

# Economic Weekly

24 September 2018

## The ball is in RBNZ's court now

Last week's Q2 GDP release showed broad-based economic strength despite weak business confidence prevailing since late 2017 (see the full review on Page 2). The Q2 outcome was significantly stronger than the Reserve Bank of New Zealand (RBNZ) was expecting, but downside risks to the economic outlook remain with weak employment and investment intentions likely to sap growth over H2 2018. The market will closely watch this week's OCR Review to see how the RBNZ balances the stronger starting point vs. growing downside risks to the outlook. Offshore, the US Federal Reserve's rate announcement (also Thursday morning) will be the key event; a rate hike is widely expected and focus will be on any change in the Fed's forward guidance and assessment of monetary conditions.

### Key events and views

<a href="#">Key Insights</a>	A full review of last week's Q2 GDP release.
<a href="#">Foreign exchange</a>	Strong NZ Q2 GDP growth boosts NZD.
<a href="#">Interest rates</a>	NZ interest rates lift on strong NZ GDP growth.
<a href="#">Domestic events</a>	Trade Balance, ANZ Business Outlook Survey, RBNZ OCR Review, Building Consents.
<a href="#">International events</a>	FOMC policy announcement, US PCE deflator (Fed's preferred inflation measure).
<a href="#">Calendars</a>	NZ and international calendar of upcoming economic events.

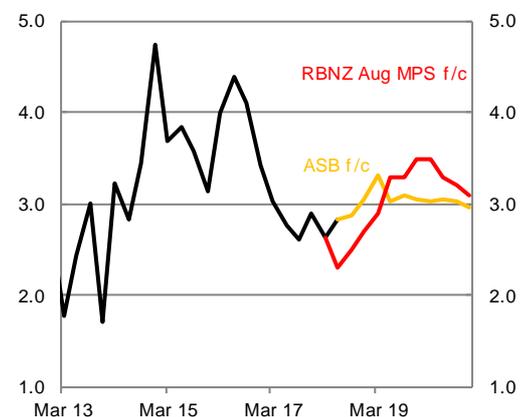
### Chart of the Week: Dangling the (rate cut) carrot

**Q2 GDP growth proved to be robust** with the detail in the release revealing broad-based strength, indicating **underlying growth is well above the Reserve Bank of New Zealand's (RBNZ) soft expectation at the August Monetary Policy Statement.**

**Focus now turns to how the RBNZ will react at this Thursday's OCR announcement.** The market has certainly reacted strongly, with Overnight Indexed Swap (OIS) pricing shifting from implying a 48% chance of a 25 basis point cut (in the next 12 months) to just a 26% chance of a rate cut.

Given the **continued weakness in business confidence and the risk that growth underperforms over the second half of 2018**, we believe **the RBNZ will play this one strategically.** It will likely not place too much emphasis on the stronger starting point for domestic activity and **continue to dangle a rate cut 'carrot' to market participants**, helping to keep downward pressure on the NZD and provide continued support to the NZ economy during this crisis of confidence. See our full RBNZ preview [here](#).

**GDP GROWTH OUTLOOK**  
(annual % change)



## Key Insights this week: Q2 GDP Review – Cracker performance

### Key points

- Q2 GDP grew 1.0% qoq, slightly stronger than our own forecast of 0.9% and market expectations of 0.8%, and well above the RBNZ August MPS forecast of 0.5%.
- Q2 growth was reasonably broad-based and would have been even stronger if not for a large decline in gas production due to an unplanned outage.
- Focus will now shift to how fast the economy grew over Q3, with concerns that weak business sentiment points to a slowdown in the underlying trend pace of economic growth over the second half of 2018.

