Australia & New Zealand weekly.

Week beginning 18 September 2017

- USD trend key to AUD story.
- RBA: September minutes, Governor Lowe & Assist. Governor Ellis speak.
- Australia: Westpac-MI Leading Index.
- NZ: Federal election, GDP, consumer confidence, balance of payments.
- China: property prices.
- US: FOMC policy decision, housing starts/permits, existing home sales.
- Central banks: BoJ policy decision, BoE Carney speaks, ECB Draghi speaks
- Key economic & financial forecasts.

Information contained in this report was current as at 15 September 2017.

Westpac Institutional Bank

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USD trend key to AUD story

Since the last monthly, the AUD has traded in a fairly narrow range: USD0.7875–0.812. It has currently settled around USD0.80. Taking a longer perspective, I note that since the beginning of 2017, the Australian dollar has risen from USD0.72 to USD0.80 (11%). Commentators have tended to explain that move in the context of elevated commodity prices; growing expectations that an RBA rate hike will be delivered within twelve months and the booming employment market.

However, in fact, the dominant factor has been the reversal in the US dollar. This has been due to a material loss of confidence in the US economy. Most notably President Trump has failed to progress his reform agenda. Resurgent confidence in the European and Japanese economies have also been major factors in the reversal in fortunes of the USD (Canada and Mexico have also played a role).

Since the recent peak in the USD in late December 2016 (immediately following the Fed's rate hike and the election of President Trump) the USD has depreciated by 11% against its DXY Index and the Euro and Yen have appreciated by 12% and 6% respectively against the USD.

To get a feel for the two key forces of Euro/Japanese optimism compared to Trump disillusionment, it is useful to consider the movement in the USD since mid-July 2016, when Trump was a 'long shot' for the Presidency and there was ongoing caution around Europe and Japan. Since then, the Euro has appreciated by 8% against the USD and the JPY by 3%.

In DXY terms the USD has depreciated by 4% since July last year and 11% since the peak in late 2016. That 4% depreciation is despite three Fed rate hikes and the announcement of balance sheet tapering. Arguably that indicates that the 'administration disappointment' factor was considerably larger than the net 7% effect.

A further complication is that back in July last year, the market was only anticipating Fed rate hikes of around 0.25% by end 2017 – the Fed has already hiked by 0.75% and even the cautious market is predicting another hike of 0.25% by end 2018 (Westpac expects 0.75%). Markets are also now anticipating the announcement that from October the Fed will begin shrinking its balance sheet by not reinvesting the proceeds of maturing assets.

Partly offsetting the tighter than expected stance of monetary policy in the US is market confidence that both the ECB (tapering purchases of securities) and BoJ (improving prospects for wages growth and inflation) will reduce policy stimulus over the course of 2018. Nevertheless, it is reasonable to conclude that relative to July 2016, the Fed has exceeded market expectations by more than the tightening expectations around the ECB or the BoJ.

Westpac expects that the Fed is set to further exceed market expectations and, as in the last year, to a greater extent than the ECB and the BoJ. Based on these numbers, a 'ballpark' estimate of the degree of weakness in the USD which relates to disillusionment with the Administration is around 7% with the remainder of the weakness in the USD (around 4% from its peak) reflecting optimism in Europe, Japan, and to a lesser extent, Canada and Mexico.

Against the AUD/USD's bilateral appreciation of 11% since 3 January, the RBA's TWI has risen less than 5%. If we exclude the US dollar (and currencies pegged to USD), the gain is 3.5%. On both metrics, it is evident that the US dollar story has been responsible for the majority of the 2017 AUD move. There are good reasons to be optimistic about the USD going forward.

A lift in confidence in the Administration is a reasonable proposition for the next 12-18 months. Tax reform is much more likely than health care reform. While the current developments around the relations between the Administration and the Democrats are clouded, there must still be bi-partisan support for some form of tax reform.

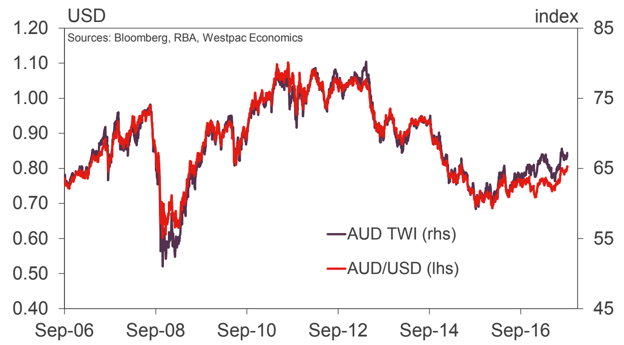
Repatriation of funds held offshore could raise taxes of up to $200bn. While infrastructure currently appears to be off the agenda, that could change. In fact, the tax proceeds could be used to capitalise an infrastructure fund (geared at 6x) that could be funded off balance sheet at, arguably, 50-75bps above Treasuries. Industry reform or even curtailing of further reform measures could also boost confidence and growth expectations.

