Economic Weekly

30 July 2018

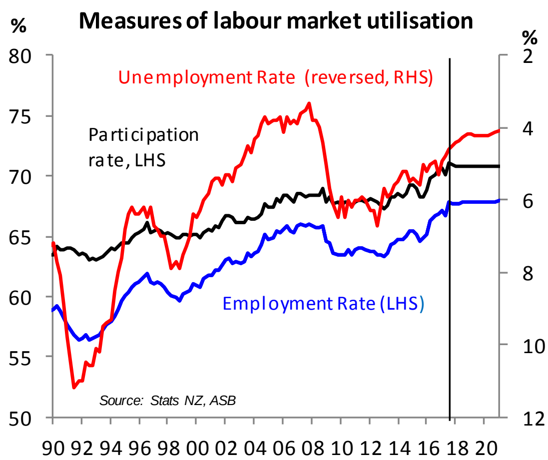
Take II for the RBNZ this week

This week's Q2 labour market update will be closely watched as employment is now an explicit consideration for the RBNZ under the new Policy Targets Agreement (PTA). We also take a closer look at the medium-term inflation picture on Page 2 this week. Offshore, there are a number of major data releases in the US including the Personal Consumption and Expenditure deflator (Tue), US Fed rate announcement (Wed) and Non-farm Payrolls (Friday). Central bank rate announcements are also due in Japan on Tuesday and the Bank of England on Thursday (for which UK markets are currently pricing an 80% chance of a rate hike).

Key events and views

Chart of the Week: New PTA putting the spotlight on the labour market

The **latest PTA requires monetary policy to contribute to "supporting maximum levels of sustainable employment"** alongside the existing inflation target. RBNZ officials have argued that the change is unlikely to impact monetary policy decisions. However, including an explicit employment target **does increase the amount of scrutiny that will now be placed on quarterly labour market data releases.**



We expect Wednesday morning's release to reaffirm that the labour market remains tight, with a 0.5% qoq lift in employment and low unemployment. However, despite the lift in the minimum wage boosting LCI wages, wage distribution measures are expected to **depict a generally contained wage inflation backdrop.**

A release in line with our expectations should be received well by the RBNZ as it **will suggest that the RBNZ is meeting its employment PTA objective.** However, we expect **the RBNZ will want to be sure that wage growth will continue to firm before lifting the OCR, meaning rate hikes are distant**.

Key Insights this week: Inflation Watch

Key points:

- Reflecting a combination of the inflationary and waning deflationary impacts, annual CPI inflation is likely to move towards 2% by the end of the year.
- There is the risk that the spill-overs from the spike in inflation into broader prices and wages could be more significant than we have allowed for.
- The challenge for the RBNZ will be in keeping expectations for wage and price setters consistent with the 1-3% medium-term inflation target. We expect a stepping up in RBNZ communications to that effect.

This article summarises research we published last week on the short-term NZ inflation outlook.

Background

In recent years overall CPI inflation has been low and stable, both locally and abroad. As is the case with New Zealand, there have been a number of offsetting influences. The last few months have signalled that the goldilocks period of solid growth but low inflation may be nearing an end given sharp increases in USD-denominated oil prices and the lower NZD. Moreover, capacity constraints remain acute in some sectors of the economy (construction, accommodation), which, along with prospective increases in the minimum wage and some administered price increases, point to a firming in NZ CPI inflation.

Here we decompose overall CPI inflation into the following components:

