

## NZ caught up in the wash of weak global inflation

- NZ's economy is chugging along at a solid pace.
- The drawback of being much healthier than other countries is a high exchange rate.
- The dynamic of a high NZD and low interest rates is causing challenges for the RBNZ.

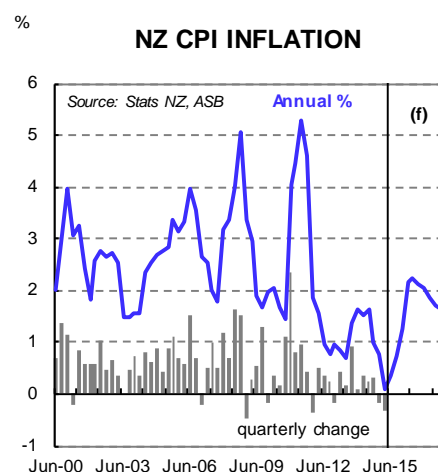
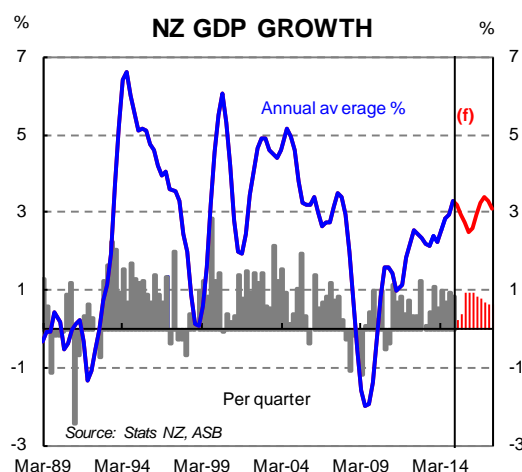
NZ's economy is chugging along at a solid pace that few developed economies can match. And the growth outlook remains good overall, at a robust pace a little above 3%. But drought impacts will be holding the economy back in the near term, and the cloud of weak dairy prices is still hanging around. NZ's main challenge is that the growth remains uneven. Key sources of growth are population increase, household spending, construction, and the industries supporting those drivers. Meanwhile the exchange rate remains ever-strong and a headwind to export earnings. And the high NZ dollar (NZD) further reinforces the domestic/export divide by contributing to the RBNZ keeping interest rates low even in the face of solid domestic spending growth. Having said all that, NZ's second-biggest foreign exchange earner – tourism – is going from strength to strength. The manufacturing sector's export expectations remain astonishingly high, though the key NZD/AUD exchange rate will likely remain high and further test that sector's resilience.

Exchange rates reflect the relativities of the countries in question. The drawback of being much healthier than other countries at the moment is a high exchange rate. Recent lifts in the NZD vs. the Australian dollar and the euro are down to added economic weakness in those regions, along with the renewed threat of Greek debt default. Quantitative Easing by the ECB, for example, has pushed a significant share of the Eurozone's bond yields into negative yield territory. Those bonds with positive yields either yield next to nothing or are Greek 'junk'. In that sort of environment it is understandable that the euro is losing ground as investors seek a return elsewhere in the world.

That currency weakness elsewhere (meaning NZD strength here) is compounding the RBNZ's challenges in meeting its inflation and financial stability objectives. In our feature article we look at what has driven NZ's inflation so low in recent years and whether it is something we should be worried about. Much, but not all, of the low inflation comes from weak prices for tradable goods and services, particularly the impacts of the fall in fuel prices and the rising NZD. In general NZ is effectively importing the price impacts of weak demand in developed economies. Domestically-generated inflation is a small part of the story – particularly compared to the disinflation pressures many Eurozone economies face from weak demand.

So inflation is low, but it is not something that should cause too much concern. The significant – but temporary – impacts of lower oil prices and the NZD rise will wear off. And, if the inflation outlook shifts from an expected rebound in inflation to sustained weakness, the RBNZ has plenty of room to cut the OCR to ensure that inflation does lift. At this point in time we don't think the RBNZ needs to cut the OCR to ensure inflation will rebound. But, with inflation averaging a very low pace in recent years, the risks remain skewed to OCR cuts. We put around a 25% chance on the RBNZ cutting the OCR this year. Number One on the list of potential catalysts is the high NZD, which has strengthened further recently.

The dynamic of a high NZD and low inflation and low interest rates is causing challenges for the RBNZ's other role – financial stability. It is pretty clear that the rebound in the housing market since August is no flash in the pan – and low interest rates are contributing to the heat that is very evident in Auckland but also starting to move the thermometers outside that region. It isn't appropriate for the RBNZ to put up interest rates to cool off the housing market. But prudential tools can only do so much to slow the market, and the RBNZ has joined the ranks of those arguing for swifter council and government action.



## Low inflation: a concern or not?

Headline inflation is low in many parts of the world, and some countries are even experiencing deflation (an overall price decline in the measured basket of consumer goods). How much should we worry here in NZ?

Oil is one common factor driving down inflation around the world. But there are differences between countries. These differences provide cause to worry in some cases and are less of a problem in others – such as NZ's.

**Deflation caused by weak demand is a concern.**

**Headline 'deflation' prompted by sharp falls in a narrow range of goods is less of a concern.**

**Eurozone deflation related to weak demand.**

**NZ's low inflation more about oil and the NZD.**

### Bad vs. not-so-bad deflation

Deflation that is widespread across goods and services is a worry. The cause is usually weak demand, prompting producers/sellers to cut prices to clear products and to try keeping their productive capacity employed. The collapse in demand in the Great Depression triggered substantial deflation. Japan's becalmed economy triggered mild but persistent deflation in much of the past 20 years. Deflation can create two added challenges for turning a sick economy around. One, the purchasing power of money gets increased over time, encouraging people to delay spending – and perpetuating weak demand in the present. Two, if deflation reduces earnings (wages or business cashflows) then any borrowings become harder to service and repay.

There is far less concern about deflation or weak inflation at a headline level that is primarily down to sharp declines in a small proportion of goods (such as fuel). In this case the low headline inflation is more a distortion caused by a few prices moving relative to the broader basket, as distinct from weak demand across the board.

