21 May 2018

Filling Holes

- **Retail trade feeds our reservations on Q1 GDP**
- **But mainly a timing issue (Q2 looking bouncy?)**
- **Fall in migration becoming a trend however**
- **April's expected trade surplus seasonally flattered**
- **Our year-ahead CPI forecast now up at 2.7%**
- **How the $13b tax windfall filled a fiscal hole**

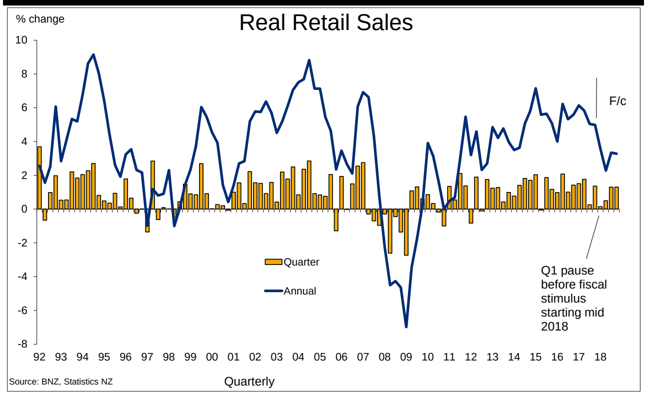
With a good chunk of the fiscal stimulus kicking in over the second half of this year, how has the NZ economy been going for the meantime?

Not that well at all, judging by this morning's retail trade report. Indeed, it gave the impression of a stalling. March quarter volumes increased just 0.1%. The market was looking for a gain of 1.0% and we anticipated a lift of 0.8% (based off the monthly electronic card transactions we have to key things off nowadays). This miss was effectively worse still, considering Statistics NZ trimmed the December quarter gain to 1.4%, from 1.7%.

The retail outcome certainly aggravates the concerns we've been expressing around how Q1 GDP is going to look. We thought retail trade, at least, would be a backbone. But even this hasn't been the case. Might Q1 GDP struggle to advance at all?

However, we don't think that any of this signals an abrupt slowdown in the New Zealand economy. The weaker that Q1 GDP growth is shaping up, the bigger the bounce-back could easily be in Q2. But timing is everything in the markets. And so we have a potentially slow Q1 GDP result to get through next. That report is due 21 June. In the interim, the "partials" that feed into it will be perused that much more carefully, given the touch and go context. For reference, the RBNZ expects Q1 GDP to expand 0.7%.

Poised For A Pick Up



Retail Trade

Q1 (volume) %	**Actual**	Mkt Expected	Q4
quarterly	**+0.1**	+1.0	**+1.4R**
- ex-auto	**+0.6**		**+1.8**
annual	**+3.0**		**+5.4**
- ex-auto	**+4.8**		**+5.6**

Based on seasonally adjusted data

With respect to March quarter retail spending we point out that its near-stalling was not a common pulse across the various store-types. In fact, in real terms, it was the net result of ongoing strength in some (especially electrical goods but also furniture), versus major hiccups in others (notably a 5% drop in clothing and footwear).

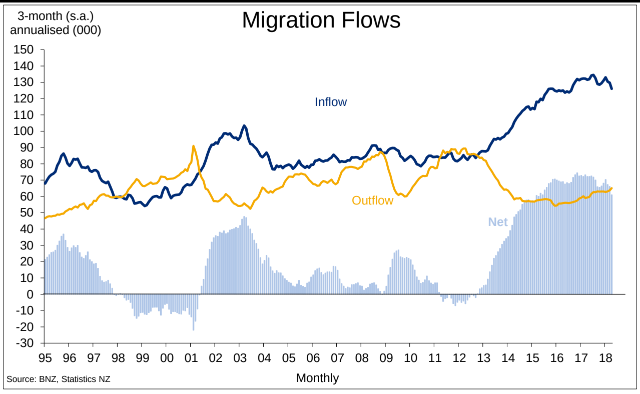
There was a 2.1% fall in petrol volumes in Q1 (even before the worst of the petrol price increases, which we're watching as a factor in Q2) and a 0.9% dip in auto sales. The latter was a relatively mild decrease, given the disruptions to car imports in the New Year (relating to the "stink bug" issue for customs, since resolved), and the degree to which this quarterly measure can jag around at the best of times. Excluding these auto components, retail trade advanced 0.6% in Q1, which pruned its annual pace to 4.8%, from 5.6%.

To be sure, we believe the rate of growth in consumer spending is past its recent peak (of 2016). However, the idea that it is falling flat is incredibly premature, in our view. There was certainly no sign in this morning's data that retailers were being lumbered with rising inventory. Meanwhile, low inflation is, for the most part – for the meantime at least – aiding the purchasing power of NZ households.

