19 February 2018

The Exuberance in Improved Productivity

- **Q4 retail to affirm household exuberance**
- **Concrete output encouraging re construction**
- **PSI (55.8) solid in Jan. as PMI (55.6) rebounds**
- **But not inconsistent with slower near-term GDP**
- **Dairy prices to steady after recent strong gains?**
- **Productivity estimates officially boosted Thursday**

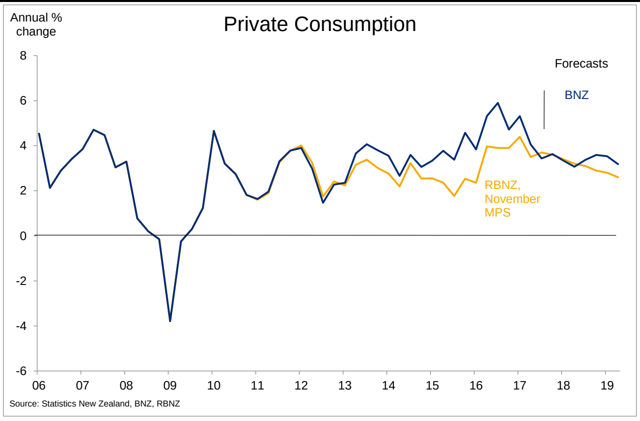
Friday's Q4 Retail Trade report is inclined to be the market focus this week. However, analysts might well be partial to the surely-boosted productivity statistics, due for release Thursday.

With respect to December quarter retail trade, we anticipate a jump of 1.7% in real terms, while the market's median expectation is for a gain of 1.3%. Either way, it would confirm that the retail boom remains fully intact. This is after it largely marked time in Q3, with a 0.2% increase, but following the big jump in Q2 that was flattered by New Zealand's hosting of some mega sporting events.

If Q4 retail trade increase as much as we reckon, it will mean for annual volume growth of 5.3%. That's huge, even adjusted for strong population growth. Of course, some of this retail expansion is being driven by ever-booming arrivals of international tourists. Resident consumption expenditure growth has not been running quite as strongly (indeed had slowed to 3.4% y/y in Q3, versus 4.5% for retail trade in the same quarter).

However, it's also true that consumption growth estimates, relating to the last few years, have received a substantial boost of late. This was part of the recent upward revisions to historical GDP. This now paints a

That's More Like It

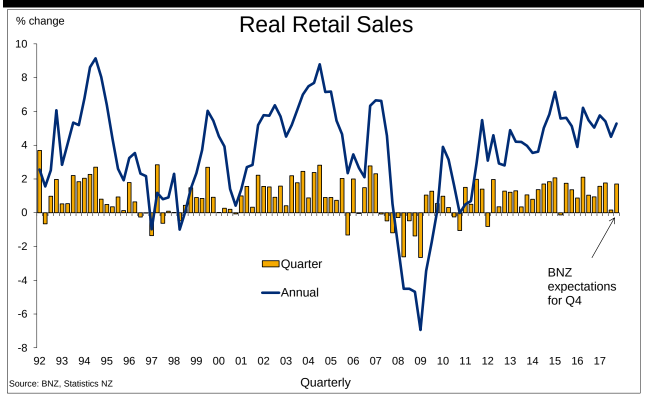


picture of household spending leveraged to asset price inflation in a familiar fashion, as well as a savings rate dipping more into the red than previously judged.

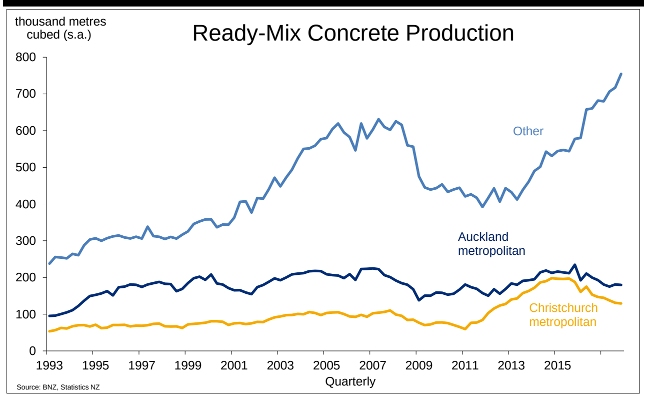
In contrast, the pre-revision estimates suggested consumers were not spending that much on the back of the recent strong house price inflation (something the RBNZ made a point of pointing out). With the new estimates, there thus seems more potential for consumption expenditure to correct, on any house price correction, as per traditional relationships. It's a latent vulnerability to keep in mind.

As an immediate consideration, however, if we're right on Q4 retail trade then it will be a backbone to Q4 GDP growth. We could say the same for construction. We expect this to expand a further 1.0%, as per the GDP accounts, after the 3.6% resurgence it posted in Q3.

The Boom Continues?