### Eurozone: the worrying kind

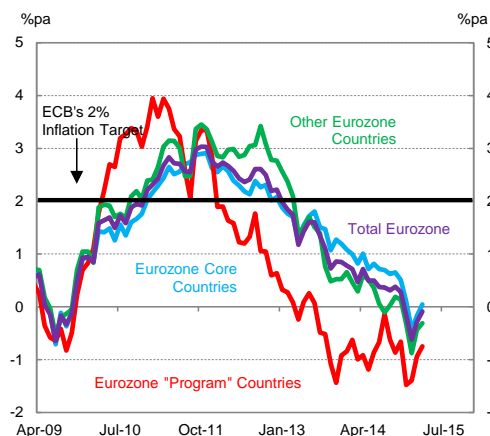
The Eurozone is a current example of the more worrying broad price weakness. Inflation has been declining gradually, with several countries experiencing persistent deflation. Low oil prices are also making the overall picture weaker. What is telling is that the proportion of items in the shopping basket that have flat or falling prices is steadily getting larger and nearing the Global Financial Crisis share. You can see why the European Central Bank has started its own Quantitative Easing programme to boost the region's economy.

### NZ causes less worrying

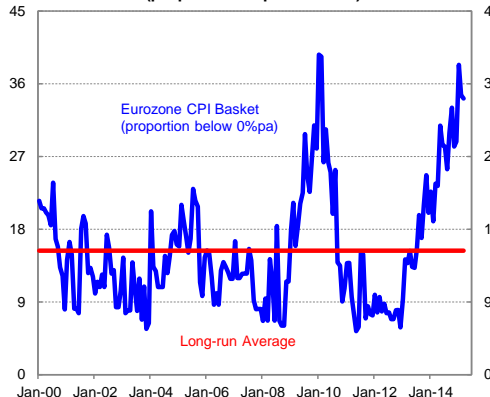
NZ's weak inflation, in contrast, is less about soggy domestic demand (and overcapacity) and more about several influences on the tradable sector (i.e. items heavily influenced by global prices or the NZ dollar). NZ's non-tradable inflation (i.e. linked to domestic capacity pressures) is currently below average, but not dramatically so.

The dramatic shift in recent years has been from very mild inflation in tradable items to overall

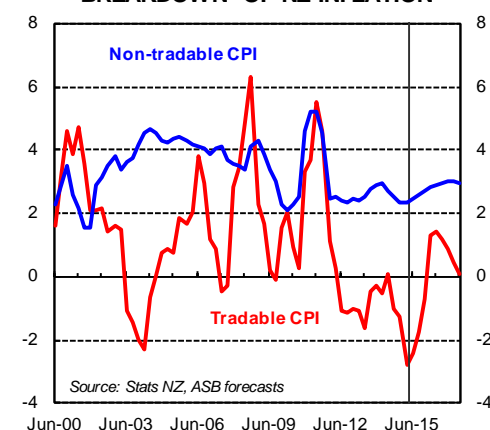
**EUROZONE INFLATION**



**EUROZONE CPI BASKET (proportion 0%pa or below)**



**BREAKDOWN OF NZ INFLATION**

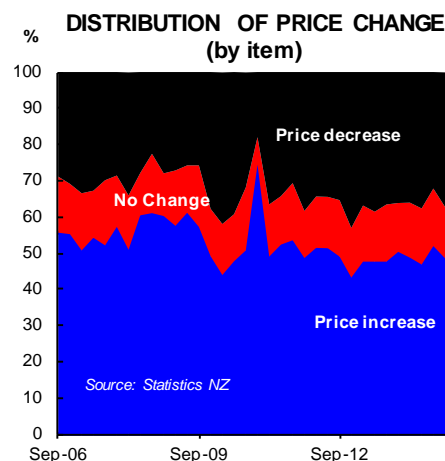


Inflation averages	10 years	3 years	Latest
Headline	2.4	1.0	0.1
Non-tradable	3.4	2.6	2.3
Tradable	1.2	-1.0	-2.8
- Petrol	6.1	-1.0	-12.9
- Food	2.9	0.4	1.2

deflation. In the 3 years to March the NZD rose 7% and import prices – which include petroleum prices – fell an estimated 15%. Lower oil prices have knocked nearly a full percentage point off the current annual inflation rate. Food, 19% of the consumer basket, has experienced very mild price increases in recent years.

**Falling prices not particularly pervasive.**

Falling prices have not become much more pervasive: the number of individual items registering quarterly price falls has remained fairly steady over the past couple of years, albeit nudged up over Q1. That relatively steady share of items (by number), though, has been accounting for a slightly greater share (by expenditure weight) of the CPI basket.

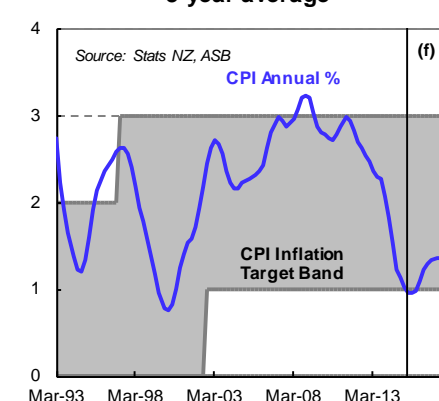


**NZ's low inflation transitory.**

**RBNZ: fine tuning possible but not pressing**

For NZ, much of the source of very low inflation is largely transitory factors like the sustained rise in the NZD, the plunge in oil prices, and some contribution from a period of mild food price inflation. The NZD's strength is due to the unprecedented monetary stimulus the major central banks have resorted to: in effect NZ has been importing the impact of excess capacity elsewhere in the world. And, although capacity-related inflation is not as high as it has been historically, it is hardly at a worryingly low level.

