13 August 2018

Where Is The Fiscal Stimulus?

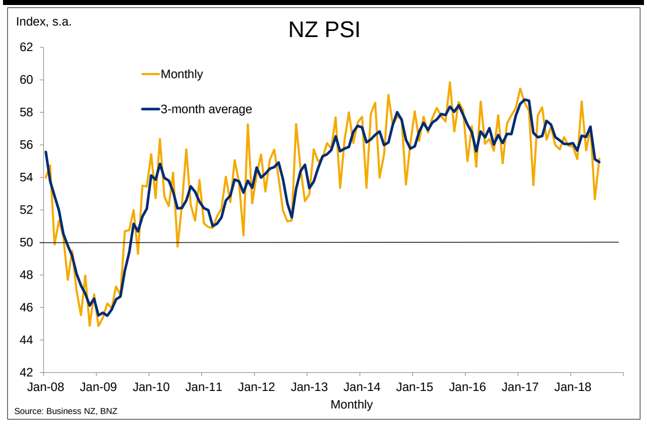
- **PSI bounces in July**
- **But fiscal stimulus still difficult to detect**
- **Dimming previously strong Q3 growth prospects**
- **As food, fuel prices add to inflation**
- **RBNZ focuses growth over inflation for now**
- **PPIs to show margin pressure?**
- **Turkey's trouble no direct threat to NZ**

New Zealand's data calendar is relatively light for the week ahead. That said, there is much to consider in the macroeconomic landscape at present. This follows from the surprisingly dovish RBNZ statement last Thursday, the lack of any visible boost from NZ's fiscal stimulus and, looking internationally, intensifying concern around Turkey's economy.

We continue to find scant evidence that fiscal stimulus is lifting economic growth so far in the second half of the year (after what we think was a stronger Q2 than Q1). That is what begs the question: where is it? For example, last week's Performance of Manufacturing Index for July slowed further to an outright slow 51.2. To be fair, it is not really the first place to look for a fiscal package directed at households. But Friday's electronic card transactions for July didn't show much pep either. Total values were up 0.5% in the month, reasonable but nothing out of the ordinary. Also, there is a fair bit of noise around with higher fuel prices and tax changes in the mix.

This morning's Performance of Services Index did prove a bit more encouraging in lifting to 55.1 in July. But the bounce only recovers a little over half of the previous month's drop. The trend is slowing.

Partial Recovery



All together this does not suggest economic growth is necessarily slow, just not showing the signs of pick up in Q3 that has been anticipated (after what we think was 0.8% growth in Q2). So we formally nudge our pick for Q3 GDP growth down to +0.7% from +1.0% previously. Of course, it may just take more time for the fiscal stimulus to show up so we still expect a growth pickup in Q4. The PSI's strong new orders offer some encouragement in this regard.

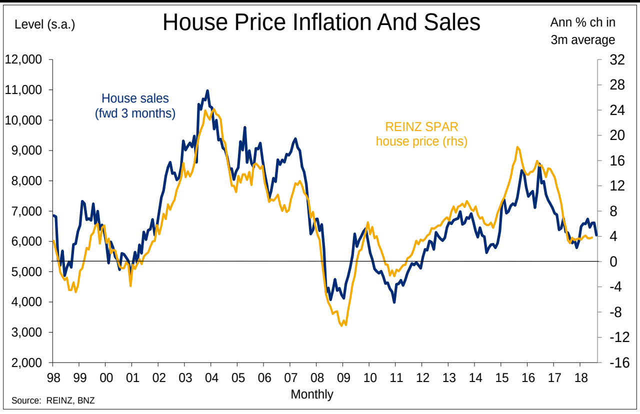
The growth outlook is very important for RBNZ policy. Indeed, if growth were to slow enough the Bank could cut the OCR. That is what the market is currently contemplating. Many saw last Thursday's Monetary Policy Statement as a contest between slower growth and rising inflation. The conclusion then being that the Bank chose growth over inflation as it held the OCR steady and delivered a more dovish policy outlook. We agree with this assessment and its wider inference about the flavour of the new leadership, but only to an extent. It is important to note that it is easy to choose growth over inflation when inflation is below the midpoint of the target band. The bigger test will be if and when inflation is above the midpoint.

But even on this latter point, we wouldn't get too precise because the Bank seems intent to use the full width of the target band. This means that if inflation was to poke a bit above the midpoint it would not necessarily lead to policy tightening. Given the imprecision of measuring various things, this seems a sensible approach to us. If this is indeed the approach, the interesting thing will be to determine where the thresholds of tolerance now sit – on both the downside and the upside.