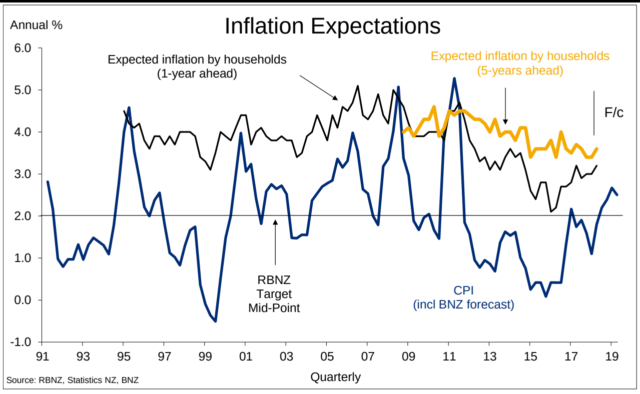
Of course, we can't be optimistic of a clear rebound in retail spending as soon as Q2. Not after the poor start to the quarter in the sharp fall in April's electronic card transactions. Ultimately, however, there is still a lot to drive this sector of the economy, and notably so the sizable fiscal stimulus that is scheduled to hit the economy come 1 July. It's not for everyone. But it will be going into the pockets of those more inclined to spend it. In advance of all this, consumer confidence is robust.

While the sharp pull-back in Q1 retail growth appears transitory, the moderation in migration is looking more and more like a trend. April's net inflow was a seasonally adjusted +4,930, from +5,380 in March. While this series is noisy, and still relatively high, it is more obviously off its peaks of last year. This is reinforced by the combination of falling inflows and rising departures. It's better late than never, but forecasters will be feeling more relieved.

Jaws Closing



Turning Up



As for April's short-term visitor arrivals, these were also softer, down 9% on a year ago. However, this looked very much affected by the early Easter this year, which boosted arrivals in March (+13% y/y). Nonetheless, smoothing across March and April, and with an eye on the seasonally adjusted series, the expansion is beginning to look more moderate than strong.

The monthly merchandise trade figures are scheduled for Thursday. These will likely indicate further widening in the annual trade deficit – something to think about for the presently benign current account – even though the month of April is expected to print a (seasonal) surplus.

For the value of exports we anticipate an annual gain of 5% – not too bad, but almost surely limited by weakness in meat and dairy export volumes in April (as a lag to New Year on-farm production issues). On the imports side we are looking for a 13% increase, y/y, braced by oil and its recent price surge.

If there is any upside surprise to the export and import figures it could well relate to the timing of Easter, which has afforded more processing days than usual for April this year. With respect to April's merchandise trade balance we expect a surplus of $241m – but not enough to prevent further slippage in the annual trade deficit. The market's median expectation is for an April surplus of $198m.

What about Thursday afternoon's new residential lending figures for April? These will probably echo the lack of further rebound that we witnessed in home sales in the month, post the pause in activity that occurred around the election late last year.

Yet it seems too early to presume the housing market is coming to heel, at least at a national level. While sentiment was certainly dented following the election, the view on house price inflation has arguably firmed up a bit. Last Friday's RBNZ survey of household expectations was an example.

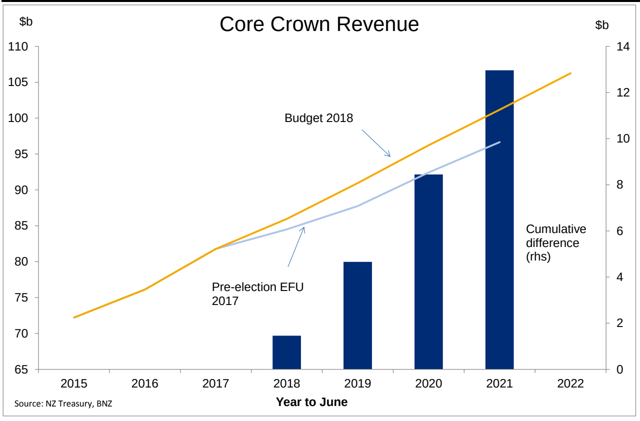
This survey also highlighted a fairly robust view of inflation, emanating from the household sector. And we believe inflation expectations will only be boosted by the near-term path of CPI inflation itself. To cut to the chase, we now expect annual CPI inflation to jump to 1.8% in Q2 (from the 1.1% it dipped to in Q1), then increasing to 2.2% in Q3, 2.4% in Q4 and 2.7% in Q1 of 2019. The spike in oil/fuel prices is a feature in this, but not the only one.

Recall that the Reserve Bank forecasts CPI inflation to be 1.5% y/y in Q2 2018, and 1.6% y/y by the time of Q1 2019. We thus see a lot of upside to that.

Our final word this week, however, goes to those still wondering how the coalition government promised so very much, yet kept it all within Budget (give or take). Sure, delays in the Kiwibuild trajectory, a lesser fall in forecast immigration, and shifting some debt to Housing New Zealand's balance sheet, were integral to meeting the Crown debt target of 20% of GDP. However, the most substantive factor, by far, has been the ongoing boon to tax revenue.

Compared to the Pre-election Economic and Fiscal Update (PREFU) – against which election promises were calibrated – last week's Budget forecast $13b more in the way of tax revenue over four fiscal years to June 2021. That's a king fillip. More than enough to fill in even a big fiscal hole. Welcome to the wondrous world of forecasting.