GDP - June 2018	Previous	Actual	ASB	RBNZ	Market
quarterly % growth	0.5	1.0	0.9	0.5	0.8
annual % growth	2.6	2.8	2.7	2.3	2.6
annual average % growth	2.7	2.7	2.7		

### Summary & implications

**Q2 GDP lifted 1.0% qoq**, slightly stronger than ASB’s forecast of 0.9% growth and market expectations of 0.8% growth and **well above the RBNZ’s August Monetary Policy Statement (MPS) forecast of 0.5% growth**. **Growth over the quarter was reasonably broad-based**, and would have been stronger if not for some temporary disruption to activity in the gas industry. **The RBNZ faces a considerable upside surprise to its near-term GDP growth outlook** ahead of this week’s OCR Review, but the impact of this surprise could be partially tempered if the RBNZ revises its H2 2018 GDP growth forecasts lower. **Focus will now shift to how fast the economy grew over Q3, with concerns that weak business sentiment points to a slowdown in the underlying trend pace of economic growth over the second half of 2018**. We expect the RBNZ to wait until February 2020 before lifting the OCR, and the risk of a rate cut over the next year remains on the radar.

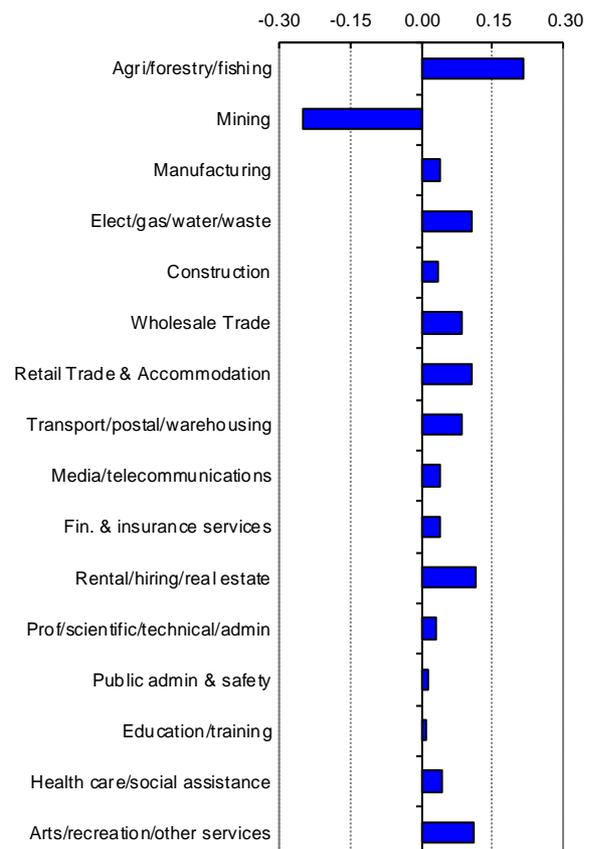
### Economy (almost) firing on all cylinders

**Growth over the June quarter of 2018 was strong and would have been phenomenal if not for a near 20% decline in mining production due to an unplanned shut down in gas production.**

As we expected, GDP growth was led by strong growth in electricity generation, a large broad-based lift in agricultural production, a strong performance in retail and wholesale trade (as foreshadowed by earlier data), and strong growth in arts, recreational and cultural services. We also saw stronger than expected growth in other parts of services, including a strong 1.8% lift in transport, postal and warehousing, and 1.1% lift in information media and telecommunications. And there was surprisingly decent growth in areas exposed to the housing cycle, including financial & insurance services and rental, hiring and real estate services.

It is evident in Q2 that all parts of the economy were performing well, as the strength was remarkably broad-based. This sits with our view that the economy is currently benefiting from a number of supports, including high Terms of Trade, low interest rates and high population growth. Indeed, a 1% growth outcome is impressive given there was considerable drag to economic activity from temporary disruption in oil and gas-related industries. StatsNZ reported that a leaking pipeline led to an

**Q2 2018 PRODUCTION GDP**  
(pp contribution to quarterly % change)



unplanned shut down in NZ's largest natural gas field. This led to downstream impacts on manufacturing production, which added to some drag from the planned shut down at the Marsden Point oil refinery.

