15 October 2018

(More Than) Fuel to the Inflation Flickers

- **CPI set to vault RBNZ expectations**
- **On more than just rising fuel prices**
- **Inflation firming in core/wage terms too**
- **PSI/PMI slower than early-2018 but stabilising**
- **Dairy auction prices likely down further this week**

It would be easy to dismiss tomorrow's likely strong-looking Q3 CPI as simply soaring petrol prices. Too easy, we'd say. The way we prefer to view it, CPI inflation is firming up from an underlying basis, with headline inflation outcomes likely to reinforce this tendency. This will become more evident over the coming many quarters, with tomorrow's CPI just a step in that direction.

Of course, this is not to downplay the role of local fuel prices in the near-term headline CPI track. Their near 7% gain in the September quarter would account for a 0.4% lift the CPI alone. And the approximate 20% surge in fuel prices over the last four quarters would drive annual CPI inflation of about 1.2%, all else equal.

So the fact we expect a 0.8% gain in tomorrow's Q3 CPI, for annual inflation of 1.8%, infers a tepid rate of inflation ex-fuel. And it would look more placid still in the eyes of the market, considering its median inflation expectation for the Q3 CPI is 0.7%, for an annual outcome of 1.7%.

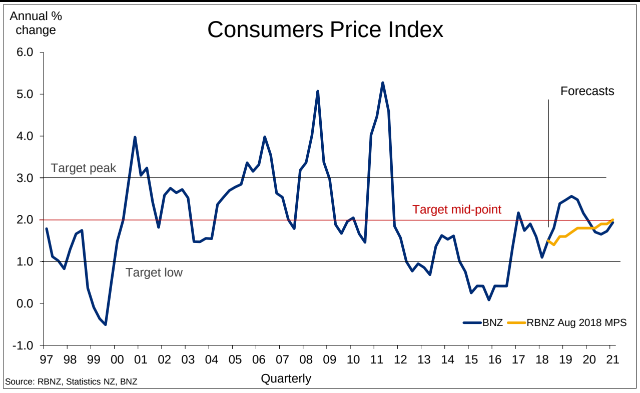
We might also cut the Reserve Bank a lot of slack in this regard, in that it finalised its last set of CPI forecast for the purposes of its 9 August Monetary Policy Statement. So these would have missed most, if not all, of the march higher in pump prices over the course of Q3.

Even so, bear in mind that even if petrol prices didn't increase from their early July levels, they still would have contributed at least 0.2 to the Q3 CPI (such is the way that quarterly averaging works). We imagine this was implicit to the Bank's August MPS forecasts, along with the known increases in petrol taxes that were to come. The "surprise" from rising fuel prices is arguably more for the RBNZ's Q4 CPI expectation than tomorrow's result for Q3.

Of course, whatever the impact of fuel prices on the near-term CPI track, the Bank had made it clear that it "will look through this volatility as appropriate". And that's entirely appropriate, if one wants to keep focussed on the trend.

But we also hope the NZ central bank is consistent in the way it thinks through headline CPI inflation, and the way that this can influence inflation expectations. We mention this with the RBNZ reckoning price-setting behaviour has become more sensitive to historical outcomes ("backward-looking"). So the fact we are forecasting headline CPI to beat the Bank's August MPS projections, by a strong margin, starting Q3 2018, would seem non-trivial in this regard.

Mind The Gap

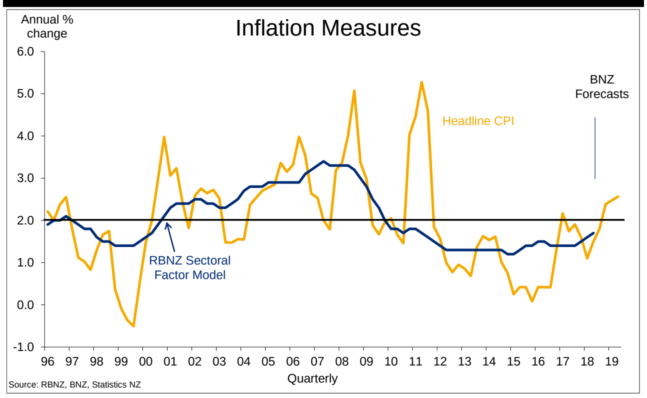


In particular, the pick-up we envisage in headline CPI inflation, to around 2.5% y/y by mid-2019, will reinforce the stronger wage inflation track we envisage. This is by way of the indexation that still permeates NZ wage negotiations.

With respect to core CPI inflation, we'd also point out that most every measure is already on the up (and running at annual rates markedly higher than ex-fuel CPI measures portray).