King Fillip



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Global Watch

- **Fed minutes and many Fed speakers on record this week**
- **Fed chair Powell speaks, in Sweden**
- **RBA Governor, Assistant Governor to speak**
- **Modest lift expected in AU construction work done**
- **PMIs and Italian politics in focus in EU**
- **CPI due in UK and Japan**

Australia

The week ahead is relatively quiet for economic data, and Construction Work Done for the March quarter will be the key indicator to watch. It's out on Wednesday. Greater interest is likely to fall on RBA Governor Phil Lowe's speech on Wednesday evening. Speaking at the Australia-China Relations Institute, Lowe's speech will be carefully listened to, given the global focus on US-trade relations and Australia's high economic dependence on Chinese economic growth and access to Chinese markets. Of course, it will also present an opportunity for the Governor to provide another update on the domestic economy, including after recent stagnant growth in wages and a slight uptick in the unemployment rate, despite still solid employment growth.

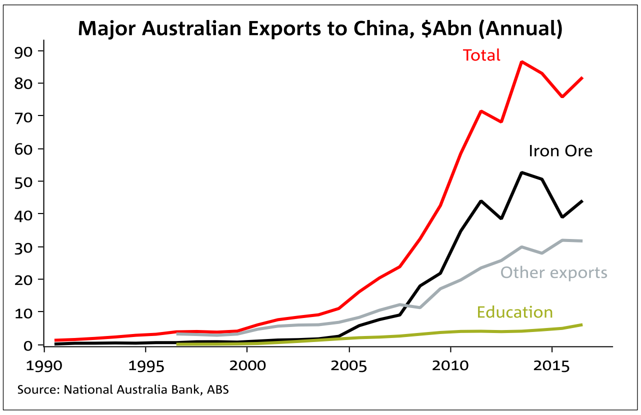
Lowe is scheduled to speak on the performance of the Chinese economy and financial system and draw out the implications for Australia, all highly topical, something the Bank has been drawing attention to for some months. Also speaking from the RBA is Assistant Governor (Financial System) Michele Bullock who is speaking at a housing seminar in Amsterdam. Clearly, it's a subject near the top of economic interest.

On the data, Construction Work Done is expected to have lifted modestly in Q1, the consensus looking for growth of 1.3%. NAB's expectation is similar, a 1.5% rise in the March quarter, following the past two quarters of volatility that were affected by a major facility component for the massive Inpex Ichthys LNG project that is getting closer to full start up.

Building work done is expected to increase 0.6% q/q, as non-residential construction continues to lift (+2.7% q/q), alongside reports of a tight commercial property market, particularly in offices, warehousing and accommodation. The growth in non-residential building is expected to offset the gradual slowdown in residential building (-0.6% q/q), as the housing construction cycle and the market continues to emit signs of cooling.

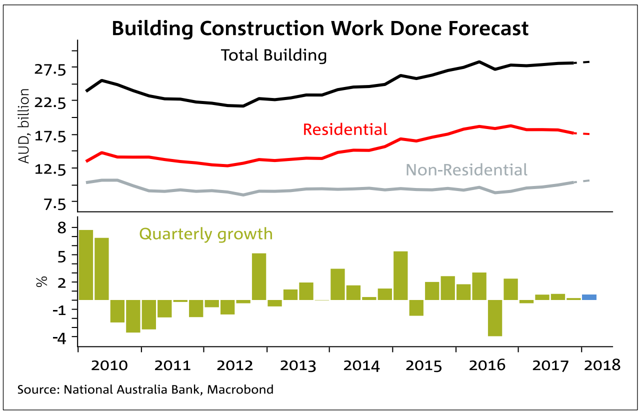
Engineering work done could be the swing factor, again, and it is expected to increase 2.7% q/q. This component of Work Done has been lumpy as the import of large LNG components resulted in a sharp rise and fall in Q3 and Q4 respectively last year. This quarter, we expect Engineering work done to rise as mining services and maintenance picks up alongside higher commodity prices, while road and transport infrastructure construction should be more evident with much more growth to come.

Major Australian Export To China



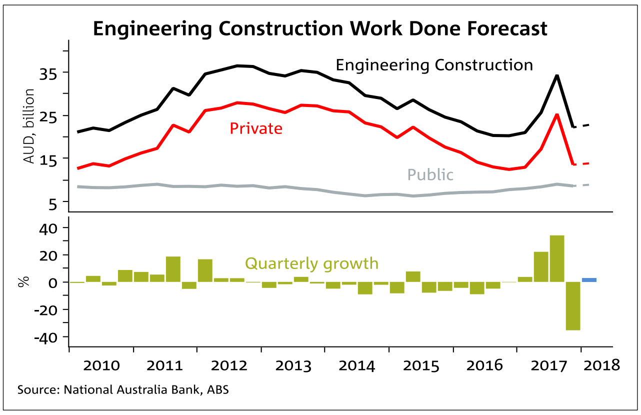
Source: National Australia Bank, ABS

Building Work Flat-Lining Of Late



Source: National Australia Bank, Macrobond

Engineering Passing Its Low Point



Source: National Australia Bank, ABS

China

It's a near nil return for China data. Rather, markets will be alert to evolving developments on the US-China trade tensions front.