Concrete Mixed But Totally Firming



This has been supported by the December quarter ready-mixed concrete production figures we saw last Friday, which proved about as positive as we had hoped. Our seasonally adjusted estimate of the Statistics NZ series expanded 3.3% compared to the September quarter. This had it up 4.2% on year-ago levels. Growth resumes, although we still wonder how the industry is coping, capacity wise.

The regional variation in concrete output is also worth noting. In short, all the action continues to come from outside of Auckland and Canterbury, which are broadly flat-lining (in line with the regional variation we've been seeing in the housing market, as it happens).

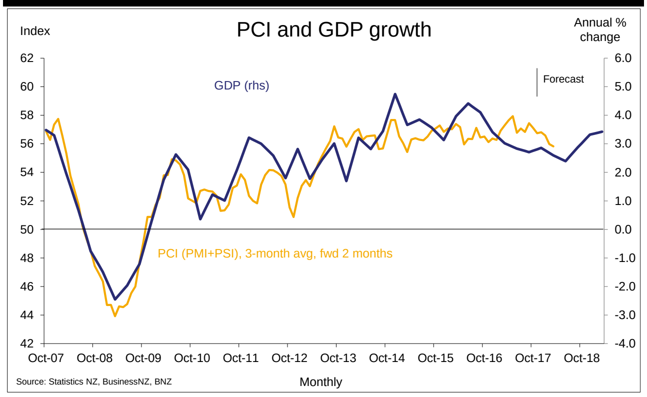
As for how Q1 has started off, this morning's Performance of Services Index (PSI) sustained a solid tone. It came in at a seasonally adjusted 55.8, from 56.0 in December. In fact, it's been running around this slightly above-trend pace for at least the last six month. The only caveat is that its employment index has been very volatile over the last few months, and was relatively slow in January, at 50.6.

While the PSI is relatively robust, and the Performance of Manufacturing Index recovered to 55.6 in January (from the 51.1 it sagged to in December), their recent trends are consistent with the slowing in near-term GDP growth that we anticipate. Specifically, we expect real GDP to expand 0.5% in each of Q4 2017 and Q1 2018. This would limit annual growth to 2.6% by early 2018. However, we forecast GDP growth to pick-up over the subsequent year or so, reaching an annual pace of around 3.4% by early 2019.

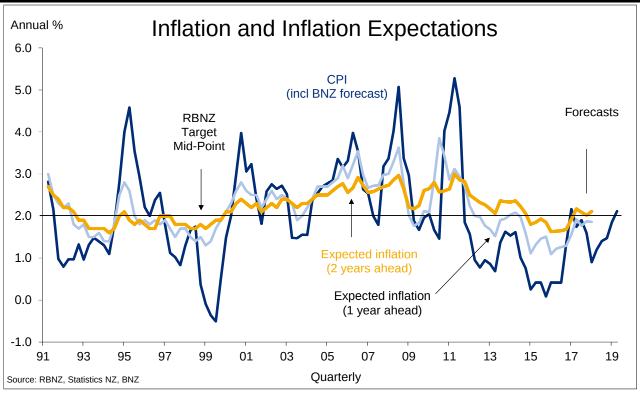
Turning to Tuesday's December quarter producer prices, there is a good chance that they retain a fairly strong rate of annual inflation, in the region of 4 to 5%. This is supported by the general robustness in commodity prices.

Tuesday also serves up the RBNZ survey of household inflation expectations. While this includes views on CPI and house price inflation, it doesn't carry the weight of the RBNZ Quarterly Survey of Expectations, which is filled out by businesses and professional forecasters. The latter, of

Solid But Slower



Not So Fast



course, proved robust to the recent dip in annual CPI inflation, with the 2-year view on annual CPI inflation actually edging up to 2.11%, from 2.02% last quarter.

The RBNZ would have been encouraged by that outcome. However, we still have a bigger dip in annual CPI inflation – down to the vicinity of 1.0% over the first half of 2018, in our view – to navigate our way through. This, in the first instance, will make it tough to hard-sell the idea of Official Cash Rate increases. But it might go so far as to cause some to flirt with the idea of rate cuts.

There is a Global Dairy Trade auction scheduled for early Wednesday morning (NZ time). We don't see a clear price direction on this one, after the obvious increases at the previous three auctions (cumulatively +13.7%). This generally validates Fonterra's current forecast for 2017/18 milk price, namely $6.40. With the recent dry weather already factored in, dairy prices might struggle to find reason to press higher for the foreseeable future. And looking further down the track, downside risk looks to have the edge over upside potential.

Then there are the updated productivity figures that Statistics NZ is scheduled to publish, Thursday.
Sure, in covering the period 1978-2017, they are lagged. Nonetheless, with so much debate about how weak productivity has supposedly been (the world over), who can then ignore the fact that New Zealand's estimates are going to look not nearly as poorly as they did. This is essentially on the back of the recently significant upgrades to historical NZ GDP.

It might all be a bit of a wash in terms of inflation pressure. But it is relevant to understanding economic trends and performance – including the degree of exuberance integral to the household sector, which Friday's retail trade figures will likely allude to.

