firmed with the NZD TWI now back to where it was preceding the release of the statement. NZD wholesale interest rates moved fractionally higher, with the curve under steepening pressure.



Foreign Exchange Market

| FX Rates | Current* | Week ago | Month ago | Year ago | ST Bias | Support^ | Resistance^ | MT Bias |
|----------|----------|----------|-----------|----------|---------|----------|-------------|---------|
| NZD/USD | 0.6735 | 0.6636 | 0.6518 | 0.6939 | FLAT | 0.6600 | 0.6880 | UP |
| NZD/AUD | 0.9321 | 0.9229 | 0.9148 | 0.9028 | FLAT | 0.9100 | 0.9350 | FLAT |
| NZD/JPY | 76.65 | 75.11 | 73.24 | 78.67 | FLAT | 75.60 | 77.90 | FLAT/UP |
| NZD/EUR | 0.5947 | 0.5828 | 0.5617 | 0.5957 | FLAT | 0.5850 | 0.6030 | FLAT |
| NZD/GBP | 0.5207 | 0.5110 | 0.4924 | 0.5278 | FLAT | 0.5120 | 0.5270 | DOWN |
| TWI | 74.0 | 72.5 | 71.2 | 73.57 | FLAT | 72.0 | 75.0 | FLAT |

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

NZD Recap

The NZD increased across the board last week following the much stronger than expected Q3 labour market data on Wednesday. Opposed to widespread expectations, the unemployment rate fell to 3.9% in Q3 – a 10-year low. The NZD jumped around 70 pips against the USD following the release, but also increased against all major currencies we monitor. In contrast, the RBNZ rate announcement on Thursday morning re-affirmed the RBNZ’s current on-hold stance and the NZD was little changed as a result against the USD and AUD. Friday morning’s US Federal Reserve rate announcement also contained no surprises but the prospect of further gradual rate increases by the US Fed saw the USD firm marginally against the NZD. The other major event last week, the US mid-term elections, was greeted with little in the way of market reaction as the result (the Republican’s maintaining majority of the Senate while the Democrat’s won the majority in the House of Representatives) was widely expected.

Near-term outlook

After numerous data and event risks last week, **the week ahead is expected to be fairly quiet**, particularly as it kicks off with Veterans Day in the US and Canada. **Australian employment data will be the key release in Australasia** and a strong employment print could see the NZD/AUD give back some of its recent gains. US CPI will also be closely watched, although it is not the Fed’s preferred measure of inflation. Tuesday night’s German ZEW survey of expectations could also cause some volatility in the euro. Outside of economic data, global trade tensions and equity market volatility will continue to run the risk of causing currency market volatility.

Medium-term outlook

We have a stronger USD outlook given the solid US growth outlook, high US Terms of Trade, and the weaker Chinese and emerging market outlook. We expect the NZD to oscillate in a 65 to 71 US cent range over the forecast period. Nevertheless, the NZD TWI should remain broadly supported by a solid growth outlook, our historically-high Terms of Trade and upwardly drifting NZ interest rates. The NZD is expected to remain in a 90-91 Australian cent zone through to the end of next year (although has recently moved above this band). We expect the NZD to ease slightly over the projection period relative to EUR. The European Central Bank is expected to hike rates in September 2019, although slow growth in the Eurozone will limit the extent of ECB tightening. We also expect that Brexit risks will keep the GBP low against the NZD. Low inflation is expected to keep the BOJ on hold, with the NZD/JPY modestly strengthening over the forecast period.

| ASB foreign exchange forecasts (end of quarter) | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 |
|--|--------|--------|--------|-----------|-------------|--------|--------|--------|--------|
| | | | | << actual | forecast >> | | | | |
| NZD/USD | 0.71 | 0.72 | 0.67 | 0.66 | 0.65 | 0.66 | 0.68 | 0.70 | 0.66 |
| NZD/AUD | 0.91 | 0.94 | 0.92 | 0.92 | 0.90 | 0.90 | 0.91 | 0.90 | 0.90 |
| NZD/JPY | 80 | 77 | 74 | 75 | 73 | 74 | 73 | 75 | 74 |
| NZD/EUR | 0.59 | 0.59 | 0.58 | 0.57 | 0.58 | 0.58 | 0.55 | 0.55 | 0.54 |
| NZD/GBP | 0.53 | 0.51 | 0.52 | 0.51 | 0.52 | 0.53 | 0.53 | 0.54 | 0.51 |
| NZD TWI | 74.3 | 74.3 | 72.5 | 72.1 | 71.4 | 71.9 | 72.3 | 72.8 | 70.2 |

