

Economic Weekly

14 May 2018

Balancing act

With Adrian Orr’s first Monetary Policy Statement done and dusted, **focus now shifts to another first – the first Budget from the Labour - NZ First coalition Government.** With the Government **signalling its commitment to hitting its fiscal targets**, we expect a prudent first-up effort from new Minister of Finance, Grant Robertson (see our full preview on page 2). **Offshore, the economic calendar is relatively light** – with market sentiment likely to remain headline driven.

Key events and views

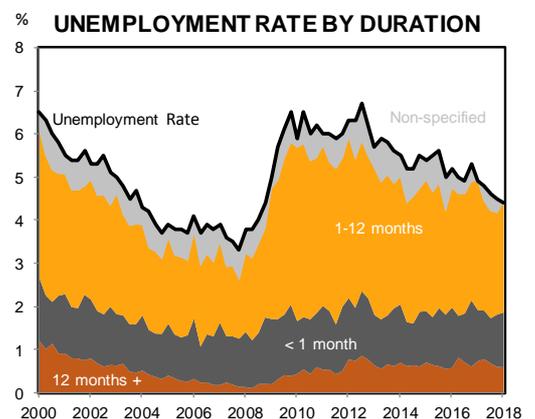
Key Insights	We expect Budget 2018 to show the new Government is on track to hit its fiscal targets.
Foreign exchange	The NZD fell following the clear signals from the RBNZ MPS last week.
Interest rates	Local yields down following the MPS. Fiscally responsible Budget should cap local yields.
Domestic events	The Budget 2018 and GlobalDairyTrade auction, Retail Trade next Monday.
International events	Australian employment and wages and US retail sales.
Calendars	NZ and International calendar of upcoming economic events.

Chart of the Week: Assessing Maximum Sustainable Employment

The **first Monetary Policy Statement** from new Governor Adrian Orr was an opportunity for the Reserve Bank of New Zealand to discuss its **interpretation to its new target of “contributing to maximum sustainable employment”**.

The RBNZ emphasised that **a number of factors (including government policies) can influence the structure of the labour market**, and that the **RBNZ’s best contribution is to minimise the fluctuations** around the structural level of employment (i.e. very similar in concept to minimising the volatility of the business cycle).

The RBNZ also **discussed a number of labour market indicators which it will monitor**, including employment, labour force participation, the unemployment rate, underutilisation rates and non-accelerating inflation rates of unemployment. One area of focus was the RBNZ’s **decomposition of the unemployment rate** into transitional, structural and cyclical elements. **The RBNZ noted that those who have been unemployed between 1-12 months best reflect cyclical unemployment (of most relevance for monetary policy), with this rate at 2.6% – close to its post-2000 average.**



Key Insights this week: Budget 2018 preview

Key points:

- As has been signalled, we expect the Budget to show the new Government is on track to hit its fiscal targets.
- Although to do so, the new Government has had to scale back some of its spending plans.
- Meanwhile, Budget 2018 will be the first to report using the Treasury's Living Standards Framework.

Earning their fiscal stripes

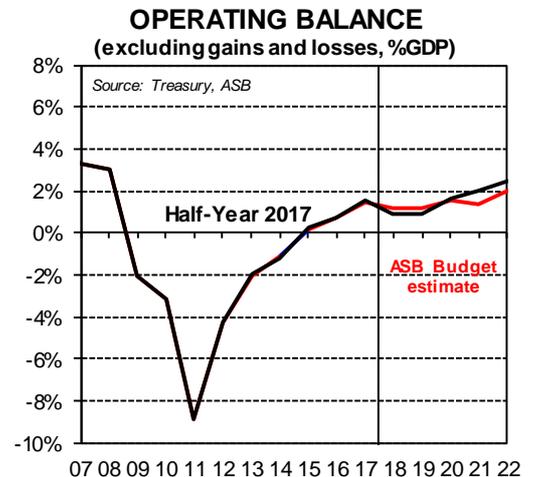
The Labour-NZ First Government releases its much-anticipated first Budget next Thursday (2pm NZT).