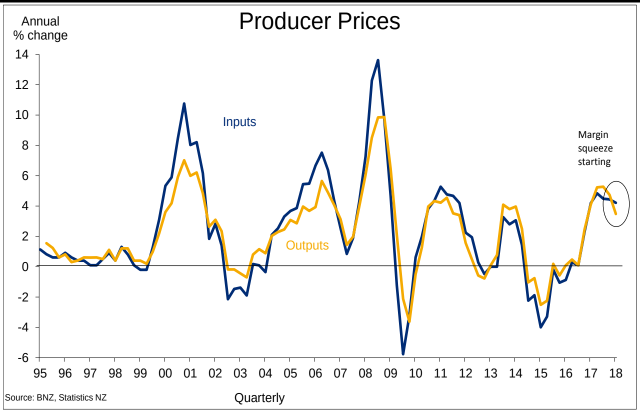
Meanwhile, this morning saw food prices rise 0.7% in July, driven by poor weather which saw vegetable prices rise 9.2% in the month. There were also signs of further upward influence from the prior increase in the minimum wage. All this adds to the case that Q3 CPI will print above the RBNZ's Q3 CPI forecast of +0.4% q/q and +1.4% y/y, but the Bank would likely do its best to look through any direct lift from the likes of food and fuel (petrol rose another 2c/litre today). The second around effects and influence on expectations would be more important. Speaking of which, the latest indicator on such things is Friday's RBNZ survey of Household Inflation Expectations – although this survey is not seen as very influential at all.

As for the other data this week, we get the latest on the housing market via the REINZ's July housing report on

July Similar To This?



Margins Under Pressure



Wednesday morning. Partial indicators suggest a pickup in sales activity in July, while annual price inflation is expected to stay in the low single digits.

Friday morning brings producer prices for Q2. Positive inflation in the quarter is expected via higher commodity prices (including oil), a lower NZD, and general capacity pressures. Some of these influences were not quite as intense as a year ago, while others more so.

But also of considerable interest to us will be the balance between output prices and input prices to see if there are increasing signs of downwards pressure on business margins. Cost pressures may be mostly a labour market phenomenon, but we've heard anecdotes of cost pressures building elsewhere too. Businesses' response to current margin pressure is critical to prospects for both growth and inflation. As we have been saying for a long time now, there is the prospect of slower growth with higher inflation.

We finish with a brief comment on Turkey. The latter is an example of what happens when macroeconomic imbalances get out of hand – think high current account deficit (6.3% of GDP, an overheated economy, high inflation (15.9%), and a sizeable stock of foreign currency denominated liabilities. It ends in a currency crisis. The Turkish Lira has lost around a quarter of its value in a day or so.

NZ's direct trade links to Turkey are tiny – Turkey takes less than 0.2% of NZ exports and not much more for imports – so any direct hit will be minimal. Any concern stems from the indirect channels such as contagion to other emerging markets and EU banks' exposure to Turkey that could slow world economic growth and dent commodity prices for NZ produce. Market focus will remain here to see if Turkey's President Erdogan will do what is necessary to tackle the issues. There has been no sign of this to date. For now, without further contagion, the implications for NZ do not look large but it is another global risk to keep on the radar.

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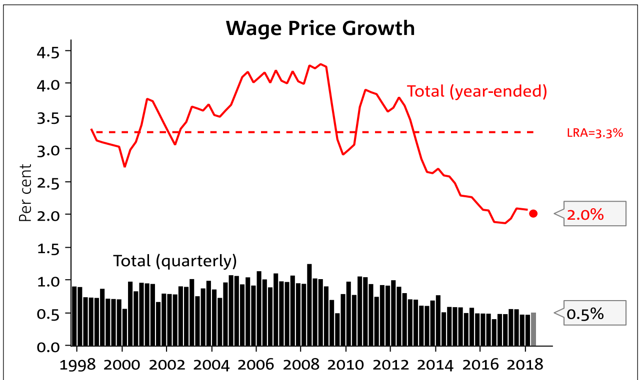
Global Watch

- **Australian jobs and wage data in focus**
- **Along with Lowe testimony, Ellis speech**
- **NAB business survey scheduled for tomorrow**
- **China's July trade figures also due Tuesday**

It's a big week for Australian news with Tuesday's Nab business survey, key wages and jobs data (Wednesday and Thursday), followed by RBA Governor Philip Lowe's Parliamentary testimony and Assistant Governor (Economic) Luci Ellis also speaking on Friday, about economic lags.