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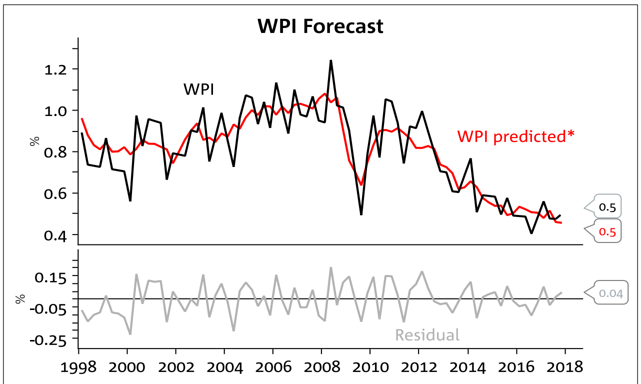
Global Watch

- **Looking to FOMC minutes and Fed speakers for any guidance**
- **EU CPI and PMIs likely more important than ECB minutes**
- **UK labour market and BoE testimony in focus**
- **AU wages and construction work done due**

Australia

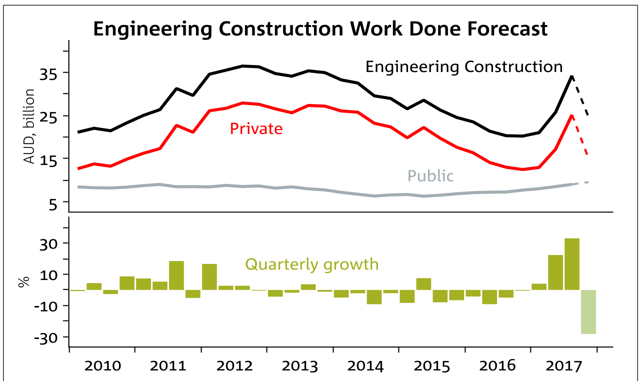
Wages data on Wednesday will be the key focus for markets, following consistent communication from the RBA that wages will likely need to pick-up before any move higher in the cash rate. NAB is expecting a 0.5% q/q increase in the December quarter, bringing annual growth to 2.0%, well below its long-run average of 3.3%.

NAB Forecasts WPI To Grow At 0.5% q/q



Source: National Australia Bank, ABS

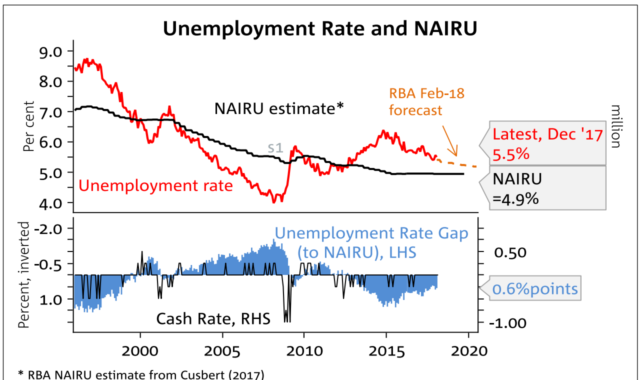
Reversal Expected In Engineering Work Done



Source: National Australia Bank, ABS

While NAB's central forecast is for 0.5% q/q growth in the quarter, we see some slight upside risk to the forecast. In the September quarter, a minimum wage increase of 3.3% came into effect, the biggest increase since September 2011. Despite the large increase, overall

Unemployment Forecast To Stay Above NAIRU

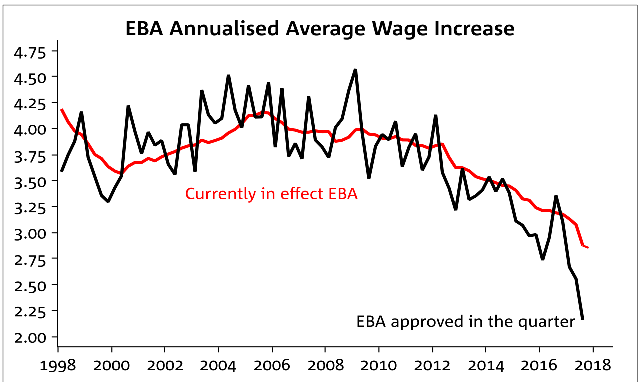


* RBA NAIRU estimate from Cusbert (2017)
Source: National Australia Bank, ABS, RBA

September quarter wage growth was only 0.5% seasonally adjusted, a little less than could be expected. As such there may be some additional minimum wage impacts flowing through in this quarter.

Another upside risk comes from mining industry wage growth, which dipped last quarter and has been very volatile quarter by quarter. Offsetting these risks, on the downside is the markedly lower average annual wage increase in the latest batch of enterprise bargaining agreements. However, this is a small proportion of existing agreements, which in turn are only around 15% of wages. The bottom line is that it's a bit early to expect much improvement in wages – unemployment will need to fall further to achieve this.