US

Data-wise there is little on the calendar apart from the Fed Minutes on Wednesday and Durable Goods on Friday. Given the plethora of Fed speakers recently there is likely little more to be learned from another deluge of Fed speakers. Fed Chair Powell though is at the Swedish Riksbank's 350th anniversary so his remarks may or may not delve too much into the US economy and monetary policy at this offshore event.

Eurozone

Italian politics will dominate early in the week with attention then shifting to the PMIs on Wednesday. Italy's President Mattaraella meets with leaders from The League and Five Star today, interest in a draft coalition agreement, its detail and extent of radical proposals. Whether a government is formed soon remains to be seen. Whether soon or not, it seems that this is not likely an existential Euro "in or out" crisis moment for Italians who overwhelmingly wanting to stay in the Euro and the EU. For Wednesday's May PMIs, focus will be on whether these bounce back further following the cold weather in March. The consensus has the PMIs broadly flat in the month.

UK

The CPI on Wednesday will be the data focal point with the market expecting Headline CPI of 2.5% y/y and Core at 2.1% y/y, both a tenth or so lower. In last week's Inflation Report the BoE lowered their inflation trajectory, getting back to the 2% mid-point one year earlier on fading sterling depreciation effects. This partly led them to wind back expectations of rate hikes, the BoE now pointing to 1 hike per year for the next 3 years. A CPI surprise either side of consensus would affect market pricing with a hike by August 60% priced and by November almost fully priced. The other data points to watch out for is Retail Sales on Thursday and the second vintage of Q1 GDP on Friday, the market still expecting an unrevised moribund 0.1% q/q reading.

Japan

Today's trade will draw some interest, as might Wednesday's Manufacturing PMI. More likely, there'll be greater focus on whether inflation can break its persistent low reading mould. The Tokyo CPI for May is the next instalment, out Friday, the market expecting no such surprise.

Canada

It's a quiet week ahead of next week's Bank of Canada meeting. The NAFTA deadline has now passed and it remains to be seen whether a revised agreement can be concluded by the end of this year given the US mid-terms and the Mexican Presidential elections.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ rates are higher, and the curve steeper, over the past week. The 2 year swap rate has increased 2bps from the lows reached in the aftermath of the RBNZ MPS amid some profit-taking from investors – it is now 2.215%. The 10 year swap rate is 8bps higher over the past week, mainly due to the increase in US Treasury yields (at least until Friday night). The combination of these moves has seen the 2s10s swap curve move up to 103bps – its steepest level since early March.

We wrote last week that the RBNZ MPS had increased our conviction in NZ curve steepeners and in our preference to own inflation-indexed bonds (also known as "linkers"). If the RBNZ plans to wait until core inflation is close to 2% before hiking (i.e. it prefers to be 'behind the curve' this cycle), we think the market should back-load RBNZ tightening, and the curve can steepen from here. Our preference is for 2s5s steepeners (the 2s5s curve steepened 5bps last week). Similarly, we think there is room for the market's inflation expectations to increase materially in an environment where headline CPI increases above 2% by Q3 this year but the RBNZ doesn't plan to tighten pre-emptively. NZ breakeven inflation has widened 10bps since the RBNZ but we think there is scope for that move to extend further given the still depressed level of inflation expectations.

The Budget last week sprung a few surprises in terms of the outlook for debt issuance:

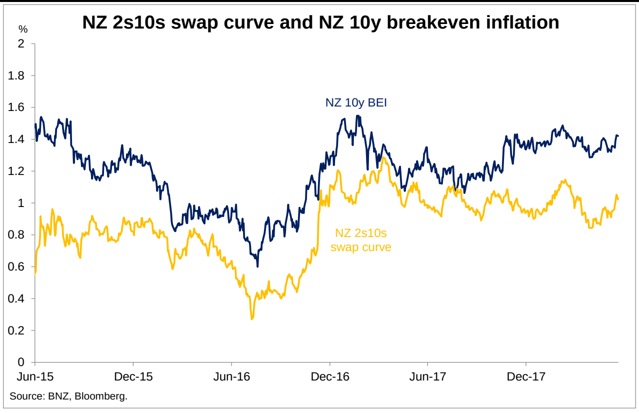
- The bond programme is increased from $7b per year to $8b per year for each of the next three fiscal years;
- Treasury bill issuance is reduced from $4b to $2b in the coming 2018/19 fiscal year;

The net result of these changes should be a steeper NZGB curve and steeper swap spread curve. The reduction in T-bill issuance, alongside the maturity of the Mar-19s, should support demand for short-dated NZGBs while the $1b increase in bond issuance may put a little upward pressure on longer-dated NZGBs, at least at the margin. The big picture is that net issuance will be significantly negative in FY2019 (see chart) and that should keep NZGBs supported (and swap spreads relatively wide).

Also announced in the Budget, Housing New Zealand (a 100% Crown-owned entity) will issue around $1b of bonds in the 2019 fiscal year and $2.9b in total over the coming four fiscal years. Given the negative net issuance of NZGBs in the coming year, HNZ supply should be well received by the market. LGFA spreads widened a touch after the announcement, given the prospect of competing supply from HNZ.