However, even if the Administration is successful in achieving some goals, the optimism which pervaded at the end of last year is unlikely to be replicated and we cannot expect a full unwinding of the USD negativity that we currently observe.

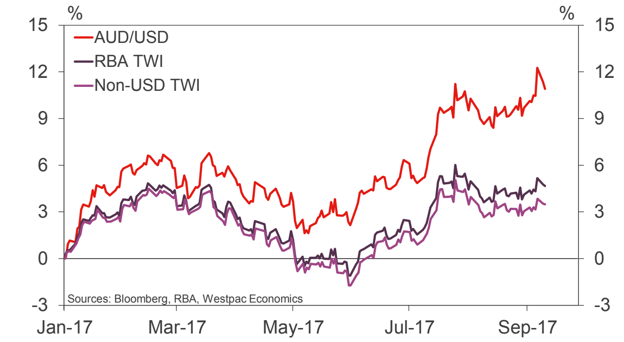
Based on the discussion above, an increase in the USD out to end 2018 of 5-8% is reasonable. To supplement our expectation that AUD can drift back to USD0.70 (12% depreciation in all) we are also of the view that non USD factors will weigh on the AUD (RBA on hold and a slowdown in China pushing down commodity prices by 15-20% in 2018).

Bill Evans, Chief Economist

AUD/USD & AUD TWI



AUD appreciation over 2017



Data wrap

NAB Survey

- August, employment conditions rise to 9 year high. Conditions: up 1pt to +15. Confidence: down 7pts to +5.
- The NAB business survey for August is, on balance, an upbeat report, pointing to near-term strength, particularly in employment creation.
- Conditions defied gravity, holding at elevated levels. The index rose 1pt to +15.
- Employment conditions strengthened, rising 4pts to +11, the highest level since February 2008.
- Business confidence, which is volatile month to month, fell 7 points, to +5, a level in line with the long-run average. This could be just noise in the data, or something more concerning, as discussed below.
- The elevated level of the business conditions index is overstating actual conditions across the broader economy, as it has tended to do since the GFC. In part this bias is due to the exiting of firms from some sectors, such as the auto industry.
- Directionally, the survey suggests that the Australian economy is experiencing a trend improvement in underlying conditions after the slowdown in mid-2016, associated with the July Federal election.
- On employment, the business surveys correctly foreshadowed the strong increase evident so far in 2017 (see chart opposite). This was after a jobs undershoot in 2016, in part due to uncertainty around the election. If the employment index remains at current levels then it points near-term to further vigour in jobs creation. Consistent with this, job advertisements rose 20% annualised in the six months to August, the fastest pace since 2010.
- The survey remains less positive on business investment.
- The lift in business conditions is concentrated in the goods sectors. In particular, the construction sector is reportedly experiencing the most favourable conditions since 2007, with positive spill-over effects to manufacturing and other sectors. There is a degree of broad based strength in 2017, namely, the upswing in public infrastructure investment; elevated home building activity; a rebound in commercial building; a lift in non-mining infrastructure work; and the waning of the mining investment wind-down.
- As with the June quarter national accounts, consumer sectors are a source of weakness. The survey reports retail business conditions at –4 in August.
- Business confidence trailing actual business conditions may reflect concerns around the lack of consumer demand, at a time of persistent weakness in wages growth, and hence doubts around the durability of current strength.
- As to prospects for 2018, we are of the view that the Australian economy will slow to a below trend pace. Domestic conditions will be dented by the looming downturn in home building activity, with negative spill-over effects on employment and consumer spending. In addition, we expect the international backdrop to be less favourable, with world growth slowing, led by China, and commodity prices retreating from current highs.