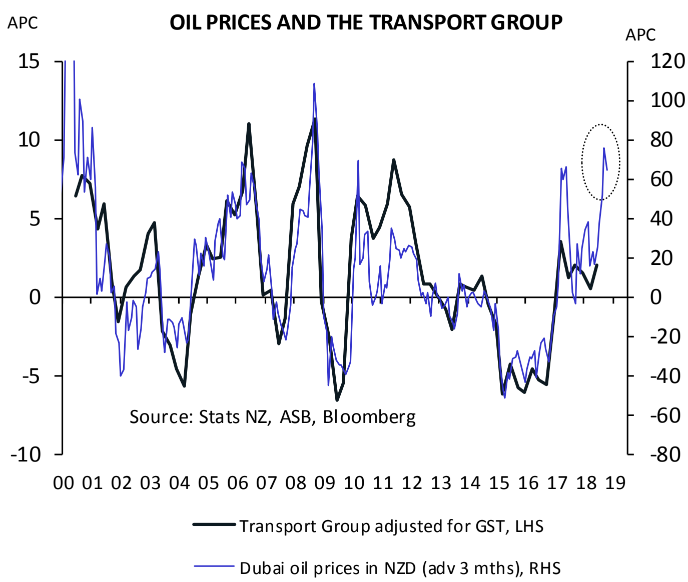
- Commodity price sensitive (30% of the CPI regimen) – prices in this component are usually influenced by movements in global commodity prices and the NZD. It includes a wide range of goods and services including food, vehicle fuels and transport services.
- Housing (17%) – prices relating to the cost of housing tend to climb more quickly than that for the aggregate CPI. It includes construction costs, energy prices and the dwelling rents component.
- Retail related (around 20%) – prices for these goods are sensitive to trends in global retail price inflation (currently very low) as well as to the NZD.
- Government dominated (16%) – administered charges and retail goods (apart from vehicle fuels) that have a sizeable tax component. It includes goods and services such as local authority rates, tobacco and alcohol prices.
- Labour market sensitive (17%) – miscellaneous goods and services that are sensitive to changes in labour market conditions/wages. It includes miscellaneous services, healthcare.

Our categorisation of the components and inflation add-up is ad-hoc but it can be useful for illustrating the direct influences impacting on the overall inflation process within the NZ economy.

Inflation Component Outlook

Commodity price sensitive (30% of CPI weight)

This looks set to be a major source of inflationary pressure over the next year or so. USD strength has been the predominant theme, which has pushed up NZD-denominated commodity food prices. Movements in global food prices have been modest but the weaker NZD has pushed up NZD-denominated food price indices.



Compounding the impact of the lower NZD have been sharp increases in oil prices, with USD prices for the Dubai grade around 40% higher than 12 months ago, with the lower NZD taking the NZD-denominated increase close to 65% over this period. Adding to vehicle fuel prices will be higher regional petrol tax in Auckland (July) and annual increases in the nationwide fuel excise from October. Higher NZD-denominated oil prices are expected to boost prices in the transport group, and are likely to filter through into broader consumer prices. **We assume annual inflation from this sector will approach around 3½% by the end of the year, contributing roughly 1 percentage point to annual CPI inflation.**

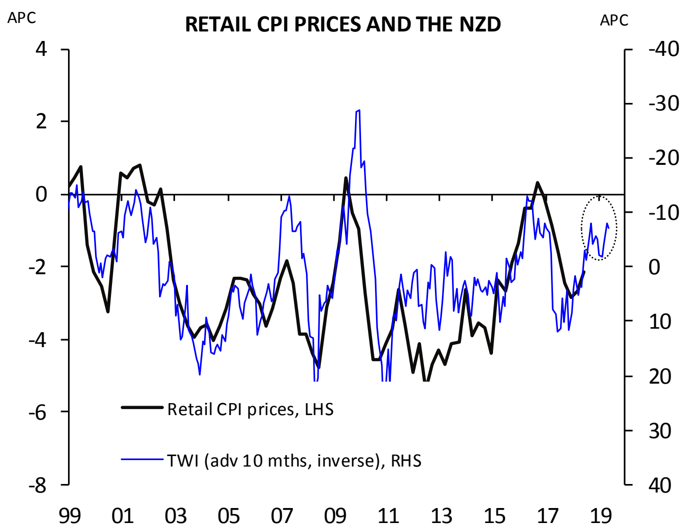
Housing market (17%)

By contrast, cost pressures look to be abating from a sector that has historically been a beacon for inflationary pressure. This moderation is likely to be driven by slowing construction cost inflation. There remains a large amount of residential and non-residential construction work in the pipeline and capacity constraints and skill shortages remain rife. However, the cooling residential property market looks to be having an impact on pricing decisions in the sector. Annual CPI construction cost inflation slowed to a five-year low in the June 2018 quarter and is expected to remain below historical averages over at least the next 12 months.

We expect annual rental inflation to remain moderate. According to the tenancy bond data, increases in rents look to have slowed in recent months, which is in contrast to the modest firming evident in the CPI measure. All up, **annual CPI inflation from housing-related measures is expected to slow to around 2½% over the next 12 months,** below its post-2000 historical average increase of 3.2% per annum.