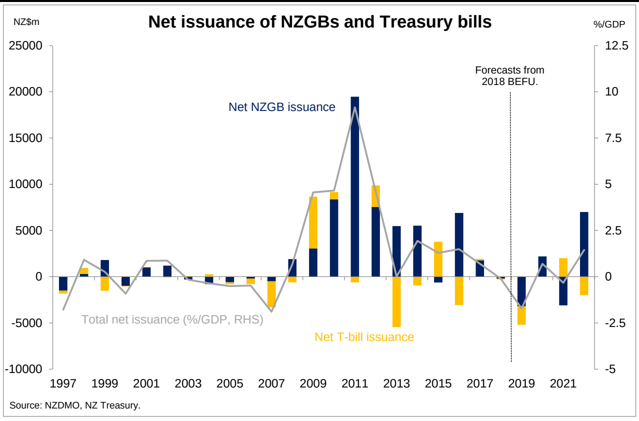
There's not much economic data that's expected to be market moving on the horizon for the week ahead. We would keep an eye on the situation in Italy, where the formation of an anti-establishment coalition (between Five Star and the League) has seen Italian bond spreads widen sharply. While there are still a lot of question marks about the ability of the coalition to deliver on its electoral promises, and its leaders have pulled back from some of the more extreme proposals, investors may be unsettled. A further widening in Italian bond spreads will likely see safe haven demand for core government bonds, and could lead to short-covering in US Treasuries.

NZ 2s10s And BEI Has Moved Higher Post-RBNZ



Source: BNZ, Bloomberg.

Net Issuance Of Nzgbs And Bills Will Be Negative In FY19



Source: NZDMO, NZ Treasury.

Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	2.00	2.00 - 2.06
NZ 2yr swap (%)	2.22	2.19 - 2.30
NZ 5yr swap (%)	2.72	2.65 - 2.75
NZ 10yr swap (%)	3.25	2.18 - 3.28
2s10s swap curve (bps)	103	90 - 104
NZ 10yr swap-govt (bps)	41	38 - 44
NZ 10yr govt (%)	2.83	2.70 - 2.86
US 10yr govt (%)	3.06	2.91 - 3.13
NZ-US 10yr (bps)	-22	-27 - -15
NZ-AU 2yr swap (bps)	11	9 - 16
NZ-AU 10yr govt (bps)	-7	-9 - 4

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD fell for the fifth consecutive week, but last week it was more about USD strength than broad NZD weakness, with the NZD fairly flat on most of the crosses and it gained some ground against EUR. The NZD found support around 0.6850 and closed the week on a strong note.

Selling pressure for the NZD might be drawing to a close after the 7% fall since mid-April. Certainly, speculative positioning is now a lot more balanced than it was in mid-April when positioning was at extreme (and unjustified, in our view) net long levels.

Our model suggests that the NZD looks a little oversold. Amidst the big sell-off in the NZD, the fundamental picture hasn't changed – while the NZ-US rate spread is slightly narrower, our risk appetite index has held up around the risk-loving 70% mark and despite USD strength, NZ commodity prices have remained strong. Thus, over the timeframe that the NZD has been slammed, our model estimate has hovered in a 0.71-0.72 range.

Last week we suggested that we wouldn't be surprised to see the NZD return to a 0.70 handle and we see no reason to change that view. A period of consolidation is due.

As the new week begins, markets will be digesting the news over the weekend that US and China are continuing with trade negotiations and that fresh tariffs will not apply on Chinese imports to the US while the two parties are still talking. So it seems for now that common sense is prevailing and the risk of a major trade war has subsided. This is positive news for commodity currencies like the NZD.

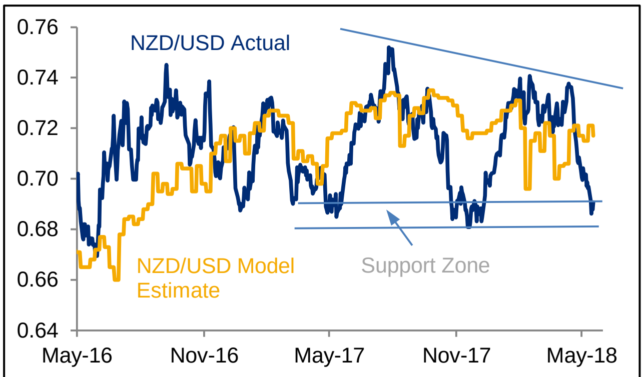
The week ahead is looking fairly quiet on the economic calendar. After the weaker than expected retail sales release this morning, there is no other local data of note this week.

Apart from more Fed speeches this week, the US calendar is also looking fairly barren. We'll be closely watching the US bond market, after the 10-year rate fell a sharp 7bps from its highs during Friday's session. If the market concludes that US bond rates have done their dash for now, then that might act as some resistance for the USD to make further gains over the short term.

Elsewhere, euro-area PMI data will be of some interest after the recent softness in activity indicators for the region. EUR has been under pressure of late, not helped by the populist leaders in Italy forming a coalition agreement that includes some fiscal profligacy in the mix. This will see Italy on the radar for currency traders over coming months. Interestingly, the mix of a weaker EUR and higher oil prices is a blessing for the ECB which wants to see higher CPI inflation. A counterbalance to EUR from Italian political risk might be increased conviction of the ECB's QE programme drawing to a close this year.