**NZ CPI ANNUAL INFLATION 3-year average**



**NZ importing the impact of weak demand elsewhere in the world.**

Provided the NZD doesn't keep appreciating and oil prices don't keep falling year after year, inflation will lift back up of its own accord over 2016. That takes away any real urgency to respond by cutting interest rates to rev inflation back up. Inflation generated by domestic demand and capacity pressures might be a touch on the low side but – if growth holds up as expected – what little spare capacity remains is likely to get absorbed before long and gradually lift non-tradable inflation up closer to its average levels. But, the low rate of inflation does mean the risk of persistently breaching the inflation target is a real risk, and raises the possibility that the OCR gets cut this year.

**NZ inflation will rebound – unless oil prices and the NZD continue their recent trends indefinitely.**

**No unprecedented target breach**

There has been some discussion that the RBNZ is missing its inflation target. But we don't think that is the case in any material way. The target is to keep CPI inflation “between 1 and 3 percent on average over the medium term, with a focus on keeping future average inflation near the 2 percent target midpoint”. “Medium term” is not defined, but a 3-year average of inflation will likely hit 1% in mid-2015, arguably borderline in breach. But on this basis inflation exceeded the target for over a year in 2008/09. The main reasons then were a mirror opposite of now: soaring fuel prices (petrol up 29% annually) and a plunging NZD (as the Global Financial Crisis blew up). Exceptional moves in commodity prices are permitted reasons for inflation to vary from the target.

**No material inflation target breach – certainly less so than in 2008/09.**

**Summary: inflation low, but don't worry**

NZ inflation is low, but we don't think that is of concern. Factors driving much of that outcome – the fall in oil prices, a rising NZD – will fade and inflation subsequently rebound to a more normal pace. The risks are skewed to inflation being more subdued than currently expected, but the RBNZ has plenty of scope to cut interest rates in that case – even if the housing market remains hot.

**NZ inflation low, but not for reasons to worry about. RBNZ also has room to act.**

**Housing concerns should be dealt with by other policies.**

Concern over housing market risks are best dealt with by tools outside of monetary policy – with central and local government the most appropriate respondents. When it comes to the current housing imbalance there is a need to recognise what monetary policy can achieve and what it can't. That latter list includes freeing up council zoning, reducing red tape, changing tax policy, preventing climate change, and dealing with peak oil – to name just a few!

## International outlook

With the global growth backdrop still weak, central banks are doing their best to further boost growth.

The IMF forecasts tepid 2015 global growth of 3.5%.

The big guns are out. Back in February we highlighted the quantitative easing moves in Europe and Japan and interest rate cuts by several central banks. Since then more have followed, with over 20 central banks now having cut rates. But for NZ, the most significant move has come in China, punctuated by this month's cut to banks' reserve ratio requirements.

There are two ways one can take this. The first, glass half empty interpretation, is that these actions signal that the global economy is actually quite bad. For example, the International Monetary Fund's (IMF) forecasts tepid 2015 growth of 3.5%, albeit similar to recent years' growth. And this tepid growth is despite central banks' extraordinary policy measures.

The second, glass half full interpretation, is that these actions signal better times are ahead. Japanese and European growth forecasts have already lifted on the back of their moves. And the US economy is on the mend. The decisive Chinese moves to lift growth are also likely to bear similar fruit, considering its tight starting point for policy.

In the end, we land our view somewhere in between. While we are hopeful of a pick-up in global growth in the second half of 2015, we maintain a conservative view for 2015 as a whole.

For NZ's trading partners the growth outlook for exporters is similarly poised. For example, Consensus 2015 and 2016 growth forecasts are higher than for 2014, but only marginally so, with 3.9% and 4.1%, pencilled in respectively.

At last count, over 20 central banks had cut interest rates this year.

**Central banks doing their best to boost growth**  
The mediocre outlook comes despite the best efforts of central banks. At last count, over 20 central banks had cut interest rates this year. And from NZ's perspective the moves to ease policy in China and Australia are particularly important for the export outlook. Similarly, lower oil prices should also help this year. The IMF has previously estimated that lower oil prices could boost global growth by around 0.5%.

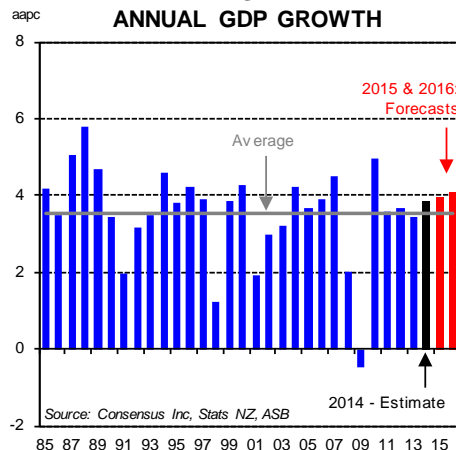
With these transitions taking time, growth is likely to continue to be mediocre over the coming years.

But lower oil prices and cheap money are by themselves not enough. The structural adjustments to the lower growth taking place, particularly in Europe and Japan, need time and political backbone. Similarly, the compositional changes to growth taking place in Australia and China are also progressing slowly. With these transitions taking time, growth is likely to continue to be modest over the coming years.

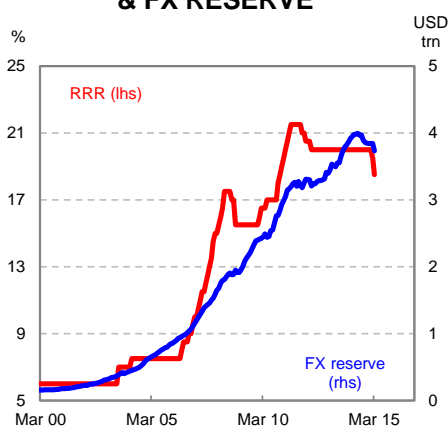
### China: weak growth prompts Beijing into action