Interest Rate Market

| <u>Wholesale interest rates</u> | Current | Week ago | Month ago | Year ago | ST Bias | MT Bias |
|---------------------------------|---------|----------|-----------|----------|---------|---------|
| Cash rate | 1.75 | 1.75 | 1.75 | 1.75 | FLAT | UP |
| 90-day bank bill | 1.99 | 1.94 | 1.89 | 1.94 | FLAT | UP |
| 2-year swap | 2.20 | 2.07 | 2.03 | 2.21 | FLAT | UP |
| 5-year swap | 2.64 | 2.41 | 2.41 | 2.71 | FLAT | UP |
| 10-year swap | 3.11 | 2.92 | 2.92 | 3.21 | FLAT | UP |
| 10-year govt bond yield | 2.80 | 2.65 | 2.66 | 2.93 | FLAT | UP |
| Curve Slope (2s10s swaps) | 0.91 | 0.86 | 0.89 | 1.00 | FLAT | FLAT |

* Current as at 9.30am today; week ago as at Monday 5pm

Market Recap

Last week marked a “capitulation” for the domestic interest rate market, with local yields sharply higher and the curve steepening. Strong Q3 labour market data from the Household Labour Force Survey (HLFS) was the catalyst, with the bellwether 2-year swap surging 5 basis points (bps) immediately following its release. NZD yields also edged up following the November Monetary Policy Statement (MPS), in which the RBNZ pledged to keep the OCR at its record 1.75% low until 2020 and left the published OCR track unchanged from August. The market has swung from pricing in 5bps of OCR cuts by next September at the start of last week, to currently pricing in 12bps of hikes by next November. Moves in NZ OIS prices have been compounded by a widening in NZD bank bill-OIS spreads, which pushed NZD swap rates higher. **By comparison, moves in global rates were milder.** Australian yields ended a fraction higher and while the RBA left rates on hold at 1.50% last week, Friday’s Statement of Monetary Policy was reasonably upbeat, expecting stronger growth, with higher interest rates “likely to be appropriate at some point”. The Fed decision to leave rates on hold but still see “further gradual increases” in the Fed funds rate had a fleeting impact on US rates. US mid-term elections had a modest impact on yields, with the split result in line with expectations. Lower oil prices (down more than 20% since early October) and the view that US core inflation is likely to remain moderate have capped US yields. Despite their sizeable lift, NZ yields remain below US counterparts out to the 10-year tenor.

Near-term NZD interest rate outlook

At this juncture, the issue is whether the current move up in NZD yields has been overdone. Given our OCR view, there is the possibility that the market may have gotten a little far ahead of itself, but we are mindful that the sell-off in NZD rates could have further to run. The local events calendar is light, and market direction will be dictated by global events. Global data may trigger some volatility, with US CPI and Australian wage and employment data, Chinese retail sales, industrial production, fixed asset investment and Q3 Japanese GDP released this week. There remain a number of risk events on the horizon that could contribute to volatility, including Brexit related news, trade tensions between the US and China and concerns over fiscal solvency in the Eurozone. If global risk appetites improve, it could prove difficult to swim against the global tide. Higher interest rates and steeper curves are likely to beckon.