Much Lower EBAs Approved in 3Q 2017



Source: National Australia Bank, Department of Employment

Construction work done is expected to decline very sharply (NAB: -15.5%, mkt: -10%), pulling back from the huge increase in the September quarter, when a couple of one-off LNG platforms were delivered. This sharp reversal will be partly offset by the large pipeline of infrastructure work, which is expected to support construction for a number of years.

US

FOMC minutes are out this Wednesday, with a number of Fed speeches scheduled for Wednesday and Thursday. Following the further increase in US fiscal stimulus and higher inflation readings, markets will be watching Fed communication carefully for signs that this is a concern, and potentially an imperative to quicken the pace of monetary tightening.

UK

The big news to watch this week is the December jobs print on Wednesday, with markets expecting the unemployment rate steady at 4.3%. Shortly after the print, BoE Governor Carney, Ben Broadbent, Andy Haldane and Silvana Tenreyro are testifying before Parliament on the Inflation Report. Markets will be keenly listening for clues on the pace of BoE policy tightening, particularly following the recent above-market inflation print.

Eurozone

This week sees German and EC PMIs released on Wednesday, ECB meeting minutes on Thursday, and the all-important EC CPI on Friday. Given the current upswing in global growth and inflationary pressure, CPI prints are being closely watched by markets globally. Headline inflation is expected to decline to 1.3% y/y, remaining below the ECBs target, a fact that won't be missed by those predicting the ECB will keep on bond buying past September 2018. With the ongoing uncertainty around the path for ECB policy tightening, the ECB meeting minutes will be carefully read.

Canada

A quiet week for Canada, with only retail sales data on Thursday of note.

Asia

Japan's trade balance is published on Monday. Higher oil prices may pressure the balance lower – markets will be watching for any signs the stronger yen is affecting export trends. Elsewhere in Asia it is fairly quiet this week, as Lunar New Year celebrations are underway. Gong xi fa cai!

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ swap rates were largely unchanged last week despite US 10 year Treasury yields making new highs. There was no top-tier domestic data to influence the local rates market.

The front-end of the curve continues to trade a very narrow range; the 2 year swap has been between 2.15% and 2.18% for the best part of three weeks. The market fully prices the first RBNZ hike in May 2019, the same as last week. We expect headline inflation will remain low for the coming few quarters (we now think Q1 YoY CPI will be 0.9%) and if the NZD remains strong (the TWI is back to the highs of the year) we wouldn't be surprised if the market priced a small chance of rate cuts at the very front-end of the curve. While we continue to think the hurdle for rate cuts is very high (not least because the trend globally is towards tighter monetary policy) it reinforces our bias to receive fixed on moves higher at the front-end.

US yields rose again last week after a higher than expected US core CPI release (0.349% MoM v 0.2% expected). The 10 year US Treasury rose above 2.94% after CPI although it retraced a little to close the week at 2.87%. The high in US 10 year yields during the 'taper tantrum' episode in 2013 was 3.05% and we might see some profit-taking from investors on short bond positions ahead of this. But the bigger picture forces of stronger growth, (somewhat) higher US inflation, Fed tightening and more Treasury supply all point to the risk that US yields eventually make new highs.

NZ rates again outperformed the US, with NZ-US spreads making new tights. The 10 year bond spread is now just 8bps. We think the risks are that NZ-US spreads tighten further given the divergent monetary policy cycles (the Fed is hiking whilst the RBNZ is firmly on hold). The relative supply dynamics in the two bond markets also point in the direction of tighter NZ-US spreads (US Treasury net supply is forecast to be close to 5% of GDP this year vs. negative net issuance of NZGBs over the coming few years).

We note that the share of the NZGB market held by offshore investors has been declining for the last two years and is near its lowest levels since 2004 (see chart). As yet, this hasn't prevented NZ-US bond spreads tightening to near zero (or indeed negative at short to intermediate maturities). A change in sentiment towards the NZD may be required to see a more accelerated pace of foreign selling of NZGBs.

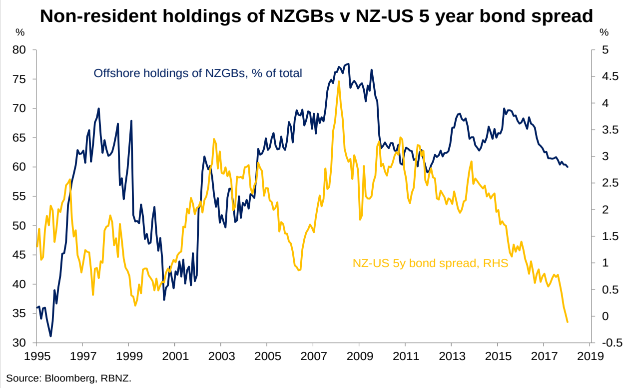
Looking to the week ahead, the highlight will be the release of the minutes of the January FOMC meeting on Thursday morning. The January statement was changed slightly from earlier versions by referring to further gradual increases in the Fed funds rate ahead. One interpretation of the change in wording is that the Fed is contemplating a fourth hike for 2018 (their median projection is for three hikes this year). The minutes should help shed some light on this.

