30 July 2018

Wage Inflation To The Fore

- **Businesses reporting significant margin pressure**
- **As input costs rise**
- **Lower employment, lower margins, higher inflation to result**
- **Building activity strengthens**
- **As housing market remains steady**

Business contact is the lifeblood of our economic forecasts. Official data are, of course, the foundation stones as they tell us what has already happened. In some cases it's what happened some time ago (such as GDP) and in others it's what happened recently (building permits and migration, for example). But if you really want to know what's going on now, and is likely to go on in the near future, then we turn to conversations with businesses and households for real insight. The surveys are real gems in this regard but the jewel in the crown is direct contact with the people that are making the decisions that matter.

When themes keep appearing across a wide number of businesses over a number of regions then you know that something is up. It is clear to us that the something that is up now is margin pressure. Over and over again we hear the same story – input cost pressures are rising. The following reasons are the most cited:

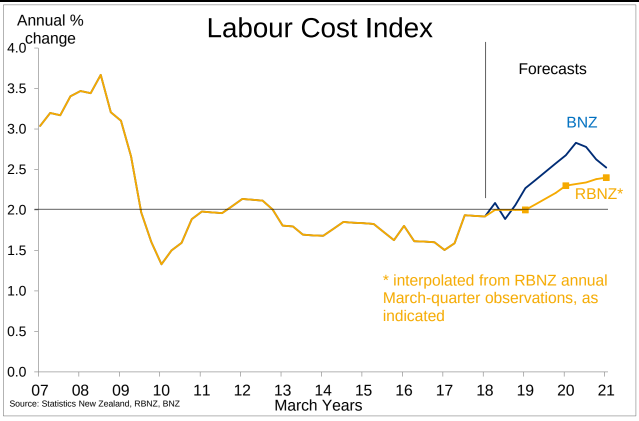
- Increased wage bills, in part because of the minimum wage increase but also because the competition for labour in some industries is intense;
- Heightened fuel and transport costs;
- Rising insurance bills;
- Interestingly, and a bit of a surprise to us, rising import costs for intermediate goods; and
- In the dairy and beef sectors – the cost impost associated with the containment of mycoplasma bovis.

Will this flow throw to generalised inflation? And, most importantly from an RBNZ perspective, will it feed through into CPI inflation? Our feeling is yes but we wouldn't want to overstate the impact of this.

While businesses are fairly consistent in identifying cost pressures their responses to them are quite varied. In short there appear to be three options:

- Allow margins to fall because profit levels are sufficiently high to make a small downward adjustment manageable;

Wage Pressures Accelerate



- Raise selling prices; or
- Increase automation to reduce labour costs.

In reality, there will be a combination of the above responses and we will need to wait and see which of these dominates.

This week's data will give us some insight into both past and future developments. The most watched release is likely to be Wednesday's Labour Market report. Within this, all eyes will be on the Labour Cost Index (LCI) which is the measure that the RBNZ seems to focus on. With the 4.8% increase in the minimum wage hitting this quarter it is almost certain that the Q2 2018 reading will be higher than the 0.44% of Q2 2017. Most importantly, the annual increase in the LCI will push through 2.0% - the level seen as being consistent with a 2.0% CPI target.

Many will play this down as an aberration but they will be missing the point. There are three more minimum wage increases penciled in and each of them is bigger than this year's event. Then there is the nurses' settlement, future pay equity settlements, the generally increased pressure on wages from staff shortages and heightened demands for compensation for rising CPI inflation all of which is yet to be fully captured in the data.

One of the reasons that led the RBNZ to cut its cash rate through 2016 was that LCI inflation was falling and threatened to fall further. That excuse is well and truly buried for now with the LCI likely to trend higher for the next two years or so.

If businesses do manage to push through the capital/labour substitution that they anticipate then this will eventually take pressure off the over-extended labour market but we doubt that the substitution will be sufficient to create genuine labour market slack given ongoing demands for workers accompanied by a likely softening in supply.

The softening in supply is already evident with the annual growth in the working age population falling to 2.2% for the year ended June. That's the lowest increase since March 2015 and we expect it to trend even lower. Accordingly, slower growth in employment will still leave the unemployment rate at least as low as where it now is.

For the record, we have a 0.4% pick for employment growth for the June quarter with the unemployment rate sticking at around 4.4%. It would take a significant deviation from these outcomes to have us change our view on likely future stresses in the labour market.

What might have a bigger impact on our labour market expectations is Tuesday's release of the ANZ's latest monthly business opinion survey. Employment intentions have been dropping in this survey to levels that are starting to hint that we are too optimistic with our employment growth forecasts. The June survey had employment intentions at just +1.9% - a more than seven year low. Any further softening in this aggregate would be disconcerting.

Similarly, we are hoping for some stabilization in business expectations for own-activity. Any headline reading less than +7 would unnerve us. Ultimately, if our forecasts for economic activity are to come true, we would like to see own-activity readings moving into the high teens.

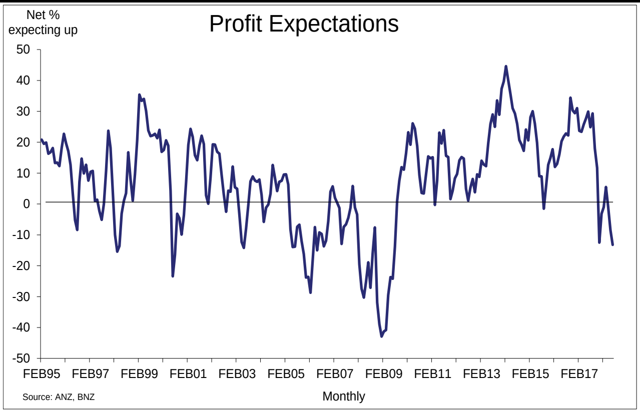
Of course, the other indicators that we will be watching with intense interest are inflation expectations and pricing intentions. Inflation expectations rose to 2.29% in June. It's difficult to see this dropping below 2.0% so downside concerns are limited. But was it to climb above November's 2.34% reading it would be at its highest level since October 2014.