We expect a prudent first-up effort from new Minister of Finance, Grant Robertson. Mr Robertson has been at pains to point out that this Government will continue to work within the fiscal parameters it set itself ahead of last year's election. As a result, we expect Budget 2018 to show small operating surpluses and a declining net debt to GDP profile, mixed with modestly higher spending and investment.

However, the new Government has had to scale back some of its spending plans. Since coming into power, the Government has revealed funding pressures in key priority areas such as health, education and housing. In order to meet these pressures while keeping to its fiscal plan, we expect Budget 2018 to find room for spending in these key areas, but not a lot elsewhere. That said, spending reprioritisation will free up some room.

Budget 2018 also marks the first time that Treasury's Living Standards Framework will be reported on. The framework is a way of looking at wellbeing in a broader sense than the normal financial focus of the Budget.

June Years	2018	2019	2020	2021	2022
<i>Total Crown OBEGAL (% of GDP)</i>					
ASB Budget 2018 Estimate	1.2	1.2	1.5	1.3	2.0
<i>Half-Year 2017</i>	0.9	0.9	1.6	2.0	2.5
<i>Net core Crown debt (% of GDP)</i>					
ASB Budget 2018 Estimate	20.8	21.4	21.3	20.9	19.9
<i>Half-Year 2017</i>	21.7	22.2	21.9	20.8	19.3
<i>Bond Tender programme (\$bn)</i>					
ASB Budget 2018 Estimate	7.0	7.0	7.0	7.5	7.5
<i>Half-Year 2017</i>	7.0	7.0	7.0	7.0	7.0



Operating Surpluses – steady as she goes

In keeping with the above themes, we expect the Government to comfortably run an operating surplus (OBEGAL) of a similar magnitude to that forecast at the 2017 Half-Year Update. That said, the Budget forecast OBEGAL is likely to be a little stronger in the short term compared to the Half-Year Update, but then a little weaker by the end of the forecast period.

On balance, Budget surpluses over the forecast period are likely to be of a broadly similar magnitude. The near-term improvement is likely to reflect stronger recent growth in tax revenues; as at March 2018, the OBEGAL was running around \$900m ahead of the Half-Year forecast. However, we expect a weaker growth outlook since the Half-Year forecast to translate into smaller surpluses by the end of the forecast period.

We suspect, however, that the desire to increase spending may also be shoehorned into Budget 2020 or 2021 via modest increases in spending allowances. There is some leeway, with operating allowances currently set at \$1.875bn per year in Budgets 2019 to 2021, and capital allowances of around \$3bn per annum over that period. Modest increases in spending (say, in the vicinity of \$500m) would still allow the government to meet its net debt targets as discussed below.

Net Debt & Bond Programme – small changes at most

We don't expect much change in either the net debt forecast or the Government's bond programme. As mentioned

above, forecasts for the OBEGAL are likely to be similar to that as at the Half-Year Update. Indeed, with the Finance Minister signalling that he has kept to his fiscal plans, we'd be surprised to see net debt remaining above 20% of GDP by 2022.

If anything, there may be a minor increase in net debt and or bond issuance towards the end of the forecast period relative to the Half-Year Update. If so, this may see net debt push up against the 20% target in 2022. We have net debt hitting 19.9% of GDP by 2022, in contrast to 19.3% forecast as at the Half-Year Update. With this in mind, we have factored in a minor increase (of \$1bn) in bond issuance spread over 2021 and 2022, but we wouldn't be surprised if the issuance forecast is kept unchanged.

Growth – weaker than the Half-Year Update

The economic outlook has weakened since the Half-Year Update. Our forecasts now show lower growth than the Treasury's, particularly over 2018/19. However, we are more optimistic around wage growth than the Treasury was back in the Half-Year Update, given our view that wage growth will start to firm and net immigration inflows will remain elevated.

All up, **the risks are skewed towards a weaker economic outlook than we have factored in.** If that proves the case, then the Half-Year Update may show less wiggle room for fiscal policy than we have shown here.

Incorporating the Living Standards Framework and wellbeing for the first time

In this Budget, **the Government has stated an intention to report against a wider set of wellbeing indicators than traditionally is the case.** The Government sees this approach as a core element of how it will create our future Budgets and measure progress.