On the data, NAB expects that this week's numbers will not cause a shift in the RBA's view. Our models suggest Q2 wages growth will print another 0.5% q/q, which means year-ended growth will slow slightly from 2.1% to 2%. Despite a (marginally) lower unemployment rate in Q2, if anything, our wage monitoring models suggest more risk of a lower 0.4% q/q print than a higher 0.6% q/q print. In part, this reflects still elevated underemployment, modest inflationary expectations and low average wages growth in Enterprise Bargaining Agreements (EBAs). EBAs will remain a headwind given they are still running below aggregate wages growth, despite recently approved EBA wages rising a little.

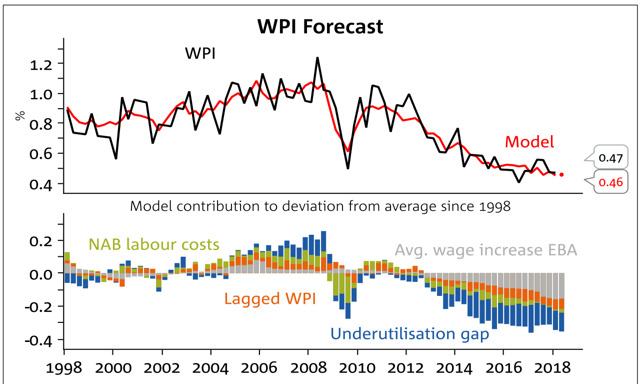
Year-ended wage growth to slow slightly



Source: National Australia Bank, ABS

While we don't hold out much hope for a lift in wages growth for Q2, it's worth noting that there are positive signs for stronger wages growth in Q3. For one, the Fair Work Commission awarded a large minimum wage increase of 3.5%, from 1 July, which directly impacts an estimated 23% of employees. There has also been lots of news about public sector pay rises, higher wage increases in new EBAs and firms addressing underpayment in retail/hospitality. Further, data from SEEK shows that the average advertised salaries have been rising, all encouraging signs for Q3.

But downside risk from low EBA wages

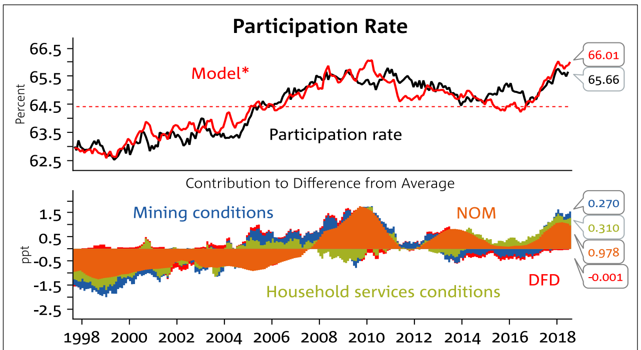


Source: National Australia Bank

On Labour Force data, NAB expects a more positive outcome than the market. Even after a stellar 51k rise in employment last month, NAB's internal indicator, incombination with a rise in SEEK job ads, suggests employment rose by another 25k in July. Such a lift in employment tends to be correlated with a slight lift in the participation rate; we expect the participation rate to lift slightly from 65.66%, to remain at 65.7%, rounded to 1 decimal place. This keeps the unemployment rate at 5.4%.

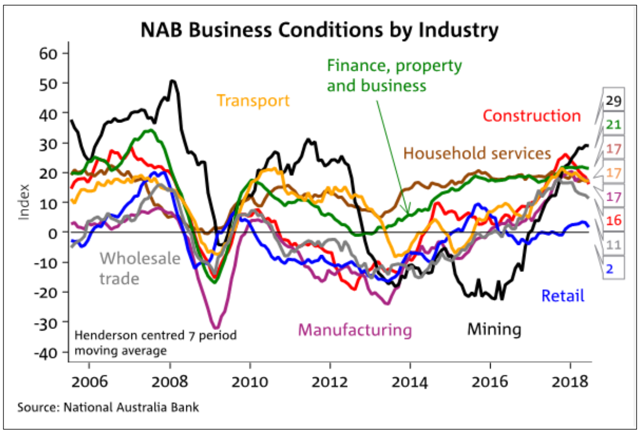
However, if the participation rate stays unchanged or declines slightly, the unemployment rate will decline to 5.3%. Currently, to 2 decimal places, the unemployment rate sits at 5.37%. There's some risk that the participation rate doesn't rise as we expect, given the participation rate is at a historically high level and our models suggest it is close to its cyclical peak. Hence, while our central scenario is for the unemployment rate to remain at 5.4%, we flag some downside risk to our forecast.