Westpac-MI Consumer Survey

- The Westpac Melbourne Institute Index of Consumer Sentiment rose 2.5% to 97.9 in September from 95.5 in August.
- The consumer mood remains downbeat with September marking the tenth consecutive month that pessimists have outnumbered optimists. Pressures on family finances, concerns around interest rates, deteriorating housing affordability and rising energy prices have all weighed on confidence in 2017. These factors are more than offsetting the boost from an improved outlook for jobs particularly when a stronger labour market has not been associated with increased wages growth.
- The survey detail shows family finances remain a key area of concern. The 'finances vs a year ago' sub-index rose 6.1% but was coming from a very weak read in August (a three year low). The sub-index tracking expectations for 'finances over the next 12 months' fell 2.1%, reversing last month's gain.
- Consumer expectations for the economy showed more consistent gains. The 'economic conditions, next 12 months' sub-index rose 2.7% and the 'economic conditions, next 5 years' sub-index posted a robust 5.1% gain. While both are still in pessimistic territory, they are now marginally above long run average levels. The improved but still 'lukewarm' sentiment towards the economy likely reflects the somewhat mixed picture from recent data including the June quarter national accounts which showed a reasonably solid 0.8% gain in GDP but subdued annual growth and notable areas of weakness around household incomes and consumer spending.
- Consumers were slightly more positive towards major purchases, the 'time to buy major a household item' sub-index rising 2.1% in September. However again the rise was small and, coming off a weak August read, the sub-index remains well below its long run average.
- The September survey included additional questions on news recall that provide further insight into the factors shaping sentiment. Interestingly, recall levels have fallen significantly over the last three years suggesting consumers may be getting less exposure to news in general. In September the topic areas with the highest recall were 'economic conditions' (21%); 'budget and taxation' (17%); interest rates (16%); inflation (16%); jobs (15%); and international conditions (12%). While news on all fronts was viewed as unfavourable, consumers rated news on inflation and international conditions as much more negative than three months ago – likely reflecting sharp increases in energy costs and developments around North Korea. The only material improvement was around jobs where news was viewed much less negatively than in June.
- The improved labour market situation was also broadly apparent in the Westpac Melbourne Institute Unemployment Expectations Index. Although the index edged up 0.9% in the month, at 133.6 it is still down 4.8% from its June level and the second lowest reading since 2011 (lower reads mean more consumers expect unemployment to fall in the year ahead).
- Consumer views around housing were mixed in September. The 'time to buy a dwelling' index rose 0.8% but at 95.2 remains at very low levels by historical standards. State indexes continue to vary widely, ranging from a very weak read in NSW (81.3) to a strongly positive result in WA (130.4). Consistent falls in prices in WA over recent years may be finally restoring affordability to attractive levels.
- The Westpac Melbourne Institute Index of House Price Expectations dipped 2.8% but at 141.5 remains high overall. Of those consumers with a view, 57% expect prices to rise in the year ahead, 31% expect no change and 12% expect a decline.
- Responses to additional questions on the 'wisest place for savings' continued to indicate risk aversion. Nearly two thirds of consumers still favour safe options – deposits, superannuation or paying down debt – with only 10.5% nominating real estate, a new 40 year low, and 9% nominating shares. More consumers favour 'pay down debt' (23.5%) than real estate and shares combined.

Data wrap

Aug Labour Force, employment

- Total employment rose 54.2k compared to the market's and Westpac's forecast for +20k. Unemployment was flat at 5.6% (5.60% at two decimals) with a 0.2ppt gain in participation (largely for females) driving a rise in the labour force.
- The Australian labour market went through a soft patch in 2016, particularly from Aug to Nov, but the solid uplift seen since has gathered momentum as we moved through 2017. The annual pace accelerated from 0.9%yr in Feb to 2.0%yr and now to 2.7%yr in Aug. In the year to Feb, employment grew 111.2k. This has since almost tripled to 325.6k in the year to Aug.
- Full-time employment bounced 54.2k in Aug following a –19.9k correction in Jul and a 71.1k surge in Jun. In the year full-time employment has gained 251.2k/3.0yr. Part-time employment rose 14.1k following a 49.1k bounce in Jul that followed a –49.4k contraction in Jun. In the year to Aug, part-time employment lifted 74.5k/2.0%yr.
- By state, NSW Vic and Qld were the main source of strength with total employment up 12.9k, 18.6k and 16.7k respectively. Unemployment was flat in NSW (5.0%) and Vic (6.1%) while it fell in Qld (5.7%) and SA (5.7%) and rose in WA (5.9%).
- The ABS has made some revisions to hours worked which now do not appear to be as volatile as they were. In the month, hours worked rose 0.4%/2.6%yr.
- Two further positives can be found in the more secondary data with the decline in underemployment to 8.6% from 8.8% (only released in the mid-month of the quarter) and youth unemployment (12.7% from 12.9%).
- The Australian labour market has gained quite a bit of momentum and it is now on track to overshoot our leading indicator sometime soon. If the current momentum can be maintained through Q4, and there is no reason to suspect it won't be, then the annual pace is set to be faster than 3%yr. However, rising participation will prevent the unemployment rate from going much lower.

