26 March 2018

Maximum Sustainable Employment (Achieved Already?)

- **RBNZ retains CPI target band…and 2% mid-point**
- **While adding a jobs objective that's already pressing**
- **Committee structure as expected, effective 2019**
- **No clear implications for RBNZ path, on balance**
- **Wednesday's business survey (further recovered?)**
- **Feb trade surplus bugged by low car imports**

The government this morning confirmed a range of changes to the Reserve Bank of New Zealand's modus operandi. These were hardly any revelation, given the prescriptiveness of the terms of the review process. In essence, an employment objective has been introduced into a new Policy Targets Agreement (PTA), making for a dual (employment-inflation) mandate now. This is ahead of prospective changes to the RBNZ Act itself. Separately, a committee decision-making structure, including non-RBNZ staff, has been recommended, albeit one that won't be operational until 2019.

Because of the fait accompli nature of many of these changes we – like most, we suspect – haven't been surprised by the outcomes. However, there have been some changes in emphasis in the new PTA between Finance Minister, Grant Robertson and RBNZ Governor-designate, Adrian Orr. If anything, the largely reiterated inflation-related content might be seen as reinforcing a dovish bent on the part of the RBNZ. However, the new words relating to "maximising sustainable employment" might, ironically, highlight why the Bank can't be too dovish, and might even need to turn hawkish in due course.

Yes, the likes of the US Federal Reserve and the Reserve Bank of Australia are held up as non-radical examples of central banks that already have employment objectives. However, it's also true that these are legacies of decades old (in the RBA's case the 1950s). More recent central bank mandates have tended to not have employment objectives, rather just CPI-related ones. Politics aside, the idea that central banks can sustainably influence employment outcomes is not exactly the consensus view in the economics profession. Much like a lot of government policy, it has the ability to provide for good outcomes, but can't assure them as any target.

With respect to the Reserve Bank's "new" CPI inflation mandate, it was first of all interesting that the 2% annual CPI inflation mid-point focus has been retained (within the reaffirmed 1.0 to 3.0% target band). This might well be seen as a dovish thing for the RBNZ (in the current context), as CPI inflation looks likely to run around the bottom of the band for the next while. There was an expectation the 2% focus might be (would be?) dropped. This would have, in our opinion at least, enhanced the idea of flexibility the Bank has been trying to promote.

Sure, the Bank did well to "talk past" the inflation dip in its OCR commentary last week. However, that's not to say the market will thoroughly do the same.

As for the new PTA's wording on employment it is encapsulated in the line "The conduct of monetary policy will maintain a stable general level of prices, and contribute to supporting maximum sustainable employment within the economy." This is suitably vague as to give the Bank flexibility in interpreting it. Thankfully, there are no numbers involved (even though the government has stated it would like the unemployment rate to be below 4%).

Of course, the RBNZ would tell you it has long operated as if it had some sort of employment objective. So making this explicit (albeit in suitably vague wording) is hardly going to change the way it goes about its business.

Indeed, the Bank has been going out of its way to suggest the labour market is already tight, and is projected to get tighter. It has gone so far as to suggest the NAIRU is around 4.7%, for instance. This infers the present unemployment rate, of 4.5%, is on the tight side. By itself, this would recommend normalised interest rates, rather than the presently below-normal rates (compared to the Bank's very own estimates of neutral).

Then again, the Bank has also made it plain that it wants the economy to get a bit overheated (with a positive output gap). This is in order to generate enough inflation in the non-tradables component of the CPI to offset ongoing softness in tradables (largely imported) inflation, such that annual headline CPI inflation of 2% can be achieved. That's the intent, anyway. This might imply that a clearly below-NAIRU unemployment rate can and should be tolerated. We think it flies in the face of the long-held perception that central banks try to guide, and maintain, economies on some sort of even keel. Not promote cycles.

Something else to note from today's new PTA is that it has dropped reference to asset prices. This was something Graeme Wheeler introduced, and which we agreed with. Sure, the new PTA retained reference to the Bank having regard to "the efficiency and soundness of the financial system." However, this doesn't necessarily mean the Bank has to have explicit regard to asset prices in so far as they directly impact the real economy, and thus monetary policy. This might affect how the Bank is perceived to respond to house prices, for instance.

This, in turn, is a reminder that phase-2 of the Reserve Bank Act review has a lot longer to run before its recommendations on such things as prudential policy, along with many of the RBNZ's other roles, are made. Never mind that macro-prudential policy actually has a lot of overlap with monetary policy considerations, rather than being a standalone thing.