The Reserve Bank's sectoral factor model of CPI inflation, for instance, nudged up to 1.7% in Q2, from 1.6% in Q1,

On The Up

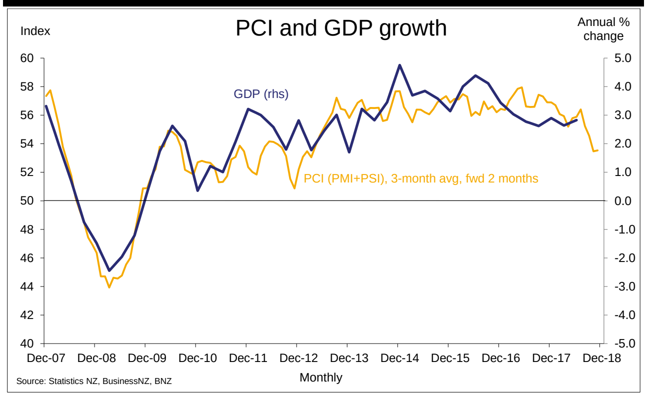


and 1.5% in Q4 of 2017. We think it stands a good chance of rising further on the basis of Q3's figures. This is underpinned by the fact we are picking a 2.5% annual increase in the Q3 non-tradables component of the CPI, and with upside risk, compared to the August MPS expectation of 2.4%.

If we're right on the outlook for core and headline CPI inflation then it will, in the first instance, make it difficult for the RBNZ to cut its cash rate any further. Or at least it should. Stronger inflation would also recommend care about what's driving any prospective slowdown in economic growth – cooling demand, or supply constraints – in order that monetary policy responds in the appropriate manner.

With respect to New Zealand's economic growth, there are some signs of moderation. This morning's Performance of Services Index, for example, while consolidating close to a trend-like level, is clearly slower than it was earlier this year. And when melding the PSI with the PMI, which is running slightly below trend, we also need to be a bit wary of how much GDP growth we can reasonably extend into Q4.

Slower But Not Slow



Still, it's hard to know how much of this is driven by softer demand as opposed to supply constraints. What we do know is that the NZIER Quarterly Survey of Business Opinion indicated a near record high in the manufacturing industry's capacity utilisation rate in the September quarter. Meanwhile, other economic data are proving encouraging, with electronic card transactions a good example.

The next piece of local economic news will be in the Global Dairy Trade auction, due early Wednesday morning, NZT. We suspect a fall in price of between 2 to 3% is on the cards, as whole-milk powder prices adjust to the increased volume that Fonterra is selling on the platform (as local production continues to do relatively well). It's an interplay we continue to monitor carefully, albeit that we feel more comfortable after having revised our 2018/19 milk price expectation down to $6.30, from $6.60, a few weeks ago. This is within scope of the downgrade that Fonterra announced last week, to a range of $6.25 to $6.50.

As for Friday's migration figures, these will be worth a look, if only because the net inflows nudged back up to the 5,000 (60,000 per annum) mark in August. Short-term arrivals will prove about flat on a year ago is our guess. Credit card billings for September are due Friday afternoon.

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Global Watch

- **US earnings in focus as equities wobble**
- **What impact from trade tensions on Chinese data?**
- **US retail and FOMC minutes due**
- **Will the AU unemployment rate edge down this week?**
- **Inflation data due in EU, Japan, UK, and Canada**
- **RBA, Fed, BoE, and BoJ all have scheduled speeches**

Australia

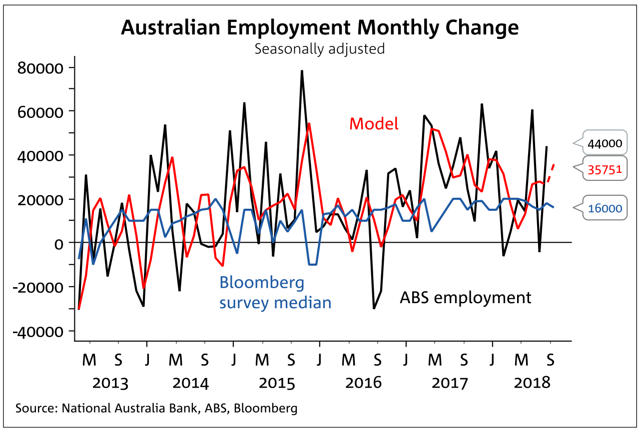
The focus will be on the (ever-volatile) Labour Force data in the week ahead. After two months of the unemployment rate at 5.3%, NAB are picking a fall to 5.2% in the September data (mkt: 5.3%), alongside another strong employment print (NAB+30k, mkt: 15k).

The week ahead also includes the release of the RBA Minutes (Tuesday) and a speech from the RBA Deputy Governor Guy Debelle (8.20am, Wednesday). With the Bank likely to still see "no strong case for a near-term adjustment" in the cash rate, markets will concentrate on any signs that the RBA has shifted its assessment of economic and financial risks.