Retail sector (20%)

Global inflation in the retail sector has remained reasonably low, with retail deflation still evident for goods where there is excess global production capacity. **The deflationary impulse of earlier NZD strength looks to be abating, with the NZD Trade weighted index down around 7% compared to 12 months ago.** A simple rule of thumb suggests that a 10% fall in the NZD (if sustained) will add around 1% to overall CPI inflation over the next year. Given the generally low wage levels within this sector, increases in the minimum wage are another cost increase likely to impact on the retail sector. Moreover, the close to 10% fall in the NZD relative to the yen suggests that the current bout of annual deflation for new and used cars is likely to prove short-lived.



Source: Stats NZ, ASB, Bloomberg

The issue for consumer prices is the extent to which retailers will absorb the increase in costs into their margins. Recent business confidence surveys suggest there is limited scope (or appetite) for retailers to absorb all of the increase. Hence, some of the increase in costs is likely to filter through into the retail level. **For the retail component, we expect considerably more modest annual deflation after a period of more sizeable price declines.**

Government influenced (16%)

Prices for these goods and services are either administered government charges or have a significant tax component[1]**.** This includes tobacco and alcohol (whose prices are impacted by changes in excise duty), tertiary fees, and local authority rates. The lack of competitive pressures has typically resulted in price increases from this sector considerably outstripping that of overall inflation. The rolling out of lower tertiary fees is currently dampening annual inflation from this component. However, excise increases on tobacco and alcohol and increases in local authority rates are likely to ensure that price increases from these sources add to overall CPI inflation. **All up, we expect inflation in this component to remain in a 2½%-3% range over the next year or so.**

[1] Vehicle fuels have a large tax component but their movements typically tend to reflect NZD and global oil prices.

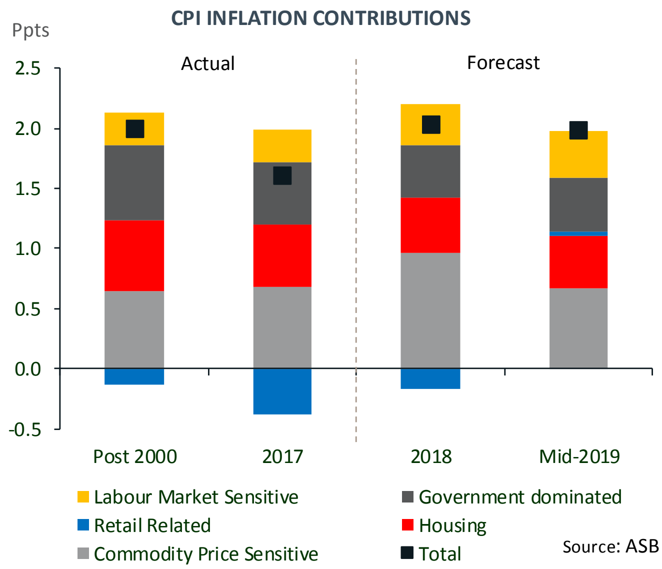
Labour market sensitive (17%)

This includes goods and services that have a large labour component and whose price movements tend to reflect labour market conditions and developments in wages. Aggregate wage inflation has remained low. However, with the labour market tightening and the expectation that wage inflation will start to pick up it seems likely that inflation from this sector will also gradually firm. **As such, we have pencilled in 2%-2 ½ % annual increases over the next 12 months.**

Add-up and Policy Implications

Our add-up of some of the key influences (see table below) suggests that the outlook for CPI inflation has significantly firmed over the last few months. **Annual CPI inflation is expected to push towards 2% given the boost provided by the lower NZD and higher oil prices.** There is the risk that inflation outcomes could ratchet up if the spike in inflation flows through into generalised wage and price settings. Widespread capacity constraints within the economy and pending increases in the minimum wage increase the odds of this occurring.

The RBNZ will look to accommodate the temporary spike in inflation. A low inflation starting point and the RBNZ's flexible approach to inflation targeting provide some wiggle room. **However, the challenge will be in keeping expectations for wage and price setters consistent with the 1-3% medium-term inflation target.** We expect the RBNZ's communications strategy to increasingly emphasise the importance of keeping wage and price settings consistent with its price stability mandate. **Given the surprising persistence of low inflation since the Global Financial Crisis, we expect the RBNZ to be understandably cautious over whether to pre-emptively tighten policy. The RBNZ may opt to wait to see evidence in the actual inflation data before deciding on its course of action.** Forthcoming readings for actual inflation and inflation expectations over the next 12 months will be key.