Q3 Australian Chamber-Westpac Survey

- Q3 2017: 66.1 vs 65.0 prior.Activity strengthens.Positive signals for jobs and investment.
- The Westpac–AusChamber Actual Composite index strengthened in September 2017, up 1.1pts to 66.1. This extends the rebound from 55.1 in June 2016, a dip coinciding with the July Federal election.
- The above par reading for the Composite index, which has trended higher since 2014, reflects strength in new orders, output, overtime, backlog and employment. September saw maintained strength in output, new orders and employment, while backlog and overtime lifted.
- Manufacturing is benefitting from: a strong upswing in public infrastructure spending; stronger world growth; a lift in non-residential construction; a still relatively low Australian dollar; and an elevated level of home building activity. Even so, there are some negatives: consumer spending is constrained by slow wage growth; while offshore competition in the manufacturing sector continues to be intense.
- The modest uptrend in exports has resumed after stumbling in 2016, with a net 8% of firms indicating a rise in export deliveries. Export expectations are moderately positive, coinciding with rising world trade volumes after a period of contraction as well as continued support from a relatively low AUD.
- Expectations are positive, centred on new orders and output as well as backlog and overtime. The Expected Composite is at 65.2 in September, down slightly from 65.7 in June. A net 35% expect the general business environment to strengthen over the next six months, continuing the upbeat mood.
- Equipment investment intentions of respondents have been positive over recent years in response to rising demand and consistent with some reduction in the sector's spare capacity, as well as improving profitability. A net 17% expect to increase equipment investment in the next year. Building intentions have dipped to a net –3%, down from 9% in June.
- The survey's Labour Market Composite, which broadly tracks economy-wide jobs growth, is at 60.1 in September, pointing to continued solid jobs growth in 2017. The index correctly foreshadowed the acceleration in Australian employment evident in the first half of this year.

Round–up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Tue 12	Aug NAB business survey conditions	14	15	-
Wed 13	Sep Westpac–MI Consumer Sentiment	95.5	97.9	-
Thu 14	Aug employment ch	29.3k	54.2k	20k
	Aug unemployment rate	5.6%	5.6%	-
	Sep MI inflation expectations	4.2%	3.8%	-
	Q3 Westpac–AusChamber survey	65.0	66.1	-

New Zealand: week ahead & data wrap

Economic developments

Attention in New Zealand is squarely focused on the upcoming general election on Saturday 23 September. Current polling is pointing to a very close race between the incumbent right of centre National Party and the main centre-left opposition Labour Party. If the current government returns to power, it probably won't have a big impact on our forecasts. However, if there is a change in government, the stance of policy could shift in a number of important areas, including fiscal and monetary policy, the housing market, immigration, and environmental policy. We'll be taking a closer look at how things are stacking up on these fronts over the next few weeks.

Turning to economic developments, New Zealand's GDP figures for the June quarter will be released on Thursday 21 September. We expect that they will show the economy expanded by 0.8% over the quarter. That would leave the level of output in the economy up 2.8% over the past year. The expected firmness in the June quarter reflects a rebound from earlier temporary weakness in the agriculture and transport sectors. We also saw a strong gain in retail spending over the quarter, supported by very strong tourist arrivals.

With much of the June quarter rise in activity a result of temporary factors, this will likely be the high for GDP growth.

Looking to the remainder of 2017, we expect that growth will ease off. A key reason for this is that conditions in the housing market have really come off the boil. The August REINZ housing market update showed that sales are down 22% over the past year, and house price growth has essentially stalled. Furthermore, with the inventory of unsold homes continuing to climb, it looks like prices will remain soft for some time.

Earlier strength in the housing market underpinned much of the strong gains in households spending that we saw in previous years. Conversely, the slowdown that we're now experiencing will be a drag. Indeed, this appears to have been a key reason for the recent softness in retail spending. The latest card spending figures showed that retail spending was down 0.2% August, following a 0.6% rise in July. Looking at the longer-term trend in demand, we see that spending levels have been broadly flat for several months now. That includes only muted growth in spending on durable household items (like furnishings), spending on which is closely tied to the strength of the housing market.

A look at the residential building industry

This week we released an Industry Insight Report on New Zealand's residential building industry[1]. The industry is characterised by many small firms and a few large ones. Small firms typically employ fewer than five people, operate at a localised level, build one home at a time and are heavily involved in alterations and remedial type work. Large firms on the other hand focus on large-scale projects and can build up to a thousand houses per year. They are usually regionally focused with some having national coverage.