To facilitate this, the Budget will incorporate aspects of the Treasury's Living Standards Framework (LSF). The LSF organises indicators of sustainable intergenerational wellbeing. It focuses on measuring success in developing and maintaining four capitals – financial and physical, human, social, and natural. By using the LSF, the Government has stated that it aims to give a broad measure of how government policy is improving New Zealanders' wellbeing.

To a degree on Budget Day this will be a venture into the unknown. Below we show Treasury's definitions of the four capitals. In addition, Treasury has also provisionally identified a range wellbeing indicators. Potentially reporting on these indicators could be included in Budget 2018. Given that this is the first time that the LSF will be used, it is likely that Budget 2018 will be used to set the benchmark for future Budget's to be judged against.

The Four Capitals

Intergenerational wellbeing relies on the growth, distribution, and sustainability of the Four Capitals. The Capitals are interdependent and work together to support wellbeing.

<div style="background-color: #4CAF50; color: white; padding: 5px; text-align: center; margin-bottom: 10px;"> Natural Capital </div> <p>This refers to all aspects of the natural environment needed to support life and human activity. It includes land, soil, water, plants and animals, as well as minerals and energy resources.</p>	<div style="background-color: #FF9800; color: white; padding: 5px; text-align: center; margin-bottom: 10px;"> Human Capital </div> <p>This encompasses people's skills, knowledge and physical and mental health. These are the things which enable people to participate fully in work, study, recreation and in society more broadly.</p>
<div style="background-color: #009688; color: white; padding: 5px; text-align: center; margin-bottom: 10px;"> Social Capital </div> <p>This describes the norms and values that underpin society. It includes things like trust, the rule of law, the Crown-Māori relationship, cultural identity, and the connections between people and communities.</p>	<div style="background-color: #333; color: white; padding: 5px; text-align: center; margin-bottom: 10px;"> Financial & Physical Capital </div> <p>This includes things like houses, roads, buildings, hospitals, factories, equipment and investments. These are the things which make up the country's physical and financial assets which have a direct role in supporting incomes and material living conditions.</p>

Source: The Treasury

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support^	Resistance^	MT Bias
NZD/USD	0.6962	0.7024	0.7373	0.6841	FLAT	0.6800	0.7100	UP
NZD/AUD	0.9228	0.9333	0.9483	0.9267	FLAT	0.9150	0.9300	FLAT
NZD/JPY	76.12	76.63	79.17	77.76	FLAT	75.00	77.50	FLAT
NZD/EUR	0.5828	0.5872	0.5981	0.6293	FLAT	0.5700	0.5950	FLAT
NZD/GBP	0.5140	0.5183	0.5180	0.5306	FLAT	0.5000	0.5200	FLAT
TWI	72.9	73.4	75.6	74.69	FLAT	72.00	75.00	FLAT

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

NZD Recap

USD strength remains the dominant theme in currency markets at the moment, with the NZ Trade Weighted Index falling below 73 for the first time since December 2017. Early last week the USD index lifted on the back of weak European data, hitting a five-month high on Tuesday. The NZD/USD fell to a 5-month low following the RBNZ's Monetary Policy Statement (MPS) and Official Cash Rate (OCR) review. Despite the RBNZ leaving the OCR on hold, the new Governor provided an explicitly neutral bias stating that "The direction of our next move is equally balanced, up or down" (see our RBNZ review [here](#)), which appeared to be on the dovish side of expectations. The Pound fell after Thursday night's Bank of England (BoE) rate announcement, as the BoE appeared more cautious about the UK macroeconomic outlook. This helped the NZD/GBP to recover back to post-MPS levels.

Near-term outlook

We expect to see the USD remain largely range bound this week, in the absence of major US economic data.

However, geopolitical and trade risks remain lurking in the background. In terms of our key currency partners, the Reserve Bank of Australia Meeting Minutes on Tuesday and April employment report on Thursday could spark some short-term currency volatility in the NZD/AUD. In New Zealand, attention will be on Thursday's 2018 Budget. However, with surprises few and far in between recent Budgets, there are few risks of a large currency movement. Our central view is for the OBEGAL and debt to be tracking similarly to the Half-Year Economic and Fiscal Update and for the debt issuance to be largely unchanged. Please see page 2 for our full Budget 2018 preview.