Taking a closer look at NZ's main trading partners,

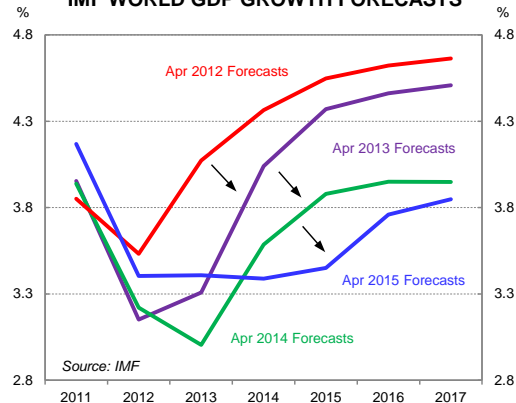
NZ TRADING PARTNER ANNUAL GDP GROWTH



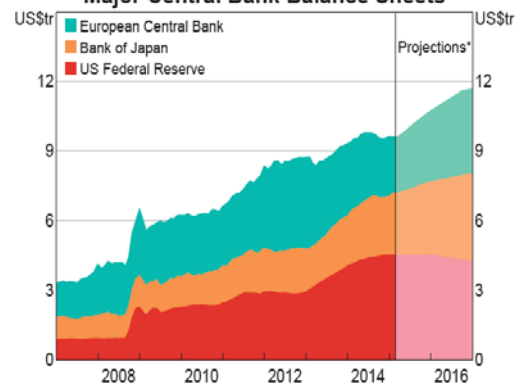
CHINESE REQUIRED RESERVE RATIO & FX RESERVE



IMF WORLD GDP GROWTH FORECASTS



Major Central Bank Balance Sheets



**While Chinese annual growth hit the 7% target in March, unofficially the economy has run perhaps closer to 6%.**

first up, Chinese growth is sluggish. While March annual growth officially still hit the 7% target, unofficially the economy has run at perhaps closer to 6%. Add in below-target inflation and the growth picture is less than rosy.

The weaker growth has, however, prompted Beijing to swing into action. On 20 April, Beijing lowered banks' reserve ratio requirements by a whopping 1% to 18.5%. This was the largest reduction since 2008. This move followed cuts to benchmark interest rates and lower housing downpayment restrictions. And we expect further moves over the coming quarters.

**However, we are likely to see Chinese growth improve from the second half of 2015.**

If these changes boost sentiment, we are likely to see growth improve, particularly in the housing market, from the second half of 2015. Assuming sentiment does turn, demand for products that NZ exports to China should also improve. But at this juncture, the risks are that improving Chinese demand takes longer to materialise, and in turn NZ export prices remain lower for longer.

**Australia: below its potential**

In Australia, it's more of the same – literally. We expect GDP growth of 2.7% in 2015, following 2.7% over 2014. Growth at this level is below potential, and reflects the transition from the mining investment boom to domestic demand.

**We expect the RBA to cut interest rates again in May.**

While the transition is happening, progress is slow. A low Australian dollar is helping exporters, but the slump in iron ore prices has pushed Australian incomes lower. As a result, we expect the RBA to cut interest rates again.

**USA: still outperforming for now**

Meanwhile, the US economy continues to outperform despite recent speed bumps. March jobs growth was weak owing to bad weather, but the unemployment rate remains low at 5.5%.

**We expect the US Federal Reserve to begin raising rates in June.**

The generally healthy state of the US economy means the US Federal Reserve is moving closer to lifting interest rates. At this stage, we expect rates to begin rising in June, though the start could be later if inflation remains moderate and jobs data don't rebound over April.

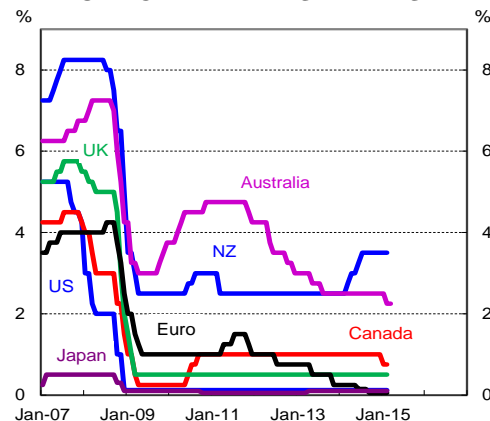
**Eurozone: Greek risks still rocking the Euro boat**

In Europe, Greek-inspired instability continues to cloud the outlook. While Europe is less of a threat to NZ's overall trading partner growth these days, it still retains the ability to disrupt global financial markets and also affect NZ.

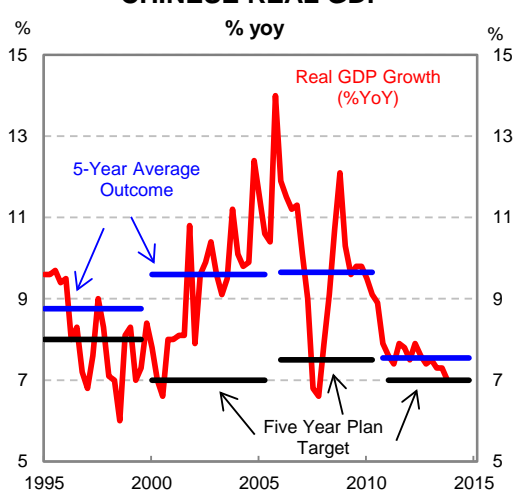
**All up, we expect the global economy to achieve mediocre growth over 2015.**

All up, we expect the global economy to achieve mediocre growth over 2015. But after a soft start, growth is likely to pick up in the second half of the year. That said, global growth remains fragile and susceptible to shocks and (very) low inflation is likely to persist. Plus that low inflation is likely to extend to the prices of most NZ commodity exports, at least in the short term.