In terms of pricing intentions, the long term average is +21.2 - the latest reading was +26.9. It would be a huge surprise if this greater than average intent was not sustained.

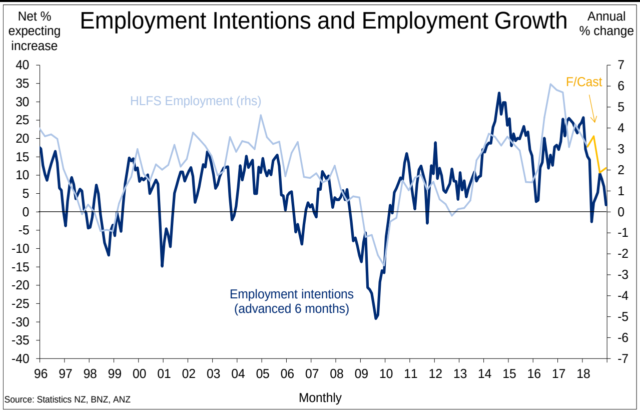
Last but not least, profit expectations have been falling. We will also be watching these with interest to get a better understanding of both downward margin and activity growth expectations and, in tandem, the continued upward pressure that there will be on selling prices.

Rising Input Costs Means…

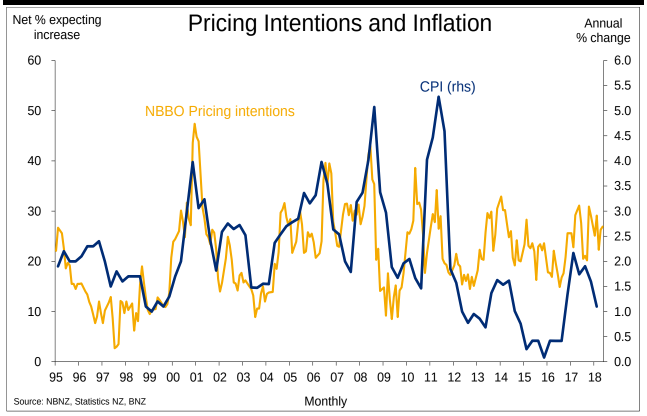
Pressure on Profits



Reduced Hiring Intentions



Higher Inflation



While the labour market and business expectations data are the clear highlights for the week there are a number of partials also worth keeping an eye on.

- On Tuesday we get building consents for June. After a brief hiatus, consent numbers have again been trending higher over the last few months. We will be looking for a solid continuation to this trend to support our relatively aggressive construction forecasts.
- Tuesday also sees credit aggregate data. We would expect credit growth to remain relatively stable with the household sector leading the way at a 6.0% pace, business not far behind, while agriculture lags at 2.5%.
- Latest QVNZ housing data are due Wednesday morning. The chance of a surprise here is exceptionally low. Expect more of the same with housing turnover under pressure but house prices holding onto their gains in Auckland, and continuing to gain almost everywhere else, with the clear exception of Christchurch.
- Friday sees job ads. The growth rate in this series has declined sharply. In part this will be supply issues, in part demand, in part increased business uncertainty and, in part, the increased cost of labour. Whatever the case, further decline (especially if the ANZ business survey also displays weakness in hiring intentions) will make us more nervous about the prognosis for the labour market.

All in all then, plenty to mull over. When the week is all done and dusted we are expecting to report:

- Rising inflationary pressure;
- A further tightening in the labour market;
- But signs that economic growth is losing its momentum.

An interesting cocktail that will pose conflicting signals for market watchers.

stephen_toplis@bnz.co.nz

Global Watch

- **Big week with central banks in play**
- **BoE set to hike**
- **BoJ to tweak controls?**
- **Fed to maintain commentary**
- **PMIs due in US, China, UK – any trade impacts?**
- **US payrolls expected solid again Friday**
- **EU GDP, CPI due**
- **Softer Australian retail sales among week's monthly indicators?**

Australia

Key economic data for June are released in the week ahead, including: building approvals (Tuesday), RBA credit (Tuesday), trade balance (Thursday) and retail sales (Friday).

All are important (and timely) pulse checks for the Australian economy, but markets will be paying particular attention to retail sales, which includes a quarterly volumes measure this month – a key indicator for Q2 Household Consumption component of GDP (Q2 data due early Sep). NAB expects retail sales to rise slightly in June, by +0.1% m/m. After two stronger-than-expected prints in April and May, we expect a soft +0.1% m/m print in June. In particular, last month saw a sharp rise in department store retail sales (+3.9% m/m, +2.1% y/y). We expect that to reverse in June, softening overall retail sales growth.

This generates Q2 print of 0.7% q/q, once retail inflation is taken into account. The market is a touch stronger at +0.3% m/m and +0.8% q/q.

NAB forecasts building approvals to lift 2% m/m/-4.5% y/y (mkt: +1% m/m), RBA credit to print +0.4% m/m /+4.6% y/y (mkt: +0.3% m/m) and the trade surplus to rise to $1300m (mkt: $900 m).