As such, Debelle's speech (the keynote at an investor conference) will be carefully watched. While no title for the speech has been released yet, the setting leads us to suspect the Deputy Governor will focus on a financial markets topic, particularly as a few of the recent RBA speeches have been focused on macroeconomic trends. Market watchers will be particularly interested in any comments from Debelle on: escalated trade tensions, a relatively low Australian dollar, tighter credit conditions and the global rate cycle. These have been hot topics for Australian (and global) markets.

Labour Force data has been a key signpost for monetary policy, as the RBA continues to wait for the unemployment rate to fall and wages growth to pick up.

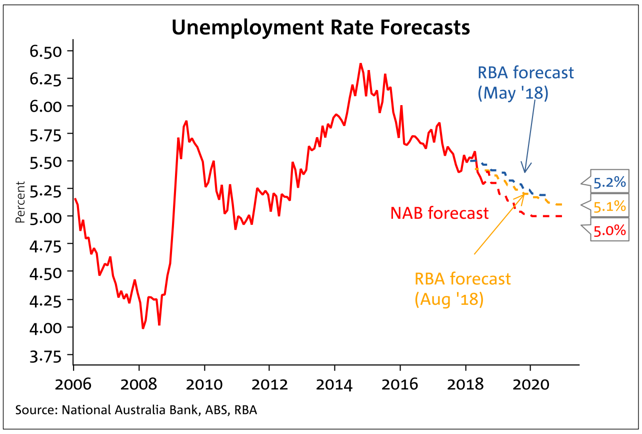
Chart 1: Model points to strong employment growth



This month, NAB expects a solid 30k rise in employment. Both NAB's internal data and the NAB Survey Employment Index suggest that employment growth was strong in September. Further, sample rotation impacts are expected to have a positive impact on employment. While sample rotation is hard to translate into overall employment, the outgoing rotation group has a significantly lower employment share (over 2 percentage points lower). As such, all else equal, should an "average" group replace the outgoing group, employment would rise. The outgoing group also has a low full-time employment share, suggesting full-time employment could also be strong.

The other volatile component is the participation rate. Given the tick up in the participation rate last month, alongside a large increase in employment (+44k), we expect the participation rate to remain at 65.7% in September, alongside our forecast of a smaller increase in employment. This implies the risk the unemployment rate ticks down to 5.2%.

Chart 2: Unemployment is currently below RBA forecast



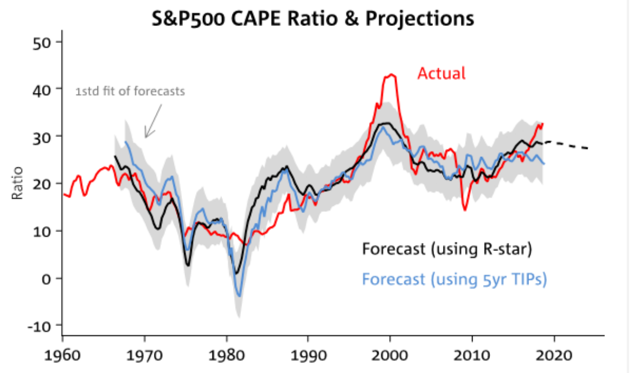
China

A huge week for Chinese data, starting with CPI and PPI (Tuesday) and finishing on Friday with the all-important Q3 GDP and Monthly Activity data – Retail Sales, Industrial Production (IP) and Fixed Assets Investment. Markets will carefully scrutinise the data to assess the impact of the US-China trade war. Current expectations are for a slight softening in GDP to 6.6% y/y (from 6.7% y/y previously) and weaker prints for the monthly activity indicators.

US

With lots of volatility in US equities, Q3 earnings season will be a focus in the week ahead. Bank of America, Goldman Sachs, Morgan Stanley, Infosys, IBM, Johnson & Johnson and Netflix, will report during the week. The key questions for markets will be whether earnings support valuations in a rising rate environment and whether the US-China trade war has affected profits. Elsewhere, the highlights are Retail Sales on Monday and the FOMC Minutes on Wednesday. There are also a few Fed speakers, while none are the heavy hitters any comment on the current stock market rout will be closely noted.

Chart 3: Will earnings support equity valuations?



Source: National Australia Bank, Macrobond.
From FRBSF Economic Letter: Stock Market Valuation and the Macroeconomy, Nov 2017.

UK

EU Leaders meet on Brexit on 17 to 18 October, hopefully paving the way for a further special summit in November for formal declaration to be made on the future trading relationship. Hopes are high with GBP having rallied on news that the Withdrawal Agreement could be tentatively agreed to on Monday. However, many uncertainties still remain and PM May is convening a Cabinet meeting on Tuesday to discuss the proposals ahead of the Summit. Datawise it is also a big week with Employment/Wages figures on Tuesday and Inflation on Thursday, though Brexit news will likely overshadow. There are two BoE speakers with Governor Carney on Friday and Cunliffe on Wednesday.