Medium-term outlook

We have recently updated our medium-term currency forecasts. We believe the recent bout of USD weakness has ended. **We expect the USD to remain supported given the slight moderation in global growth over 2018 and the fact that the US Federal Reserve is now expected to tighten rates at a faster pace than other central banks. The NZD TWI is expected to remain broadly supported** by NZ's solid economic outlook, strong NZ commodity export prices, historically-high Terms of Trade and strong demand as global central banks/other real money managers continue to increase NZD exposures.

ASB foreign exchange forecasts

(end of quarter)

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
		<< actual	forecast >>					
NZD/USD	0.71	0.72	0.72	0.72	0.72	0.72	0.74	0.75
NZD/AUD	0.91	0.94	0.95	0.94	0.92	0.91	0.90	0.94
NZD/JPY	80	77	78	77	76	75	74	81
NZD/EUR	0.59	0.59	0.59	0.59	0.58	0.58	0.57	0.57
NZD/GBP	0.53	0.51	0.52	0.51	0.51	0.50	0.49	0.53
NZD TWI	74.3	74.3	74.5	74.0	73.3	72.7	72.5	74.4

Interest Rate Market

Wholesale interest rates	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	2.04	2.04	2.03	1.98	FLAT	UP
2-year swap	2.21	2.27	2.32	2.23	FLAT	UP
5-year swap	2.68	2.73	2.74	2.81	FLAT	UP
10-year swap	3.16	3.20	3.19	3.33	FLAT	UP
10-year govt bond yield	2.72	2.77	2.82	2.97	FLAT	UP
Curve Slope (2s10s swaps)	0.95	0.93	0.88	1.10	FLAT	DOWN

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

Market Recap

Local swap yields start the week 4-6bps lower across the curve, with the curve (2s10s) modestly steeper. The RBNZ left the OCR unchanged, **but the policy bias was more explicitly neutral than expected by markets.** This contributed to a sharp rally in NZD yields in the period following the RBNZ decision and press conference, with the bellwether 2-year swap down as much as 8bps (see our RBNZ review [here](#)). **USD and AUD swap yields were lower out to about the 4-year tenor, but were higher than week-ago levels for longer maturities.** Improving risk appetite and the alleviation of trade and geopolitical tensions contributed to the mild firming in US longer-term yields, with 10-year US Treasury yields briefly moving above 3%. However, the weaker than expected US CPI print subsequently contributed to a modest rally in US yields. Australian government bond yields edged up following the release of the Australian Budget, but remained historically low, with yields below 3% out to the 15 year tenor.

Near-term NZD interest rate outlook

While geopolitical and trade tensions have the potential to impact local and global markets, we expect NZD yields to remain broadly unchanged over the coming week. **The major domestic focus is the delivery of the first Budget by the Labour - NZ First Government on Thursday at 2pm.** Fiscal policy is currently in an expansionary phase, but the Budget projections are expected to signal that the Government remains committed to meeting its fiscal objectives, with net core Crown debt projected to fall below 20% of GDP by 2022. **We expect little (if any) change to the bond tender, with gross issuance expected to remain close to \$7bn per annum, through to 2021/22.** This should ensure that moves for NZ bond yields will be modest and remain below equivalent yields for US Treasuries and broadly in line with Australian counterparts. Tomorrow's RBA meeting minutes are only expected to have a fleeting impact at best, with our expectation that the RBA will hike the cash rate in next February at the earliest.

We are also closely watching developments in bank bill to OIS spreads. NZD 3-month spreads climbed to around 30bps, with the NZD 3-month bank bill rate at 2.05%. NZD spreads have remained below (narrowing) USD (49bps) and AUD (43bps) spreads. We expect that NZD spreads (see our note [here](#)), to continue to converge to Australian equivalents.