Chart 1: Retail trade is key for Q2 consumption

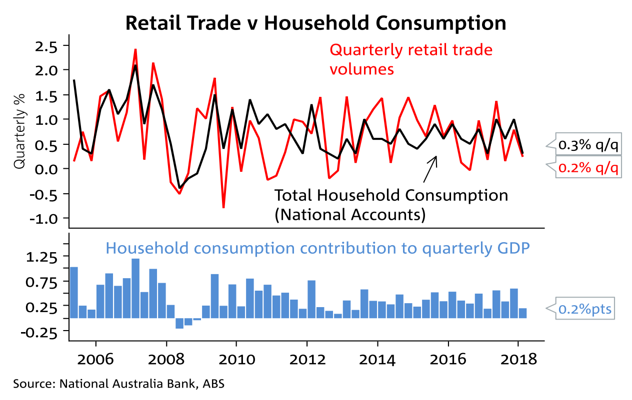
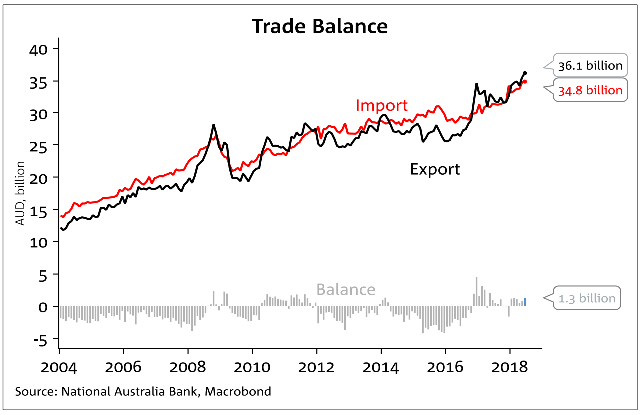


Chart 2: Trade surplus expected to lift

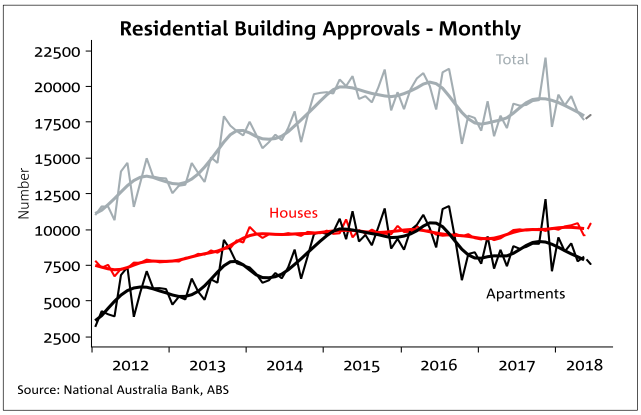


The trade balance feeds into expectations for the Q2 Net Exports contribution to GDP. The surplus is expected to increase this month from $827m (mkt: $900m, NAB: $1300m), driven by growth in exports – mainly from stronger commodity exports, including iron ore, coal and LNG.

However, recent trade price data showed higher-than-expected prices for good exports. Given most of Australia's trade is in goods, these data correlate well with the overall terms of trade. All else equal, a higher terms of trade implies lower Q2 net export volume growth, and a smaller contribution to Q2 GDP. We'll report when we see the data, but have reduced our Q2 net export contribution to flat from +0.2ppt as a result. Our preliminary Q2 GDP pick is +0.5/0.6% q/q.

Building approvals surprised markets to the downside last month, after a sharp fall in house approvals (-9% m/m). This unusual move was led by Queensland (-21% m/m) – we expect this to rebound this month and overall house approvals to bounce back +9% m/m. For the ever-volatile apartment approvals, we expect a continuation of its trend decline (currently at -2.8% m/m) and a moderate decline this month (-6.4% m/m).

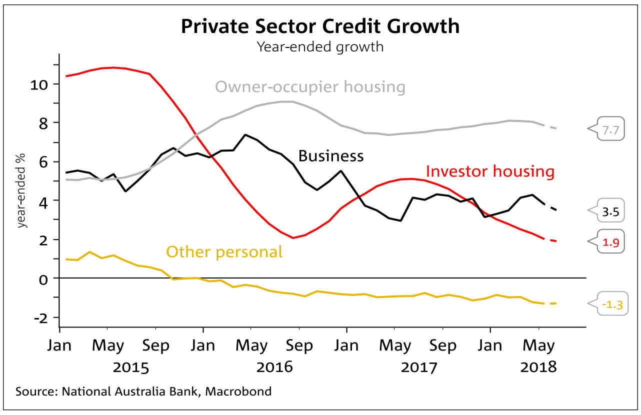
Chart 3: Approvals to lift modestly, but trend down still



RBA credit data also surprised to the downside last month, as business credit growth softened (-0.2% m/m, from 0.5% m/m). We expect the June data to show that softness was temporary, and business credit grew +0.5% m/m in the month. The market appears to be a touch more wary on this front and expects slightly softer overall credit growth +0.3% m/m (NAB: +0.4%m/m).

In the other components, NAB expects another +0.4% m/m for housing credit growth, as owner-occupier credit growth continues to soften gradually (+0.53% m/m, last: +0.55% m/m), partly offset by a slight rebound in investor credit (+0.15% m/m) after a very soft May (+0.03% m/m). Personal credit is expected to continue to decline, -0.1% m/m.