Canada

CPI on Friday is the highlight ahead of the BoC meeting the following week (market 98% priced for a rate hike). No consensus is available yet, but last month's Core CPI saw Trimmed Mean at 2.2% y/y and above the BoC's 2% Headline Target. With NAFTA out of the way, a strong print could prompt the BoC to think about whether it needs to hike rates more aggressively – that debate revealed by Deputy Governor Wilkins recently. Retail Sales are also on Friday.

Japan

Friday sees the release of September CPI and a speech by BoJ Governor Kuroda.

Eurozone

A quiet week with only the Trade Balance on Tuesday and a final-CPI print on Wednesday. The ZEW survey is out on Tuesday, but is not as market moving as it once was.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

In the face of a 13bps range in US 10-year Treasuries last week, NZ 10-year rates traded within half that range. For the week, the NZ curve showed a modest increase in rates against a backdrop of a lower US curve. NZ's Q3 report tomorrow looms as a major focus.

The 10 year swap rate reached an intra-week peak of 2.94% last week, at the height of the US Treasury market sell-off. The rise in US rates in the early part of last week was driven more by momentum after the large moves the previous week, rather than better than expected US data. The 10 year Treasury yield reached a seven year high of 3.26% intra-week. But as equity markets subsequently fell sharply, the 10 year US Treasury yield moved 10bps lower, taking long-end NZ rates with them.

The FOMC minutes and US retail sales are the highlights this week, and the market will be particularly attuned to discussion among Fed officials around their tightening plans for 2019. Our expectation is that the 10 year Treasury yield should probably move sideways-to-slightly higher into the end of the year, although rates will remain sensitive to equity market performance.

NZ rates continue to significantly lag moves in the US, both higher and lower. The spread between NZ and US 10 year government bond yields reached a record low of -60bps last Monday, but the reversal in US rates later in the week has seen the spread normalise somewhat to -52bps. We see the NZ-US 10 year spread being contained within a broad -30bps to -70bps range over the remainder of the year. The lower-end of that range would be consistent with the market pricing three full Fed rate hikes for 2019 with no commensurate increase in OCR expectations. Ultimately, we see NZ-US spreads re-widening next year, although that's contingent on the market shifting its focus to the next move in the OCR being a hike and the Fed rate cycle nearing an end.

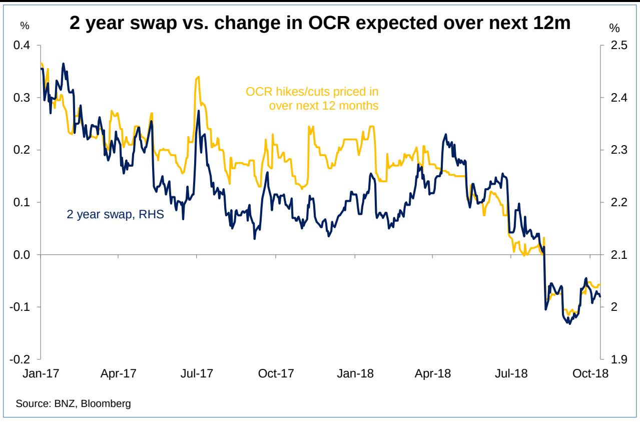
NZ Q3 CPI tomorrow is shaping up as the major domestic market focus. We are looking for a healthy 0.8% quarterly rise, taking the annual rate to 1.8%. Our forecast is well above the RBNZ's 0.4%/1.4% MPS forecast, although part of that difference can be explained by the rise in domestic petrol prices in recent months. The key for the market will be non-tradables inflation and the various core measures. We think the risk is that those key measures show rising inflationary pressure as well.

A CPI result in line with our expectations, and some further rise in core and non-tradables inflation, would raise the hurdle for rate cuts. The market currently places around a 20% chance of a rate cut by mid-2019. In terms of market implications, our base case is that 2.10% in 2 year swap should provide strong resistance in the first instance. That level would be consistent with the market pricing-out any chance of RBNZ rate cuts in a year's time (see chart). While we continue to think the hurdle for cutting is very high, we think the market will be reluctant to start pricing rate hikes into the OIS curve while business confidence remains at depressed levels and the RBNZ remains wary of the associated downside risks to growth.

If CPI is softer than expected, and especially if core inflation measures drop, then NZ rates will clearly fall. We see 1.95% providing support in 2 year swap – a level that would be consistent with the market pricing a 50% chance of an OCR cut by mid-2019.

As for next year, if 'hard' economic data remains robust (and add to the question about the reliability of the business surveys) and core inflation makes more progress to the RBNZ's 2% mid-point, then we ultimately see the market shifting its focus towards rate hikes and taking short-end NZ rates, like 2 year swap to higher levels. For reference – if the market priced the same profile for the OCR as it does for the RBA (first hike in May 2020), this would imply 2 year swap at around 2.18%.