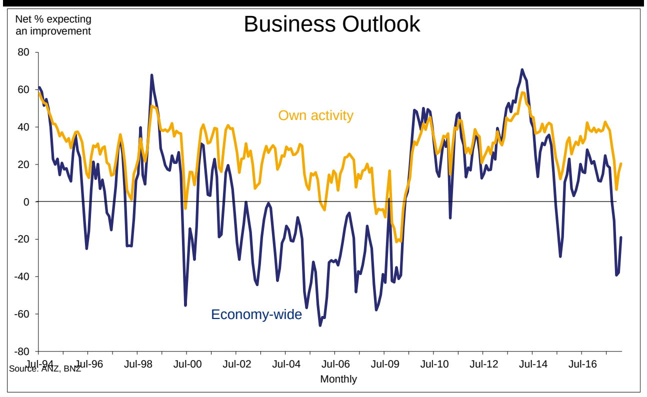
Phase-1 recommendations from the RBNZ Act review, of course, were presented this morning. Within this was the news on the committee structure. It is recommended to be a range of 5 to 7 members, with majority RBNZ staffers (plus a non-voting observer from Treasury). This should be no surprise to anyone following the process. Note, however, that the committee is not scheduled to be in operation until 2019, following passage of requisite legislation.

All in all, there was no great surprise in this morning's announcements on the central bank's new framework. And so we don't expect it will change our view on monetary policy. More important will be the usual macro drivers/considerations and, of course, the approach of Adrian Orr, who will officially become Governor tomorrow.

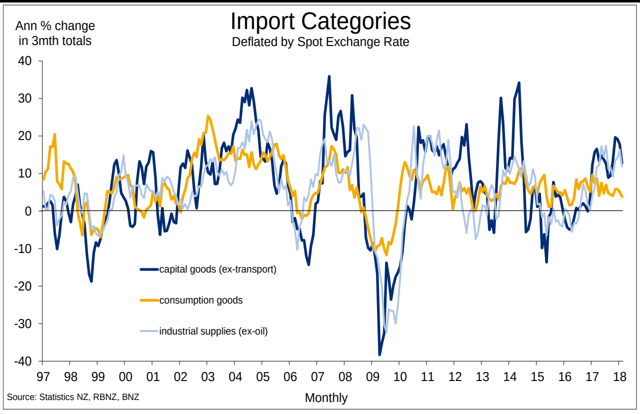
As for the NZ data this week, Wednesday's ANZ business will be the main feature. In February it had continued to grapple up from the abyss it went into in November, post word of the new government. Even so, it was still clearly negative in confidence and a little below-par regarding activity expectations. Can it get a firmer grip in March? That is the question.

Already, this morning, we've seen February's merchandise trade figures. At one level, they looked encouraging (certainly for the current account). Its monthly surplus of $217m surprised market expectations of a $100m deficit (we anticipated a deficit of $329m).

Further Recovery?



Solid Ex Cars



However, this was driven by much lower than expected imports, owing to cars. Car imports (down $126m, or 33%) were affected by four vehicle carriers being delayed due to the discovery of stink bugs on the vessels. Statistics NZ suggested around 8,000 cars were unable to enter NZ as scheduled. We had trimmed import growth for this albeit much more so for March than February. In this sense, the surprise is really one of timing. Imports were still up 4.6% on a year ago (7.7% excluding cars), reaching a new high for a February month.

Related to the stink bug issue, we have also seen a material slump in car registrations of late that could well affect the likes of retail and wholesale sales in Q1 (or, in the least, inventory levels) and will be putting some near-term upward pressure on prices.

February merchandise exports, for the record, were relatively close to expectations, up 11.1% y/y. There were strong contributions from sheep-meat (+21%) and forestry products (+19%). Dairy exports were up 5.3% y/y, slower than over recent months.

Later today the RBNZ is scheduled to publish its new residential lending data for February. We expect these will support the view that the housing market is picking up once again, albeit with a lot of regional variation.

Thursday's news starts with February's building consents, which we hope will look a bit better than they did in January, and ends with the month's credit aggregates, which should remain moderate to robust in annual growth terms.

Friday is a holiday, marking the start of the Easter long weekend. Also note that New Zealand moves off Daylight Saving this Sunday (1 April), with clocks shifting back one hour, to GMT +12:00. We also have a holiday next Monday (Easter Monday), meaning the next BNZ Markets Outlook is due Tuesday 3 April.

Please see next page for the new Policy Targets Agreement

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The New Policy Targets Agreement

Context

The Government's economic objective is to improve the wellbeing and living standards of New Zealanders through a sustainable, productive and inclusive economy. Our priority is to move towards a low carbon economy, with a strong diversified export base, that delivers decent jobs with higher wages and reduces inequality and poverty.

Monetary policy plays an important role in supporting the Government's economic objective. The Government expects monetary policy to be directed at achieving and maintaining stability in the general level of prices over the medium term and supporting maximum sustainable employment.

This agreement between the Minister of Finance and the Governor of the Reserve Bank of New Zealand (the Bank) is made under section 9 of the Reserve Bank of New Zealand Act 1989 (the Act). The Minister and the Governor agree as follows:

1. Monetary policy objective

a) Under Section 8 of the Act the Reserve Bank is required to conduct monetary policy with the goal of maintaining a stable general level of prices.

b) The conduct of monetary policy will maintain a stable general level of prices, and contribute to supporting maximum sustainable employment within the economy.