Chart 4: Credit growth to lift in June, but slow y/y



Source: National Australia Bank, Macrobond

US

A big week ahead, with the FOMC on Wednesday, Payrolls on Friday, and the ISMs Wednesday/Friday. The Fed is expected to keep rates on hold in what is an "interim meeting" with no press conference (a hike is expected at the next meeting – Sept now 94% priced). The Statement will be closely scrutinised for any changes in nuance, particularly around trade and on the flattening of the yield curve – though we will likely have to wait until the next round of Fed speakers to get further insight. For Payrolls, another solid report is expected with +190k jobs with unemployment expected to fall to 3.9% from 4.0%. Focus will be on the Hourly Earnings figure that is expected to continue at a 2.7% y/y pace. Markets will look to the ISMs for any trade-tension impacts (both on activity and prices).

China

Official and Caixin PMIs for July are released in the week. The Manufacturing PMI on Tuesday is expected to show a slight softening to 51.3 from 51.5, while the Caixin Manufacturing PMI is expected to remain steady at 51.

Markets will continue watching the Yuan fix to see if Chinese authorities will further weaken their currency.

UK

BoE on Thursday dominates the week where the market prices in around a 90% chance of a 25bp hike. It is likely to be a dovish hike and one or two dissenters cannot be ruled out. Even with a hike, the BoE is unlikely to deviate much from its current guidance of 1-2 hikes per year being needed over the next three years – with most members sitting in the 1 hike a year camp. Further clarity on Brexit will also be needed. Data-wise the Manufacturing PMI (Wednesday) and the Services PMI (Friday) are of note.

Japan

Markets will be carefully watching the BoJ meeting on Tuesday amid speculation the Bank may 'tweak' its QE and or yield curve control (YCC) policies, alongside a downgrade to its inflation outlook in its quarterly report. The BoJ has been allowing the 10y yield to lift from zero, but as it has been the case in the past the Bank has effectively capped any moves above 0.11% by offering to buy unlimited amount of bonds at that level. Both the meeting result and statement will be scrutinised carefully, with markets looking to understand the BoJ's view on how sustainable its current stimulus measures are – bearing in mind their impact on private bank profits and viability of the JGB market.

Eurozone

CPI and Q2 GDP on Tuesday. Again, note liquidity/volumes are likely to be thin given the Summer Holiday season. German CPI figures on Monday should give a good guide to where Eurozone CPI will print on Tuesday – consensus currently sits at 2% y/y for Headline and 1.0% y/y for Core. For GDP, growth is expected to edge higher to 0.5% q/q, up from 0.4% in Q1. While this pace of growth is lower than the 0.7% q/q averaged last year, it is still more than sufficient to see further declines in the unemployment rate and put upward pressure on wages growth. Markets will also be paying attention to any further developments on the Trump/Juncker Agreement.

Canada

Another quiet week in Canada with only the Markit PMI on Wednesday of note.

Kaixin.Owyong@nab.com.au

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

The NZ swaps curve steepened last week, in sympathy with moves offshore. There was no major domestic data to influence OCR expectations, but the 3m bank bill rate continued to grind lower, and this helped the 2 year swap rate fall 1.5bps on the week. The 3m bank bill rate is now 1.905% and is now at its lowest levels since mid-March.

The focus offshore last week was the Japanese government bond (JGB) market amid reports that the BoJ would consider tweaks to its Yield Curve Control (YCC) policy at its monetary policy meeting this week. The 10 year JGB yield increased to 0.11% after the reports emerged last week, prompting the BoJ to intervene to preserve its yield cap. With Japanese investors (banks, life insurance companies, pension funds) being major investors in foreign bond markets, the upward pressure on JGB yields led global long-dated yields to rise – the 10 year Treasury yield was 6bps higher last week while the NZ 10 year swap rose 3bps. The market anticipates that BoJ policy changes that lead to higher long-end JGB yields will lead to some repatriation by Japanese investors from foreign bond markets, if they can achieve target returns in their home market.

Despite the upward pressure on both global bond yields and the long-end of the NZ swaps curve, NZ government bond yields surprisingly fell last week (the 10 year NZGB was 5bps lower). The move in the NZGB curve looks idiosyncratic, and possibly flow-related. Since 19th June:

- The 10 year NZGB-ACGB spread declined 12bps
- The 10 year NZGB-UST spread declined 18bps
- The 10 year NZGB-swap spread declined 13bps
- 10 year NZ breakeven inflation declined 16bps

The NZ-US 10 year bond spread declined to a new low of -28bps while the NZ-US 10 year spread in swaps sits at just 1bp – its narrowest level since 1994.

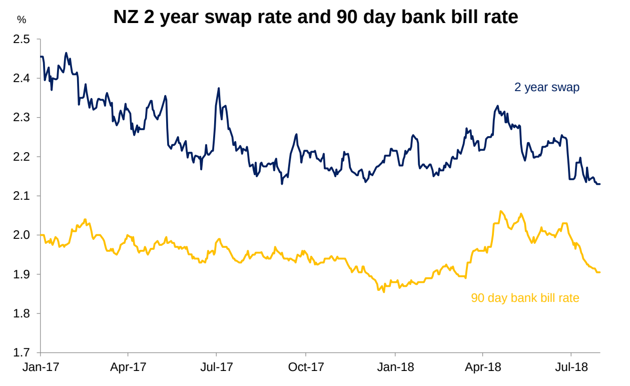
Domestically, the focus this week is the labour market report on Wednesday morning. We're looking for the unemployment rate to remain unchanged at 4.4% and the LCI to increase 0.7% last quarter (boosted in part by the April 1st increase in the minimum wage). Ahead of that, the ANZ business survey is released tomorrow. The narrative around weak NZ business confidence is now very well-known and we think, if anything, the market would be more sensitive to a surprise increase in the survey.