Model suggests participation is peaking



* Model includes: 12mma net overseas migration; year-ended DFD growth; 3mma business conditions for mining and household services
Source: National Australia Bank, ABS

NAB Business Survey for July is published on Tuesday (no hints here!). While businesses have reported strong conditions around historic highs for some time now, conditions have softened a little in recent months. In particular, conditions in construction and wholesale trade have softened; the former may reflect the slowing residential property market. We'll continue watching industry conditions in this month's survey. Elsewhere in the survey, we'll continue to monitor capacity utilisation, which suggests further decline in the unemployment rate in the months ahead.



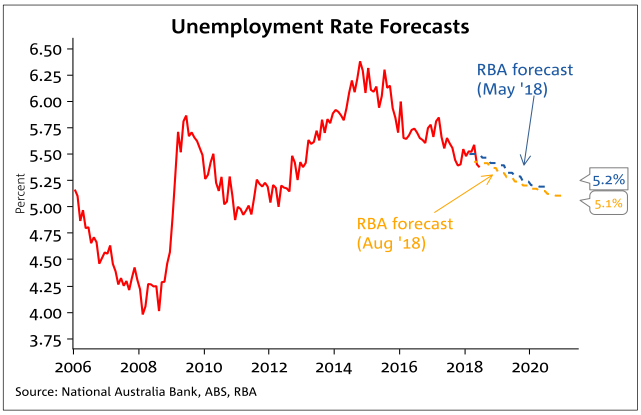
Source: National Australia Bank

Markets will also be alert to Lowe's testimony, the extensive Q&A on a raft of potential topics, along with Ellis' speech – for further clues on the RBA's outlook. Last Friday's updated RBA forecasts for GDP, unemployment and inflation and the Governor's speech back on Wednesday reveal almost no material change to the Bank's central scenario for the Australian economy.

While GDP growth is expected to average a little over 3% in the next couple of years, the RBA still expects progress on unemployment and core inflation to be gradual – only reaching 5% and 2.25% at the end of 2020 – and appears more than happy to wait. Lowe's testimony will be sifted more for worries, risks and any other flavour to fill out the outlook.

However, despite a still-positive economic forecast, risks to the RBA's outlook have increased. Offshore risks, in particular, from US-China trade tensions have escalated in recent weeks. Elsewhere, other issues on the watch list include Chinese financial system reforms, efforts to support Chinese growth, local tightening credit conditions and still-low wages. At the moment the Bank appears to be monitoring these risks, which have not altered their forecasts. Markets will stay tuned for any clues.

Unemployment under the spotlight



Source: National Australia Bank, ABS, RBA

China

China's monthly activity figures on Tuesday will get close attention for any trade/tariff impacts. Markets look for strengthening growth in Retail Sales (9.1% y/y, L: 9%) and Industrial Production (6.3% y/y, L: 6%), but Fixed Assets growth to stay steady (6% y/y, year-to-date).

US

It's a quiet week ahead for the US with Wednesday's Retail Sales and Industrial Production likely picks.

Canada

There is a data hiatus until the CPI on Friday. If inflation rises, that would be C$ positive and firm up the likelihood of the BoC hiking rates in October even further, already 75% priced. Elsewhere, NAFTA negotiations are yet to be resolved.

UK

Jobs data on Tuesday and CPI on Wednesday will be the main data highlights for markets. From Thursday, Brexit negotiations steal the limelight, as the UK and EU discuss divorce settlements. Markets will be attuned to any news clarifying what shape Brexit will take.

Eurozone

It's a very quiet week, with only the second read of Q2 GDP of note.

Japan

Only July's trade balance data, on Thursday, is of note.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ swap rates moved sharply lower last week after a more dovish MPS and subsequent comments from Assistant Governor John McDermott. The 2 year swap was 13bps lower on the week while the 5 year swap was down more than 20bps.

Faced with slower growth on the one hand but higher core inflation on the other, the RBNZ seemingly put more weight on the growth outlook and pushed back the first projected rate hike to late 2020. The RBNZ's central scenario is that the fiscal stimulus will see growth pick-up above trend in 2019. But the MPS highlighted a scenario where GDP growth picks up by less than forecast (to slightly below 3%) which results in 100bps of OCR cuts. In addition, John McDermott's comments in a post-MPS interview to Bloomberg gave the definite impression the RBNZ had a strong easing bias. He said the RBNZ wanted the market to understand rate hikes are "off the table for the foreseeable future" and that it was "closer to the trigger point" for cutting rates. He further highlighted Q3 GDP as an important marker – if it doesn't accelerate as the RBNZ expects they would "have to reconsider where we're at."