2. Policy target

a) The price stability target will be defined in terms of the All Groups Consumers Price Index (CPI), as published by Statistics New Zealand.

b) For the purpose of this agreement, the policy target shall be to keep future annual CPI inflation between 1 and 3 percent over the medium-term, with a focus on keeping future inflation near the 2 percent mid-point.

c) The Bank will implement a flexible inflation targeting regime. In particular the Bank shall, in pursuing the policy target:

1. have regard to the efficiency and soundness of the financial system;
2. seek to avoid unnecessary instability in output, employment, interest rates, and the exchange rate; and
3. respond to events whose impact on inflation is expected to be temporary in a manner consistent with meeting the medium-term target.

3. Transparency and accountability

a) The Bank shall implement monetary policy in a transparent manner. In addition to the requirements of section 15 of the Act the Bank shall in its *Monetary Policy Statement* (MPS):

1. explain what measures it has taken into account in respect of meeting the requirements of section 2(c) and explain how these matters have been taken into account in its implementation of monetary policy; and
2. when inflation outcomes, and/or expected inflation outcomes, are outside of the target range explain the reasons for this; and
3. explain how current monetary policy decisions contribute to supporting maximum levels of sustainable employment within the economy.

b) The Bank shall be fully accountable for its judgements and actions in implementing monetary policy.

Hon Grant Robertson
Minister of Finance

Adrian Orr
Governor Designate
Reserve Bank of New Zealand

Dated at Wellington this 26th day of March 2018

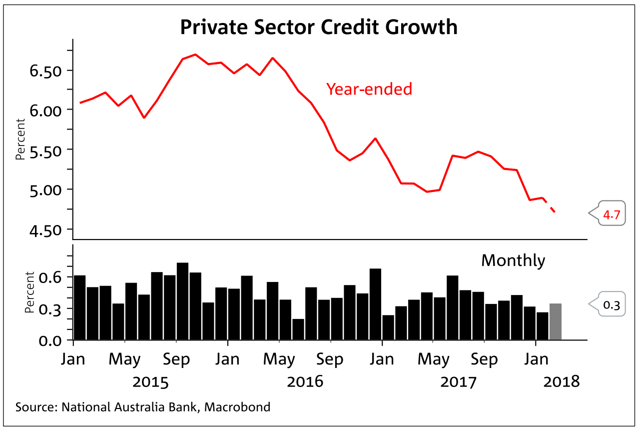
Global Watch

- **US inflation gauge expected to edge higher**
- **Numerous Fed speakers on the circuit**
- **Chinese PMIs will give guide to post-LNY activity**
- **Minimal data elsewhere**

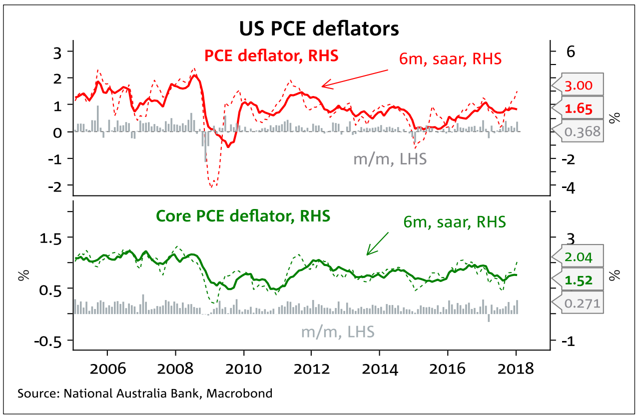
Australia

It's a week of very few indicators. For RBA Credit on Thursday, NAB looks for another month of 0.3% growth with interest in whether the tone of Investor Housing Credit continued to slow. (Intermediated) Business Credit growth has also been slow, growing at an annual rate of 3.4% by January, little different from the 3.0% growth in Investor Housing Credit.

Temperate Credit Growth

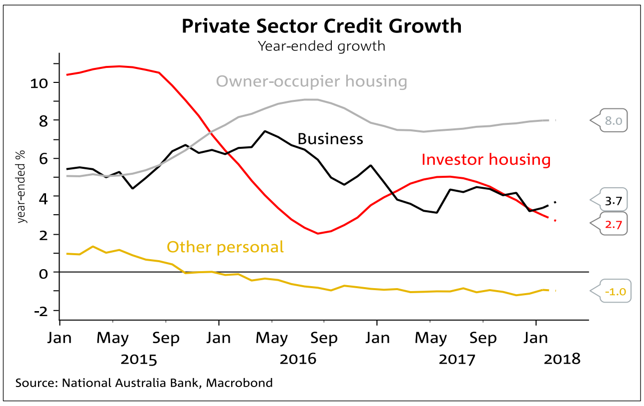


Hints Of Rising US PCE Inflation



Also on the data tape is the Statistician's measure of Job Vacancies. It will be interesting if this measure also reports the improved labour demand that other measures are showing. Right now, it's not so much labour demand that's in any near term doubt. The trend remains positive. Rather, it's the recent increase in labour supply, buoyed by fast population growth and job seekers returning to the labour market. These factors are limiting the decline in spare labour market capacity. All labour demand can be important for NZ labour market considerations.