Irrespective of size, these firms operate in an environment where demand is extremely variable. In part, this reflects the impact of cyclical factors, such as interest rate movements and changes in net migration. It also reflects the impact of disruptive factors, such as the 2011 Canterbury earthquake, which have had a big impact on demand for residential building activity over an extended length of time.

The industry is able to respond to this variability in demand because small firms, in particular, find it relatively easy to enter and exit the industry. By contrast, larger firms typically face higher barriers to entry. Better capitalised than their smaller counterparts and often with diversified interests, they tend to remain in the industry irrespective of changes in demand.

The ability of smaller firms to move in and out of the industry sets in motion a boom and bust cycle that has a number of adverse consequences. The main one is that it tends to encourage a short-term focus on operational issues. This is particularly true for those small firms that live a "hand to mouth" existence and so are unable to invest time and money in developing, learning and/or adopting new ways of doing things. Limited investment discourages innovation, which effectively caps productivity gains needed to improve industry competitiveness and reduce building costs. It also helps to perpetuate the boom and bust cycle.

However, this is not the case for most large firms. Although few in number, these firms actively adopt best practice work organisation and procurement methods to minimise unit costs of construction and improve levels of competitiveness. They are also ahead of the curve when it comes to developing and/or adopting new products, materials and approaches to building. Greater use of offsite prefabrication, for example, helps to speed up construction times and reduce building costs. It also provides some protection against the variability in demand referred earlier.

The ability to compete not only depends on generating operating efficiencies, but also which segments of the market that are being targeted. The building of standalone houses continues to be the bedrock on which the industry stands. However, large firms are increasingly focusing on medium and high-density residential buildings as customer preferences, shaped in part by affordability issues, change. Particular growth areas attracting high margins include terraced housing and low-level apartment blocks.

Given the competitive dynamics at play, we think that the industry will morph into something more like that of Australia's, where larger residential firms dominate. We expect that the ability to generate greater economies of scale will over time result in larger firms dominating all market segments, except perhaps for alterations, repairs and maintenance work, where a declining number of smaller players will operate. This does not mean that smaller players will disappear from home building altogether, but we think they will become increasingly marginalised.

1. https://www.westpac.co.nz/assets/Business/Economic-Updates/2017/Bulletins-2017/Industry-Insight-Residential-Building-September-2017.pdf

Round–up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Mon 11	Aug retail card spending	–0.6%	–0.2%	0.5%
Wed 13	Aug food prices	–0.2%	0.6%	–
Thu 14	Aug ANZ consumer confidence	126.2	129.9	–
Fri 15	Aug BusinessNZ manufacturing PMI	55.5	57.9	–
	Jul REINZ house sales	–1.9%	–0.8%	–
	Jul REINZ house prices, %yr	1.0%	0.4%	–

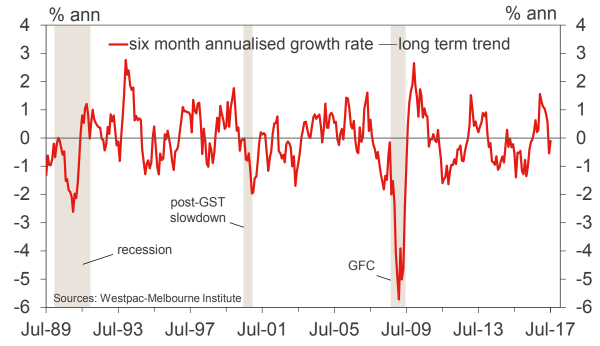
Data previews

Aus Aug Westpac–MI Leading Index

Sep 20, Last: –0.32%

- The Leading Index has swung sharply in recent months from well above trend to back below trend, the six month annualised growth rate coming in at 0.32% below trend in July. The turnaround mainly reflects swings in Australia's commodity prices and to a lesser extent a shift to a rising yield curve implying tightening financial conditions.
- The Aug read will include a mix of updates: the ASX200 largely unchanged; the Westpac-MI Consumer Expectations Index and US industrial production both up slightly again; total hours worked, up 0.4% (vs -0.5% last month); and commodity prices up 1% vs -3% last month. Against this, dwelling approvals were down -1.7% (vs +11.7% last month) the yield spread narrowed a touch and the Westpac-MI Unemployment Expectations Index deteriorating slightly.