SUMMARY TABLE

CPI Annual % Change (ex-GST change)	CPI Weight	Post 2000 average increase	ppt	*2017 (act)*	*ppt*	*2018 (est)*	*ppt*	*Mid-2019 (est)*	*ppt*
Commodity Price Sensitive	**29.6**	**2.0**	***0.6***	***2.3***	***0.7***	***3.3***	***1.0***	***2.3***	***0.7***
Food prices	19.0	2.3	*0.4*	*2.3*	*0.4*	*1.7*	*0.3*	*2.0*	*0.4*
Petrol	4.0	4.7	*0.2*	*6.5*	*0.3*	*12.0*	*0.5*	*4.0*	*0.2*
Transport services	6.6	-0.2	*0.0*	*-0.1*	*0.0*	*2.5*	*0.2*	*2.0*	*0.1*
Housing	**17.5**	**3.2**	***0.6***	***2.9***	***0.5***	***2.6***	***0.5***	***2.5***	***0.4***
Rents	9.1	2.1	*0.2*	*2.3*	*0.2*	*2.5*	*0.2*	*2.5*	*0.2*
Construction costs	4.2	4.4	*0.2*	*5.3*	*0.2*	*3.0*	*0.1*	*2.5*	*0.1*
Energy	4.1	4.2	*0.2*	*2.0*	*0.1*	*2.5*	*0.1*	*2.5*	*0.1*
Retail Related	**19.7**	**-1.7**	***-0.1***	***-1.9***	***-0.4***	***-0.8***	***-0.2***	***0.2***	***0.0***
Retail goods excl cars	16.3	-2.4	*-0.3*	*-2.4*	*-0.4*	*-1.0*	*-0.2*	*0.0*	*0.0*
Car prices	3.5	1.7	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*1.0*	*0.0*
Government dominated	**16.0**	**3.9**	***0.6***	***3.3***	***0.5***	***2.7***	***0.4***	***2.8***	***0.4***
Government dominated sectors	9.0	4.0	*0.4*	*2.5*	*0.2*	*1.7*	*0.2*	*2.0*	*0.2*
Alcohol and tobacco	7.1	3.7	*0.3*	*4.2*	*0.3*	*4.0*	*0.3*	*3.8*	*0.3*
Labour Market Sensitive	**17.1**	**1.6**	***0.3***	***1.6***	***0.3***	***2.0***	***0.3***	***2.3***	***0.4***
Private sector services	17.1	1.6	*0.3*	*1.6*	*0.3*	*2.0*	*0.3*	*2.3*	*0.4*
TOTAL	**100**	**2.0**	***2.0***	***1.6***	***1.6***	***2.0***	***2.0***	***2.0***	***2.0***
Non-tradable CPI		**3.0**		***2.5***		***2.7***		***2.8***	
Tradable CPI		**1.0**		***0.5***		***1.2***		***1.0***	

Source: Statistics NZ, ASB

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support^	Resistance^	MT Bias
NZD/USD	0.6796	0.6815	0.6777	0.7483	FLAT/DOWN	0.6700	0.6900	UP
NZD/AUD	0.9178	0.9181	0.9169	0.9390	FLAT	0.9100	0.9250	FLAT
NZD/JPY	75.39	75.60	74.99	83.10	FLAT/DOWN	74.50	77.00	FLAT
NZD/EUR	0.5829	0.5807	0.5816	0.6402	FLAT/DOWN	0.5750	0.5900	FLAT
NZD/GBP	0.5185	0.5185	0.5167	0.5723	FLAT/UP	0.5100	0.5200	DOWN
TWI	73.3	73.1	72.4	78.87	FLAT/DOWN	72.00	74.00	FLAT

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

NZD Recap

The NZD spent the last week trading in a tight 0.676-0.686 USD range. Despite US GDP growth hitting a four-year high, the USD eased towards the end of the week as markets became skeptical over the US outlook and the extent to which the US Fed will raise rates. **There were mild movements in other NZD crosses, with the NZD TWI trading in a tight 72.8-73.6 range.** Modestly diminishing risk sentiment saw the NZD marginally lose ground against the yen, but gain against the euro and Chinese yuan. The NZD was broadly unchanged against the AUD and GBP. Trade tensions continued to simmer in the background.