Investor Housing And Business Credit On A Par



US

Eye will remain on fallout from tariff announcements. Most data interest is likely to centre on the PCE deflators and consumer spending for February, out Thursday. The core PCE deflator's annual growth is expected to tick up to 1.6% from 1.5%, helped by base effects that should also boost annual growth in March. Two measures of consumer confidence are also due, the Conference Board's on Thursday and the UoM measure Thursday. With the FOMC out of the way, there's a line-up of six Fed speeches this week.

China

It's a quiet week for data until the release of the official Manufacturing and Non-manufacturing PMIs on Friday. This will provide the first hint of post Lunar New Year holiday activity.

Japan

Thursday sees the release of the February labour market report and the Tokyo CPI for March.

UK

A possible revision to Q4 GDP on Thursday is worth a look. On Monday, EU and UK negotiators discuss post-Brexit Irish border issues in Brussels.

Eurozone

Monthly confidence surveys are on Tuesday.

Canada

Monthly GDP for January is out on Thursday.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ interest rates declined last week, particularly so longer-dated rates. The swap curve flattened again.

The NZ 2 year swap rate declined 4bps to 2.23%, as NZ FRA-OIS spreads eased back after rising sharply the preceding fortnight. For those interested readers, we wrote about the recent drivers of NZ FRA-OIS and 3m bank-bill-OIS spreads in a recent note. Notwithstanding the potential for more volatility in FRA-OIS spreads, we expect the short-end of the NZ swaps curve to be reasonably anchored in the coming months and expect the 2 year swap to trade a broad 2.15% - 2.30% range.

The newly released Policy Targets Agreement (PTA) that was signed today reiterated a continued focus on the 2% midpoint of the target range for CPI. At the margin, we think this has dovish implications for near-term OCR expectations (and short-dated swaps), as it keeps alive the tail risk of a rate cut (the RBNZ doesn't expect CPI to reach 2% until mid-2020, and we forecast even lower CPI readings than the Bank over the coming few quarters). As we wrote last month, we think the hurdles for rate cuts are very high, but we still wouldn't be surprised if the market priced-in a small probability for mid-2018. If so, the 2 year swap will probably gravitate more towards the lower end of our expected trading range.

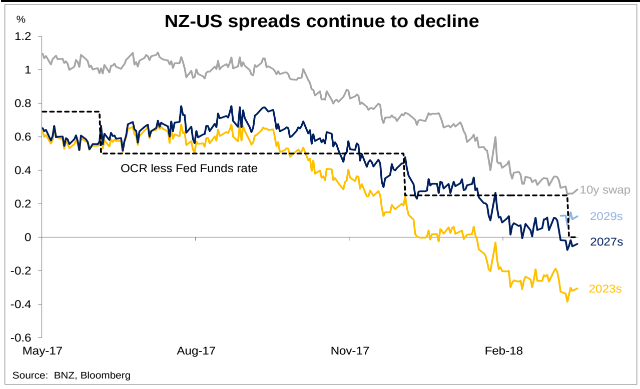
The 10 year NZ swap fell almost 10bps on the week, with almost all that movement coming on Thursday and Friday as US-China trade tensions picked up and US equity markets fell sharply. The 10 year swap rate is now just above 3.10% and lower than where it was at the start of the year. In contrast, the US 10 year swap rate is 45bps higher than at the end of last year. The spread between NZ and US 2027 maturity bonds went inverted, although our estimate of the interpolated 10 year NZ-US bond spread remains marginally in positive territory.

Last week, the FOMC raised its cash rate to 1.75%, as universally expected. The median forecast for the Fed Funds rate at end-2018 stayed at 3 hikes, but only just (it only requires one Fed official to lift their 2018 'dot' at the June meeting to raise the median to a 4 hike baseline for this year). US Treasury yields declined slightly on the day, with the market seemingly reassured by Powell's comments in his press conference and relieved that the 2018 median didn't move higher at this meeting. As we've outlined on numerous occasions, we think the risks around the Fed are towards more rather than less than what the market has priced, and this will ultimately translate into higher US yields this year.

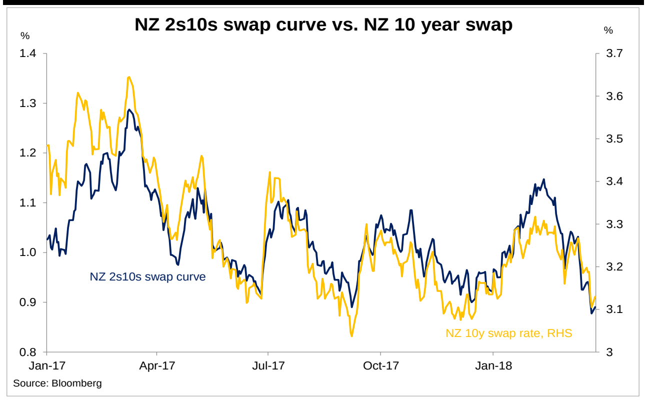
Clearly, some of the factors that have driven higher US rates this year are US-centric in nature: more US Treasury supply, building expectations of Fed rate hikes, recent US inflation upside surprises. The US has underperformed all major bond markets this year. Nevertheless, our expectation is that higher US rates this year will eventually put upward pressure on longer-dated NZ swap rates, as has been the case historically. We would consider using any further decline in longer-dated rates to put on hedges.