NZ short-end rates have been consolidating since August



Source: BNZ, Bloomberg

Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.89	1.88 - 1.92
NZ 2yr swap (%)	2.03	2.01 - 2.06
NZ 5yr swap (%)	2.40	2.35 - 2.43
NZ 10yr swap (%)	2.92	2.85 - 2.95
2s10s swap curve (bps)	90	84 - 92
NZ 10yr swap-govt (bps)	28	26 - 30
NZ 10yr govt (%)	2.64	2.57 - 2.69
US 10yr govt (%)	3.16	3.02 - 3.26
NZ-US 10yr (bps)	-52	-59 - -40
NZ-AU 2yr swap (bps)	-2	-4 - 2
NZ-AU 10yr govt (bps)	-11	-13 - -4

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD performed well last week, up 1% against the USD, just under 1% against EUR and GBP and a small gain against AUD. The NZD's outperformance seemed like a perverse performance in light of a significant correction in global equity markets and our risk appetite index plunging from 64% to 51% (and reaching a fresh year-to-date low of 45% on Thursday). But the big risk-off move likely triggered some short covering of positions across a range of assets and CFTC data has shown, for some time, large short positioning in the NZD.

While the plunge in equity markets was the focus of the market, there was other information to digest. There was some marginally positive news in that President Trump and Xi would likely meet next month on the sidelines of the G20 summit, although this is not yet 100% confirmed. And US Treasury staff have advised Mnuchin that China cannot be labelled a currency manipulator on its criteria when the half-yearly report is released this week. However, the labelling could still come down to a political decision. We'd note that any thawing of US-China relations would be welcome and NZD-supportive, although we're becoming increasingly of the view that the makings of a long-term "cold war" are in play.

Domestic data showed strong electronic card transactions in September, rounding out the strongest quarter in 7½ years. The data continued the theme of "hard" evidence showing the NZ economy doing just fine, in comparison to the "soft" indicators like business confidence, which are currently giving a misleading steer on current economic activity.

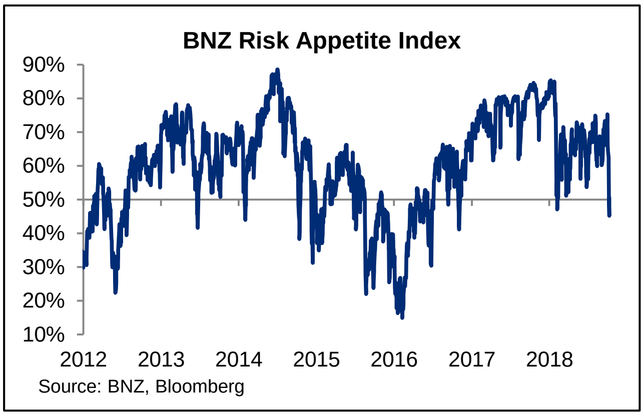
Meanwhile the ANZ monthly inflation gauge suggested stronger non-tradeables inflation, ahead of the official CPI release tomorrow, the key domestic release this week. We see upside risk relative to the consensus estimate of 0.7% q/q and the RBNZ's (out-of-date) 0.4% estimate. More importantly, core inflation could well tick higher, providing some food for thought to the RBNZ as it begins to prepare its next set of forecasts for the November MPS. A strong CPI reading across core and headline measures would be NZD supportive this week.

On the global calendar, US retail sales data tonight, UK Canada, and Japan CPI data later this week and China GDP and other Chinese monthly indicators at the end of the week are the key releases. Normally these would all be considered potentially market moving releases. But perhaps just as important for currency markets this week will be how US equity markets fare. The S&P500 closed down 4.1% last week but 1 point above its 200-day moving average, a key level that the chartists will be monitoring.

In the UK, Brexit negotiations come to a head and rumours spread last week that a withdrawal agreement might be within reach early this week. However, negotiations over the weekend haven't gone down so well and there is talk of a prevailing stalement. GBP could be volatile this week – GBP has been stronger over the last couple of months in anticipation of a positive outcome and would likely push higher if the workings of a deal can be reached. However, any bad news here would be a big setback for the pound.

In sum, we see the mild recovery in the NZD last week as driven more by technical factors that any significant change in fundamentals. However, last week's price action does highlight how much negative news has already been priced into the NZD. The stronger NZD against a plunge in risk appetite sees the currency back within 4% of our short-term fair value model estimate, which has slipped below 0.68 now. Our revised FX forecasts of a couple of weeks ago had the NZD ending the quarter at 0.65, so that would be consistent with a period of consolidation ahead, or some arresting of the 6-month downturn.