The market now prices 9bps of OCR cuts into the OIS curve by mid-2019 (see chart). In isolation this equates to around a 35% chance of a rate cut. In reality, if the RBNZ were to cut rates it would likely cut by a minimum 50bps, so the market-implied probability of the RBNZ cutting rates is actually likely to be lower than 35%.

Given the RBNZ has indicated that rate cuts are a real possibility if growth remains subdued, and NZ economic activity data remains soft (most recently the PMI survey last Friday) we would not fade the move in short-end NZ rates yet. Were economic data to weaken further, there is plenty of scope for the market to increase rate cut pricing.

There is still a scenario where growth bounces back as the fiscal stimulus kicks in, inflation continues to track towards target, and the RBNZ eventually pivots back to a tightening bias at some point. In this case, NZ rates can sell-off materially, but our sense is that it will take a succession of strong NZ data prints to convince the market that the balance of risks around the next move is up, not down. Although we have some sympathy with this view, we don't think now is quite the right time to position for such a scenario.

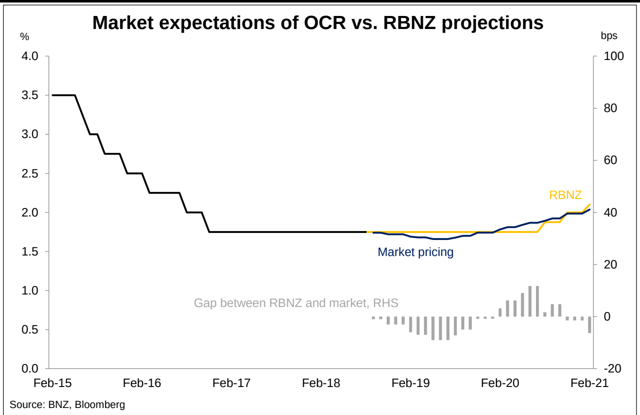
The 5 year point led the swap curve lower last week, with 2s5s flattening and 5s10s steepening. The 'carry' on the 2 year swap has been whittled away by the recent rally, and receiving interest has extended along to the mid-curve. 2s5s10s is now -18bps, its lowest level since late 2016.

If the RBNZ were to pro-actively cut rates, the NZ curve should ultimately steepen, as the market builds in greater future inflationary pressure and an eventual faster pace of monetary policy normalization. Of course, the curve will also depend importantly on moves in long-end rates offshore. On that note, global yields fell last week as Turkey moved into a full-blown currency crisis and there was some spill-over to global markets.

Our base case remains that the US 10 year rate will be range-bound between 2.80% to 3.10% in the coming months and that Turkey is an idiosyncratic case within the EM universe, given its toxic mix of macro imbalances and autocratic leadership. But given investors are seemingly still heavily short the US Treasury market (at least according to the CFTC) and there is no sign of Turkey President Erdogan backing down, the risks seem skewed towards lower global rates near-term.

It's a quiet week data-wise offshore, with the highlight being US retail sales and Chinese economic activity data. In Australia, the all-important wage price index is released on Wednesday before the employment report the next day. Locally, there is little to move the market. We expect the market to remain heavily focused on Turkey and the potential for contagion to other risk markets.

The market prices a 35% chance of a rate cut by mid-2019



Source: BNZ, Bloomberg

Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.91	1.89 - 1.92
NZ 2yr swap (%)	2.00	1.98 - 2.17
NZ 5yr swap (%)	2.34	2.33 - 2.58
NZ 10yr swap (%)	2.86	2.86 - 3.08
2s10s swap curve (bps)	86	86 - 93
NZ 10yr swap-govt (bps)	29	24 - 29
NZ 10yr govt (%)	2.57	2.55 - 2.84
US 10yr govt (%)	2.87	2.85 - 3.01
NZ-US 10yr (bps)	-31	-33 - -13
NZ-AU 2yr swap (bps)	-6	-6 - 6
NZ-AU 10yr govt (bps)	-2	-2 - 11

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD showed a significant fall last week, down 2.4% to 0.6580 and reaching about a 2½ year low. There were two key drivers last week, with about half of the fall reflecting a more dovish than expected RBNZ MPS and about half reflecting the ongoing pressures in emerging markets, with US-China trade tensions escalating and a focus towards the end of the week on the crisis in Turkey. Falls for the week on the NZD crosses against AUD, EUR and GBP were closer to 1%, while NZD/JPY was down more than 2½% as the yen benefited from the flight to safety.