For the week ahead, the focus locally will be the ANZ Business Survey on Wednesday (including the inflation expectations components), although the rates market impact should be fairly minimal. The focus offshore will probably be on continued headlines around US-China trade tensions, with the risk that further weakness in equity markets leads US 10 year Treasuries to break below the 2.80 – 2.95% trading range that has prevailed for the last two months.

NZ-US spreads continue to decline



NZ 2s10s swap curve and 10 year swap remain correlated



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.97	1.89 - 1.97
NZ 2yr swap (%)	2.24	2.20 - 2.29
NZ 5yr swap (%)	2.68	2.66 - 2.77
NZ 10yr swap (%)	3.13	3.11 - 3.28
2s10s swap curve (bps)	89	88 - 104
NZ 10yr swap-govt (bps)	36	24 - 36
NZ 10yr govt (%)	2.77	2.76 - 3.04
US 10yr govt (%)	2.81	2.79 - 2.93
NZ-US 10yr (bps)	-4	-7 - 13
NZ-AU 2yr swap (bps)	17	14 - 23
NZ-AU 10yr govt (bps)	11	11 - 21

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Market sentiment soured last week, with our risk appetite index falling from 68% to 52%. Trump's trade policy took another turn towards protectionism, with a proposal to impose 25% tariffs on up to $60bn worth of China imports, with details to be provided over the next couple of weeks. While these would represent just 0.3% of US GDP, the key will be China's response and whether this degenerates into a tit-for-tat trade war. China's initial response was a fairly timid imposition of tariffs on $3b worth of trade.

On a more positive note, Trump has significantly backed down from his initial tariff policy on imported steel and aluminium, with exemptions for Canada, Mexico, the EU, South Korea and Australia, amongst others. The read-through is that Trump's trade policy boils down to a trade-war principally against China.

The other negative political development was Trump's appointment of Bolton as National Security Advisor, a known hawk with a penchant for war. This likely contributed to the risk-off mood.

While the NZD and AUD underperformed last week, the USD was also soft, with the FOMC's upgraded growth, inflation and rates projections well anticipated by the market, seeing a classic case of "buy the rumour sell the fact" price action in force post the announcement. Remarkably, for the week the NZD held its ground against the USD against a backdrop of much lower risk appetite. Our model says that the NZD should have fallen by more than 1½ cents. We suggest that the currency market is presently prepared to look through the US-China trade tensions, seeing little risk of global growth and commodity prices taking a hit, at this stage. Price action is also consistent with the view that the US is shooting itself in the foot and making the outlook for its twin deficits even worse, a factor that is widely seen as USD-negative.

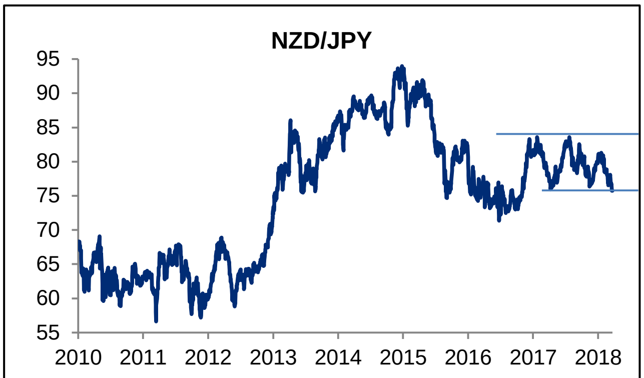
Idiosyncratic forces on currencies were also at play last week. While JPY strength can be explained by the risk-off mood, GBP was supported by the negotiated EU-UK transitional Brexit deal, while CAD was supported by reports of the US backing down on a contentious NAFTA issue with regards to the auto sector. These factors saw NZD crosses against JPY, GBP and CAD all down by 1% or more for the week. The market is also taking the view that Australia has more to lose from US-China trade tensions than NZ, which sees NZD/AUD drifting up towards year-to-date highs near 0.94.

The economic calendar ahead is fairly light for this short week before Easter. The ANZ NZ business outlook survey on Wednesday and the US PCE deflator at the end of the week are the only releases worth noting. A range of Fed speakers hit the circuit now that the FOMC announcement is out of the way.

Rather than the economic calendar, we'll be more focused on developments on US-China trade policy. We'll also be watching US equity markets closely. The 6% fall in the S&P500 last week looks like an over-reaction. If a buy-the-dip mentality continues to prevail then we'd expect to see the market recover alongside risk appetite and our fair-value NZD estimate.