Offshore, the main focus is the BoJ's monetary policy meeting tomorrow. The consensus appears to be that the BoJ will announce a Comprehensive Review of its monetary policy framework and report on its findings later this year. But there is some speculation the BoJ could signal some changes (ie. letting the 10 year yield move in a wider range around its 0% target) at this meeting.

Elsewhere, the Fed meets on Wednesday morning, with no change in rates universally expected. We'd be surprised if there was any market reaction to the statement. The Fed's median forecast is for two additional hikes this year, which is close to market pricing of 1.7 hikes. The bigger question is what the Fed does in 2019; whether it pauses the tightening cycle or hikes above 'neutral'. We're unlikely to get any clarification until later this year, and in the meantime, we expect Treasury yields to range-trade (unless we get an external shock, for instance a change to the BoJ's YCC framework).

Payrolls is the highlight data-wise this week, with the market likely to focus on the Average Hourly Earnings measure of wage growth. Ahead of this, the Employment Cost Index (another wage measure) is released tomorrow night. Elsewhere, Euro area GDP and CPI is released and the BoE is expected to raise rates for the second time this cycle.

90 day bank bill rate back to mid-March levels



Source: BNZ, Bloomberg

Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.91	1.91 - 1.97
NZ 2yr swap (%)	2.13	2.13 - 2.20
NZ 5yr swap (%)	2.54	2.52 - 2.59
NZ 10yr swap (%)	3.03	2.98 - 3.08
2s10s swap curve (bps)	90	85 - 92
NZ 10yr swap-govt (bps)	29	18 - 29
NZ 10yr govt (%)	2.74	2.73 - 2.88
US 10yr govt (%)	2.95	2.82 - 2.99
NZ-US 10yr (bps)	-22	-24 - 2
NZ-AU 2yr swap (bps)	6	-1 - 10
NZ-AU 10yr govt (bps)	9	9 - 24

*Indicative range over last 3 weeks

nick.smyth@bnz.co.nz

Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD remained range-bound last week, with the 0.6850 mark proving to be a key level of resistance while the early-July level around 0.67 looks like a key support level. The NZD/AUD range has been particularly tight during July so far, staying mostly within 0.91-0.92. Last week's Australian CPI figures didn't surprise, with core inflation locked in near the lower edge of the RBA's 2-3% target band, providing further encouragement to the central bank to keep policy steady.

Last week's meeting between President Trump and the EU's Juncker threw out a positive surprise, with the threat of US auto tariffs on the EU subsiding. The two regions will work together to formulate a "fair" trade policy, providing a window of less aggressive rhetoric.

China continues to announce incremental policy changes in the direction of easier monetary and fiscal policy, which looks like a pre-emptive move ahead of possible weaker growth momentum. This saw ongoing downward pressure on CNY but less spillover for the NZD, as risk appetite was supported by the policy moves. Last week the BNZ risk appetite index hit 73% at one stage, its highest level in 10 weeks.

While price action last week was fairly modest, a bumper week ahead has the potential to introduce a touch more volatility. Locally, tomorrow's ANZ business outlook survey is expected to continue to show weak business confidence. Labour market data on Wednesday will be more interesting, with a tight labour market and the increase in the minimum wage expected to breathe some life into wage inflation data. Coming hot on the heels of signs of higher core inflation pressure, a positive surprise for wages would add to the case that the next move by the RBNZ will be tighter, not easier, monetary policy.

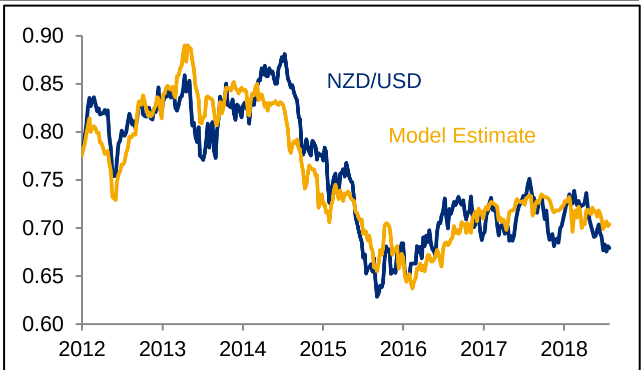
Policy meetings by central banks in the US, UK and Japan have the potential to cause some currency volatility. Of that lot, the US FOMC meeting should be the least interesting, with the Fed likely to continue its gradual policy tightening "for now". The BoE is widely expected to raise its policy rate for just the second time this cycle, with more interest focused on the outlook. With Brexit risks still overhanging the economy, it's hard to see the BoE becoming overly hawkish at this stage.

The BoJ's policy meeting will be more interesting than usual, with recent reports suggesting that the Bank will discuss possible changes to its ultra-loose monetary policy stance. BoJ officials are said to be looking for ways to keep their policy programme sustainable, while reducing the harm it causes to the profitability of commercial banks. This might involve operating a more flexible "yield curve control" policy that allows higher longer-term JGB rates than the current line in the sand around 0.1%. Any fresh announcement has the potential to cause some yen volatility.

The global economic calendar is also heavy, with non-farm payrolls and the ISM indicators the key releases in the US. In the euro area, key CPI and GDP data are released. On the top of all this we still have President Trump's twitter feed to monitor. Moving on from trade, over the weekend Trump threatened to shut down the US government if he didn't get votes for border security to enable him to build the wall along the US-Mexico border.

In summary, there's enough potential news this week to generate more currency volatility than we've seen recently. Our short-term fair value NZD estimate has been stuck in a 0.70-0.71 range for the past six weeks. We expect a closing of the gap to be generated by fair value nudging down than the spot rate jumping higher, with our end-Q3 target remaining at 0.6850.