Medium-term outlook

Our core view is that the RBNZ will start lifting the OCR in Q3 of 2019. We expect a moderate pace of tightening by historical standards, and a low OCR endpoint of around 3.5% this cycle. We now expect a total of four Fed hikes until the end of 2019 (two more in 2018, two in 2019). This should see local wholesale interest rate yields climb less than USD comparators. **Our expectation of a flatter NZD curve crucially depends on the assumption that local yields remain reasonably well anchored to global counterparts and that the lift in global yields is modest.**

ASB interest rate forecasts

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
(end of quarter)	<< actual		forecast >>					
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.25	2.75
NZ 90-day bank bill	1.88	2.0	2.0	2.0	2.0	2.0	2.5	3.0
NZ 2-year swap rate	2.21	2.2	2.2	2.3	2.4	2.5	3.0	3.5
NZ 10-year Bond	2.75	2.7	2.9	3.0	3.2	3.3	3.5	3.5

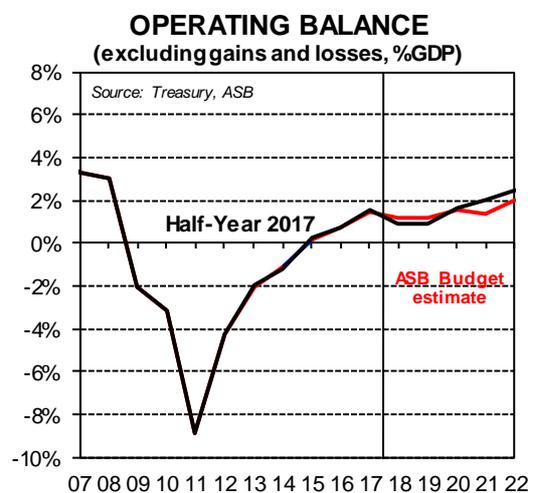
Major Domestic Events for the week ahead

Data	Date	Time (NZT)	Previous	Market	ASB
GlobalDairyTrade Auction, WMP prices, % change	15/5	overnight	-1.5	-	+2.0
Budget Operating Balance (OBEGAL) 2017/18, % GDP	17/5	2:00pm	1.5	-	1.2
Q1 2018 Retail Trade Volumes, % qoq	21/5	10:45am	+1.7		+0.7

We expect prices to rise by around 2% at the GlobalDairyTrade auction overnight Tuesday. A fortnight ago, whole milk powder (WMP) prices fell 1.5%. At the current juncture, futures pricing suggest that WMP prices will lift by around 2%. NZ production is limping into the end of the 2017/18 season. On top of underlying production weakness, NZ is moving closer to its seasonal production lull through winter. These factors are combining and causing the global butter shortage to become acute, which is expected to put upward pressure on dairy prices over coming months.

The Labour-NZ First Government releases its much-anticipated first Budget next Thursday. We expect a prudent first-up effort from new Minister of Finance, Grant Robertson. Mr Robertson has been at pains to point out that this Government will continue to work within the fiscal parameters it set itself ahead of last year's election. As a result, **we expect Budget 2018 to show small operating surpluses and a declining net debt profile, mixed with modestly higher spending and investment.** However, the new Government has had to scale back some of its spending plans. Since coming into power, the Government has revealed funding pressures in key priority areas such as health, education and housing. In order to meet these pressures while keeping to its fiscal plan, we expect Budget 2018 to find room for spending in these key areas, but not a lot elsewhere. That said, spending reprioritisation will free up some room. We expect net government debt will still fall below 20% of GDP for the 2022 fiscal year, and that any additions to the bond tender programme will be modest i.e. an extra \$1 billion in total.

Both total and core (ex-auto and fuel) retail volumes rebounded in Q4 following a lacklustre Q3. We expect more moderate quarterly growth expected for retail volumes despite a strong quarterly print delivered for card spending in Q1. Rising consumer prices, lower apparel spending, slowing overseas visitor number and sharply falling vehicle registrations should act to dampen overall retail volumes. A stronger 1½% qoq increase is expected for core volumes. **Despite the becalmed housing market, the prospect of increased government support, increasing wages and higher producer incomes are expected to translate into still-solid annual rates of consumer spending going forward.** We expect annual growth in retail spending volumes to remain around 4% over 2018.