## Exports razzle and dazzle

**Economic growth was also strong from an expenditure basis.** As expected, **household spending grew at a robust pace. Investment was surprisingly soft**, with non-residential investment remaining broadly flat despite continued growth in non-residential building activity. Transport investment was also weaker than expected (given import figures). **Plant and machinery declined in line with our expectations** (down 1.3%). This decline is fairly mild in context of the strong growth seen over the previous 18 months. Nonetheless, it is an area at risk of further declines given the drop in business investment intentions over the past few months.

**Net exports contributed positively**, supported by **strong growth in both goods exports and much stronger than expected services exports.** The strength in goods exports was broad based, with strong lift in meat, dairy, horticulture, forestry and manufactured goods. With NZ's key trading partners performing well and demand for NZ commodities remaining strong, NZ's export prices are consequently at very high levels. The recent fall in the NZD has also (anecdotally) further boosted exporter confidence on the year ahead.

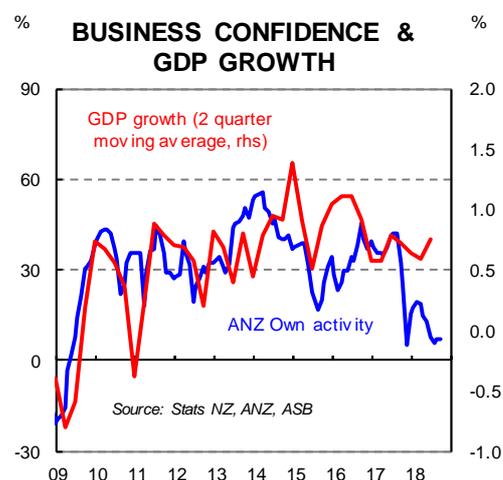
## Risks to Q3 growth as business sentiment fizzles

Alas, looking ahead, **growth may have lost some momentum over Q3. Negative business sentiment poses a threat to economic growth sustaining at current rates over the coming year.** Ahead of today's release, we had just 0.6% growth for Q3 pencilled in, although we will take some time to reassess this figure in light of the details in the Q2 outcome. Furthermore, **taking recent business confidence readings at face value, in particular business investment and employment intentions, suggests growth could be much weaker than we are forecasting over the second half of the year.** While we prefer to wait for some hard data (given the strong fundamentals supporting the economy), we are mindful of the risks to our relatively upbeat growth forecasts over the coming year.

## RBNZ implications – perceptions vs. reality matters

**The Q2 outcome is a significant positive surprise for the RBNZ.** However, we are unsure how the RBNZ will respond to this surprise given the continued slide in business confidence. At face value, the recent fall in business confidence suggest material downside risk to the RBNZ's H2 2018 growth forecasts (0.8% in Q3 and 0.7% in Q4). **It's possible that, as the RBNZ considers its near-term GDP forecasts for the upcoming OCR Review, the stronger Q2 outcome will be partially offset by downward revisions to the RBNZ forecasts for second half of 2018.**

Given the ongoing slide in business confidence we see a non-negligible chance of a rate cut over the next year, but the threshold of such a move remains fairly high. **Q2 GDP reinforces that the momentum in the economy was relatively robust over the first half of the year despite some of the negative headlines and weak business confidence outcomes generated since late 2017. The gap between perceptions and reality suggests the RBNZ should be cautious in jumping to conclusions on the back of sentiment data alone**, and should wait to gather clearer evidence about the economy's growth performance for the second half of the year. The RBNZ may also want to be sure that core inflation measures are stable (and signalling the economy could do with a further boost), rather than lifting in line with its current expectations.



## Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support <sup>^</sup>	Resistance <sup>^</sup>	MT Bias
NZD/USD	0.6673	0.6555	0.6643	0.7285	DOWN	0.6520	0.6780	UP
NZD/AUD	0.9182	0.9158	0.9120	0.9185	FLAT	0.9050	0.9300	FLAT
NZD/JPY	75.09	73.39	74.00	81.47	FLAT	74.1	76.4	FLAT/UP
NZD/EUR	0.5681	0.5632	0.5745	0.6091	FLAT	0.5600	0.5770	FLAT
NZD/GBP	0.5103	0.5010	0.5182	0.5364	FLAT	0.5030	0.5180	DOWN
TWI	72.4	71.3	72.1	76.22	DOWN	70.5	73.0	FLAT

<sup>^</sup> Weekly support and resistance levels \* Current as at 9.30am Monday; week ago as at Monday 5pm

### NZD Recap

**After starting the week on the back foot, the NZD/USD oscillated within a reasonably tight range over the start of the week as market participants digested tariff updates.** Chinese Premier's Li Keqiang's support for free trade and pledge that China would not devalue its currency saw the NZD/USD lift higher mid-week. **However, it was the strong NZ Q2 GDP result that really boosted the NZD towards the end of the week.** The 1% qoq result was higher than the market median expectation as well as the RBNZ's 0.5% qoq forecast. Given the recent emphasis the RBNZ has placed on GDP outturns, there was a strong likelihood that the result would create volatility in the NZD and its major crosses. The NZD/USD rose 0.75% following the release and has so far held on to most of these gains, despite the ongoing tariff-induced risk-off tone in markets. Elsewhere, the British Pound was the major mover last week after it was revealed that the UK and the EU had reached an impasse in the Brexit negotiations. The Pound fell around 1.5% against the USD from two-month highs.

### Near-term outlook

**Thursday will be the major day for currencies this week.** The US Federal Reserve is widely expected to raise interest rates by 25 bps on Thursday morning (NZT). Given this move is largely already priced in, focus will be on whether or not the Fed continues to describe the stance of monetary policy as 'accommodative' or not. Removing 'accommodative' is an indication that the Fed thinks it's getting nearer to the neutral rate. The NZD/USD will also be influenced by the RBNZ's Official Cash Rate (OCR) review on Thursday morning. No change in the OCR is expected, but markets will be scrutinising the tone of the statement following last week's stronger than expected GDP result. Wednesday's ANZ business confidence update is also likely to cause some volatility in the NZD this week. Outside of data releases, trade tensions won't be forgotten, particularly as both the US and China are due to implement additional tariffs today. Of note this week will be whether the US goes through with its threat to implement another \$267bn in tariffs if China responds to today's measures.

### Medium-term outlook

**We now 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. 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-21
		<< 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	0.90	0.90	0.90	0.91	0.90	0.90
NZD/JPY	80	77	74	73	73	74	73	75	74
NZD/EUR	0.59	0.59	0.58	0.58	0.58	0.58	0.55	0.55	0.54
NZD/GBP	0.53	0.51	0.52	0.52	0.52	0.53	0.53	0.54	0.51
NZD TWI	74.3	74.3	72.5	71.8	71.4	71.9	72.3	72.8	70.2

## 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	1.92	1.88	1.91	1.95	FLAT	UP
2-year swap	2.02	1.99	2.03	2.23	FLAT/DOWN	UP
5-year swap	2.40	2.33	2.36	2.75	FLAT/DOPWN	UP
10-year swap	2.93	2.85	2.86	3.24	FLAT/DOWN	UP
10-year govt bond yield	2.66	2.58	2.58	3.00	FLAT/DOWN	UP
Curve Slope (2s10s swaps)	0.90	0.87	0.83	1.01	FLAT	UP