Near-term outlook

Our bias is for the NZD to trade in narrow ranges over the course of the week. We assume that risk sentiment will remain broadly supportive of the NZD. However, markets are expected to remain wary of further threats from the US President around additional tariffs or currency manipulation. **Central bank announcements could also contribute to some NZD volatility**. NZD direction likely hinges on whether the Bank of Japan adjusts policy, with risks that emerging market currencies and market sentiment could be hit from and BOJ policy tightening. Further evidence of softer global and/or Chinese economic growth can weigh on the NZD and AUD. **The USD will likely remain firm this week** underpinned by favourable US inflation and employment dynamics despite no change expected from this week's Fed decision**. Risks to the euro are skewed to the upside** resulting from this week's Q2 Eurozone GDP and July CPI reports. Market odds are about 80% in favour of a 25bp hike by the Bank of England, but we believe due to Brexit concerns there is a sizeable risk of an on-hold decision, **which will likely weigh on the pound.**

There is still the possibility of some NZD volatility from the local data. Markets expect a tick-up in NZ wage inflation and a still tight labour market (see our preview here), with risks modestly skewed to the downside. A strong labour market print is likely to be NZD supportive, particularly if this is supported by other local data.

Medium-term outlook

We expect the USD to remain broadly supported over 2018 from the large divergence between the US economy (and resultant pace of Fed rate hikes) and the rest of the global economy. Elsewhere, low inflation should see many central banks retain accommodative monetary policy stances. **From 2019, however, the USD is expected to soften as** the Fed hiking cycle matures and other central banks contemplate/enact rate hikes. **The NZD TWI is expected to remain broadly supported** by NZ's solid economic outlook, 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	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
(end of quarter)			<< actual	forecast >>				
NZD/USD	0.71	0.72	0.67	0.67	0.68	0.69	0.71	0.74
NZD/AUD	0.91	0.94	0.92	0.93	0.91	0.91	0.92	0.90
NZD/JPY	80	77	74	74	73	74	75	75
NZD/EUR	0.59	0.59	0.58	0.59	0.58	0.58	0.57	0.58
NZD/GBP	0.53	0.51	0.52	0.52	0.50	0.50	0.50	0.50
NZD TWI	74.3	74.3	72.5	72.3	72.3	72.4	71.9	73.1

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	1.92	1.94	1.94	FLAT	UP
2-year swap	2.13	2.15	2.15	2.22	FLAT	UP
5-year swap	2.54	2.55	2.53	2.76	FLAT	UP
10-year swap	3.03	3.03	3.02	3.28	FLAT	UP
10-year govt bond yield	2.73	2.81	2.86	2.98	FLAT	UP
Curve Slope (2s10s swaps)	0.90	0.88	0.87	1.07	FLAT	FLAT

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

Market Recap

NZ interest rates continued to edge lower over the past week, following declines in Australian interest rates. In Australia, a weak Q2 CPI inflation outcome and growing concerns around Chinese economic growth were key drivers of a decline in interest rates. In contrast, **US interest rates lifted over the past week**. Initial moves higher were led by a **rise in Japanese Government Bond yields**, which boosted longer-term US Government Bond yields. In Japan, there is growing speculation that the Bank of Japan (BoJ) will alter its policy at this week's policy meeting due to lower bank profitability and other structural challenges. Later in the week, US rates continued to lift across the curve, supported by improved market sentiment following an **announcement that the US and EU have reached a deal to ease US-EU trade tensions.** However, the week ended on a softer note, with **US market participants disappointed by the US Q2 GDP growth outcome.**

Near-term NZD interest rate outlook

The week ahead is action packed with multiple market risk events, and predicting the risk bias in interest rates is much harder than usual. The first major offshore event this week is the **BoJ policy meeting on Tuesday**. Markets are speculating the BoJ will alter policy as a result of structural challenges posing difficulties in implementing current policy objectives. We expect that any changes would be interpreted as step towards less monetary policy accommodation by market participants (yields higher). **In NZ, the key events include July business confidence** (on Tuesday) followed by the **Q2 employment data on Wednesday**. In the UK, **markets are expecting a rate hike from the Bank of England (BoE),** but we see some risk that the BoE defers hiking until November. Finally, **in the US, the Federal Reserve has a policy announcement on Thursday**, and at the end of the week we expect US employment and wage data to print on the strong side of expectations.