Major International Events for the week ahead

Data	Date	Time (NZT)	Market	ASB
RBA Speech by Deputy Governor Debelle	15/05	11.10 am	-	-
RBA Meeting Minutes, May	15/05	1.30 pm	-	-
CH Industrial Production, April % yoy	15/05	2.00 pm	6.4	6.3
UK Unemployment Rate, March, %	15/05	8.30 pm	4.2	4.0
EZ ZEW expectations Survey,	15/05	9.00 pm	-	5
US Retail Sales, April, %mom	16/05	12.30 am	0.4	0.4
JP GDP, Q1, % qoq seasonally-adjusted annualised	16/05	11.50 am	-0.1	-0.1
AU Wage Price Index, Q1, % qoq	16/05	1.30 pm	0.6	0.6
AU employment, April, 000's	17/05	1.30 pm	20	20

In Australia, the **RBA meeting minutes** that follow a Statement of Monetary Policy (SMP) are almost always a low key affair and contain very little new information. **We expect the Minutes from the May meeting to retain a neutral tone.** The RBA has kept its growth and inflation forecasts broadly unchanged. We expect them to reiterate a positive view on the domestic and global economies in the Minutes. But to also reinforce the notion that monetary policy will remain unchanged for a while yet. Also on Tuesday, the **RBA Deputy Governor Debelle is scheduled to deliver a speech titled “The Outlook for the Australian Economy”** – at the Sydney CFO Forum 2018.

Meanwhile, **Australian wage growth has troughed**, with the Wage Price Index (WPI) lifting by 0.6% in Q4 and annual growth inching higher to 2.1%. That said, Q4 growth was propelled higher by growth in public service salaries. We see the **overall WPI lifting by 0.6% again over Q1** which would push annual growth up a touch to 2.2%. **This risk, however, lies with a softer 0.5%.**

Australian employment growth has slowed over the past two months, but we suspect that the weakness was some statistical payback for the prior six months. **Leading indicators**, such as the ABS vacancies series and the NAB Business Survey, **point to growth in headcount of around 20k a month over the next three months. Indeed we expect to see a lift of 20k in April. That should keep the unemployment rate flat at 5.5% on an unchanged participation rate.**

We expect China’s key monthly growth indicators to remain largely stable in April. We expect **industrial production** growth to rebound slightly to 6.3%pa given production and demand have picked up lately. We expect **fixed asset investment growth** to slow a bit to 7.3%pa due to slower real estate investment. Meanwhile, Chinese **retail sales** should remain steady at 10.1%pa.

Japan’s economy grew at an above trend annual pace of 2% in Q4 on solid domestic demand activity. Positive employment conditions and the multi-year high in the Tankan business conditions survey point to **upside risk to the Q1 GDP outcome (consensus: -0.1% annualised QoQ).**

We expect the UK unemployment rate to fall further towards 4%. The number of vacancies relative to the size of the labour force has continued to rise and survey indicators suggest that recruitment difficulties are somewhat elevated. Tighter UK labour market conditions suggest **average weekly earnings will remain sticky at around 2.7% yoy.**

In the Eurozone, we anticipate the ZEW expectations survey to print at around 5 in May, indicating slightly improved analyst sentiment following disappointments earlier in the year. The recent stabilization in PMI data should be enough to lift the expectations survey.

We expect to see a decent pick up in April US retail sales (GDP –relevant control group), buoyed by favourable employment conditions and elevated consumer confidence.

Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Previous	Forecast	
							Market	ASB
Mon 14 May	10:30	NZ	Performance Services Index	Apr	Index	58.8	~	~
	11:50	JN	PPI	Apr	m%ch	-0.1	~	~
	18:00	JN	Machine tool orders	Apr P	y%ch	28.1	~	~
Tue 15 May	11:10	AU	RBA's Debelle gives speech in Sydney					
	11:30	AU	ANZ Roy Morgan Conf Index	May	Index	119.6	~	~
	13:30	AU	RBA May Meeting Minutes					
	14:00	CH	Industrial production	Apr	y%ch	6.0	6.4	6.3
Wed 16 May	11:50	JN	GDP	Q1 P	q%ch	0.4	0.0	~
	13:30	AU	Wage price index	Q1	q%ch	0.6	~	0.6
	16:30	JN	Industrial production	Mar F	m%ch	1.2	~	~
Thu 17 May	10:45	NZ	PPI output	Q1	q%ch	1.0	~	~
	13:30	AU	Unemployment rate	Apr	%	5.5	~	5.5
	15:00	NZ	Budget 2018					
Fri 18 May	11:30	JN	National CPI	Apr	%	1.1	~	~