Our NZD fair value model estimate slipped just below 0.70 but interestingly it was weaker risk appetite that did most of the damage (our index falling from 73% to 65% as the VIX index rose and EM sovereign credit spreads widened). The NZ-US interest rate differential barely budged, with 1-year swap rates in both countries falling by similar amounts.

The RBNZ put more weight on the threats to the growth outlook than the increased evidence of stronger near-term inflation pressures. This has increased the chance that the next move by the Bank is a rate cut than rate hike. The more dovish talk now sees the market pricing in 9bps of rate cuts by the middle of next year.

Thinking about the outlook, despite the more dovish talk, we still see the RBNZ keeping monetary policy steady for an extended period. We see market pricing of rate cuts stabilising around the current level for now.

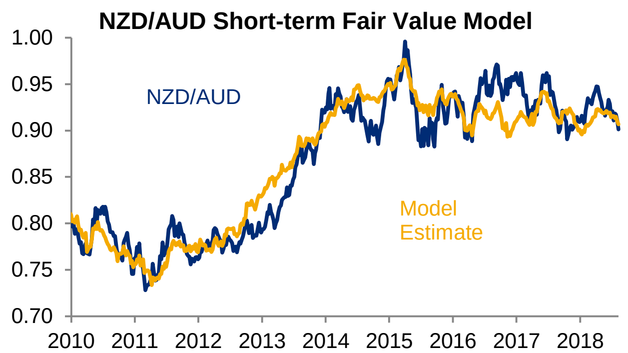
We think that the pressure to risk appetite will remain to the downside, with some likely spillover into commodity prices as well and these factors are the bigger ones likely to drive fair value of the NZD lower. The current gap between spot and fair value is approaching 6%, the largest since the NZD spluttered after the Labour-led government was formed in October. In that episode the driving force for the closing of the discount was a rebound in the NZD.

The NZD already prices in a lot of bad news and that is reflected in speculative positioning, where the number of net short contracts remains historically high. We remain most concerned about the possibility of further escalation in the US-China trade war. Early-mid September is a critical time when Trump decides whether or not to raise import tariffs on a further $200b of Chinese imports. Last week we expanded on this developing risk, see [NZD at the Whim of DJ Trump](). With this threat overhanging the market, and other ongoing pressures on emerging markets (eg Turkey), the NZD is likely to remain out of favour over coming weeks. We'd probably need to see a de-escalation of trade tensions to see a rebound in NZD.

The more dovish RBNZ saw the NZ-Australian 2-year swap rate differential fall to a multi-year low, and nudge our NZD/AUD fair value estimate down to 0.9070. This remains close to the current spot rate. Both the NZD and AUD are impacted by spillover effects of the woes in emerging markets and US-China trade tensions, so both currencies remain vulnerable in that regard, with not necessarily any impact on the cross. Recent history shows that moves below 0.90, as briefly occurred last week, are good medium-term buying opportunities for the NZD/AUD cross.

As the new week begins, Turkey is likely to remain in the headlines and a key swing factor for risk currencies like the NZD. On the economic calendar, China activity data tomorrow and Australian wages and employment data are the most important releases. Further afield the dataflow is quiet, with US retail sales and UK CPI data of mild interest.

NZD/AUD Lower, But Fairly Priced



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6576	0.6560 - 0.6850
NZD/AUD	0.9028	0.8950 - 0.9220
NZD/GBP	0.5155	0.5140 - 0.5240
NZD/EUR	0.5777	0.5720 - 0.5850
NZD/JPY	72.70	72.70 - 76.30

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6990	-6%
NZD/AUD	0.9070	0%

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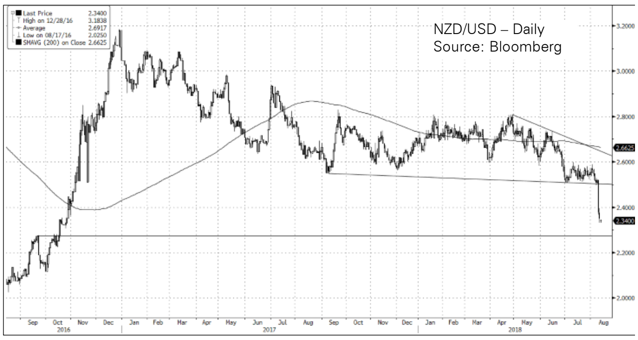
Technicals

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. The bigger near-term threat appears to be a break to the downside.



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, but the bigger near-term threat is a break to the downside.