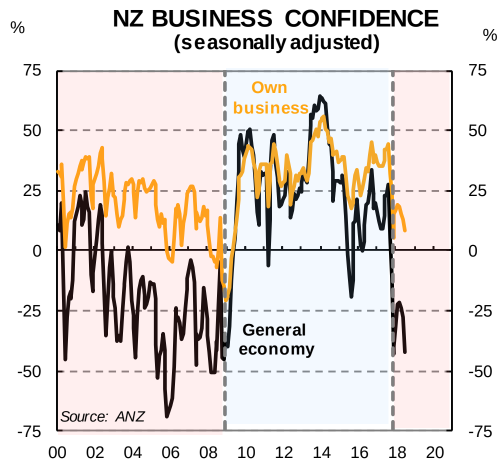
Medium-term outlook

We expect the OCR to remain on hold until November 2019 (previously August), after which we expect a modest pace of tightening, and a low OCR endpoint of around 3.5% this cycle. We have also pushed back the timing of ECB rate hikes, which are now assumed to start in September next year (previously June 2019). While we expect four further Fed hikes through till the end of 2019 (two more hikes in 2018, and two over 2019), by the end of this year we are likely to see Fed Chair, Jerome Powell, acknowledge that the Fed funds rate is close to neutral levels, which should cap US yields. **Our expectation of a flat NZD curve crucially depends on the assumption that local long-term 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	2.00	2.50
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	2.1	2.2	2.3	2.3	2.7	3.2
NZ 10-year Bond	2.75	2.7	2.9	2.9	3.0	3.0	3.2	3.5

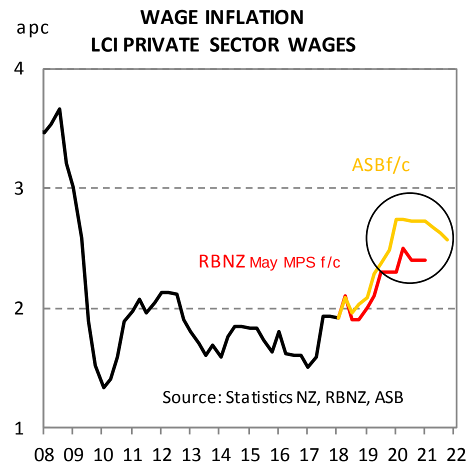
Major Domestic Events for the week ahead

Data	Date	Time (NZT)	Previous	Market	ASB
Dwelling Consents, June, %	31/07	10.45 am	+7.1		-
ANZ Business Outlook Survey, July, headline net %	31/07	1:00 pm	-39	-	-
RBNZ Credit Aggregates, Household, June, %mom	31/07	3:00 pm	+0.5	-	-
Employment, Q2, %qoq	01/08	10:45am	+0.6	+0.4	+0.5
Unemployment rate, Q2, %	01/08	10:45am	4.4	4.4	4.4
LCI, private sector, Q2, % qoq	01/08	10:45am	+0.4	-	+0.6



Consent issuance was been surprisingly strong over recent months, suggesting any election-related uncertainty, which may have been holding back Auckland house-building demand, has now passed. Robust building consent issuance suggests some upside to our residential construction forecasts, but a key concern is that capacity constraints in the construction sector may hold back activity growth, despite strong demand. Due to the usual monthly volatility in building consents data, June consents are likely to be weak following a number of strong months.

Meanwhile, non-residential construction consent issuance has also remained strong over recent months, despite the recent falls in commercial construction confidence. We expect to see some moderation in commercial consent demand over the second half of 2018.



Headline business confidence deteriorated further in June and may remain weak in July. There are several potential catalysts, including ongoing uncertainty of the policy details of the new Government, global trade frictions, and the hit from the Mycoplasma Bovis outbreak. Investment and employment intentions remain well below historical averages. Nonetheless, we expect to see some gradual improvement in business confidence later this year, reflecting the widespread supports to the NZ economy.

Housing credit growth has stabilised in recent months, with the annual rate remaining within a tight range (5.8% - 5.9%) over the last 6 months. However, we expect housing credit growth to continue to slow, reflecting ongoing sluggish activity in the housing market as well as price falls in some regions. We expect business credit growth to remain subdued relative to recent averages, reflecting still-soft business confidence. Agricultural credit growth is also likely to remain subdued as ongoing uncertainty around the impact of Micoplasma Bovis offsets, to a degree, Fonterra's strong 2018/19 milk price forecast.

We expect to see a moderate 0.5% increase for HLFS employment (3.7% yoy), with unemployment remaining at a 9-year low of 4.4%. Measures of labour utilisation should remain elevated. The increase in the minimum wage should trigger a 0.6% qoq climb in labour costs (Labour Cost Index measure), with annual private sector LCI inflation rising to 2.1%, the highest in six years. The labour market is tight and in little need of policy stimulus to meet the employment objectives in the new Policy Targets Agreement. A firming trajectory for wage increases and the still-tight labour market should keep the bias tilted towards a higher OCR. But we do not expect the RBNZ to raise the OCR until the end of next year, given the considerable flexibility at its disposal and a low inflation starting point.