Westpac-MI Leading Index

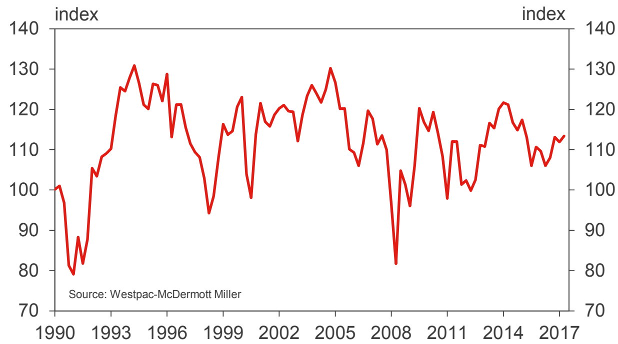


NZ Q3 Westpac McDermott Miller Consumer Confidence

Sep 19, Last: 113.4

- The Westpac McDermott Miller Consumer Confidence survey rose by 1.5 points in the June quarter. That took the index to 113.4 - its highest level since early 2015. Looking into the breakdown of the survey, gains in confidence were widespread, both geographically and by income levels.
- June's rise in consumer sentiment was underpinned by improved confidence in the economic outlook.

Westpac-McDermott Miller consumer confidence

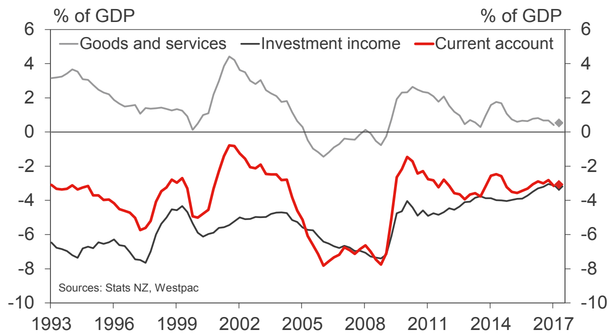


NZ Q2 current account, % of GDP

Sep 20, Last: -3.1%, Westpac f/c: -3.1%, Mkt f/c: -3.0%

- We expect the annual current account deficit to remain around 3.1% of GDP. In seasonally adjusted terms, last quarter's deterioration in the goods balance is set to reverse, with the goods deficit expected to narrow from $1bn to $400m. Underpinning this recovery has been a lift in dairy exports volumes and prices following weakness in the previous two quarters.
- The services balance is expected to continue rising from already firm levels. This mainly reflects ongoing strong growth in tourism exports, with a record inflow of international visitors over the past year. Tourism exports are likely to be particularly strong in the June quarter as a result of the boosts to spending from the Masters Games and Lions tour.
- The investment income deficit is expected to remain stable.

Annual current account balance



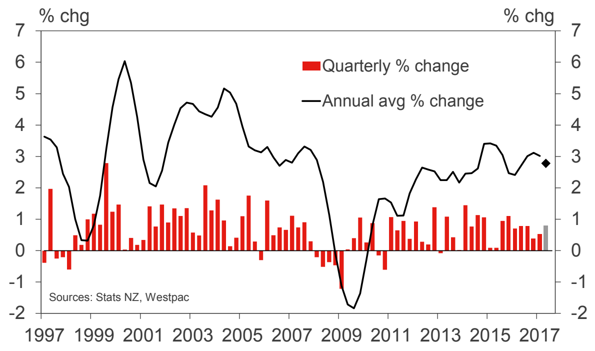
Data previews

NZ Q2 GDP

Sep 21, Last: 0.5%, Westpac f/c: 0.8%, Mkt f/c: 0.8%

- GDP growth is expected to rebound following a couple of quarters of softer growth. We are forecasting a 0.8% rise in Q2 GDP, which is below the RBNZ's forecast of 0.9%.
- In part, the expected firmness in Q2 reflects a rebound from the temporary earlier softness in the agricultural and transport sectors. Moreover, firmer retail spending in Q2 underpinned by strong population growth and tourism is expected to lend a boost to GDP growth.
- Balanced against these upside factors, we are seeing signs of softness within the construction and manufacturing sectors.