In Australia, the Wage Price Index on Wednesday is a key release for the market given the RBA's focus on wages as a key driver of domestic inflation pressure. Australian wage growth has been muted the past few years despite a declining unemployment rate. The median economist estimate is for the YoY rate to be unchanged at 2%.

Locally, the highlight will be retail sales on Friday. We expect a 1.7% rise in the 4th quarter, higher than the 1.3% median estimate. We don't expect much reaction unless there is a significant surprise. Our sense is that the market would react more strongly to a negative surprise than a positive surprise in the data.

Otherwise, there is mostly second-tier domestic data until the ANZ Business Survey at the end of the month and, more importantly, GDP in mid-March. The NZDMO will issue another $150m of the 2033 NZGBs on Thursday. The 2033s have cheapened on asset swap and on the curve this year and we think the tender should go reasonably well.

Non-residents' share of NZGB market has been declining



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.91	1.88 - 1.91
NZ 2yr swap (%)	2.17	2.15 - 2.19
NZ 5yr swap (%)	2.73	2.70 - 2.77
NZ 10yr swap (%)	3.29	3.22 - 3.32
2s10s swap curve (bps)	112	107 - 115
NZ 10yr swap-govt (bps)	30	30 - 35
NZ 10yr govt (%)	2.98	2.90 - 3.02
US 10yr govt (%)	2.87	2.65 - 2.94
NZ-US 10yr (bps)	8	7 - 27
NZ-AU 2yr swap (bps)	13	8 - 17
NZ-AU 10yr govt (bps)	6	4 - 15

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week's prevailing theme was further broadly-based weakness in the USD. This came about despite stronger than expected US CPI data, adding to the case for four, rather than three, rate hikes by the Fed this year. The US 2-year rate rose by 11bps for the week, rising by more than other countries, but this proved to be of no support to the USD.

It's clear that there has been a "regime shift" in currency markets. We're previously pointed out the significant breakdown in our USD TWI model. Interest rate spreads are no longer a key consideration in driving currencies and that was patently obvious in last week's price action.

We've also previously pointed out that there has been increased focused on the US "twin deficit" problem. The US fiscal deficit is about to blow out from 3½% of GDP to 5½% and this will likely encourage a current account deficit blow out from 2% to over 3%. Tax cuts and increased spending are the last things the US economy need right now but they are what will be delivered. Concerns about rising deficits and mounting debt are generating a higher rates/lower dollar dynamic for the US. This is a trend that, once started, is difficult to stop.

This dynamic is a key threat to our view that the NZD will end the year lower around USD0.70. That view was predicated on softer risk appetite and a sense that the global economic outlook would deteriorate as tighter global policy gained traction. Those driving factors might well still be valid, but the "bear market" for the USD is currently the dominant force in play. The key risk to our view is that we are far too early in calling a turnaround in the global growth dynamic and the weak USD story continues to prevail.

The technical charts show near-term resistance at USD 0.7440 but a break of that opens up last year's high of USD 0.7558.

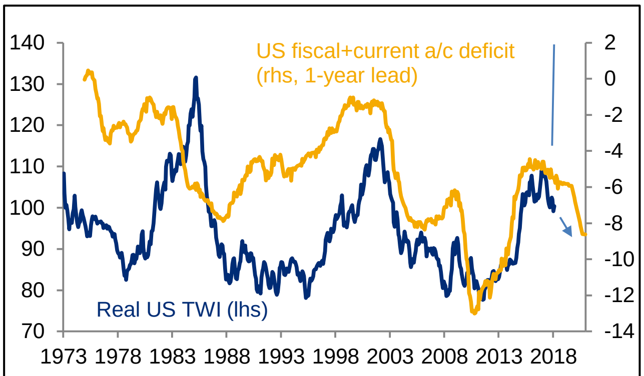
Another theme last week was the strong recovery in risk appetite. The VIX index fell all the way back to below 20 and credit spreads narrowed. These moves saw our risk appetite index rise to 63%, adding more than 1½ cents to our short-term model estimate, taking it to 0.71.

NZD/AUD nudged up towards AUD 0.9350, reaching its highest level since August. There have been no obvious drivers for the move over recent months. Our range of NZD/AUD short, medium and long term models put fair value squarely within a 0.90-0.94 range and we have been neutral on the cross for some time and remain so, given similar economic and monetary policy outlooks. The drift up through 0.93 over recent months might just reflect a gradual unwind of long AUD/NZD trades that had little merit in our view.

In the week ahead there isn't much on the NZ calendar to get excited about. Some dated retail sales data should show strong growth in spending in the final quarter of last year. The GDT dairy auction is expected to show broadly flat pricing after the strong run so far this year.

The global calendar is light but we'll be most interested in the Fed's minutes from its last FOMC meeting. These will be scrutinised to judge whether the next meeting might tip the projections towards four, rather than three, rate hikes. And we'll be interested in any discussion around the US dollar and how that affects the outlook. A number of FOMC members are also on the speaking circuit.