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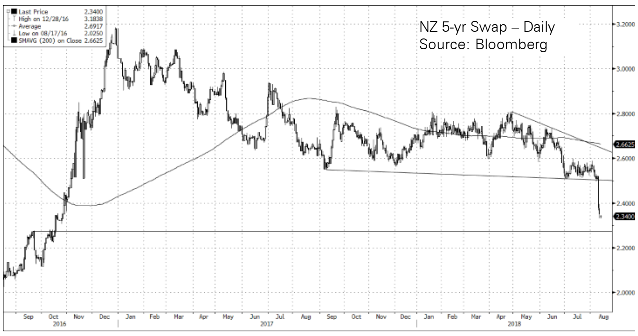
NZ 5-year Swap Rate

Outlook: Lower
ST Resistance: 2.51
ST Support: 2.275

Moving lower on track to reach our 2.275 target.



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

Outlook: Flatter
ST Resistance: +37.5
ST Support: +20

Breached at +37.5 signals a move to +20.

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Quarterly Forecasts

Forecasts as at 13 August 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	0.7	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	-3.5	-3.3	-3.4
CPI (q/q)	1.0	0.0	0.5	0.1	0.5	0.4	0.8	0.4	0.6	0.5
Employment	1.1	-0.1	2.2	0.4	0.6	0.5	0.5	0.5	0.6	0.5
Unemployment rate %	4.9	4.8	4.6	4.5	4.4	4.5	4.4	4.3	4.2	4.2
Avg hourly earnings (ann %)	1.1	1.2	2.0	3.1	4.0	3.3	3.4	3.5	3.3	4.0
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	1.8	2.1	2.2	2.3
GDP (production s.a., y/y))	3.0	2.8	2.6	2.9	2.7	2.6	2.7	3.0	3.0	2.8

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	1.75	2.35	3.00	3.45	2.85	3.00	3.50	3.10	3.50	-0.05
Sep	2.00	2.60	3.20	3.60	3.10	3.00	3.50	3.35	3.50	0.10
Dec	2.25	2.85	3.35	3.70	3.35	3.30	3.75	3.35	3.50	0.20
2020 Mar	2.50	3.10	3.45	3.80	3.50	3.30	3.75	3.10	3.50	0.30
Jun	2.75	3.25	3.60	3.80	3.50	3.30	3.75	3.10	3.50	0.40
Sep	2.75	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	0.66	0.73	1.14	1.28	111	0.66	0.90	0.58	0.52	72.9	71.7
Sep-18	0.69	0.73	1.15	1.32	109	0.69	0.94	0.60	0.52	74.7	74.1
Dec-18	0.70	0.75	1.18	1.38	110	0.70	0.93	0.59	0.51	77.0	74.7
Mar-19	0.70	0.75	1.22	1.45	108	0.70	0.93	0.57	0.48	75.6	73.8
Jun-19	0.71	0.75	1.22	1.47	106	0.71	0.94	0.58	0.48	75.3	74.2
Sep-19	0.71	0.75	1.25	1.53	104	0.71	0.94	0.57	0.46	73.8	73.5
Dec-19	0.70	0.75	1.30	1.55	102	0.70	0.93	0.54	0.45	71.4	72.0
Mar-20	0.70	0.75	1.32	1.55	100	0.70	0.93	0.53	0.45	70.0	71.6
Jun-20	0.69	0.74	1.34	1.57	99	0.69	0.93	0.52	0.44	68.3	70.6
Sep-20	0.69	0.74	1.36	1.60	98	0.69	0.93	0.51	0.43	67.6	70.4
Dec-20	0.68	0.73	1.38	1.60	98	0.68	0.93	0.49	0.43	66.6	69.6
TWI Weights						14.0%	20.7%	10.3%	4.8%	6.8%	