NZD trading slightly below FV, but not significantly so



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6794	0.6710 - 0.6850
NZD/AUD	0.9185	0.9110 - 0.9210
NZD/GBP	0.5183	0.5110 - 0.5210
NZD/EUR	0.5827	0.5770 - 0.5840
NZD/JPY	75.37	75.20 - 76.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7040	-3%
NZD/AUD	0.9140	0%

jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6860 (ahead of 0.7050)
ST Support: 0.6690 (ahead of 0.6575)

The NZD has consolidated into a fairly tight range over recent weeks. The 0.6690-6860 range defines the current support and resistance levels.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9215 (ahead of 0.9400)
ST Support: 0.9100 (ahead of 0.8975)

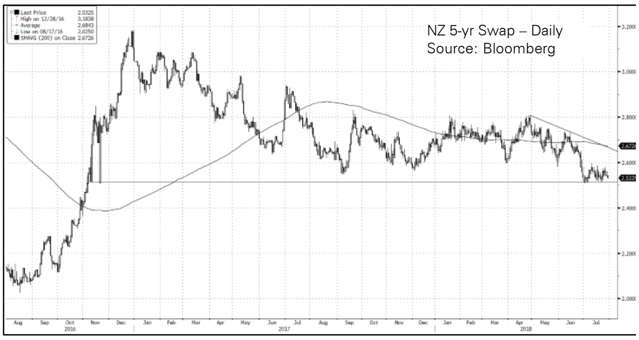
The cross has been tightly range-bound around 0.91-92 through July so far. Technical patterns provide no obvious guidance at this point.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook: Lower
ST Resistance: 2.60
ST Support: 2.275

2.51 is proving a difficult level to get through. Stay invested stop through 2.60

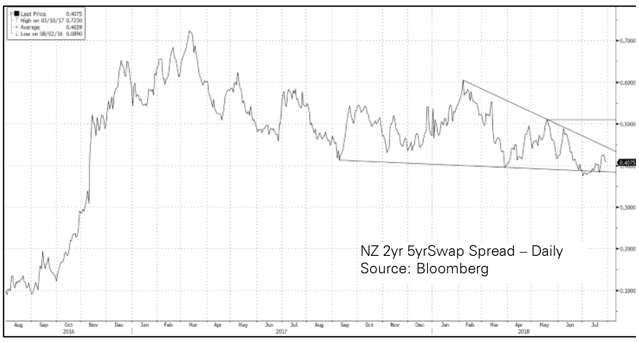


NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: Neutral
ST Resistance: +51
ST Support: +38.5

Still not breaking lower so stay neutral until close below +38

pete_mason@bnz.co.nz



Quarterly Forecasts

Forecasts as at 30 July 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (production s.a.)	0.8	0.9	0.6	0.6	0.5	0.8	1.0	0.9	0.5	0.7
Retail trade (real s.a.)	1.5	1.8	0.3	1.4	0.1	0.2	1.2	1.2	0.7	0.6
Current account (ytd, % GDP)	-2.6	-2.6	-2.5	-2.7	-2.8	-3.0	-3.4	-3.4	-3.1	-3.1
CPI (q/q)	1.0	0.0	0.5	0.1	0.5	0.4	0.7	0.4	0.7	0.5
Employment	1.1	-0.1	2.2	0.4	0.6	0.4	0.5	0.6	0.6	0.5
Unemployment rate %	4.9	4.8	4.6	4.5	4.4	4.4	4.4	4.3	4.2	4.3
Avg hourly earnings (ann %)	1.1	1.2	2.0	3.1	4.0	4.1	4.0	4.1	3.9	3.8
Trading partner GDP (ann %)	3.5	3.7	4.0	3.9	4.0	3.9	3.7	3.8	3.7	3.7
CPI (y/y)	2.2	1.7	1.9	1.6	1.1	1.5	1.7	2.0	2.2	2.3
GDP (production s.a., y/y))	3.0	2.8	2.6	2.9	2.7	2.6	3.0	3.3	3.3	3.2