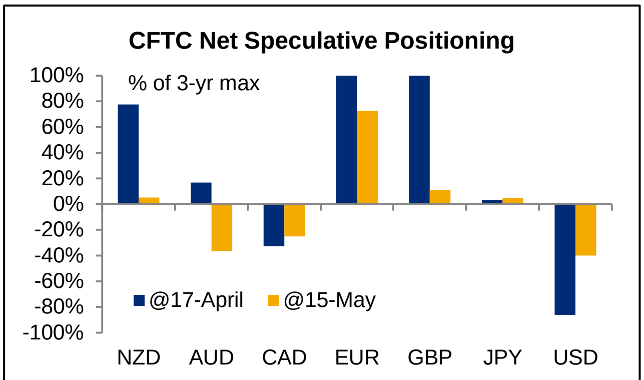
The UK sees GDP and CPI data, the former expected to be barely positive and not providing much encouragement for future BoE rate hike expectations.

NZD Weakness Finished for Now?



Source: BNZ, Bloomberg

More Balanced Spec. Positioning in NZD Now



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6925	0.6850 - 0.7050
NZD/AUD	0.9199	0.9140 - 0.9380
NZD/GBP	0.5141	0.5080 - 0.5190
NZD/EUR	0.5881	0.5780 - 0.5890
NZD/JPY	76.78	75.60 - 77.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7170	-3%
NZD/AUD	0.9180	0%

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Technicals

NZD/USD

Outlook: Downside risk
ST Resistance: 0.6980 (ahead of 0.7160)
ST Support: 0.6850 (ahead of 0.6800)

The 0.68-0.69 zone is an area of strong support, and a breach of this would threaten much lower levels.

NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9250 (ahead of 0.9530)
ST Support: 0.9050 (ahead of 0.9000)

After the recent sharp fall, the next area of support kicks in around 0.90-0.9050 and this might prove to be a tougher level to crack.

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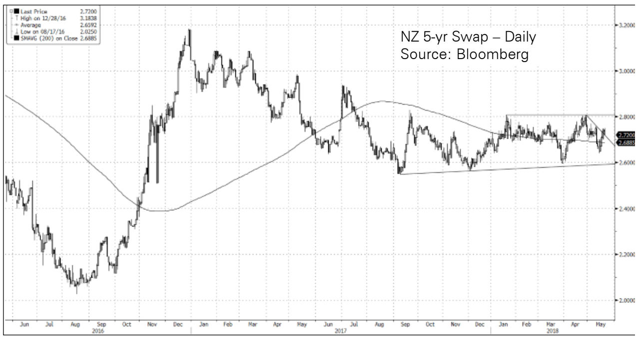
NZ 5-year Swap Rate

Outlook: Neutral
ST Resistance: 2.80
ST Support: 2.60

Move above 2.73 signals a move to 2.81.



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

Outlook: Neutral
ST Resistance: +57
ST Support: +43

Await a break.

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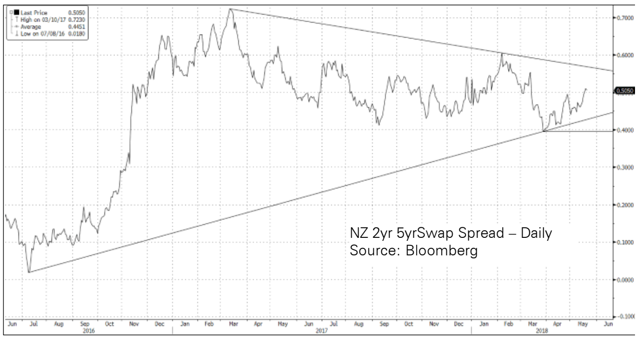

Quarterly Forecasts

Quarterly Forecasts

Forecasts as at 21 May 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	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	0.7	1.1	0.9	0.6
Retail trade (real s.a.)	1.4	1.5	1.8	0.3	1.4	0.1	0.5	1.3	1.3	0.7
Current account (ytd, % GDP)	-2.2	-2.6	-2.6	-2.5	-2.7	-2.8	-3.1	-3.4	-3.5	-3.2
CPI (q/q)	0.4	1.0	0.0	0.5	0.1	0.5	0.7	0.9	0.3	0.8
Employment	0.9	1.1	-0.1	2.2	0.4	0.6	0.5	0.5	0.6	0.6
Unemployment rate %	5.3	4.9	4.8	4.6	4.5	4.4	4.4	4.4	4.3	4.2
Avg hourly earnings (ann %)	1.1	1.1	1.2	2.0	3.1	4.0	3.8	3.6	3.5	3.1
Trading partner GDP (ann %)	3.6	3.6	3.7	4.1	3.9	3.9	3.9	3.7	3.8	3.8
CPI (y/y)	1.3	2.2	1.7	1.9	1.6	1.1	1.6	1.9	2.2	2.4
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	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
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
2018 Mar	1.75	1.90	2.40	2.95	2.20	2.70	3.20	2.20	2.85	0.10
Forecasts										
Jun	1.75	2.00	2.50	2.90	2.25	2.75	3.20	2.25	3.00	-0.10
Sep	1.75	2.00	2.65	3.15	2.25	2.90	3.45	2.45	3.25	-0.10
Dec	1.75	2.00	2.75	3.20	2.40	3.00	3.50	2.55	3.25	#NUM!
2019 Mar	1.75	2.10	2.85	3.25	2.55	3.10	3.55	2.65	3.25	0.00
Jun	2.00	2.35	3.15	3.55	2.85	3.10	3.55	2.75	3.50	0.05
Sep	2.25	2.60	3.35	3.70	3.10	3.10	3.55	2.75	3.50	0.20
Dec	2.50	2.85	3.50	3.80	3.35	3.40	3.85	2.75	3.50	0.30
2020 Mar	2.75	3.10	3.60	3.85	3.50	3.40	3.85	2.75	3.50	0.35
Jun	3.00	3.25	3.70	3.85	3.50	3.40	3.85	2.75	3.50	0.40