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Previous	Forecast	
							Market	ASB
Mon 14 May	05:18	US	Mortgage delinquencies	Q2	%	5.2	~	~
	07:30	EC	Bloomberg May Eurozone Economic Survey					
	07:45	EC	Fed's Mester, ECB's Villeroy speak in Paris					
	14:40	US	Fed's Bullard speaks at Crypto Conference in New York					
Tue 15 May	09:30	UK	ILO unemployment rate 3	Mar	%	4.2	~	4.0
	10:00	EC	GDP	Q2 P	q%ch	0.4	~	~
	10:00	EC	ZEW survey expectations	May	~	1.9	~	~
	13:30	US	Retail sales advance	Apr	m%ch	0.6	0.3	0.4
	18:00	US	Fed's Williams to speak at Economic Club of Minnesota					
Wed 16 May	10:00	EC	CPI	Apr	m%ch	1.0	~	~
	13:30	US	Fed's Bostic to give economic update					
	14:15	US	Industrial production	Apr	m%ch	0.5	0.60%	~
	22:30	US	Fed's Bullard speaks to Media					
Thu 17 May	08:30	UK	Bloomberg May United Kingdom Economic Survey					
	10:00	EC	Construction output	Mar	m%ch	-0.5	~	~
	13:30	US	Initial jobless and continuing	~	~	~	~	~
	13:30	US	Philadelphia Fed business	May	~	23.2	21.4	~
	15:45	US	Fed's Kashkari speaks at Moderated Q&A in Minneapolis					
Fri 18 May	08:00	US	Fed's Mester Speaks at ECB on Macroprudential, Monetary Policy					
	09:00	EC	Current account	Mar	€bn	22.7	~	~

Key Forecasts

ASB NZ economic forecasts

	Dec-17 « actual	Mar-18 forecast >>	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
GDP real - Q%	0.6	0.4	0.7	0.8	0.9			
GDP real - A%	2.9	2.6	2.4	2.6	2.8	3.3	3.3	3.0
GDP real - AA%	2.9	2.8	2.6	2.6	2.6	2.8	3.4	3.2
CPI - Q%	0.1	0.5	0.3	0.5	0.0			
CPI - A%	1.6	1.1	1.4	1.4	1.3	1.3	1.9	2.0
HLFS employment growth - Q%	0.4	0.6	0.5	0.5	0.6			
HLFS employment growth - A%	3.7	3.1	3.7	2.0	2.1	2.1	1.8	1.5
Unemployment rate - %sa	4.5	4.4	4.4	4.4	4.2	4.1	4.1	4.3
Annual current account balance as % of GDP	-2.7	-2.4	-2.4	-2.5	-2.4	-2.4	-2.6	-2.6

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

	Dec-17 « actual	Mar-18 forecast >>	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
(end of quarter)								
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.25	2.75
NZ 90-day bank bill	1.88	2.0	2.0	2.0	2.0	2.0	2.5	3.0
NZ 2-year swap rate	2.21	2.2	2.2	2.3	2.4	2.5	3.0	3.5
NZ 10-year Bond	2.75	2.7	2.9	3.0	3.2	3.3	3.5	3.5

ASB foreign exchange forecasts

	Dec-17 « actual	Mar-18 forecast >>	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
(end of quarter)								
NZD/USD	0.71	0.72	0.72	0.72	0.72	0.72	0.74	0.75
NZD/AUD	0.91	0.94	0.95	0.94	0.92	0.91	0.90	0.94
NZD/JPY	80	77	78	77	76	75	74	81
NZD/EUR	0.59	0.59	0.59	0.59	0.58	0.58	0.57	0.57
NZD/GBP	0.53	0.51	0.52	0.51	0.51	0.50	0.49	0.53
NZD TWI	74.3	74.3	74.5	74.0	73.3	72.7	72.5	74.4

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Rural Economist
Senior Economist, Wealth
Economist
Publication & Data Manager

Nick Tuffley
Mark Smith
Jane Turner
Nathan Penny
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
mark.smith4@asb.co.nz
jane.turner@asb.co.nz
nathan.penny@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5657
(649) 301 5853
(649) 448 8778
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

@ASBMarkets

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.