Medium-term outlook

Given our low outlook for core inflation we expect the OCR to remain on hold until February 2020. If growth momentum slows by more than we expect and inflationary pressure fails to materialise, the OCR could remain on hold for longer. We expect a historically-low OCR endpoint of just **2.75% this cycle** (from August 2021 onwards). **Modest RBNZ tightening and low global yields should limit the climb in longer-term NZD yields.**

| ASB interest rate forecasts (end of quarter) | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 |
|--|--------|--------|--------|-----------|-------------|--------|--------|--------|--------|
| | | | | << actual | forecast >> | | | | |
| NZ OCR | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 2.00 | 2.50 | 2.75 |
| NZ 90-day bank bill | 1.88 | 2.0 | 2.0 | 1.9 | 1.9 | 2.0 | 2.3 | 2.7 | 3.0 |
| NZ 2-year swap rate | 2.21 | 2.2 | 2.1 | 2.0 | 2.1 | 2.2 | 2.5 | 3.0 | 3.2 |
| NZ 10-year Bond | 2.75 | 2.7 | 2.9 | 2.7 | 3.0 | 3.1 | 3.3 | 3.5 | 3.6 |

Major International Events for the week ahead*

| Data | Date | Time (NZT) | Market | ASB |
|---|-------|------------|--------|------|
| UK Unemployment Rate, September, % | 13/11 | 10:30 pm | 4.0 | 4.0 |
| Australia WBC/MI Consumer Confidence, Nov, | 14/11 | 12:30 pm | - | - |
| Australia Wage Price Index, Q3, %qoq | 14/11 | 1:30 pm | 0.6 | 0.7 |
| Japan GDP, Q3, %qoq | 14/11 | 12:50 pm | -0.3 | -0.2 |
| China Retail Sales, October, %yoy | 14/11 | 3:00 pm | 9.2 | 9.3 |
| UK CPI, October, %yoy | 14/11 | 10:30 pm | 2.5 | 2.5 |
| US CPI, October, %yoy | 15/11 | 2:30 am | 2.5 | 2.2 |
| Australia Employment, October, 000s | 15/11 | 1:30 pm | 20 | 25 |
| Australia Panel Participation Deputy Governor Debelle | 15/11 | 2:30 pm | - | - |

*Originally published by CBA Global Markets Research on Friday 9th November 2018 at 13.22pm.

Australian consumer confidence rose in October to sit around its long-term average. A strong jobs market and the fall in the unemployment rate to 5% – its lowest level since April 2012 – should help. However making news in the last month were falls among the major global and local equity markets and dwelling price deflation in Sydney and Melbourne. These factors could dampen sentiment in November.

We expect **Australia's Q3 Wage Price Index** to rise 0.7% in Q3, with the annual rate lifting to 2.4%, up from 2.1% in Q2. The 3.5% increase in the minimum wage, which came into effect on 1 July, should drive this quarter's growth higher.

Japan's industrial production contracted sharply by 1.7% in Q3. The contraction in industrial production suggests Q3 GDP was flat or decreased slightly by 0.2% following Q2's 0.5% 'surge'.

We expect **China's retail sales growth** to edge up to 9.3% yoy because of higher prices. The softer October production PMI suggests industrial production might have eased slightly to 5.7% yoy. We anticipate YTD fixed asset investment growth to pick up further to 5.5% yoy because the higher October construction PMI showed fiscal stimulus has started to feed through.

Australia's leading indicators are pointing to another solid employment report. We are expecting a 25k lift in the number of jobs and the unemployment rate to stay at 5.0%. After a fall last month we expect the participation rate to drift higher to 65.5%. The release now includes monthly measures of underemployment and underutilisation, which have been drifting lower.

Panel participation by Reserve Bank of Australia's Deputy Governor Guy Debelle at the FINSIA Signature Event: The Regulators in Melbourne. He will appear on a panel with Wayne Byres from APRA and Greg Medcraft from ASIC. The focus will likely be on financial regulations, but any remarks around the tightening in lending conditions and how the supply of credit will be impacted post the Royal Commission will be analysed closely.

September's **UK unemployment rate** is expected to remain at multi-decade lows of 4%. Meanwhile, tighter labour market conditions suggests average weekly earnings (ex-bonus) can continue to grow at an above average annual pace of around 3% in September.

UK headline CPI inflation is expected to quicken at a monthly pace of 0.2% in October (2.5% yoy) driven by higher retail energy prices from two of the major utility companies. Overall, the Bank of England projects headline CPI inflation to ease towards 2% by end-2019.

The **US headline CPI** will be supported by higher retail fuel prices, though fuel prices will detract from the CPI next month. But underlying CPI is likely to remain firm at 2.2% yoy.