Production-based GDP

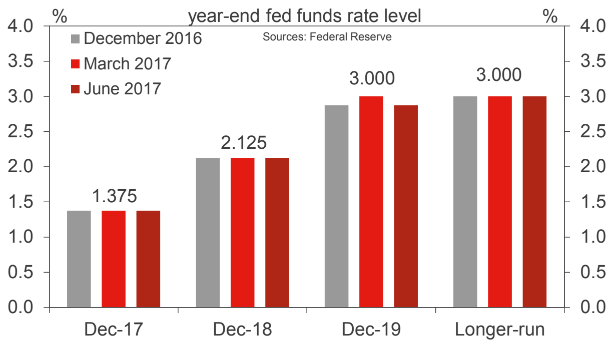


US Sep FOMC meeting

Sep 19–20, last 1.125%, WBC 1.125%

- It has been a tumultuous month for the US economy and indeed the FOMC, with Vice Chair Fischer announcing is resignation effective October 2017.
- This decision will have no impact on the September meeting, the formal starting point for balance sheet normalisation. At the end of this meeting, a specific date will be given at which time the already outlined plan of the FOMC will be put into action. It is intended that this will reduce the balance sheet by around USD2trn over the next five or so years.
- For the outlook, the more important output of the September meeting will be revised forecasts. The two particular areas of note will be the forecasts for inflation and for the fed funds rate, which recent communications indicate might come under pressure. We retain our December 2017; June and December 2018 rate hike view.

FOMC to keep raising rates, but at what pace



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 18					
Aus	Aug new vehicle sales	-2.0%	–	-0.5%	FCAI figs point to a soft month but sales still up ~2%yr.
NZ	Aug performance services index	56.0	–	–	Services facing some headwinds, but activity remains firm.
Chn	Aug property prices	–	–	–	Tier 1 moderation to persist.
Eur	Aug CPI final %yr	1.3%	–	–	Germany and Spain have strengthened.
UK	Sep Rightmove house prices	-0.9%	–	–	Broad uncertainties leading to softer prices, esp. in London.
	BoE Governor Carney speaks	–	–	–	IMF event speech followed by conversation with Lagarde.
US	Sep NAHB housing market index	68	67	–	Conditions strong.
	Jul total net TIC flows $bn	7.7	–	–	Long-term bond flows.
Tue 19					
Aus	RBA minutes	–	–	–	More colour on the Board's deliberations.
	Q2 house price index	2.2%	1.3%	1.2%	More timely measures show clear softening.
NZ	Q3 Westpac consumer confidence	113.4	–	–	June quarter saw widespread gains in consumer confidence.
Eur	Jul ECB current account, €b	21.2	–	–	Export sectors benefitting from uplift in global trade.
	Jul construction output	-0.5%	–	–	Still mixed across the Continent.
	Sep ZEW survey expectations	29.3	–	–	Remain robust.
	ECB economic bulletin	–	–	–	Detailed assessment of economy by ECB.
US	Aug import price index	0.1%	–	–	US dollar weakness to support.
	Aug housing starts	-4.8%	2.2%	–	Starts activity looks to be stabilising…
	Aug building permits	-3.5%	-0.8%	–	… so too permits.
Wed 20					
Aus	Aug Westpac-MI Leading Index	-0.32%	–	–	Back below trend on weaker commodity prices.
	RBA Assist Gov Economic Ellis	–	–	–	Topic tbc, ABE briefing, Sydney 1.05 pm AEST.
NZ	GlobalDairyTrade auction	0.3%	–	–	WMP futures signalling softness in dairy at next auction.
	Q2 current account GDP ratio YTD	-3.1%	-3.0%	-3.1%	Lift in goods and services exports set to narrow deficit.
UK	Aug retail sales	0.3%	0.2%	–	Stronger pound balanced with softer housing keep sales flat.
US	Aug existing home sales	-1.3%	0.6%	–	Has lost momentum in recent months.
	FOMC policy decision, midpoint	1.125%	1.125%	1.125%	Balance sheet normalisation to begin. Watch the dots.
Thu 21					
Aus	RBA Governor Lowe speaking	–	–	–	'The Next Chapter', Perth, 3.10 pm AEST.
NZ	Q2 GDP	0.5%	0.8%	0.8%	Rebound in Q2 growth, driven by transport and agriculture.
	Aug net migration	5800	–	5900	Annual inflow remains elevated; arrivals high, departures low.
Jpn	BoJ policy decision	-0.1%	-0.1%	–	On hold – inflation remains well below target.
Eur	Sep consumer confidence – adv.	-1.5	–	–	Buoyant.
	ECB President Draghi speaks	–	–	–	In capacity as Chair of the European Systemic Risk Board.
	ECB Chief Economist Praet speaks	–	–	–	Chairs panel at the 'Understanding inflation' conference.
US	Jul FHFA house prices	0.1%	–	–	Price growth momentum remains robust.
	Initial jobless claims	284k	–	–	Very low.
	Sep Phily Fed index	18.9	17.0	–	Still strong.
	Aug leading index	0.3%	0.2%	–	Growth at trend.
Fri 22					
Idn	Bank Indonesia policy decision	4.5%	4.5%	–	Cut in Aug, core inflation at bottom of 3–5% target range.
Eur	Sep Markit manufacturing PMI	57.4	–	–	At an elevated level.
	Sep Markit services PMI	54.7	–	–	Services also fairing well.
	ECB VP Constancio speaks	–	–	–	Final remarks at the 'Understanding inflation' conference.
Ger	Sep Markit manufacturing PMI	59.3	–	–	Efficiency and the Euro a double benefit.
	Sep Markit services PMI	53.5	–	–	Services sector lags.
US	Sep Markit manufacturing PMI	52.8	–	–	Results for broad industry surveys…
	Sep Markit service PMI	56.0	–	–	… have become more mixed.
	Fedspeak	–	–	–	Williams speaks to media after SNB event
	Fedspeak	–	–	–	George at Dallas/Kansas City Fed oil conference.
	Fedspeak	–	–	–	Kaplan at Q&A at Dallas/Kansas City Fed oil conference.
Can	Aug CPI %yr	1.2%	–	–	Expected to firm.
Sat 23					
NZ	General election	–	–	–	Results of the General Election