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	0.69	0.75	1.17	1.35	111	0.69	0.92	0.59	0.51	76.6	72.8
Jun-18	0.71	0.75	1.20	1.38	111	0.71	0.93	0.59	0.51	78.3	73.3
Sep-18	0.71	0.77	1.23	1.42	110	0.71	0.92	0.58	0.50	78.1	72.9
Dec-18	0.70	0.75	1.25	1.45	108	0.70	0.93	0.56	0.48	75.6	71.8
Mar-19	0.70	0.75	1.26	1.50	106	0.70	0.93	0.56	0.47	74.2	71.6
Jun-19	0.71	0.76	1.27	1.52	104	0.71	0.94	0.56	0.47	73.8	72.4
Sep-19	0.71	0.75	1.28	1.53	102	0.71	0.95	0.56	0.46	72.4	72.4
Dec-19	0.70	0.75	1.30	1.55	100	0.70	0.93	0.54	0.45	70.0	71.2
Mar-20	0.70	0.75	1.32	1.55	99	0.70	0.93	0.53	0.45	69.3	71.1
Jun-20	0.69	0.74	1.34	1.57	98	0.69	0.93	0.52	0.44	67.6	70.2
Sep-20	0.69	0.74	1.36	1.60	98	0.69	0.93	0.51	0.43	67.6	70.1
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 21 May 2018	March Years Actuals 2016	2017	Forecasts 2018	2019	2020	December Years Actuals 2016	2017	Forecasts 2018	2019	2020
GDP - annual average % change										
Private Consumption	3.9	5.4	4.0	3.6	2.3	5.0	4.5	3.7	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	4.0	4.4	3.9	6.4	3.3	5.0	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	4.0	1.7	4.2	1.6	2.5	1.7	4.2	4.5
Imports	2.1	5.1	6.4	4.1	3.6	3.4	6.6	4.5	3.9	3.0
Real Expenditure GDP	4.4	3.6	3.2	2.7	2.8	4.1	3.0	2.6	3.0	2.4
GDP (production)	**3.6**	**3.7**	**2.8**	**3.1**	**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*	*2.4*
Output Gap (ann avg, % dev)	1.0	1.3	0.9	1.3	1.3	1.3	1.0	1.2	1.3	1.3
Household Savings (% disp. income)	-1.3	-2.8	-2.4	-3.6	-3.4					
Nominal Expenditure GDP - $bn	254.7	270.3	287.1	298.8	312.5	266.0	283.5	295.6	309.0	323.2
Prices and Employment - annual % change										
CPI	0.4	2.2	1.1	2.4	2.0	1.3	1.6	2.2	2.0	2.0
Employment	2.0	5.7	3.1	2.2	1.6	5.8	3.7	2.2	1.9	1.2
Unemployment Rate %	5.2	4.9	4.4	4.2	4.3	5.3	4.5	4.3	4.3	4.5
Wages - ahote	2.5	1.1	4.0	3.1	3.1	1.1	3.1	3.5	3.2	2.6
Productivity (ann av %)	1.5	-1.9	-0.8	0.7	0.9	-0.8	-1.3	0.2	1.0	1.1
Unit Labour Costs (ann av %)	1.3	3.8	3.8	3.2	2.4	2.7	4.0	3.8	2.4	2.0
External Balance										
Current Account - $bn	-7.0	-7.2	-8.2	-9.7	-9.1	-6.0	-7.7	-10.2	-9.5	-8.6
Current Account - % of GDP	-2.8	-2.6	-2.8	-3.2	-2.9	-2.2	-2.7	-3.5	-3.1	-2.7
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)	24.0	21.7	22.9	22.8	21.8					
Bond Programme - $bn	7.0	8.0	8.0	8.0	9.0					
Bond Programme - % of GDP	2.7	3.0	2.8	2.7	2.9					
Financial Variables (1)										
NZD/USD	0.67	0.70	0.73	0.70	0.70	0.70	0.70	0.70	0.70	0.68
USD/JPY	113	113	106	106	99	116	113	108	100	97
EUR/USD	1.11	1.07	1.23	1.26	1.32	1.05	1.18	1.25	1.30	1.38
NZD/AUD	0.90	0.92	0.94	0.93	0.93	0.96	0.91	0.93	0.93	0.93
NZD/GBP	0.47	0.57	0.52	0.47	0.45	0.56	0.52	0.48	0.45	0.43
NZD/EUR	0.61	0.66	0.59	0.56	0.53	0.67	0.59	0.56	0.54	0.49
NZD/YEN	76.2	79.1	77.0	74.2	69.3	81.6	78.7	75.6	70.0	66.0
TWI	72.2	76.5	74.8	71.6	71.1	78.1	73.6	71.8	71.2	69.2
Overnight Cash Rate (end qtr)	2.25	1.75	1.75	1.75	2.75	1.75	1.75	1.75	2.50	3.00
90-day Bank Bill Rate	2.41	1.98	1.93	2.08	3.08	2.02	1.88	2.00	2.83	3.17
5-year Govt Bond	2.40	2.70	2.35	2.85	3.60	2.75	2.30	2.75	3.50	3.65
10-year Govt Bond	2.90	3.25	2.95	3.25	3.85	3.30	2.80	3.20	3.80	3.95
2-year Swap	2.30	2.30	2.25	2.55	3.50	2.40	2.20	2.40	3.35	3.50
5-year Swap	2.60	3.00	2.70	3.10	3.85	3.00	2.65	3.00	3.75	3.90
US 10-year Bonds	1.90	2.50	2.85	3.25	3.50	2.50	2.40	3.25	3.50	3.50
NZ-US 10-year Spread	1.00	0.75	0.10	0.00	0.35	0.80	0.40	-0.05	0.30	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 21 May			
NZ, Retail Trade, Q1 vol s.a.	+0.8%	+1.0%	+1.7%
NZ, External Migration, April s.a.			+5,480
NZ, Credit Card Billings, April			+1.0%
Jpn, Merchandise Trade Balance, April		+¥440b	+¥797b
US, Fed's Bostic/Kaplan Speak			
Tuesday 22 May			
UK, CBI Industrial Trends, May		+2	+4
Wednesday 23 May			
Aus, Lowe Speaks			
Aus, Construction Work Done, Q1	+1.5%	+1.3%	-19.4%
Jpn, All Industry Index, March		+0.1%	+0.4%
Euro, PMI Manufacturing, May 1st est		56.0	56.2
Euro, PMI Services, May 1st est		54.7	54.7
Euro, Consumer Confidence, May 1st est		+0.5	+0.4
UK, CPI, April y/y		+2.5%	+2.5%
UK, CBI Distribution Reported Sales, May			+6
US, Markit PMI, May 1st est		56.5	56.5
US, FOMC Minutes, 2 May meeting			
US, New Home Sales, April		679k	694k
US, Markit PSI, May 1st est		54.8	54.6