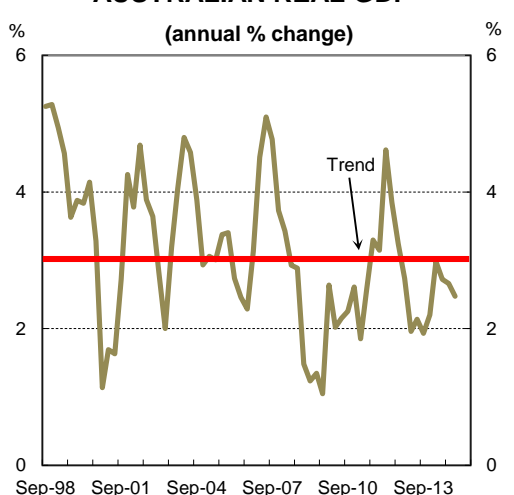
**OFFICIAL INTEREST RATES**



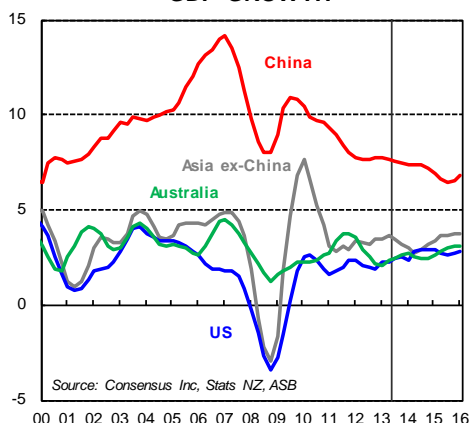
**CHINESE REAL GDP**



**AUSTRALIAN REAL GDP**



**NZ TRADING PARTNER GDP GROWTH**



Source: Consensus Inc, Stats NZ, ASB

## The New Zealand Economy

**Underlying growth to remain firm despite temporary slowdown over H1 2015.**

Economic growth accelerated over 2014, finishing the year on a very firm note. The NZ economy is now performing well, with growth broad based. We currently see underlying growth as robust, with quarterly momentum of 0.8% per quarter and annual growth of around 3% over the next few years. However, over the first half of 2015, the NZ economy will perform below its underlying potential. A sharp cut back in dairy production and a (hopefully temporary) slowdown in construction activity will weigh on activity. We expect this to be at temporary lull, and over the second half of the year we expect to see growth roaring back supported by strong fundamentals of improving export demand, population growth, stimulatory interest rates and rising disposable incomes.

**Dairy exports subdued on low prices and slowing production growth.**

The export outlook is currently mixed. The 2014/2015 dairy season started well, with production supported by good growing conditions. However, the combination of drought and low milk prices prompted a sharp decline in dairy production since summer. Dairy prices remain weak, as global supply has not contracted as fast as expected and demand growth remains soft. Nonetheless, we do still expect dairy prices to recover for next season. The majority of farmers should be able to smooth through this year's decline in income, due to conservative financial management of the previous season's spectacular performance.

**Tourism continues to perform strongly.**

Tourism has performed well over the past year and started 2015 on a strong note. Growth in visitor arrivals should remain supported by continued catch up in Chinese household incomes and a cyclical recovery in US discretionary spending.

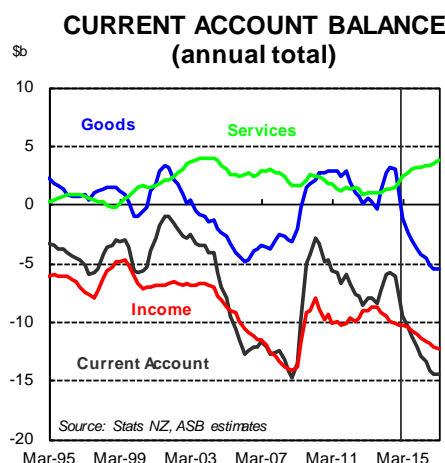
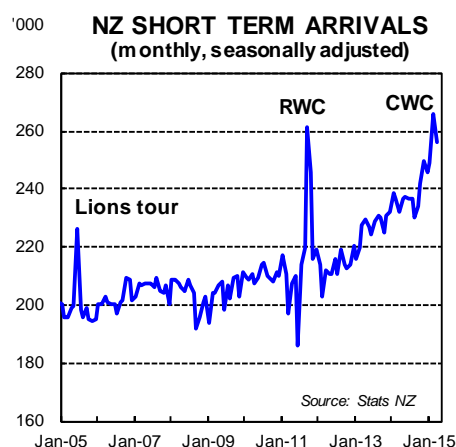
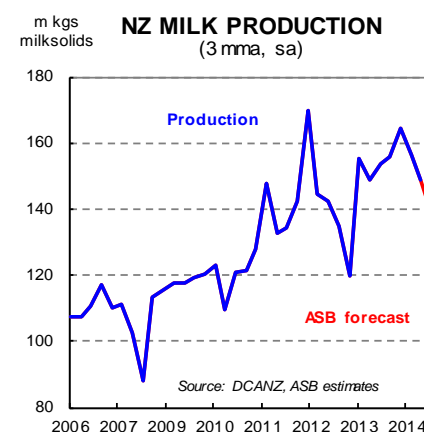
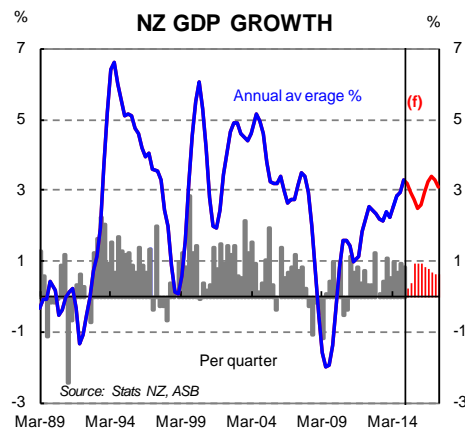
**Manufacturing sector facing some challenges.**

Manufacturing exports will struggle with the headwind of a high NZD/AUD this year, which will impact profitability. However, underlying demand for NZ manufactured exports will improve as Australian consumer spending and housing construction pick up.

**Residential construction growth to slow.**

We expect the Trade Balance will deteriorate this year as exports are outstripped by strong import demand. This will contribute to the widening in the current account deficit to around 5.5% of GDP.

Residential construction is likely to hit a pot hole over the first half of 2015, as consent issuance growth stalled in recent months. Canterbury construction activity appears to be stabilising at very high levels, which we expect will be sustained for some years to come.



**Auckland consent growth has unexpectedly stalled.**

However, the apparent slowdown in consent issuance in Auckland is surprising, given the sheer strength of net migration and implications for housing requirements. We currently expect this slowdown to be temporary, but there is a risk that growth is weaker should Auckland building demand fail to reignite.