US Twin Deficits A Key Risk to Further USD Weakness



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.7386	0.7180 - 0.7440
NZD/AUD	0.9343	0.9030 - 0.9350
NZD/GBP	0.5266	0.5140 - 0.5280
NZD/EUR	0.5954	0.5850 - 0.5960
NZD/JPY	78.45	77.70 - 81.10

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7100	4%
NZD/AUD	0.9020	4%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.7440 (ahead of 0.7550)
ST Support: 0.7200 (ahead of 0.7160)

The 0.7440 mark is a key level of resistance, a level it has come close to breaching over the past five months. A break up through that opens up the 2017 high of 0.7558. Support doesn't kick in until 0.72 or just below.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9420 (ahead of 0.9640)
ST Support: 0.9040 (ahead of 0.8975)

The upward drift continues. The break of 0.9240 has opened up further upside to just above the 0.94 mark. Support starts to kick in from 0.9040.

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NZ 5-year Swap Rate

Outlook: Higher
ST Resistance: 2.93
ST Support: 2.70

Support held last week at 2.70. Expect a move to 2.93 area.

NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: Steeper
ST Resistance: +72
ST Support: +50

Breaking higher expect a move towards +72. Trendline support now comes in at +50.

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Quarterly Forecasts

Forecasts as at 19 February 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (production s.a.)	0.7	0.4	0.8	1.0	0.6	0.5	0.5	0.8	1.1	0.9
Retail trade (real s.a.)	1.0	0.9	1.6	1.8	0.2	1.7	1.0	0.7	1.3	1.3
Current account (ytd, % GDP)	-2.7	-2.5	-2.9	-2.7	-2.6	-2.5	-2.4	-2.6	-2.9	-3.1
CPI (q/q)	0.3	0.4	1.0	0.0	0.5	0.1	0.3	0.3	0.7	0.2
Employment	1.1	0.9	1.0	0.0	2.2	0.5	0.6	0.5	0.5	0.5
Unemployment rate %	4.9	5.3	4.9	4.8	4.6	4.5	4.4	4.4	4.3	4.2
Avg hourly earnings (ann %)	1.6	1.1	1.1	1.2	2.0	3.1	3.2	3.0	2.8	2.6
Trading partner GDP (ann %)	3.2	3.5	3.5	3.7	4.1	3.9	4.0	3.8	3.6	3.7
CPI (y/y)	0.4	1.3	2.2	1.7	1.9	1.6	0.9	1.2	1.4	1.5
GDP (production s.a., y/y))	4.1	3.4	3.0	2.8	2.7	2.9	2.6	2.4	2.9	3.3

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
2016 Dec	1.85	2.10	2.45	2.95	2.25	2.65	3.10	0.90	2.10	0.80
2017 Mar	1.75	2.00	2.70	3.25	2.35	3.00	3.50	1.15	2.50	0.80
Jun	1.75	1.95	2.45	2.95	2.25	2.80	3.25	1.25	2.20	0.75
Sep	1.75	1.95	2.45	2.95	2.20	2.70	3.20	1.30	2.20	0.75
Dec	1.75	1.90	2.30	2.80	2.20	2.65	3.10	1.60	2.40	0.40
Forecasts										
2018 Mar	1.75	1.95	2.50	3.00	2.15	2.75	3.30	1.80	2.75	0.25
Jun	1.75	1.95	2.50	3.00	2.15	2.75	3.30	1.95	2.75	0.25
Sep	1.75	1.95	2.60	3.05	2.30	2.85	3.35	2.20	2.75	0.30
Dec	1.75	2.05	2.65	3.10	2.40	2.90	3.40	2.30	2.75	0.35
2019 Mar	2.00	2.30	2.75	3.10	2.60	3.00	3.40	2.45	2.75	0.35
Jun	2.25	2.55	2.80	3.10	2.85	3.00	3.40	2.55	2.75	0.35
Sep	2.50	2.80	3.00	3.20	3.10	3.00	3.40	2.55	2.75	0.45
Dec	2.75	3.05	3.05	3.25	3.20	3.05	3.40	2.55	2.75	0.50
2020 Mar	3.00	3.20	3.15	3.30	3.30	3.05	3.40	2.55	2.75	0.55

Exchange Rates (End Period)