	Forecast	Median	Last
Thursday 24 May			
NZ, Residential Lending, April y/y			-2.2%
NZ, Merchandise Trade, April	+$241m	+$198m	-$86m
Aus, RBA's Bullock Speaks, Housing			
Euro, ECB Financial Stability Report			
Euro, ECB Minutes, 26 Apr Meeting			
Germ, GDP, Q1 2nd est		+0.3%	+0.3%P
UK, Retail Sales vol., April		+0.8%	-1.2%
US, Jobless Claims, week ended 19/05		220k	222k
US, Existing Home Sales, April		5.55m	5.60m
All, Carney/Dudley Speak, BOE Forum			
Friday 25 May			
Germ, IFO Index, May		102.0	102.1
UK, GDP, Q1 2nd est		+0.1%	+0.1%P
US, Mich Cons Confidence, May 2nd est		98.8	98.8P
US, Fed's Bostic/Evans/Kaplan Speak			
US, Durables Orders, Apr 1st est		-1.4%	+2.6%
US, Powell Speaks, Financial Stability			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.88	1.89	1.88	1.87
2mth	1.94	1.95	1.96	1.91
3mth	2.00	2.04	2.05	1.98
6mth	2.05	2.08	2.14	2.02
GOVERNMENT STOCK				
03/19	1.79	1.79	1.81	1.95
04/20	1.86	1.84	1.95	2.12
05/21	2.04	1.99	2.14	2.26
04/23	2.37	2.27	2.44	2.54
04/25	2.67	2.53	2.71	2.76
04/27	2.86	2.71	2.91	2.86
04/33	3.24	3.07	3.30	3.15
04/37	3.40	3.22	3.49	3.39
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	66	65	66	82
Nth America 5Y	62	60	62	62
Europe 5Y	58	54	55	63

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.22	2.19	2.32	2.25
3 years	2.39	2.35	2.49	2.45
4 years	2.57	2.51	2.65	2.63
5 years	2.72	2.65	2.79	2.78
10 years	3.25	3.14	3.27	3.26
FOREIGN EXCHANGE				
NZD/USD	0.6915	0.6913	0.7148	0.6996
NZD/AUD	0.9196	0.9185	0.9399	0.9357
NZD/JPY	76.68	75.80	77.70	77.86
NZD/EUR	0.5874	0.5796	0.5856	0.6226
NZD/GBP	0.5132	0.5100	0.5128	0.5383
NZD/CAD	0.8904	0.8858	0.9184	0.9445
TWI	72.9	72.7	74.4	75.6

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