Global Data Calendars

Calendar - Australasia, Japan and China

| Date | Time (NZT) | Eco | Event | Period | Unit | Previous | Forecast | |
|------------|------------|-----|--|--------|-------|----------|----------|-----|
| | | | | | | | Mkt | ASB |
| Mon 12 Nov | 12:50 | JN | PPI | Oct | m%ch | 0.3 | ~ | ~ |
| | 19:00 | JN | Machine tool orders | Oct P | y%ch | 2.9 | ~ | ~ |
| Tue 13 Nov | 10:45 | NZ | Food prices | Oct | m%ch | -0.1 | ~ | ~ |
| | 11:30 | AU | ANZ Roy Morgan Cons Conf. | Nov | Index | 116.8 | ~ | ~ |
| | 13:30 | AU | NAB business conditions | Oct | ~ | 15.0 | ~ | ~ |
| Wed 14 Nov | 12:30 | AU | WBC consumer confidence | Nov | Index | 101.5 | ~ | ~ |
| | 12:50 | JN | GDP | Q3P | q%ch | 0.7 | -0.3 | 0.2 |
| | 13:30 | AU | Wage price index | Q3 | q%ch | 0.6 | 0.6 | 0.7 |
| | 15:00 | CH | Retail sales | Oct | y%ch | 9.2 | 9.2 | 9.3 |
| | 15:00 | CH | Industrial production | Oct | y%ch | 5.8 | 5.8 | ~ |
| | 17:30 | JN | Industrial production | Sep F | m%ch | -1.1 | ~ | ~ |
| Thu 15 Nov | 10:30 | NZ | BusinessNZ manufacturing | Oct | Index | 51.7 | ~ | ~ |
| | 13:30 | AU | Employment change | Oct | 000 | 5.6 | 20 | 25 |
| | 14:30 | AU | RBA's Debelle speaks on panel in Melbourne | | | | | |

*P = Preliminary

Calendar - North America & Europe

| Date | Time (UKT) | Eco | Event | Period | Unit | Previous | Forecast | |
|------------|------------|-----|---|--------|------|----------|----------|-----|
| | | | | | | | Mkt | ASB |
| Mon 12 Nov | 19:30 | US | Fed's Daly speaks on the Economic Outlook | | | | | |
| Tue 13 Nov | 09:30 | UK | Jobless claims change | Oct | 000 | 18.5 | ~ | ~ |
| | 09:30 | UK | ILO unemployment rate 3 | Sep | % | 4.0 | 4.0 | 4.0 |
| | 10:00 | EC | ZEW survey expectations | Nov | ~ | -19.4 | ~ | ~ |
| | 15:00 | US | Fed's Kashkari speaks at Conference on Immigration | | | | | |
| | 19:00 | US | Monthly Budget Statement | Oct | \$bn | 119.1 | -117.5 | ~ |
| Wed 14 Nov | 09:30 | UK | CPI | Oct | m%ch | 0.1 | 0.1 | 0.2 |
| | 10:00 | EC | GDP | Q3 P | q%ch | 0.2 | ~ | ~ |
| | 13:30 | US | CPI | Oct | m%ch | 0.1 | 0.3 | ~ |
| | 14:00 | US | Fed's Quarles to appear before House Financial Services Panel | | | | | |
| | 23:05 | US | Fed's Powell to discuss economy at Dallas Fed Event | | | | | |
| Thu 15 Nov | 09:30 | UK | Retail sales ex auto fuel | Oct | m%ch | -0.8 | ~ | ~ |
| | 10:00 | EC | Trade balance | Sep | €bn | 16.6 | ~ | ~ |
| | 13:30 | US | Retail sales advance | Oct | m%ch | 0.1 | 0.5 | ~ |
| | 13:30 | US | Philadelphia Fed Business | Nov | ~ | 22.2 | 20.0 | ~ |
| | 13:3 | US | Import price index | Oct | m%ch | 0.5 | 0.0 | ~ |
| | 13:30 | US | Export price index | Oct | m%ch | 0.0 | 0.0 | ~ |
| | 15:00 | US | Fed's Quarles to appear before Senate Banking Panel | | | | | |
| | 20:00 | US | Fed's Kashkari speaks to Minnesota AgriGrowth Council | | | | | |
| Fri 16 Nov | 10:00 | EC | CPI | Oct | m%ch | 0.5 | ~ | ~ |
| | 14:15 | US | Industrial production | Oct | m%ch | 0.3 | 0.2 | ~ |
| | 16:00 | US | Kansas City Fed manufacturing | Nov | ~ | 8.0 | ~ | ~ |
| | 16:30 | US | Fed's Evans speaks at Fixed Income Forum Roundtable | | | | | |