USD Forecasts / **NZD Forecasts**

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.74	0.79	1.24	1.40	106	0.74	0.93	0.59	0.53	78.5	75.7
Mar-18	0.72	0.79	1.25	1.44	110	0.72	0.92	0.58	0.50	79.6	73.9
Jun-18	0.72	0.78	1.28	1.45	110	0.72	0.92	0.56	0.50	79.2	73.3
Sep-18	0.71	0.77	1.30	1.47	109	0.71	0.92	0.55	0.48	77.4	72.1
Dec-18	0.70	0.75	1.30	1.48	109	0.70	0.93	0.54	0.47	76.3	71.4
Mar-19	0.70	0.75	1.28	1.46	108	0.70	0.93	0.55	0.48	75.6	71.6
Jun-19	0.71	0.76	1.27	1.45	107	0.71	0.93	0.56	0.49	76.0	72.6
Sep-19	0.71	0.76	1.28	1.45	106	0.71	0.94	0.56	0.49	75.3	72.6
Dec-19	0.70	0.75	1.30	1.46	105	0.70	0.93	0.54	0.48	73.5	71.6
Mar-20	0.70	0.75	1.32	1.47	105	0.70	0.93	0.53	0.48	73.5	71.6
Jun-20	0.69	0.74	1.34	1.48	103	0.69	0.93	0.52	0.47	71.1	70.6
TWI Weights						14.0%	20.7%	10.3%	4.8%	6.8%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 19 Febraury 2018	March Years Actuals 2016	2017	Forecasts 2018	2019	2020	December Years Actuals 2015	2016	Forecasts 2017	2018	2019
GDP - annual average % change										
Private Consumption	3.9	5.3	3.6	3.4	2.3	3.8	5.0	4.0	3.3	2.7
Government Consumption	2.5	2.0	4.3	2.4	2.2	2.7	1.8	4.2	2.5	2.5
Total Investment	4.7	5.6	2.9	3.7	3.9	4.3	6.4	2.6	3.8	4.0
Stocks - ppts cont'n to growth	-0.3	-0.1	-0.3	0.4	0.0	-0.3	0.0	-0.2	0.2	0.0
GNE	3.5	4.7	3.2	3.8	2.7	3.2	4.7	3.6	3.6	3.0
Exports	5.6	0.7	4.4	2.4	4.1	6.9	1.6	2.5	2.9	4.0
Imports	2.0	5.1	5.4	4.4	3.6	3.7	3.4	5.8	4.6	3.9
Real Expenditure GDP	4.4	3.5	3.2	3.2	2.8	4.2	4.1	2.8	3.2	3.0
GDP (production)	**3.6**	**3.7**	**2.7**	**3.0**	**2.8**	**3.5**	**4.0**	**2.9**	**2.8**	**3.0**
GDP - annual % change (q/q)	*4.0*	*3.0*	*2.6*	*3.4*	*2.5*	*3.1*	*3.4*	*2.9*	*3.3*	*2.6*
Output Gap (ann avg, % dev)	1.0	1.3	0.8	1.1	1.1	0.8	1.3	1.0	1.0	1.1
Household Savings (% disp. income)	-1.3	-2.8	-1.8	-2.4	-2.1					
Nominal Expenditure GDP - $bn	254.7	270.0	286.0	298.2	311.7	251.0	266.0	282.3	295.0	308.3
Prices and Employment - annual % change										
CPI	0.4	2.2	0.9	1.9	2.0	0.1	1.3	1.6	1.5	2.1
Employment	2.0	5.7	3.3	2.0	1.6	1.4	5.8	3.7	2.1	1.8
Unemployment Rate %	5.2	4.9	4.4	4.4	4.4	5.0	5.3	4.5	4.2	4.4
Wages - ahote	2.5	1.1	3.2	2.8	2.7	2.5	1.1	3.1	2.6	2.8
Productivity (ann av %)	1.5	-1.9	-1.2	0.5	1.0	1.2	-0.8	-1.6	-0.2	1.1
Unit Labour Costs (ann av %)	1.3	3.9	4.3	3.2	2.1	1.5	2.7	4.2	4.0	2.0
External Balance										
Current Account - $bn	-7.3	-7.7	-6.8	-9.2	-8.6	-8.0	-6.6	-7.2	-9.2	-9.1
Current Account - % of GDP	-2.8	-2.9	-2.4	-3.1	-2.8	-3.2	-2.5	-2.5	-3.1	-2.9
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	0.7	1.5	1.0	0.9	1.6					
Net Core Crown Debt (excl NZS Fund Assets)	24.5	22.2	23.3	23.2	22.2					
Bond Programme - $bn	7.0	8.0	8.0	9.0	10.0					
Bond Programme - % of GDP	2.7	3.0	2.8	3.0	3.2					
Financial Variables (1)										
NZD/USD	0.67	0.70	0.72	0.70	0.70	0.68	0.70	0.70	0.70	0.70
USD/JPY	113	113	110	108	105	122	116	113	109	105
EUR/USD	1.11	1.07	1.25	1.28	1.32	1.09	1.05	1.18	1.30	1.30
NZD/AUD	0.90	0.92	0.92	0.93	0.93	0.93	0.96	0.91	0.93	0.93
NZD/GBP	0.47	0.57	0.50	0.48	0.48	0.45	0.56	0.52	0.47	0.48
NZD/EUR	0.61	0.66	0.58	0.55	0.53	0.62	0.67	0.59	0.54	0.54
NZD/YEN	76.2	79.1	79.6	75.6	73.5	82.1	81.6	78.7	76.3	73.5
TWI	72.2	76.5	73.9	71.6	71.6	73.4	78.1	73.6	71.4	71.6
Overnight Cash Rate (end qtr)	2.25	1.75	1.75	2.00	3.00	2.50	1.75	1.75	1.75	2.75
90-day Bank Bill Rate	2.41	1.98	1.95	2.28	3.20	2.78	2.02	1.88	2.03	3.03
5-year Govt Bond	2.40	2.70	2.50	2.75	3.15	2.95	2.75	2.30	2.65	3.05
10-year Govt Bond	2.90	3.25	3.00	3.10	3.30	3.45	3.30	2.80	3.10	3.25
2-year Swap	2.30	2.30	2.15	2.60	3.30	2.80	2.40	2.20	2.40	3.20
5-year Swap	2.60	3.00	2.75	3.00	3.40	3.15	3.00	2.65	2.90	3.30
US 10-year Bonds	1.90	2.50	2.75	2.75	2.75	2.25	2.50	2.40	2.75	2.75
NZ-US 10-year Spread	1.00	0.75	0.25	0.35	0.55	1.20	0.80	0.40	0.35	0.50