Interest Rates

Historical data - qtr average			Government Stock		Swaps			US Rates		Spread
Forecast data - end quarter	Cash	90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	NZ-US Ten year
2017 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
Jun	1.75	2.00	2.35	2.90	2.25	2.70	3.15	2.35	2.90	-0.06
Forecasts										
Sep	1.75	2.00	2.45	2.95	2.25	2.75	3.25	2.30	3.10	-0.15
Dec	1.75	2.00	2.60	3.10	2.40	2.90	3.40	2.55	3.25	-0.15
2019 Mar	1.75	2.10	2.70	3.20	2.55	3.00	3.50	2.75	3.25	-0.05
Jun	2.00	2.35	3.00	3.45	2.85	3.00	3.50	3.10	3.50	-0.05
Sep	2.25	2.60	3.20	3.60	3.10	3.00	3.50	3.35	3.50	0.10
Dec	2.50	2.85	3.35	3.70	3.35	3.30	3.75	3.35	3.50	0.20
2020 Mar	2.75	3.10	3.45	3.80	3.50	3.30	3.75	3.10	3.50	0.30
Jun	3.00	3.25	3.60	3.80	3.50	3.30	3.75	3.10	3.50	0.40
Sep	3.00	3.25	3.60	3.80	3.50	3.50	3.90	3.10	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	0.68	0.74	1.17	1.31	111	0.68	0.92	0.58	0.52	75.4	73.3
Sep-18	0.69	0.73	1.15	1.32	109	0.69	0.94	0.60	0.52	74.7	73.4
Dec-18	0.70	0.75	1.18	1.38	110	0.70	0.93	0.59	0.51	77.0	73.8
Mar-19	0.70	0.75	1.22	1.45	108	0.70	0.93	0.57	0.48	75.6	72.6
Jun-19	0.71	0.75	1.22	1.47	106	0.71	0.94	0.58	0.48	75.3	73.2
Sep-19	0.71	0.75	1.25	1.53	104	0.71	0.94	0.57	0.46	73.8	72.8
Dec-19	0.70	0.75	1.30	1.55	102	0.70	0.93	0.54	0.45	71.4	71.5
Mar-20	0.70	0.75	1.32	1.55	100	0.70	0.93	0.53	0.45	70.0	71.3
Jun-20	0.69	0.74	1.34	1.57	99	0.69	0.93	0.52	0.44	68.3	70.3
Sep-20	0.69	0.74	1.36	1.60	98	0.69	0.93	0.51	0.43	67.6	70.1
Dec-20	0.68	0.73	1.38	1.60	98	0.68	0.93	0.49	0.43	66.6	69.3
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 30 July 2018	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2017	2018	2019	2020	2021	2016	2017	2018	2019	2020
GDP - annual average % change										
Private Consumption	5.5	3.8	2.9	2.4	1.7	5.1	4.4	2.8	2.6	1.8
Government Consumption	1.9	4.9	2.1	1.8	1.7	1.6	4.6	2.7	1.8	1.7
Total Investment	5.6	3.9	4.7	3.7	3.8	6.4	3.5	4.8	4.1	3.6
Stocks - ppts cont'n to growth	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.3	-0.1	0.0
GNE	4.8	4.0	3.4	2.6	2.2	4.7	4.2	3.7	2.7	2.2
Exports	0.7	3.9	3.6	4.3	4.0	1.6	2.3	3.4	4.6	4.0
Imports	5.1	7.0	5.2	3.5	2.2	3.4	6.7	6.3	3.7	2.4
Real Expenditure GDP	3.6	3.1	2.8	2.8	2.7	4.1	3.0	2.7	2.9	2.7
GDP (production)	**3.7**	**2.7**	**3.1**	**2.8**	**2.7**	**4.0**	**2.8**	**2.9**	**2.9**	**2.7**
GDP - annual % change (q/q)	*3.0*	*2.7*	*3.3*	*2.6*	*2.8*	*3.4*	*2.9*	*3.3*	*2.6*	*2.8*
Output Gap (ann avg, % dev)	1.4	0.9	0.9	0.7	0.4	1.4	1.0	0.9	0.8	0.5
Household Savings (% disp. income)	-2.8	-1.8	-2.8	-2.6	-1.8					
Nominal Expenditure GDP - $bn	270.3	286.4	299.0	315.4	327.9	266.1	283.4	294.9	311.6	325.1
Prices and Employment - annual % change										
CPI	2.2	1.1	2.2	2.1	2.1	1.3	1.6	2.0	2.0	2.1
Employment	5.7	3.1	2.1	1.6	1.6	5.8	3.7	2.1	1.9	1.6
Unemployment Rate %	4.9	4.4	4.2	4.3	4.3	5.3	4.5	4.3	4.3	4.3
Wages - ahote	1.1	4.0	3.9	3.4	2.8	1.1	3.1	4.1	3.5	3.0
Productivity (ann av %)	-1.9	-0.8	0.7	0.8	1.2	-0.8	-1.3	0.2	0.9	1.1
Unit Labour Costs (ann av %)	3.8	3.9	3.5	2.7	2.2	2.7	4.0	4.0	2.7	2.3
External Balance										
Current Account - $bn	-7.2	-7.9	-9.4	-9.2	-10.7	-6.0	-7.7	-10.1	-9.6	-10.1
Current Account - % of GDP	-2.6	-2.8	-3.1	-2.9	-3.3	-2.2	-2.7	-3.4	-3.1	-3.1
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.5	1.2	1.0	1.5	1.5					
Net Core Crown Debt (excl NZS Fund Assets)	21.7	20.8	20.6	19.7	18.3					
Bond Programme - $bn	8.0	8.0	8.0	9.0	9.0					
Bond Programme - % of GDP	3.0	2.8	2.7	2.9	2.7					
Financial Variables (1)										
NZD/USD	0.70	0.73	0.70	0.70	0.68	0.70	0.70	0.70	0.70	0.68
USD/JPY	113	106	108	100	98	116	113	110	102	98
EUR/USD	1.07	1.23	1.22	1.32	1.38	1.05	1.18	1.18	1.30	1.38
NZD/AUD	0.92	0.94	0.93	0.93	0.93	0.96	0.91	0.93	0.93	0.93
NZD/GBP	0.57	0.52	0.48	0.45	0.43	0.56	0.52	0.51	0.45	0.43
NZD/EUR	0.66	0.59	0.57	0.53	0.50	0.67	0.59	0.59	0.54	0.49
NZD/YEN	79.1	77.0	75.6	70.0	66.6	81.6	78.7	77.0	71.4	66.6
TWI	76.5	74.8	72.6	71.3	69.9	78.1	73.6	73.8	71.5	69.3
Overnight Cash Rate (end qtr)	1.75	1.75	1.75	2.75	2.75	1.75	1.75	1.75	2.50	3.00
90-day Bank Bill Rate	1.98	1.93	2.08	3.08	2.92	2.02	1.88	2.00	2.83	3.17
5-year Govt Bond	2.70	2.35	2.70	3.45	3.55	2.75	2.30	2.60	3.35	3.60
10-year Govt Bond	3.25	2.95	3.20	3.80	3.95	3.30	2.80	3.10	3.70	3.95
2-year Swap	2.30	2.25	2.55	3.50	3.40	2.40	2.20	2.40	3.35	3.50
5-year Swap	3.00	2.70	3.00	3.75	3.85	3.00	2.65	2.90	3.65	3.90
US 10-year Bonds	2.50	2.85	3.25	3.50	3.50	2.50	2.40	3.25	3.50	3.50
NZ-US 10-year Spread	0.75	0.10	-0.05	0.30	0.45	0.80	0.40	-0.15	0.20	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 30 July			
Jpn Retail Sales, June y/y		+1.7%	+0.6%
Euro, Economic Confidence, July		112.0	112.3
Germ, CPI, July y/y 1st est		+2.1%	+2.1%
Tuesday 31 July			
NZ, Credit Aggregates, June (household y/y)			+6.0%
NZ, ANZ Business Survey, July			-39
NZ, Building Consents, June (res, #)			+7.1%
Aus, Private Sector Credit, June		+0.3%	+0.2%
Aus, Building Approvals, June		+1.0%	-3.2%
China, PMI (NBS), July		51.3	51.5
China, Non-manufacturing PMI, July		55.0	55.0
Jpn, BOJ Policy Announcement, Policy Rate		-0.1%	-0.1%
Jpn, Industrial Production, June 1st est		-0.3%	-0.2%
Euro, Unemployment Rate, June		8.3%	8.4%
Euro, CPI, July y/y 1st est		+2.0%	+2.0%
Euro, GDP, Q2 1st estimate		+0.5%	+0.4%
US, Employment Cost Index, Q2		+0.7%	+0.8%
US, Chicago PMI, June		61.8	64.1
US, Consumer Confidence, July		126.5	126.4
US, Personal Spending, June		+0.4%	+0.2%
Wednesday 1 August			
NZ, LCI Priv Ord Wages, Q2 y/y	+2.2%	+2.2%	+1.9%
NZ, HLFS Unemployment Rate, Q2	4.4%	4.4%	4.4%