**Auckland housing market remains very tight.**

The housing market in Auckland remains acutely tight, as demand outstrips supply. Demand remains supported by growing disposable incomes, low mortgage rates and increased population growth. However, supply remains sluggish to respond. Auckland house price growth has accelerated over the past year and, in the near term, is unlikely to slow. Over time, we assume increased housing supply and reduced affordability should slow house price increases.

**Low interest rates stimulating housing demand across NZ.**

Low interest rates have started to stimulate housing demand throughout the entire country. However, with supply responding to increased demand more readily outside of Auckland, we expect house price inflation to remain relatively contained. In Canterbury, increased housing supply as a result of completed residential construction has started to return some balance to the housing market.

**Consumer spending growth underpinned by strong fundamentals.**

Consumer spending will continue to perform strongly over 2015, supported by strong fundamentals including very strong population growth (with net migration at record levels) and rising household disposable incomes. Nominal wage growth, while modest compared to historical context, is quite strong relative to inflation. The combination of the high NZD, competitive retail environment and lower petrol prices will directly boost household purchasing power.

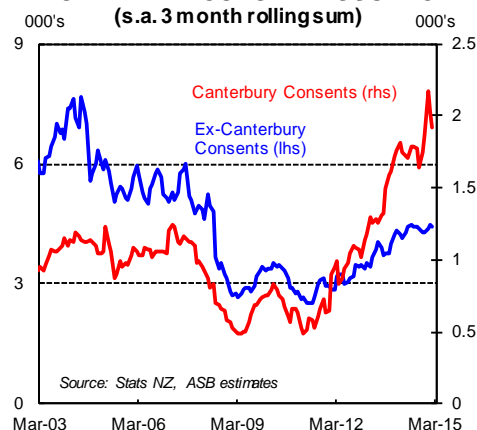
**Business confidence firm.**

The pick up in underlying economic momentum has supported businesses' confidence in the outlook, providing a boost to investment and employment intentions. Spare capacity in the economy is starting to dwindle, which has seen the rate of capacity utilisation increase. This will prompt further investment, but also generate an increase in inflation pressure.

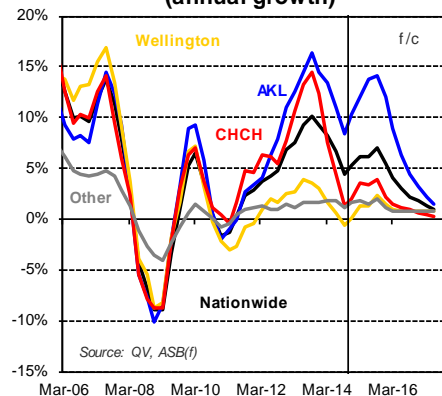
**Labour demand strong, met with strong labour supply.**

Employment demand in the NZ economy has been strong over the past year. While reasonably broad based across the economy, the construction sector remains the leader of employment growth. Firms have reported a gradual tightening in the labour market, but economy-wide skill shortages have been kept in check by strong labour supply growth as a result of record levels of net migration and a highly motivated labour force. With net migration only just peaking and likely to remain at high levels for much of 2015, continued supply of labour will keep the labour market balanced. We see the unemployment rate trending sideways this year.

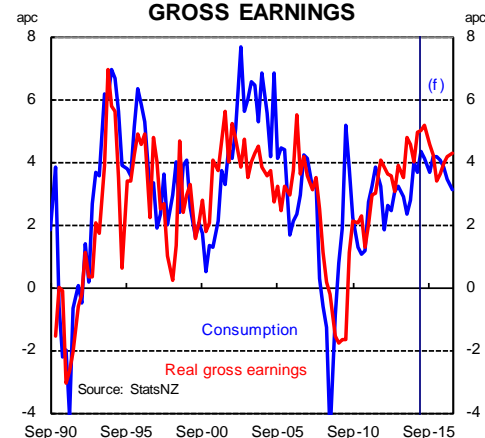
**RESIDENTIAL CONSENT ISSUANCE (s.a. 3 month rolling sum)**



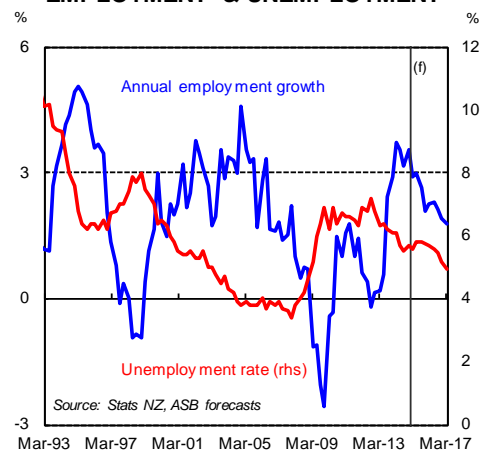
**REGIONAL HOUSE PRICE FORECASTS (annual growth)**



**CONSUMPTION & QES REAL GROSS EARNINGS**



**EMPLOYMENT & UNEMPLOYMENT**



## Inflation outlook

**Inflation below the RBNZ's target band.**

**Inflation remains very weak with annual inflation all but non-existent, falling to just 0.1% in Q1 2015. The sharp fall in petrol prices since Q4 2014 accounts for 0.9 percentage points of this decline. Nonetheless, even excluding petrol, inflation would still be at the bottom of the RBNZ's target band.**

**Tradable deflation the key driver of weak headline inflation.**

Most of the weakness in inflation stems from tradable deflation (i.e. imported inflation) reflecting the high NZD and weak global inflation pressures. In contrast, non-tradable inflation (i.e. domestically-generated inflation) has proved to be slightly stronger than expected recently, reflecting tightening housing pressures.

**We expect less tradable deflation this year, as the NZD eases (particularly against the USD).**

We currently expect inflation to pick up back to over 1% by the end of the year. We expect petrol prices will continue to gradually grind higher over the coming year. Global oil prices, while still experiencing some volatility, appear to have found a base. Meanwhile, our forecast for a lower NZD/USD drives our view of *less tradable deflation* this year. However, we see some downside risks to this. The risks are skewed to a later start to the Fed's tightening cycle, which has seen the NZD strengthen against the USD. Indeed, the NZD has recently moved higher and faster than we expected against most major crosses and is a key area of forecast uncertainty in the near term.