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

Annual Forecasts

Forecasts as at 13 August 2018	March Years Actuals 2017	2018	Forecasts 2019	2020	2021	December Years Actuals 2016	2017	Forecasts 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**	**2.8**	**2.7**	**2.7**	**4.0**	**2.8**	**2.7**	**2.8**	**2.7**
GDP - annual % change (q/q)	*3.0*	*2.7*	*3.0*	*2.6*	*2.8*	*3.4*	*2.9*	*3.0*	*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	2.1	1.9	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	4.2	5.3	4.5	4.3	4.2	4.2
Wages - ahote	1.1	4.0	3.3	3.4	2.8	1.1	3.1	3.5	3.5	3.0
Productivity (ann av %)	-1.9	-0.8	-0.2	0.8	1.2	-0.8	-1.4	-0.5	0.6	1.1
Unit Labour Costs (ann av %)	3.8	3.9	3.7	2.8	2.2	2.7	4.0	4.2	2.9	2.3
External Balance										
Current Account - $bn	-7.2	-7.9	-9.9	-10.1	-11.7	-6.0	-7.7	-10.4	-10.5	-11.1
Current Account - % of GDP	-2.6	-2.8	-3.3	-3.2	-3.6	-2.2	-2.7	-3.5	-3.4	-3.4
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	73.8	71.6	70.1	78.1	73.6	74.7	72.0	69.6
Overnight Cash Rate (end qtr)	1.75	1.75	1.75	2.50	2.75	1.75	1.75	1.75	2.25	2.75
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 13 August			
NZ, BNZ PSI (Services), July			52.8
NZ, Food Price Index, July	flat		+0.5%
Tuesday 14 August			
Aus, NAB Business Survey, July			+6
China, Retail Sales, July y/y		+9.1%	+9.0%
China, Industrial Production, July y/y		+6.3%	+6.0%
Euro, GDP, Q2 2nd estimate			+0.3%P
Euro, Industrial Production, June		-0.4%	+1.3%
Germ, CPI, July y/y 2nd est		+2.0%	+2.0%P
Germ, ZEW Sentiment, August		-21.3	-24.7
Germ, GDP, Q2 1st est		+0.4%	+0.3%
UK, Unemployment Rate (ILO), June		4.2%	4.2%
UK, Average Weekly Earnings, June y/y		+2.5%	+2.5%
US, NFIB Small Business Optimism, July		106.8	107.2
Wednesday 15 August			
NZ, REINZ Housing Data, July			
Aus, Labour Price Index, Q2	+0.5%	+0.6%	+0.5%
Aus, Consumer Sentiment - Wpac, August			106.1
UK, CPI, July y/y		+2.5%	+2.4%
US, Productivity (non-farm), Q2 saar 1st est		+2.4%	+0.4%

	Forecast	Median	Last
US, Retail Sales, July		+0.1%	+0.5%
US, Empire Manufacturing, August		+20.0	+22.6
US, NAHB Housing Index, August		67	68
US, Business Inventories, June		+0.1%	+0.4%
US, Industrial Production, July		+0.3%	+0.6%
Thursday 16 August			
Aus, Unemployment Rate, July	5.4%	5.4%	5.4%
Aus, Employment, July	+25k	+15k	+51k
Jpn, Merchandise Trade Balance, July		¥-41b	¥721b
Euro, Trade Balance, June s.a.		+€16.5b	+€16.9b
UK, Retail Sales vol., July		+0.2%	-0.5%
US, Housing Starts, July		1,260k	1,173k
US, Philly Fed Index, August		+22.0	+25.7
Friday 17 August			
NZ, Business Price Indexes, PPIO Q2 y/y			+3.5%
NZ, H/H Inflation Exp. (1yr median), Q3			+3.0%
Aus, RBA's Ellis Speaks, Lags			
Aus, Lowe Testifies, Semi-annual			
Euro, CPI, July y/y 2nd est		+2.0%	+2.0%P
US, Mich Cons Confidence, Aug 1st est		98.0	97.9
US, Leading Indicator, July		+0.4%	+0.5%

Historical Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.80	1.81	1.86	1.84
2mth	1.85	1.85	1.89	1.89
3mth	1.92	1.90	1.94	1.97
6mth	1.94	1.96	2.01	1.99
GOVERNMENT STOCK				
03/19	1.75	1.76	1.78	1.90
04/20	1.69	1.79	1.81	2.03
05/21	1.74	1.89	1.92	2.16
04/23	1.94	2.13	2.15	2.45
04/25	2.23	2.44	2.44	2.70
04/27	2.41	2.61	2.63	2.84
04/29	2.59	2.77	2.83	
04/33	2.77	2.95	3.00	3.22
04/37	2.92	3.09	3.15	3.46
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	74	74		
Nth America 5Y	61	59	61	60
Europe 5Y	68	65	64	56

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.00	2.11	2.14	2.16
3 years	2.09	2.24	2.27	2.33
4 years	2.21	2.39	2.40	2.48
5 years	2.34	2.52	2.53	2.63
10 years	2.86	3.02	3.02	3.13
FOREIGN EXCHANGE				
NZD/USD	0.6589	0.6733	0.6777	0.7287
NZD/AUD	0.9036	0.9114	0.9134	0.9281
NZD/JPY	72.88	75.00	76.10	79.89
NZD/EUR	0.5781	0.5827	0.5787	0.6186
NZD/GBP	0.5160	0.5202	0.5121	0.5621
NZD/CAD	0.8660	0.8755	0.8902	0.9270
TWI	71.7	72.9	72.9	77.1

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