The risk of a US-China trade war spilling over into a weaker overall global growth outlook seems to be a key risk for the NZD over coming weeks. As we saw last week, this can mean a weaker NZD overall, but not necessarily against the AUD and USD. NZD/JPY is looking vulnerable to the downside as weaker fundamental support coincides with a break to the 76 support level that has been in play for more than a year.

NZD/JPY Looking Vulnerable to the Downside



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.7243	0.7150 - 0.7360
NZD/AUD	0.9406	0.9260 - 0.9410
NZD/GBP	0.5125	0.5090 - 0.5280
NZD/EUR	0.5862	0.5830 - 0.5950
NZD/JPY	75.83	75.50 - 78.60

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6980	4%
NZD/AUD	0.9130	3%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.7440 (ahead of 0.7550)
ST Support: 0.7155 (ahead of 0.7050)

The previous 0.7175 support level was broken last week, but it wasn't a convincing move. Nevertheless, 0.7155 becomes the new support level, with 0.7440 still defining the top of the range.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9430 (ahead of 0.9640)
ST Support: 0.9250 (ahead of 0.9050)

There is plenty of resistance around 0.9420-0.9430 and a break of that would open up a charge towards 0.96. We have moved the support level up to 0.9250 as the trading range has narrowed.

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NZ 5-year Swap Rate

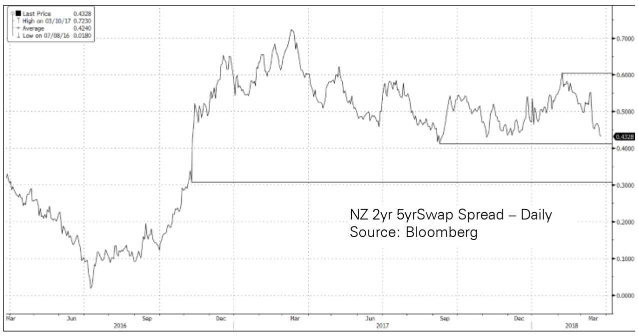
Outlook: Neutal
ST Resistance: 2.82
ST Support: 2.5475

Broken through trendline support so have turned neutral. Risk is we head lower near term.

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

Outlook: Neutral
ST Resistance: +60.5
ST Support: +41

Support at +41. Should this be breached expect a move to +31.



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Quarterly Forecasts

Forecasts as at 26 March 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts: Mar-18 to Mar-19

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (production s.a.)	0.4	0.7	0.9	0.6	0.6	0.6	0.8	1.1	0.9	0.6
Retail trade (real s.a.)	1.4	1.4	1.8	0.3	1.7	1.0	0.7	1.3	1.3	0.7
Current account (ytd, % GDP)	-2.3	-2.7	-2.6	-2.5	-2.7	-2.7	-2.9	-3.2	-3.3	-3.2
CPI (q/q)	0.4	1.0	0.0	0.5	0.1	0.3	0.3	0.6	0.3	0.6
Employment	0.9	1.0	0.0	2.2	0.5	0.6	0.5	0.5	0.5	0.5
Unemployment rate %	5.3	4.9	4.8	4.6	4.5	4.4	4.4	4.3	4.2	4.4
Avg hourly earnings (ann %)	1.1	1.1	1.2	2.0	3.1	3.2	3.0	2.8	2.6	2.8
Trading partner GDP (ann %)	3.5	3.6	3.7	4.1	3.9	3.9	3.8	3.7	3.7	3.7
CPI (y/y)	1.3	2.2	1.7	1.9	1.6	0.9	1.2	1.3	1.5	1.8
GDP (production s.a., y/y))	3.5	3.0	2.8	2.7	2.9	2.8	2.6	3.1	3.4	3.4

Interest Rates

Historical data - qtr average
Forecast data - end quarter

	Cash	Government Stock 90 Day Bank Bills	Government Stock 5 Year	Government Stock 10 Year	Swaps 2 Year	Swaps 5 Year	Swaps 10 Year	US Rates Libor 3 month	US Rates 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	2.35	2.90	2.20	2.65	3.15	1.60	2.40	0.40
Forecasts										
2018 Mar	1.75	1.95	2.50	3.00	2.20	2.75	3.30	1.80	3.00	0.00
Jun	1.75	1.95	2.50	2.95	2.20	2.75	3.25	1.95	3.00	-0.05
Sep	1.75	1.95	2.70	3.20	2.35	2.95	3.50	2.20	3.25	-0.05
Dec	1.75	2.05	2.80	3.25	2.50	3.05	3.55	2.30	3.25	0.00
2019 Mar	2.00	2.30	2.95	3.35	2.75	3.20	3.65	2.45	3.25	0.10
Jun	2.25	2.55	3.25	3.65	3.05	3.20	3.65	2.55	3.50	0.15
Sep	2.50	2.80	3.45	3.80	3.30	3.20	3.65	2.55	3.50	0.30
Dec	2.75	3.05	3.60	3.90	3.45	3.50	3.95	2.55	3.50	0.40
2020 Mar	3.00	3.20	3.70	3.95	3.65	3.50	3.95	2.55	3.50	0.45