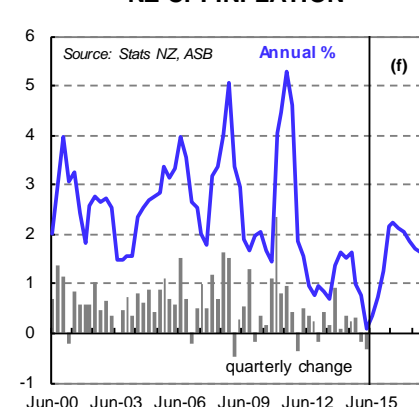
**There is the risk that low inflation becomes more persistent.**

Another factor presenting some downside risk is the very recent lift in proportion of items registering price declines and the general weakness in core inflation indicators. This indicates a growing persistence in low inflation and may potentially be an early indication of changed price setting behaviour and a shift lower in inflation expectations. Wage- and price-setting data are only recorded quarterly, and it's too early to draw strong conclusions. However, by the time we do get any confirmation of behaviour shifts, these dynamics are likely to be well ingrained and inflation over the coming year weaker than we expect.

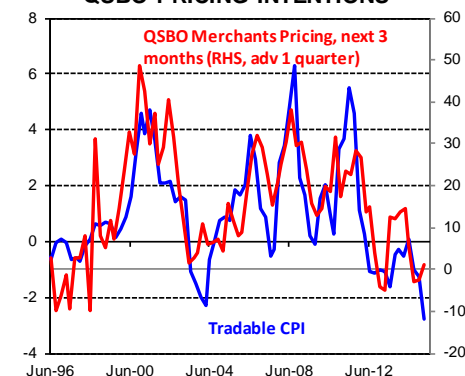
**Non-tradable inflation likely to increase over the coming year as housing pressures intensifies.**

We expect non-tradable inflation to continue to push higher. Housing-related inflation will continue to accelerate as housing shortages become more acute in Auckland and competition for construction resources between Auckland and Canterbury escalates. Steady economic growth will continue to reduce the spare capacity that remains in the economy and feed through to stronger domestic inflation pressures outside of housing. We remain reasonably confident of this view and it's worth re-emphasising this is the part of inflation that is the most relevant for monetary policy.

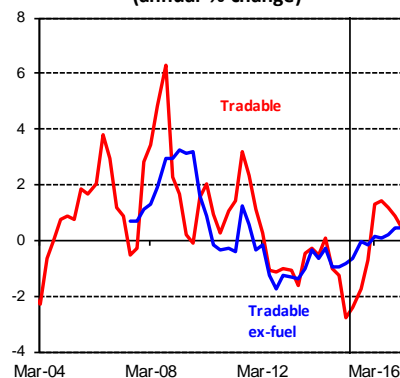
**NZ CPI INFLATION**



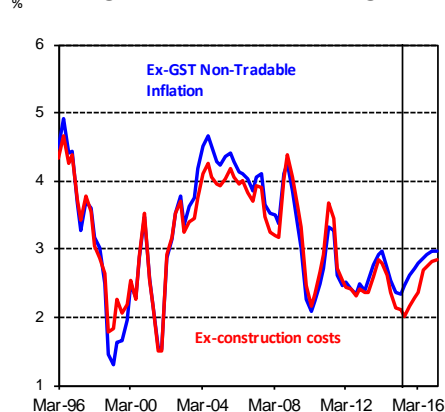
**TRADABLE INFLATION & QSBO PRICING INTENTIONS**



**TRADEABLE (ex-GST) INFLATION (annual % change)**



**NON-TRADABLE INFLATION**



## Interest Rates and Exchange Rates

The ideal mix of local financial conditions is a lower exchange rate and higher interest rates.

But we are unlikely to get that mix over the year ahead.

NZD expected to ease against the USD, but stay firm on the other major cross rates.

RBNZ on the side lines and, if anything, could cut the OCR this year.

Low global rates weigh on local long-term rates over the year ahead.

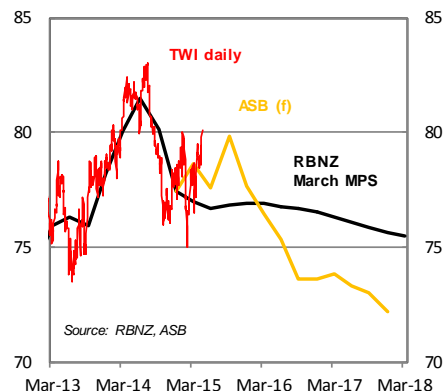
Right now a weakening currency would help the export sector and also lead to slightly more inflation within the economy at a time when it is too low. An argument for higher interest rates can be made with the housing market risks, but those reasons for higher rates are more than offset by the inflation situation. In an open economy a central bank can't control both the exchange rate and interest rates. The RBNZ controls the OCR, but acknowledges that although it can influence the exchange rate at times via intervention, it cannot control it.

What this means is we are unlikely to get that ideal financial mix this year. The combination we expect – a high NZD and low interest rates – is a reflection of being healthier than other countries where huge monetary policy stimulus is occurring. Related to this, we expect the process of the US Fed beginning to lift interest rates later this year will be a help in improving New Zealand's financial mix of conditions. The current soft patch of US activity means a later start to Fed tightening is a risk. However, we see higher risks that the European Central Bank, the Bank of Japan, the Bank of Canada, and the Reserve Bank of Australia all loosen policy further over the next year.

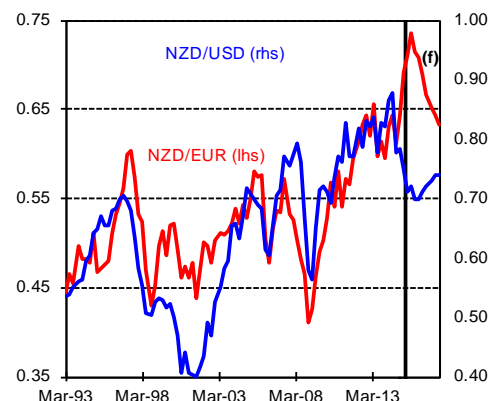
Accordingly, we maintain our view of a multi-year cyclical upswing in the USD. That firming USD story is the key to our expectation that the NZD/USD will ease towards 0.7000 this year. But New Zealand's economic health and divergent monetary policy outlook vis-a-vis other major economies means the NZD should stay strong on the respective cross rates. The record high NZD/AUD and NZD/EUR demonstrate the foreign exchange impact of that divergence in full effect.