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

### Market Recap

NZD yields were supported by stronger than expected NZ Q2 GDP and generally positive risk sentiment. **As we had foreshadowed last week, expectations for cuts to the official cash rate (OCR) were pared back**, and now there are just 7 bps of cuts priced in by August next year compared to the 12bps of cuts prior to the GDP release. Solid US data and expectation that the Fed will raise rates supported US yields, with 2-year Treasury yields hitting decade highs (2.80%) and with US 10-year Treasury yields (3.06%) hovering around 2018 highs. Global yields gave back some of the increase towards the end of the week on escalating trade tensions between the US and China. The lack of progress in Brexit negotiations, with the European Union rebuffing the latest proposal by UK PM May, and concerns over trade have seen European yields rally. There was minimal market reaction from the RBA Minutes or the Bank of Japan decision, where policy settings were unchanged. NZD 10-ten year bond yields were not immune from the global sell-off with yields around 10bps higher than a week ago, but still low in an absolute sense and relative to global yields.

### Near-term NZD interest rate outlook

**This week, we have a marginally downward bias for NZD yields given elevated trade tensions, likely soft domestic sentiment data and a RBNZ that may keep the potential for cuts to the official cash rate (OCR) alive.** Wednesday's ANZ Business Outlook is expected to continue to depict a glass-half-empty view of the economic outlook, which should dampen local yields. The RBNZ is [expected](#) to stick to the script, deliver a neutral assessment, and signal the intent to leave the official cash rate on hold into 2020, with the next move being either up or down. Today sees the imposition of US tariffs on USD200bn of imports from China, which should dampen global yields as has the decision by Chinese authorities to delay trade negotiations until after the US mid-terms elections in November. Canada and the US have yet to resolve trade issues, with Brexit tensions also expected to dampen global yields. This Thursday the Fed is expected to hike rates by 25bps (to 2.00%-2.25%). The focus for the markets will be the published 'dot plots' and the tone of the Fed's policy assessment. A business-as-usual tone and no change to the dot plots (total of 4 hikes for 2018, 3 hikes for 2019) will likely see US yields firm, but Fed acknowledgement of downward risks could trigger a rally.

### Medium-term outlook

**The cautious RBNZ assessment and our low CPI inflation outlook have seen us push out the start of the next expected RBNZ tightening cycle to February 2020.** We do not expect OCR cuts, but if inflationary pressure fails to materialise then eventual OCR increases may be delayed. **We have also revised down our assumed end-point for the extent of RBNZ tightening, with the OCR expected to peak at just 2.75% this cycle** (from August 2021 onwards). **Longer-term NZD rates should also drift higher with global counterparts.** We expect a further 100bps of Fed hikes through to mid-2019, which should see US 10-year Treasury yields settle above 3%. NZD longer-term interest rates should drift higher, but modest RBNZ tightening and low global yields should limit their climb.

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	2.1	2.1	2.2	2.5	3.0	3.2
NZ 10-year Bond	2.75	2.7	2.9	2.8	3.0	3.1	3.3	3.5	3.6

## Major Domestic Events for the week ahead

Data	Date	Time (NZT)	Previous	Market	ASB
Trade Balance, Aug, \$m	26/09	10.45 am	-143	-925	-900
ANZ Business Outlook, Sep, General Confidence, net %	26/09	1:00 pm	-50.3	-	-
RBNZ OCR Review, %	27/09	9.00 am	1.75	1.75	1.75
Building Consents, Aug, % mom	28/09	10.45 am	-10.3	-	-
RBNZ Credit Growth, Household, % mom	28/09	3.00 pm	0.5	-	-