Exchange Rates (End Period)

	USD Forecasts NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.72	0.77	1.23	1.41	105	0.72	0.94	0.59	0.51	75.7	74.7
Mar-18	0.72	0.78	1.25	1.40	106	0.72	0.93	0.58	0.52	76.7	74.1
Jun-18	0.72	0.78	1.28	1.43	104	0.72	0.92	0.56	0.50	74.9	73.1
Sep-18	0.71	0.77	1.30	1.45	103	0.71	0.92	0.55	0.49	73.1	71.9
Dec-18	0.70	0.75	1.30	1.46	102	0.70	0.93	0.54	0.48	71.4	71.2
Mar-19	0.70	0.75	1.28	1.46	101	0.70	0.93	0.55	0.48	70.7	71.3
Jun-19	0.71	0.76	1.27	1.45	100	0.71	0.93	0.56	0.49	71.0	72.2
Sep-19	0.71	0.76	1.28	1.45	100	0.71	0.94	0.56	0.49	71.0	72.4
Dec-19	0.70	0.75	1.30	1.46	99	0.70	0.93	0.54	0.48	69.3	71.3
Mar-20	0.70	0.75	1.32	1.47	99	0.70	0.93	0.53	0.48	69.3	71.3
Jun-20	0.69	0.74	1.34	1.48	98	0.69	0.93	0.52	0.47	67.6	70.4
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 26 March 2018	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
GDP - annual average % change										
Private Consumption	3.9	5.4	4.1	3.8	2.3	5.0	4.5	3.9	2.7	1.4
Government Consumption	2.5	2.0	4.9	2.9	2.2	1.7	4.7	3.3	2.5	1.9
Total Investment	4.7	5.6	3.9	4.1	3.9	6.4	3.3	4.5	4.0	3.6
Stocks - ppts cont'n to growth	-0.3	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
GNE	3.5	4.8	3.5	3.4	2.7	4.7	4.0	3.2	3.0	2.1
Exports	5.6	0.7	4.2	2.2	4.3	1.6	2.5	2.4	4.2	4.5
Imports	2.1	5.1	6.2	3.6	3.6	3.4	6.6	3.7	3.9	3.0
Real Expenditure GDP	4.4	3.6	3.3	3.1	2.8	4.1	3.0	3.1	3.1	2.4
GDP (production)	**3.6**	**3.7**	**2.8**	**3.2**	**2.8**	**4.0**	**2.9**	**3.0**	**3.0**	**2.4**
GDP - annual % change (q/q)	*4.0*	*3.0*	*2.8*	*3.4*	*2.5*	*3.5*	*2.9*	*3.4*	*2.6*	*2.3*
Output Gap (ann avg, % dev)	1.0	1.3	0.8	1.1	1.1	1.3	1.0	1.0	1.1	1.0
Household Savings (% disp. income)	-1.3	-2.8	-1.8	-2.4	-2.2					
Nominal Expenditure GDP - $bn	254.7	270.0	286.0	298.2	311.7	266.0	282.3	295.0	308.3	322.3
Prices and Employment - annual % change										
CPI	0.4	2.2	0.9	1.8	2.0	1.3	1.6	1.5	2.1	2.0
Employment	2.0	5.7	3.3	2.0	1.6	5.8	3.7	2.1	1.8	1.2
Unemployment Rate %	5.2	4.9	4.4	4.4	4.4	5.3	4.5	4.2	4.4	4.6
Wages - ahote	2.5	1.1	3.2	2.8	2.7	1.1	3.1	2.6	2.8	2.4
Productivity (ann av %)	1.5	-1.9	-0.8	0.7	1.0	-0.8	-1.3	0.2	1.1	1.0
Unit Labour Costs (ann av %)	1.3	3.8	3.8	2.9	2.1	2.7	4.0	3.6	2.0	1.8
External Balance										
Current Account - $bn	-7.0	-7.2	-7.6	-9.4	-7.6	-6.0	-7.7	-9.7	-8.1	-7.9
Current Account - % of GDP	-2.8	-2.7	-2.7	-3.2	-2.4	-2.3	-2.7	-3.3	-2.6	-2.5
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	0.70	0.70	0.70	0.70	0.68
USD/JPY	113	113	106	101	99	116	113	102	99	97
EUR/USD	1.11	1.07	1.25	1.28	1.32	1.05	1.18	1.30	1.30	1.38
NZD/AUD	0.90	0.92	0.93	0.93	0.93	0.96	0.91	0.93	0.93	0.93
NZD/GBP	0.47	0.57	0.52	0.48	0.48	0.56	0.52	0.48	0.48	0.46
NZD/EUR	0.61	0.66	0.58	0.55	0.53	0.67	0.59	0.54	0.54	0.49
NZD/YEN	76.2	79.1	76.7	70.7	69.3	81.6	78.7	71.4	69.3	66.0
TWI	72.2	76.5	74.1	71.3	71.3	78.1	73.6	71.2	71.3	69.5
Overnight Cash Rate (end qtr)	2.25	1.75	1.75	2.00	3.00	1.75	1.75	1.75	2.75	2.75
90-day Bank Bill Rate	2.41	1.98	1.95	2.28	3.20	2.02	1.88	2.03	3.03	2.87
5-year Govt Bond	2.40	2.70	2.50	2.95	3.70	2.75	2.30	2.80	3.60	3.60
10-year Govt Bond	2.90	3.25	3.00	3.35	3.95	3.30	2.80	3.25	3.90	3.95
2-year Swap	2.30	2.30	2.20	2.75	3.65	2.40	2.20	2.50	3.45	3.40
5-year Swap	2.60	3.00	2.75	3.20	3.95	3.00	2.65	3.05	3.85	3.85
US 10-year Bonds	1.90	2.50	3.00	3.25	3.50	2.50	2.40	3.25	3.50	3.50
NZ-US 10-year Spread	1.00	0.75	0.00	0.10	0.45	0.80	0.40	0.00	0.40	0.45