Risk Appetite Reached a YTD Low Last Week



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6506	0.6430 - 0.6700
NZD/AUD	0.9153	0.9100 - 0.9190
NZD/GBP	0.4969	0.4880 - 0.5090
NZD/EUR	0.5636	0.5580 - 0.5720
NZD/JPY	73.00	72.30 - 75.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6770	-4%
NZD/AUD	0.9040	1%

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Technicals

NZD/USD

Outlook: Downside risk
ST Resistance: 0.6640 (ahead of 0.6730)
ST Support: 0.6425 (ahead of 0.6400)

The NZD recovered 1% last week but the chart shows the threat of further downside risk remains. The YTD low of 0.6425 is the first level of support. Trendline resistance kicks in around 0.6640.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9230 (ahead of 0.9400)
ST Support: 0.9050 (ahead of 0.8950)

Trading aimlessly over the past couple of months. Resistance sits just over 0.92. Beyond that level, there is little resistance ahead of 0.94.

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NZ 5-year Swap Rate

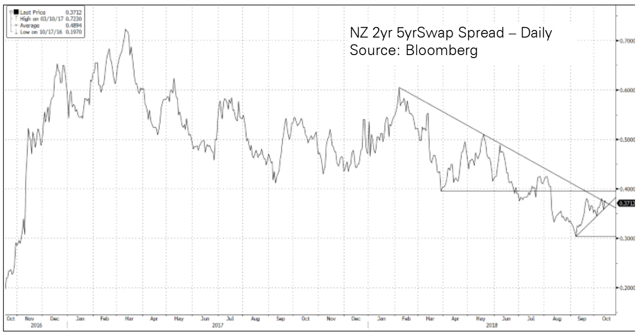
Outlook: Bearish
ST Resistance: 2.495
ST Support: 2.34

Still expect a move higher to 2.495 possibly extending to 2.5975. Stop on close below 2.34.

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

Outlook: Neutral
ST Resistance: +39.5
ST Support: +30.5

Still neutral awaiting a break to signal new position.



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Quarterly Forecasts

Forecasts as at 15 October 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Sep-18 to Sep-19)

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
GDP (production s.a.)	0.8	0.6	0.6	0.5	1.0	0.8	0.8	0.4	0.7	0.7
Retail trade (real s.a.)	1.6	0.3	1.3	0.3	1.1	1.1	1.0	0.7	0.6	0.6
Current account (ytd, % GDP)	-2.6	-2.6	-2.9	-3.0	-3.3	-3.5	-3.8	-3.8	-4.1	-4.3
CPI (q/q)	0.0	0.5	0.1	0.5	0.4	0.8	0.6	0.6	0.5	0.7
Employment	-0.1	2.2	0.4	0.6	0.5	0.5	0.5	0.6	0.5	0.4
Unemployment rate %	4.8	4.6	4.5	4.4	4.5	4.4	4.3	4.2	4.2	4.3
Avg hourly earnings (ann %)	1.2	2.0	3.1	4.0	3.3	2.9	3.0	2.8	3.4	3.6
Trading partner GDP (ann %)	3.7	4.0	3.9	4.1	4.1	3.9	3.9	3.8	3.7	3.7
CPI (y/y)	1.7	1.9	1.6	1.1	1.5	1.8	2.3	2.4	2.5	2.4
GDP (production s.a., y/y))	2.8	2.6	2.9	2.6	2.8	3.0	3.1	3.0	2.7	2.6

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 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
Sep	1.75	2.00	2.25	2.80	2.20	2.65	3.10	2.35	3.00	-0.45
Forecasts										
Dec	1.75	1.95	2.25	2.85	2.00	2.55	3.15	2.40	3.25	-0.40
2019 Mar	1.75	1.95	2.35	2.90	2.20	2.65	3.20	2.60	3.25	-0.35
Jun	1.75	2.05	2.60	3.15	2.40	2.65	3.20	2.95	3.50	-0.35
Sep	2.00	2.30	2.80	3.30	2.70	2.65	3.20	3.20	3.50	-0.20
Dec	2.25	2.55	3.00	3.45	3.00	2.90	3.45	3.20	3.50	-0.05
2020 Mar	2.50	2.80	3.15	3.55	3.20	2.90	3.45	2.95	3.50	0.05
Jun	2.75	2.95	3.30	3.55	3.20	2.90	3.45	2.95	3.50	0.15
Sep	2.75	2.95	3.35	3.55	3.20	3.10	3.60	2.95	3.50	0.20
Dec	2.75	2.95	3.35	3.65	3.40	3.10	3.60	2.95	3.50	0.25