Major International Events for the week ahead*

Data	Date	Time (NZT)	Market	ASB
Australia Private Sector Credit Growth, June, %mom	31/07	1:30 pm	0.3	0.4
Eurozone CPI, July, %	31/07	9:00 pm	1.0	2.0
Eurozone GDP, Q2, %qoq	31/07	9:00 pm	0.4	0.5
Bank of Japan Interest Rate Announcement, %	31/07	-	-0.1	-0.1
US FOMC Interest Rate Announcement, %	02/08	6:00 am	1.75-2.00	1.75-2.00
Australia Trade Balance, June, $mn	02/08	1:30 pm	900	900
Bank of England Interest Rate Announcement, %	02/08	11:00pm	0.75	0.50
Australia Retail Trade, June, Q2	03/08	1:30 pm	0.3	0.3
US Non-farm Payrolls, July, 000s	04/08	12:30 am	193	195

Originally published by CBA Global Markets Research on Friday 27th July 2018 at 1.13pm.

Australian credit growth has slowed a little this year, largely driven by a slowdown in investor credit growth. A tightening in lending standards is impacting on housing lending. But there has also been a drop in the demand for new loans as sentiment towards the housing market has cooled. We are expecting to see a 0.4% rise in credit in June.

Australia's trade balance has largely been in surplus since late 2016, with rising commodity export volumes and resilient commodity prices contributing. We are expecting another solid $900m surplus this month.

The pace of **Australian retail spending** has lifted in recent months. Solid growth in employment and a lift in participation are helping offset the combination of low wages growth and high household debt levels. We are expecting a 0.3% lift in retail trade in June. This release will also include the volume of retail trade in the quarter. We are forecasting a decent 0.8% lift in Q2 after a soft 0.2% rise in the previous quarter.

We anticipate the **July Eurozone CPI** reading will print at 2% (headline) and 1% (core), reflecting higher energy prices and base effects.

We anticipate **Q2 Eurozone GDP** will print at 0.4% qoq, illustrating continuing growth in the Eurozone. A print of around 0.4% qoq (2.2% yoy) is consistent with the outturn of composite Eurozone PMI data during the 2nd quarter.

There is much speculation about potential changes to the **Bank of Japan's monetary policy**. On balance, we think the central bank will not make any policy change. Japanese inflation is too low to tighten monetary policy. However, if the BoJ were to change monetary policy, it would probably be to drop the reference to buying ¥80 billion of JGBs per year since BoJ is not meeting its target anyway. Alternatively, the BoJ may abandon -0.1% interest rate that applies to a growing portion of current account balances held by financial institutions at the BoJ that hurts bank profitability.

We and the consensus of US economists expect **no change in US monetary policy** at the August meeting. In terms of the post-meeting statement, the Fed may upgrade the description of economic activity from 'solid' to 'strong'.

The **US** regional manufacturing surveys released so far indicate the national **manufacturing ISM** was largely unchanged from a very high level in June.

We anticipate **the Bank of England will keep rates on hold at 0.5%** at its meeting this week. However, we note there is a risk for a 25bp rate hike. The UK's tight labour market and increasing wage growth pose medium-term upside risks to UK inflation. We believe continuing Brexit-related uncertainty will lead the BoE to wait until the November meeting before it raises rates.

The very low level of **US** jobless claims – they hit an almost-five-decade low recently – suggests **payrolls growth** remained very strong in July, though perhaps not as strong as the 213,000 increase in June. Nevertheless, the unemployment rate probably decreased again to 3.9% while growth in average earnings accelerated to 2.8% yoy.

Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Previous	Forecast Mkt	Forecast ASB
Mon 30 Jul	11:50	JN	Retail sales	Jun	m%ch	-1.7	~	~
Tue 31 Jul	~	JN	BOJ policy balance rate	Jul	%	-0.1	-0.1	~
	10:45	NZ	Building permits	Jun	m%ch	7.1	~	~
	11:50	JN	Industrial production	Jun P	m%ch	-0.2	~	~
	13:00	NZ	ANZ business confidence	Jul	~	-39.0	~	~
	13:00	CH	Manufacturing PMI	Jul	Index	51.5	51.5	~
	13:30	AU	Building approvals	Jun	m%ch	-3.2	~	~
	15:00	NZ	RBNZ Credit Aggregates	Jun	m%ch	0.5	~	~
Wed 1 Aug	05:00	NZ	QV house prices	Jul	y%ch	5.7	~	~
	10:45	NZ	Unemployment rate	Q2	%	4.4	4.4	4.4
	11:00	AU	CBA Australia PMI manuf	Jul	Index	55.0	~	~
	12:00	AU	CoreLogic house px	Jul	m%ch	-0.3	~	-0.4
	13:45	CH	Caixin China PMI manuf	Jul	Index	51.0	51.0	~
Thu 2 Aug	13:30	AU	Trade balance	Jun	$mn	827.0	900	900
Fri 3 Aug	11:50	JN	BOJ Minutes of Policy Meeting					
	13:30	AU	Retail sales	Jun	m%ch	0.4	0.3	0.3
	13:45	CH	Caixin China PMI composite	Jul	Index	53.0	~	~