(1) *Average for the last month in the quarter*

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, NZ Treasury, BNZ

Key Upcoming Events

	Forecast	Median	Last
Monday 19 February			
NZ, BNZ PSI (Services), January			56.0
Jpn, Merchandise Trade Balance, January		+¥1020	+¥359b
UK, Carney Speaks			
US, Holiday, Presidents' Day			
Tuesday 20 February			
NZ, H/H Inflation Exp. (1yr median), Q1			+3.0%
NZ, Business Price Indexes, PPIO Q4 y/y			+5.3%
Aus, RBA's Bullock Speaks			
Aus, RBA Minutes, 6 Feb Meeting			
Euro, Consumer Confidence, Feb 1st est		+1.0%	+1.3
Germ, ZEW Sentiment, February		+16.0	+20.4
Germ, PPI, Jan y/y		+1.8%	+2.3%
UK, CBI Industrial Trends, February		+11	+14
Wednesday 21 February			
NZ, Dairy Auction, GDT Price Index			+5.9%
Aus, Labour Price Index, Q4	+0.5%	+0.5%	+0.5%
Aus, Construction Work Done, Q4	-15.0%	-10.0%	+15.7%
Jpn, All Industry Index, December		+0.4%	+1.0%
Euro, PMI Manufacturing, Feb 1st est		59.2	59.6
Euro, PMI Services, Feb 1st est		57.6	58.0
UK, Carney/Broadbent/Haldane Speak			
UK, Unemployment Rate (ILO), December		4.3%	4.3%
US, Markit PMI, Feb 1st est		55.5	55.5
US, FOMC Minutes, 31 Jan meeting			
US, Markit PSI, Feb 1st est		54.0	53.3
US, Existing Home Sales, January		5.62m	5.57m
Thursday 22 February			
NZ, Productivity Statistics, 1978-2017			
NZ, Credit Card Billings, January			+0.6%
Euro, ECB Minutes, 24/25 Jan Meeting			
Germ, IFO Index, February		117.0	117.6
UK, GDP, Q4 2nd est		+0.5%	+0.5%P
UK, CBI Distribution Reported Sales, February			+14
US, Leading Indicator, January		+0.7%	+0.6%
Friday 23 February			
NZ, Retail Trade, Q4 vol s.a.	+1.7%	+1.3%	+0.2%
Jpn, CPI, January y/y		+1.3%	+1.0%
Euro, CPI, Jan y/y 2nd est		+1.3%	+1.3%P
Germ, GDP, Q4 2nd est		+0.6%	+0.6%P

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.80	1.80	1.78	1.85
2mth	1.86	1.85	1.83	1.94
3mth	1.92	1.91	1.88	2.02
6mth	1.95	1.93	1.93	2.06
GOVERNMENT STOCK				
03/19	1.77	1.77	1.81	2.17
04/20	1.87	1.87	2.04	2.43
05/21	2.07	2.07	2.24	2.60
04/23	2.41	2.41	2.51	2.88
04/25	2.74	2.75	2.77	3.20
04/27	2.99	2.99	2.98	3.31
04/33	3.35	3.36	3.29	3.66
04/37	3.50	3.51	3.44	3.98
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	64	65	55	88
Nth America 5Y	51	58	47	64
Europe 5Y	51	54	44	74

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.16	2.16	2.25	2.33
3 years	2.36	2.37	2.46	2.60
4 years	2.55	2.57	2.63	2.82
5 years	2.72	2.74	2.78	3.01
10 years	3.26	3.31	3.30	3.53
FOREIGN EXCHANGE				
NZD/USD	0.7379	0.7264	0.7328	0.7190
NZD/AUD	0.9331	0.9239	0.9141	0.9352
NZD/JPY	78.48	78.92	81.28	81.32
NZD/EUR	0.5945	0.5910	0.5976	0.6774
NZD/GBP	0.5263	0.5250	0.5239	0.5769
NZD/CAD	0.9271	0.9136	0.9118	0.9423
TWI	75.7	74.8	75.2	78.5

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