Turning to local interest rates, we continue to expect the RBNZ to remain on hold for the foreseeable future. But the risks this year are skewed to OCR cuts, on which we continue to put a 25% probability. The RBNZ's primary concern at the moment is that inflation is too low. The strong NZD will also be a frustration. Housing concerns at present are financial stability rather than inflation issues. The extraordinary monetary policy stimulus taking place around the world is suppressing long-term interest rates around the world. In some cases, rates are in negative territory. Several European governments' bond yields are negative – effectively meaning you are paying those governments to store your money! That makes New Zealand's interest rate market attractive, even though our interest rates are low by our own historical standards. Accordingly, offshore investors' interest is likely to keep the downward pressure on local long-term interest rates (and upward pressure on the NZD) over 2015.

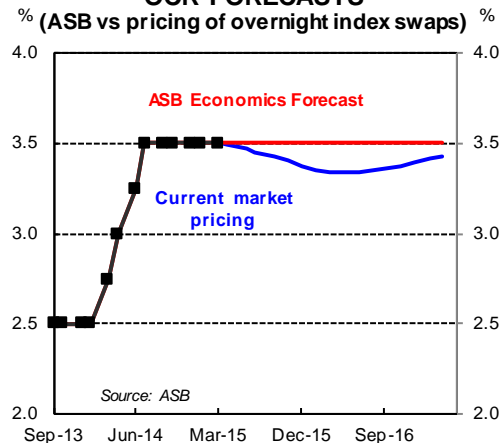
NZ TWI FORECAST



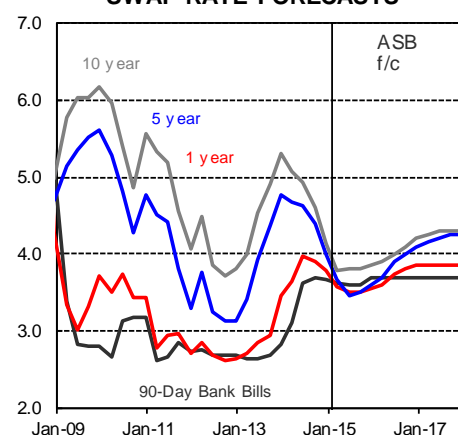
NZD/USD AND NZD/EUR



OCR FORECASTS



SWAP RATE FORECASTS



**Economic Forecasts**

ASB economic forecasts		Sep-14 actual	Dec-14 forecast >>	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Mar-17
<b>NZ GDP real</b>	<b>AA%</b>	<b>2.9</b>	<b>3.3</b>	<b>3.2</b>	<b>2.9</b>	<b>2.7</b>	<b>2.5</b>	<b>2.6</b>	<b>3.3</b>
private consumption	AA%	3.0	3.2	3.7	4.0	3.9	4.1	4.0	3.6
dwelling construction	AA%	16.3	16.7	12.6	8.4	6.4	2.1	0.5	1.4
other investment	AA%	7.2	6.1	5.6	6.0	6.0	6.7	7.0	3.8
exports	AA%	1.4	2.7	2.8	4.1	5.4	4.5	4.0	3.3
imports	AA%	8.0	8.0	7.9	6.9	7.3	6.4	5.5	2.7
NZ GDP real	A%	3.2	3.5	2.7	2.4	2.4	2.5	3.2	2.9
NZ GDP real	Q%	0.9	0.8	0.2					
<b>NZ CPI</b>	<b>A%</b>	<b>1.0</b>	<b>0.8</b>	<b>0.1</b>	<b>0.4</b>	<b>0.7</b>	<b>1.2</b>	<b>2.1</b>	<b>1.9</b>
NZ house prices (QV index)	A%	4.4	5.0	6.8	6.2	6.5	5.5	4.1	1.3
NZ unemployment (sa%)	Qtr	5.5	5.7	5.6	5.8	5.8	5.8	5.7	5.0
NZ private sector wages (LCI)	A%	1.9	1.8	2.1	2.1	2.2	2.2	2.2	2.2
NZ current account (\$b)	Yr	-6.1	-7.8	-9.5	-10.5	-11.2	-12.1	-12.9	-14.4
as a % of GDP	Yr	-2.6	-3.3	-4.0	-4.3	-4.6	-4.9	-5.2	-5.5

A% = percentage change since same quarter the previous year  
 AA% = percentage change for year ending quarter since the previous year

**Financial Forecasts**

ASB interest rate forecasts (end of quarter)		Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Mar-17
				<<actual	forecast >>				
NZ cash rate target		3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
NZ 90-day bank bill		3.70	3.67	3.63	3.6	3.6	3.7	3.7	3.7
NZ 3-year swap rate		4.26	3.91	3.59	3.5	3.5	3.6	3.6	4.0
NZ 10-year gov't stock		4.14	3.66	3.23	3.3	3.2	3.2	3.3	3.7
<b>ASB foreign exchange forecasts (end of quarter)</b>				<<actual	forecast >>				
USD per NZD		0.777	0.783	0.749	0.71	0.72	0.70	0.70	0.74
GBP per NZD		0.478	0.503	0.506	0.48	0.49	0.48	0.46	0.47
AUD per NZD		0.891	0.957	0.979	0.97	1.00	1.00	0.99	0.99
JPY per NZD		85.0	93.6	90.0	91	94	95	95	96
EUR per NZD		0.612	0.644	0.692	0.71	0.73	0.71	0.71	0.64
CNY per NZD		4.776	4.856	4.649	4.54	4.68	4.48	4.41	4.29
TWI - 17 country		76.0	79.3	78.6	77.6	79.8	77.7	76.5	73.9

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