*P = Preliminary

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Previous	Forecast Mkt	Forecast ASB
Mon 30 Jul	10:00	EC	Consumer confidence	Jul F	~	-0.6	~	~
	15:30	US	Dallas Fed manufacturing	Jul	~	36.5	31	~
Tue 31 Jul	10:00	EC	Unemployment rate	Jun	%	8.4	~	~
	10:00	EC	GDP	Q2 A	q%ch	0.4	0.4	0.5
	13:30	US	PCE deflator	Jun	m%ch	0.2	0.1	~
	15:00	US	Conf. board consumer conf.	Jul	Index	126.4	126	~
Wed 1 Aug	09:00	EC	Markit Eurozone manuf PMI	Jul F	Index	55.1	~	~
	09:30	UK	Markit UK PMI manufacturing	Jul	Index	54.4	~	~
	14:45	US	Markit US manufacturing PMI	Jul F	Index	55.5	~	~
	15:00	US	ISM manufacturing	Jul	Index	60.2	59.2	~
	19:00	US	FOMC rate (upper bound)	Aug	%	2.0	2.0	2.0
	19:00	US	FOMC rate (lower bound)	Aug	%	1.75	1.75	1.75
Thu 2 Aug	10:00	EC	PPI	Jun	m%ch	0.8	~	~
	12:00	UK	Bank of England Bank rate	Aug	%	0.5	0.75	0.5
	15:00	US	Factory orders	Jun	%	0.4	2.0	~
Fri 3 Aug	09:00	EC	Markit Eurozone services PMI	Jul F	Index	54.4	~	~
	10:00	EC	Retail sales	Jun	m%ch	0.0	~	~
	13:30	US	Trade balance	Jun	$bn	-43.1	-43.3	~
	13:30	US	Change in nonfarm payrolls	Jul	000	213	193	195
	15:00	US	ISM Non-Manf. Composite	Jul	Index	59.1	58.8	~

Key Forecasts

ASB NZ economic forecasts	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
		<< actual	forecast >>					
GDP real - Q%	0.6	0.5	0.9	1.0	0.8			
GDP real - A%	2.9	2.7	2.7	3.2	3.4	3.6	3.0	2.8
GDP real - AA%	2.8	2.7	2.7	2.9	3.0	3.2	3.2	2.9
CPI - Q%	0.1	0.5	0.4	0.7	0.4			
CPI - A%	1.6	1.1	1.5	1.7	2.0	1.8	1.6	1.7
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	2.1	1.9	1.7	1.6
Unemployment rate - %sa	4.5	4.4	4.4	4.3	4.2	4.2	4.2	4.1
Annual current account balance as % of	-2.7	-2.8	-3.0	-3.2	-3.2	-2.7	-2.6	-2.9

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	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	2.00	2.50
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	2.1	2.2	2.3	2.3	2.7	3.2
NZ 10-year Bond	2.75	2.7	2.9	2.9	3.0	3.0	3.2	3.5

ASB foreign exchange forecasts	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
(end of quarter)			<< actual	forecast >>				
NZD/USD	0.71	0.72	0.67	0.67	0.68	0.69	0.71	0.74
NZD/AUD	0.91	0.94	0.92	0.93	0.91	0.91	0.92	0.90
NZD/JPY	80	77	74	74	73	74	75	75
NZD/EUR	0.59	0.59	0.58	0.59	0.58	0.58	0.57	0.58
NZD/GBP	0.53	0.51	0.52	0.52	0.50	0.50	0.50	0.50
NZD TWI	74.3	74.3	72.5	72.3	72.3	72.4	71.9	73.1

ASB Economics & Research			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Publication & Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

www.asb.co.nz/economics

@ASBMarkets