(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 26 March			
NZ, Merchandise Trade, February	-$329m	-$100m	-$566m
NZ, New Policy Targets Agreement Released, Press Conference			
NZ, Residential Lending, February y/y			+4.6%
Tuesday 27 March			
NZ, Adrian Orr Anointed RBNZ Governor			
Euro, M3, February y/y		+4.6%	+4.6%
Euro, Economic Confidence, March		113.3	114.1
US, Consumer Confidence, March		131.0	130.8
US, Shiller Home Price Index, January y/y			+6.3%
Wednesday 28 March			
NZ, ANZ Business Survey, March			-19
UK, CBI Distribution Reported Sales, March			+27
US, International Goods Trade, Feb advance		-$74.2b	-$75.3b
US, Pending Home Sales, February		+2.0%	-4.7%
US, Wholesale Inventories, Feb 1st est		+0.5%	+0.8%
US, GDP, Q4 3rd est		+2.7%	+2.5%P
Thursday 29 March			
NZ, Credit Aggregates, Feb (household y/y)			+6.0%
NZ, Building Consents, February (res, #)			+0.2%
Aus, Private Sector Credit, February		+0.3%	+0.3%
Jpn, Retail Sales, February y/y		+1.7%	+1.6%
Germ, CPI, Mar y/y 1st est		+1.7%	+1.4%
Germ, Unemployment Rate, March s.a.		5.3%	5.4%
UK, GDP, Q4 3rd est		+0.4%	+0.4%P
US, Mich Cons Confidence, Mar 2nd est		102.0	102.1P
US, Personal Spending, February		+0.2%	+0.2%
Friday 30 March			
NZ, Holiday, Good Friday			
Jpn, Unemployment Rate, February		2.6%	2.4%
Jpn, Industrial Production, Feb 1st est		+5.0%	-6.8%
US, Chicago PMI, March		62.0	61.9
Saturday 31 March			
China, Non-manufacturing PMI, March			54.4
China, PMI (NBS), March			50.3
Sunday 1 April			
NZ, Daylight Saving Begins, -1hr to +12:00GMT			
Monday 2 April			
NZ, Holiday, Easter Monday			
Aus, Inflation Gauge (Melbourne Institute), Mar y/y			+2.1%
China, PMI (Caixin), March			51.6
Jpn, Tankan (lge manuf), Q1			+25
US, ISM Manufacturing, March			60.8
US, Construction Spending, February			flat

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.87	1.81	1.79	1.85
2mth	1.92	1.87	1.85	1.93
3mth	1.97	1.96	1.92	1.98
6mth	2.06	2.03	1.96	2.02
GOVERNMENT STOCK				
03/19	1.75	1.76	1.77	2.11
04/20	1.86	1.89	1.87	2.32
05/21	2.02	2.05	2.05	2.48
04/23	2.30	2.34	2.39	2.78
04/25	2.55	2.63	2.71	3.07
04/27	2.76	2.84	2.92	3.17
04/33	3.12	3.19	3.27	3.53
04/37	3.27	3.34	3.42	3.81
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	72	58	59	88
Nth America 5Y	69	55	53	68
Europe 5Y	61	51	53	75

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.24	2.27	2.17	2.30
3 years	2.40	2.43	2.36	2.53
4 years	2.55	2.59	2.54	2.73
5 years	2.68	2.73	2.70	2.89
10 years	3.12	3.21	3.22	3.41
FOREIGN EXCHANGE				
NZD/USD	0.7236	0.7244	0.7303	0.7045
NZD/AUD	0.9400	0.9385	0.9297	0.9248
NZD/JPY	75.78	76.85	78.09	77.96
NZD/EUR	0.5857	0.5872	0.5929	0.6485
NZD/GBP	0.5119	0.5166	0.5229	0.5609
NZD/CAD	0.9326	0.9473	0.9261	0.9423
TWI	74.6	74.5	75.3	76.5

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