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.65	0.71	1.16	1.31	112
Dec-18	0.65	0.71	1.18	1.26	112
Mar-19	0.65	0.72	1.20	1.28	110
Jun-19	0.66	0.73	1.22	1.30	110
Sep-19	0.68	0.75	1.25	1.34	108
Dec-19	0.69	0.75	1.30	1.40	106
Mar-20	0.70	0.76	1.32	1.43	104
Jun-20	0.70	0.77	1.34	1.46	102
Sep-20	0.70	0.76	1.36	1.49	100
Dec-20	0.69	0.75	1.38	1.52	99
Mar-21	0.70	0.75	1.38	1.52	98

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.65	0.91	0.56	0.50	72.9	71.3
Dec-18	0.65	0.91	0.55	0.51	72.5	70.8
Mar-19	0.65	0.90	0.54	0.51	71.5	71.4
Jun-19	0.66	0.90	0.54	0.51	72.6	72.6
Sep-19	0.68	0.91	0.54	0.51	73.4	74.2
Dec-19	0.69	0.92	0.53	0.49	73.1	74.5
Mar-20	0.70	0.92	0.53	0.49	72.8	74.9
Jun-20	0.70	0.91	0.52	0.48	71.4	74.0
Sep-20	0.70	0.92	0.52	0.47	70.0	73.5
Dec-20	0.69	0.92	0.50	0.45	68.3	72.1
Mar-21	0.70	0.93	0.51	0.46	68.6	73.1
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 15 October 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	5.1	3.8	3.2	2.3	1.6	4.8	4.4	3.0	2.7	1.7
Government Consumption	1.9	4.8	3.9	1.7	1.7	1.6	4.5	4.2	2.1	1.7
Total Investment	5.6	3.8	2.4	3.5	3.8	6.4	3.4	2.9	3.3	3.6
Stocks - ppts cont'n to growth	-0.1	-0.1	0.1	0.0	0.0	0.0	-0.1	0.3	-0.2	0.0
GNE	4.6	3.9	3.8	2.5	2.2	4.6	4.1	4.0	2.7	2.2
Exports	1.3	3.0	4.9	4.0	3.8	2.1	1.8	4.2	4.6	3.9
Imports	5.1	7.2	6.8	3.2	2.5	3.4	7.0	7.4	3.9	2.3
Real Expenditure GDP	3.5	2.8	3.1	2.7	2.5	4.1	2.7	3.0	2.8	2.6
GDP (production)	**3.7**	**2.7**	**3.0**	**2.7**	**2.5**	**4.0**	**2.8**	**2.9**	**2.8**	**2.6**
GDP - annual % change (q/q)	*3.0*	*2.6*	*3.0*	*2.7*	*2.4*	*3.4*	*2.9*	*3.1*	*2.6*	*2.5*
Output Gap (ann avg, % dev)	1.1	0.7	0.7	0.4	0.2	1.2	0.8	0.7	0.5	0.2
Household Savings (% disp. income)	-2.8	-1.8	-3.7	-3.8	-2.8					
Nominal Expenditure GDP - $bn	270.6	285.9	298.7	313.8	325.6	266.5	283.0	294.8	310.0	323.1
Prices and Employment - annual % change										
CPI	2.2	1.1	2.4	1.9	1.9	1.3	1.6	2.3	2.2	1.7
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	2.8	3.9	3.4	1.1	3.1	3.0	3.8	3.6
Productivity (ann av %)	-1.9	-0.8	0.0	0.8	1.0	-0.8	-1.4	-0.3	0.6	1.0
Unit Labour Costs (ann av %)	3.9	3.9	3.5	2.8	2.4	2.7	4.0	4.0	2.9	2.4
External Balance										
Current Account - $bn	-6.9	-8.5	-11.4	-12.5	-14.3	-5.7	-8.2	-11.3	-13.0	-13.5
Current Account - % of GDP	-2.6	-3.0	-3.8	-4.0	-4.4	-2.1	-2.9	-3.8	-4.2	-4.2
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.5	1.9	1.1	1.2	1.3					
Net Core Crown Debt (excl NZS Fund Assets)	21.7	19.9	19.6	19.0	17.8					
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	2.8					
Financial Variables (1)										
NZD/USD	0.70	0.73	0.65	0.70	0.70	0.70	0.70	0.65	0.69	0.69
USD/JPY	113	106	110	104	98	116	113	112	106	99
EUR/USD	1.07	1.23	1.20	1.32	1.38	1.05	1.18	1.18	1.30	1.38
NZD/AUD	0.92	0.94	0.90	0.92	0.93	0.96	0.91	0.91	0.92	0.92
NZD/GBP	0.57	0.52	0.51	0.49	0.46	0.56	0.52	0.51	0.49	0.45
NZD/EUR	0.66	0.59	0.54	0.53	0.51	0.67	0.59	0.55	0.53	0.50
NZD/YEN	79.1	77.0	71.5	72.8	68.6	81.6	78.7	72.5	73.1	68.3
TWI	76.5	74.8	71.4	74.9	73.1	78.1	73.6	70.8	74.5	72.1
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	1.95	2.78	2.87	2.02	1.88	1.95	2.53	2.95
5-year Govt Bond	2.70	2.35	2.35	3.15	3.40	2.75	2.30	2.25	3.00	3.35
10-year Govt Bond	3.25	2.95	2.90	3.55	3.80	3.30	2.80	2.85	3.45	3.75
2-year Swap	2.30	2.25	2.20	3.20	3.40	2.40	2.20	2.00	3.00	3.40
5-year Swap	3.00	2.70	2.65	3.45	3.70	3.00	2.65	2.55	3.30	3.65
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	-0.35	0.05	0.30	0.80	0.40	-0.40	-0.05	0.25