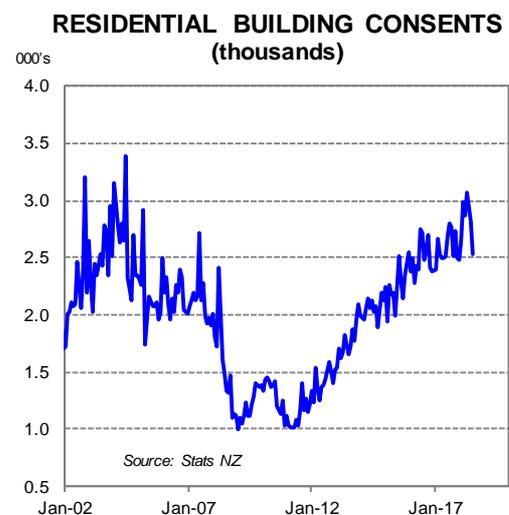
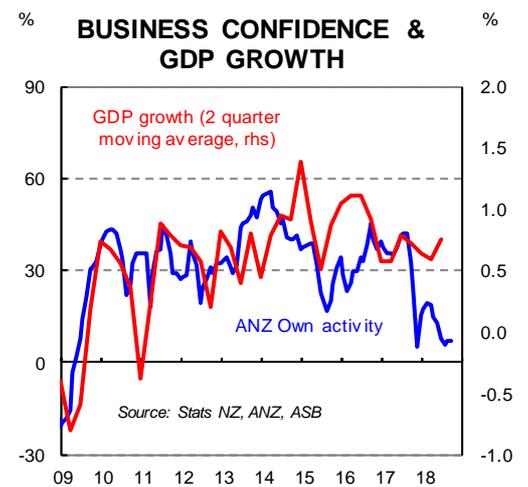
**We expect a \$900m trade deficit over August as agricultural exports enter their seasonal decline.** We also expect some pullback in seasonally-adjusted export values after very strong dairy exports over July. Meanwhile, we expect import values to remain firm, supported by the upward trend in oil prices. Looking at the annual balance, we expect the deficit to narrow to \$4.2 billion.

**The ANZ monthly Business Outlook Survey (ANZBO)** has received close attention from financial markets and the media over the past 12 months, despite its relationship with GDP growth breaking down in recent years (we prefer the NZIER's Quarterly Survey of Business Opinion survey, which is due early Oct). Recent falls in employment and investment intentions from the ANZBO have been particularly noteworthy. While we remain positive on the NZ domestic outlook, we caution that if weak sentiment persists, it may weigh on economic growth over the second half of 2018.

**Residential construction demand has remained reasonably strong in Auckland and Wellington,** underpinned by pent-up housing demand following a number of years of underbuilding. However, **in some other NZ regions it appears house building activity has peaked.** We expect some regional divergence to continue over the next year and for nationwide house building activity to trend sideways. Meanwhile, non-residential construction consent issuance remains strong, despite the recent falls in commercial construction confidence.

After surprising the market with a more dovish August assessment, **we expect the RBNZ to stick to the script, commit to leaving the Official Cash Rate (OCR) on hold into 2020, and signal that the direction of the next OCR move could be up or down.** The economy has a considerably stronger starting point for economic activity than the RBNZ had assumed. However, the downward risk profile will likely prompt a guarded policy assessment, with the RBNZ continuing to dangle the carrot of a lower OCR to keep overall monetary conditions accommodative. We remain constructive on the domestic outlook and expect inflationary pressures to surface more quickly than the RBNZ asserts. **The hurdle to an OCR cut remains high in our view and we expect the next move to be a hike (early 2020). However, if significant downside risks do crystallise, we are in little doubt that the RBNZ would follow through and cut the OCR.**

**Household credit growth has been relatively steady over the past 7 months.** Despite this, we continue to expect household credit growth to ease further over coming months as housing credit growth remains subdued. There is still a risk business credit growth slows if low business confidence translates into less credit-driven investment. On the agricultural front, we expect to see credit growth to remain subdued for a while longer.



## Major International Events for the week ahead\*

Data	Date	Time (NZT)	Market	ASB
Australia ABS Job Vacancies, August, %qoq	27/09	1:30 pm	-	-
US Federal Reserve Interest Rate Announcement, %	27/09	6:00 am	2.00-2.25	2.00-2.25
Australia Private Sector Credit, August, %mom	28/09	1:30 pm	0.4	0.3
Eurozone CPI, September, %yoy	28/09	9:00 pm	2.1	2.0
US Core PCE Index, Q2, %qoq	28/09	12:30 am	2.0	1.9

\*Originally published by CBA Global Markets Research on Friday 21<sup>st</sup> September 2018 at 13.29pm.