Economic & financial forecasts

Interest rate forecasts

	Latest (15 Sep)	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 Day Bill	1.72	1.80	1.80	1.80	1.80	1.80	1.80	1.80
3 Year Swap	2.19	2.30	2.50	2.60	2.70	2.80	2.80	2.80
10 Year Bond	2.75	2.70	2.75	2.85	2.95	3.00	3.00	3.00
10 Year Spread to US (bps)	57	30	15	10	5	0	0	0
International								
Fed Funds	1.125	1.375	1.375	1.625	1.625	1.875	1.875	1.875
US 10 Year Bond	2.18	2.40	2.60	2.75	2.90	3.00	3.00	3.00
US Fed balance sheet USDtrn	4.52	4.49	4.43	4.34	4.23	4.11	4.00	3.87
ECB Deposit Rate	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40	–0.30	–0.30
New Zealand								
Cash	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
90 day bill	1.94	1.95	1.95	1.95	1.95	1.95	1.95	1.95
2 year swap	2.21	2.10	2.15	2.20	2.30	2.40	2.50	2.60
10 Year Bond	2.94	2.95	3.10	3.20	3.30	3.40	3.45	3.50
10 Year spread to US	76	55	50	45	40	40	45	50

Exchange rate forecasts

	Latest (15 Sep)	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19
AUD/USD	0.7993	0.76	0.75	0.74	0.72	0.70	0.70	0.70
NZD/USD	0.7230	0.70	0.69	0.68	0.67	0.66	0.66	0.65
USD/JPY	110.37	111	112	113	114	115	115	116
EUR/USD	1.1907	1.17	1.16	1.15	1.14	1.13	1.13	1.14
AUD/NZD	1.1054	1.09	1.09	1.09	1.07	1.06	1.06	1.07

Australian economic growth forecasts

	2016	2017				2018		Calendar years			
	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2015	2016	2017f	2018f
GDP % qtr / yr avg	1.1	0.3	0.8	0.9	0.9	0.7	0.6	2.4	2.5	2.5	3.0
% yr	2.4	1.8	1.8	3.2	3.0	3.5	3.2	2.6	2.4	3.0	2.5
Unemployment rate %	5.7	5.8	5.6	5.6	5.7	5.8	5.8	5.8	5.7	5.7	6.1
CPI % qtr	0.5	0.5	0.2	0.8	0.5	0.5	0.4	–	–	–	–
% yr	1.5	2.1	1.9	2.0	2.0	2.1	2.3	1.7	1.5	2.0	2.5
CPI underlying % qtr	0.5	0.5	0.5	0.3	0.6	0.7	0.6	–	–	–	–
% yr	1.5	1.8	1.8	1.8	1.9	2.1	2.2	2.0	1.5	1.9	2.3

New Zealand economic growth forecasts

	2016	2017				2018		Calendar years			
	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2015	2016	2017f	2018f
GDP % qtr	0.4	0.5	0.8	0.7	0.6	0.8	0.7	–	–	–	–
Annual avg change	3.1	3.0	2.8	2.5	2.6	2.7	2.8	2.5	3.1	2.6	2.9
Unemployment rate %	5.2	4.9	4.8	4.6	4.7	4.6	4.7	4.9	5.2	4.7	4.6
CPI % qtr	0.4	1.0	0.0	0.5	0.3	0.3	0.2	–	–	–	–
Annual change	1.3	2.2	1.7	1.9	1.8	1.1	1.4	0.1	1.3	1.8	1.3

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