(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 15 October			
NZ, BNZ PSI (Services), September			53.2
Jpn, Industrial Production, August 1st est			+0.7%P
US, Retail Sales, September		+0.6%	+0.1%
US, Empire Manufacturing, October		+20.0	+19.0
US, Business Inventories, August		+0.5%	+0.6%
Tuesday 16 October			
NZ, CPI, Q3 y/y	+1.8%	+1.7%	+1.5%
Aus, RBA Minutes, 2 Oct Meeting			
China, CPI, Sept y/y		+2.5%	+2.3%
Euro, Trade Balance, August s.a.		+€14.7b	+€12.8bn
Germ, ZEW Sentiment, October		-12.0	-10.6
UK, Unemployment Rate (ILO), August		4.0%	4.0%
UK, Average Weekly Earnings, August y/y		+2.6%	+2.6%
US, NAHB Housing Index, October		67	67
US, Industrial Production, September		+0.2%	+0.4%
Wednesday 17 October			
NZ, Dairy Auction, GDT Price Index			-1.9%
Aus, RBA's Debelle Speaks, Citi Conference			
Euro, CPI, Sept y/y 2nd est		+2.1%	+2.1%P
UK, CPI, Sept y/y		+2.6%	+2.7%
UK, BOE's Cunliffe/Broadbent Speak			
US, FOMC Minutes, 26 September meeting			
US, Fed's Brainard Speaks			
US, Housing Starts, October		1,210k	1,282k
Thursday 18 October			
Aus, NAB Business Survey, Q3			+7
Aus, Employment, September		+15k	+44k
Aus, Unemployment Rate, September		5.3%	5.3%
Jpn, Merchandise Trade Balance, September		-¥43b	-¥447b
UK, Retail Sales vol., September		-0.4%	+0.3%
US, Philly Fed Index, October		+22.0	+22.9
US, Leading Indicator, September		+0.5%	+0.4%
Friday 19 October			
NZ, External Migration, Sept s.a.			+5,010
China, Retail Sales, Sept y/y		+9.0%	+9.0%
China, GDP, Q3 y/y		+6.6%	+6.7%
China, Industrial Production, Sept y/y		+6.0%	+6.1%
Jpn, CPI, Sept y/y		+1.3%	+1.3%
UK, Carney Speaks, Eco Club of NY			
US, Existing Home Sales, September		5.29m	5.34m
US, Fed's Bostic/Kaplan Speak			
Monday 22 October			
NZ, Holiday, Labour Day			

Historical Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.82	1.82	1.82	1.81
2mth	1.86	1.85	1.85	1.87
3mth	1.89	1.89	1.89	1.93
6mth	1.93	1.93	1.94	1.97
GOVERNMENT STOCK				
03/19	1.74	1.75	1.71	1.88
04/20	1.75	1.74	1.65	2.04
05/21	1.82	1.80	1.69	2.20
04/23	2.02	1.99	1.91	2.50
04/25	2.28	2.26	2.18	2.77
04/27	2.48	2.47	2.40	2.93
04/29	2.66	2.64	2.58	
04/33	2.83	2.82	2.76	3.27
04/37	2.96	2.94	2.91	3.48
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	74	74	70	
Nth America 5Y	64	61	57	54
Europe 5Y	74	72	60	55

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.03	2.03	1.99	2.19
3 years	2.14	2.15	2.08	2.37
4 years	2.27	2.27	2.20	2.54
5 years	2.40	2.40	2.33	2.70
10 years	2.92	2.94	2.85	3.20
FOREIGN EXCHANGE				
NZD/USD	0.6507	0.6448	0.6578	0.7171
NZD/AUD	0.9149	0.9120	0.9164	0.9135
NZD/JPY	73.00	73.01	73.57	80.45
NZD/EUR	0.5635	0.5615	0.5630	0.6079
NZD/GBP	0.4969	0.4928	0.4999	0.5412
NZD/CAD	0.8471	0.8360	0.8579	0.8977
TWI	71.4	71.0	71.7	75.7

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