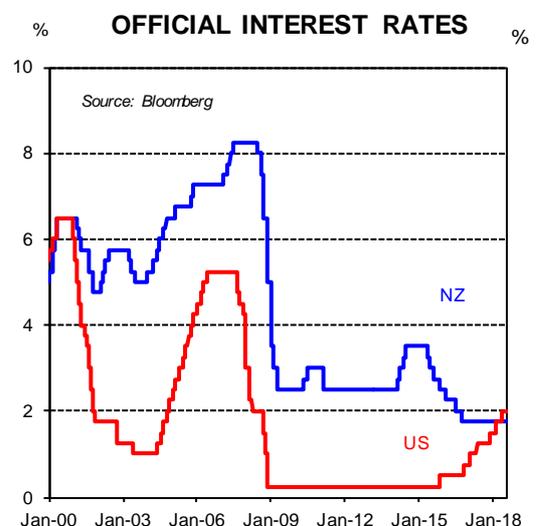
**Leading Australian employment indicators** remain elevated with the employment subcomponent of the NAB Business Conditions Index above average and consistent with jobs growth of around 3% pa. The last reading of job vacancies released in May showed a gain of 5.7% qoq and 24.1% over the year, and we expect another positive reading. The series breaks down vacancies by State and could pinpoint areas of labour shortages.

**Australian credit growth** has eased in recent months, as demand for credit by investors for housing assets reduces. Buyers have been reassessing lower price estimates for dwellings to more sober levels. Lending standards are also tighter, impacting the supply side. Personal credit remains weak as other funding sources are used. Business credit growth has been reasonable over the last six months with non-mining investment staying solid.

**In the US, we expect the Federal Reserve to increase the target range** on the Funds rate by 0.25% to 2.00-2.25%. A hike is fully priced in. The uncertainty is if the Fed changes or removes "accommodative" from its post-meeting statement because it might signal the central bank believes the Funds rate is moving closer to "neutral". The closer the Fed believes it is to "neutral", the more confident market participants will be to price in the end of the interest rate tightening cycle.

In the **Eurozone, headline CPI** has been pushed up by higher food and fuel prices. But the strong pick-up in the ECB's negotiated wage growth indicator suggests core inflation should start to pick-up soon. We predict headline inflation stabilised at 2.0%yoy while core inflation accelerated from 1.0% yoy in August to 1.1% yoy in September.

The **already-released August CPI** suggests the core personal consumption deflator decelerated from 2.0% yoy in July to 1.9% yoy in August.



## Global Data Calendars

### Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Previous	Forecast	
							Mkt	ASB
Tue 25 Sep	11:30	AU	ANZ Roy Morgan Conf. Index	Sep	Index	118.0	~	~
	11:50	JN	BOJ Policy Meeting Minutes					
	17:00	JN	Leading index CI	Jul F	Index	103.5	~	~
	17:30	JN	BOJ Kuroda speaks in Osaka					
Wed 26 Sep	10:45	NZ	Trade balance	Aug	NZD	-143.0	-925	-900
	13:00	NZ	ANZ business confidence	Sep	~	-50.3	~	~
	18:00	JN	Machine tool orders	Aug F	y%ch	5.3	~	~
Thu 27 Sep	09:00	NZ	RBNZ official cash rate	Sep	%	1.75	1.75	1.75
	13:30	CH	Industrial profits	Aug	y%ch	16.2	~	~
	13:30	AU	Job vacancies	Aug	y%ch	5.7	~	~
	18:35	JN	BOJ Kuroda speaks in Tokyo					
Fri 28 Sep	~	CH	BoP current account balance	Q2 F	CNY bn	5.8	~	~
	10:00	NZ	ANZ consumer confidence	Sep	Index	117.6	~	~
	10:45	NZ	Building permits	Aug	m%ch	-10.3	~	~
	11:50	JN	BOJ summary of opinions					
	11:50	JN	Retail sales	Aug	m%ch	0.1	~	~
	11:50	JN	Industrial production	Aug P	m%ch	-0.1	~	~
	13:45	CH	Caixin China PMI	Sep	Index	50.6	~	~