	Forecast	Median	Last
Wednesday 1 August*...continued*			
NZ, HLFS Employment, Q2	+0.4%	+0.4%	+0.6%
NZ, QVNZ House Prices, July y/y			+5.7%
Aus, CoreLogic HPI, July			-0.3%
China, PMI (Caixin), July		50.9	51.0
UK, Markit/CIPS Manuf Survey, July		54.2	54.4
US, FOMC Policy Announcement	2.00%	2.00%	2.00%
US, ADP Employment, July		+185k	+177k
US, ISM Manufacturing, July		59.3	60.2
Thursday 2 August			
Aus, International Trade, June		+$1.00b	+$0.83b
UK, BOE Policy Announcement/Inflation Report		0.75%	0.50%
US, Factory Orders, June		+0.7%	+0.4%
Friday 3 August			
NZ, ANZ Job Ads, July			-1.6%
Aus, Retail Trade, June		+0.3%	+0.4%
China, Services PMI (Caixin), July			53.9
Jpn, BOJ Minutes, 15 June Meeting			
Euro, Retail Sales, June		+0.4%	flat
UK, Markit/CIPS Services, July		54.7	55.1
US, ISM Non-Manuf, July		58.6	59.1
US, International Trade, June		-$46.1b	-$43.1b
US, Non-Farm Payrolls, July		+193k	+213k

Historical Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.81	1.81	1.89	1.84
2mth	1.86	1.86	1.93	1.89
3mth	1.92	1.92	1.99	1.96
6mth	1.96	1.97	2.05	2.01
GOVERNMENT STOCK				
03/19	1.76	1.78	1.78	1.93
04/20	1.81	1.84	1.80	2.10
05/21	1.89	1.93	1.92	2.25
04/23	2.12	2.15	2.14	2.57
04/25	2.42	2.46	2.44	2.83
04/27	2.58	2.63	2.63	2.99
04/29	2.74	2.81	2.83	
04/33	2.90	2.97	3.00	3.36
04/37	3.04	3.11	3.15	3.59
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	72	80	80	77
Nth America 5Y	58	62	68	57
Europe 5Y	61	65	75	52

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.13	2.15	2.14	2.22
3 years	2.27	2.28	2.27	2.41
4 years	2.41	2.42	2.40	2.60
5 years	2.54	2.55	2.53	2.76
10 years	3.03	3.03	3.01	3.28
FOREIGN EXCHANGE				
NZD/USD	0.6795	0.6786	0.6716	0.7512
NZD/AUD	0.9180	0.9191	0.9150	0.9388
NZD/JPY	75.38	75.56	74.48	82.82
NZD/EUR	0.5829	0.5802	0.5770	0.6346
NZD/GBP	0.5185	0.5178	0.5109	0.5686
NZD/CAD	0.8874	0.8935	0.8856	0.9377
TWI	73.3	73.5	72.3	79.0

Contact Details

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Global Head of Research
+61 2 9237 1406

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+61 2 9295 1100
Fixed Income/Derivatives	+61 2 9295 1166

London

Foreign Exchange	+44 20 7796 3091
Fixed Income/Derivatives	+44 20 7796 4761

New York

Foreign Exchange	+1 212 916 9631
Fixed Income/Derivatives	+1 212 916 9677

Hong Kong

Foreign Exchange	+85 2 2526 5891
Fixed Income/Derivatives	+85 2 2526 5891