Key Forecasts

| ASB NZ economic forecasts | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 |
|--|--------|--------|-----------|-------------|--------|--------|--------|--------|--------|
| | | | << actual | forecast >> | | | | | |
| GDP real - Q% | 0.6 | 0.5 | 1.0 | 0.6 | 0.5 | | | | |
| GDP real - A% | 2.9 | 2.6 | 2.8 | 2.7 | 2.6 | 2.8 | 3.1 | 3.1 | 2.9 |
| GDP real - AA% | 2.8 | 2.7 | 2.7 | 2.8 | 2.7 | 2.7 | 2.8 | 3.2 | 2.9 |
| CPI - Q% | 0.1 | 0.5 | 0.4 | 0.9 | 0.4 | | | | |
| CPI - A% | 1.6 | 1.1 | 1.5 | 1.9 | 2.2 | 2.3 | 1.7 | 1.7 | 2.1 |
| HLFS employment growth - Q% | 0.5 | 0.6 | 0.6 | 1.1 | 0.1 | | | | |
| HLFS employment growth - A% | 3.7 | 3.1 | 3.7 | 2.8 | 2.4 | 2.2 | 1.8 | 1.9 | 1.5 |
| Unemployment rate - %sa | 4.5 | 4.4 | 4.4 | 3.9 | 4.2 | 4.1 | 4.1 | 4.1 | 4.2 |
| Annual current account balance as % of | -2.9 | -3.0 | -3.3 | -3.4 | -3.4 | -2.9 | -2.5 | -2.5 | -2.7 |

Q% = percentage change on previous quarter

A% = percentage change since same quarter the previous year

AA% = percentage change for year ending quarter since the previous year

| ASB interest rate forecasts (end of quarter) | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 |
|---|--------|--------|-----------|-------------|--------|--------|--------|--------|--------|
| | | | << actual | forecast >> | | | | | |
| NZ OCR | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 2.00 | 2.50 | 2.75 |
| NZ 90-day bank bill | 1.88 | 2.0 | 2.0 | 1.9 | 1.9 | 2.0 | 2.3 | 2.7 | 3.0 |
| NZ 2-year swap rate | 2.21 | 2.2 | 2.1 | 2.0 | 2.1 | 2.2 | 2.5 | 3.0 | 3.2 |
| NZ 10-year Bond | 2.75 | 2.7 | 2.9 | 2.7 | 3.0 | 3.1 | 3.3 | 3.5 | 3.6 |

| ASB foreign exchange forecasts (end of quarter) | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Mar-20 | Mar-21 | Mar-22 |
|--|--------|--------|-----------|-------------|--------|--------|--------|--------|--------|
| | | | << actual | forecast >> | | | | | |
| NZD/USD | 0.71 | 0.72 | 0.67 | 0.66 | 0.65 | 0.66 | 0.68 | 0.70 | 0.66 |
| NZD/AUD | 0.91 | 0.94 | 0.92 | 0.92 | 0.90 | 0.90 | 0.91 | 0.90 | 0.90 |
| NZD/JPY | 80 | 77 | 74 | 75 | 73 | 74 | 73 | 75 | 74 |
| NZD/EUR | 0.59 | 0.59 | 0.58 | 0.57 | 0.58 | 0.58 | 0.55 | 0.55 | 0.54 |
| NZD/GBP | 0.53 | 0.51 | 0.52 | 0.51 | 0.52 | 0.53 | 0.53 | 0.54 | 0.51 |
| NZD TWI | 74.3 | 74.3 | 72.5 | 72.1 | 71.4 | 71.9 | 72.3 | 72.8 | 70.2 |

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Rural Economist
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