\*P = Preliminary

### Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Previous	Forecast	
							Mkt	ASB
Mon 24 Sep	13:30	US	Chicago Fed National Activity	Aug	Index	0.1	~	~
	14:00	EC	ECB's Draghi speaks at ECON Committee Meeting in Brussels					
	15:30	US	Dallas Fed manufacturing	Sep	Index	30.9	31.0	~
Wed 26 Sep	09:10	EC	ECB's Praet speaks at FT Event in London					
	09:40	UK	BOE's Vlieghe speaks in London					
	11:45	EC	ECB's Praet speaks at OMFIF in London					
	14:00	US	S&P corelogic 20-city	Jul	m%ch	0.1	-0.2	~
	15:00	US	Richmond Fed manufacturing	Sep	Index	24.0	21.0	~
Thu 27 Sep	15:00	US	Conf. board consumer	Sep	Index	133.4	131.0	~
	15:00	US	New home sales	Aug	000	627.0	631.0	~
	19:00	US	FOMC rate dec. (upper bound)	Sep	%	2.0	2.25	2.25
	19:00	US	FOMC rate dec. (lower bound)	Sep	%	1.75	2.0	2.0
Fri 27 Sep	19:30	US	Fed's Powell holds Press Conference following FOMC decision					
	09:00	EC	ECB publishes Economic Bulletin					
	10:00	EC	Economic confidence	Sep	~	111.6	~	~
	12:45	UK	BOE's Haldane speaks in London					
	13:30	US	GDP annualized	Q2 T	q%ch	4.2	4.3	~
Sat 29 Sep	17:30	US	Fed's Kaplan speaks at Forum for Minority Banking					
	13:30	US	PCE deflator	Aug	m%ch	0.1	0.1	~

## Key Forecasts

<b>ASB NZ economic forecasts</b>	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	0.7	0.8				
GDP real - A%	2.9	2.6	2.8	2.9	3.1	3.3	3.0	2.9	2.8
GDP real - AA%	2.8	2.7	2.7	2.8	2.8	3.0	3.1	3.0	2.8
CPI - Q%	0.1	0.5	0.4	0.7	0.4				
CPI - A%	1.6	1.1	1.5	1.7	1.9	1.9	1.5	1.6	2.0
HLFS employment growth - Q%	0.4	0.6	0.5	0.5	0.5				
HLFS employment growth - A%	3.7	3.1	3.7	2.0	2.0	1.9	1.7	1.4	1.2
Unemployment rate - %sa	4.5	4.4	4.5	4.5	4.4	4.3	4.2	4.1	4.0
Annual current account balance as % of	-2.9	-3.0	-3.3	-3.3	-3.1	-2.4	-2.0	-2.3	-2.8

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

<b>ASB interest rate forecasts</b>	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21	Mar-22
(end of quarter)			<< 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	2.1	2.1	2.2	2.5	3.0	3.2
NZ 10-year Bond	2.75	2.7	2.9	2.8	3.0	3.1	3.3	3.5	3.6

<b>ASB foreign exchange forecasts</b>	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21	Mar-21
(end of quarter)			<< 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	0.90	0.90	0.90	0.91	0.90	0.90
NZD/JPY	80	77	74	73	73	74	73	75	74
NZD/EUR	0.59	0.59	0.58	0.58	0.58	0.58	0.55	0.55	0.54
NZD/GBP	0.53	0.51	0.52	0.52	0.52	0.53	0.53	0.54	0.51
NZD TWI	74.3	74.3	72.5	71.8	71.4	71.9	72.3	72.8	70.2

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