Australia & New Zealand weekly.

Week beginning 6 March 2017

- RBA on hold.
- Australia: Jan retail trade, housing finance.
- NZ: Housing activity, retail sales.
- US: Nonfarm payrolls.
- Central banks: ECB policy decision.
- Key economic & financial forecasts.

Information contained in this report was current as at 3 March 2017

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RBA on hold; macro prudential policies have worked for the RBA; risk of more on the way

The Reserve Bank Board meets next week on March 7.

We can be certain that the decision from the Board will be to hold rates steady.

Recall the comments from the Governor in his answer to a question during his appearance before the House of Representatives Standing Committee on Economics, "At the moment the market pricing is for interest rates to be constant right through this year. That seems a reasonable proposition to me.... The central scenario of a period of stability of interest rates is quite reasonable to me."

Now we have never framed our medium term forecasts around the views of the Reserve Bank – after all they are only "mortal" forecasters like the rest of us. Their forecasts can go awry and policy can change accordingly. But for the immediate future (like next week) we can take the Governor's views as definitive.

Our view since the rate cut in May 2016 has always been for a follow up move in August and then steady rates throughout the remainder of 2016, 2017 and 2018.

We assess that the Governor currently has that view for 2017 but has not commented on the market implied two rate hikes in 2018.

His growth forecast in 2018 of 2.75%-3.75% (down from 3-4%) is well above our forecast of around 2.5% (with downside risks). Achieving the RBA's growth forecast in 2018 might be consistent with market pricing but our forecast for a slowdown in 2018 is certainly not consistent with rate hikes – below trend growth signals steady rates at best.

In his comments to the House, the Governor considers the case for rate cuts in 2017. He points out that inflation is below the target range ("a bit low") and that the unemployment rate is "a bit high". We would assess full employment at around 5% so, at 5.8%, there is clear excess capacity in the labour market. Of course, that spare capacity is further emphasised in the latest wages report which showed private wages growth at a record low of 1.8%.

However, his clear problem with leaning further on interest rates is "The main effect (of a rate cut) would be more borrowing for housing, pushing up house prices...".

His concerns with the impact of rate cuts on the housing market are well based.

Consider figures 1 and 2.

Figure 1 shows recent trends in house prices in Australia. The recent period of rate cuts (first half of 2015 - February and May) and the second half of 2016 (rate cuts in May and August) are associated with significant increases in house price inflation. However, note the trends in the intervening period. These will not be lost on the Governor.

During that period (the second half of 2015), when the Bank and APRA imposed macro prudential guidelines to slow the pace of lending to investors, the pace of house price inflation (national) slowed from 13.7% (six month annualised to August 2015) to zero (6 month annualised to March 2016). In response to the May and August rate cuts, house price inflation lifted to 10% (6 month annualised to February 2017).

Figure 1

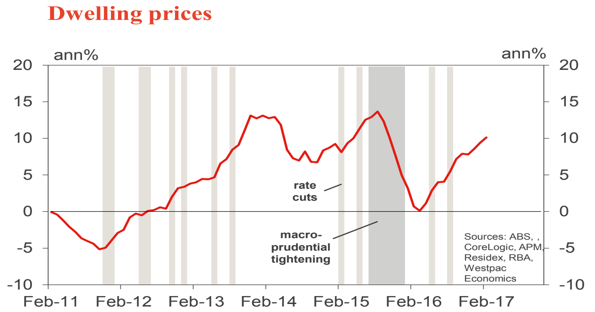


Figure 2

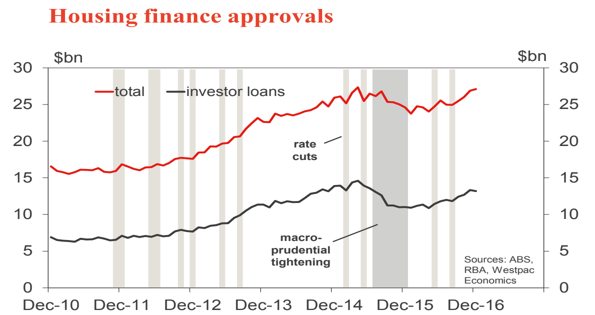


Figure 2 shows a similar trend for new lending for housing (key to the Governor's concerns about rate cuts only boosting household debt). In response to the rate cuts of 2015, new lending for housing peaked at $26.8 billion in August 2015. It subsequently slowed to $23.8 billion by January 2016 (down 11%) only to pick up to $27.1 billion (up 14%) by December 2016 – in response to the May and August rate cuts.

The conclusions that the Bank would have reached is that macro prudential policies do work and that rate cuts still stimulate prices and credit despite rates being so low.

Little wonder then that the Governor noted at the Hearing when referring to recent macro prudential policies, "For us, that is a first order thing that we can do to limit the growth rate of investor credit and, I think, that has been a successful public policy intervention."

I assess that, given both Sydney and Melbourne prices are up 14% (six month annualised – Core Logic data), the Bank and APRA may be considering even tighter macro prudential policies.

It is not only inflation and the unemployment rate that would be of concern to the Reserve Bank.

Throughout the Hearing he indicated a preference for a lower Australian dollar. He accepts that the AUD is probably around fair value but questioned the feed-back to activity from higher commodity prices, with miners apparently reluctant to increase capacity and wage pressures in the sector continuing to ease.

He has also adopted a more conservative attitude to the consumer, expecting that the recent falls in the savings rate are unlikely to be sustained .

Most of this “mood” does not sit well with the expectation that growth will lift in 2018, particularly in the face of a downturn in residential construction. His “faith” that non mining investment will lift to reflect tightening capacity utilisation is not convincing particularly with the higher AUD and a more cautious consumer.

Overall, we saw little in the comments at the Hearing to sway our expectation of a slowing economy in 2018. If, as we expect, the Bank gets around to adopting additional macro prudential policies to slow housing in the second half of 2017 the stage will be set for another year of steady rates in 2018.

With the economy slowing and macro prudential policies further tightening housing markets, the risk to rates in 2018 will be to the downside not the upside – as currently expected by markets.

Bill Evans, Chief Economist

Data wrap

Aus Q4 Business Indicators survey

- The December survey highlight was a spike in company profits, centred on the mining sector as commodity prices jumped sharply, rebounding from recent lows.
- Profits increased by 20.1% in the quarter, well in excess of expectations (market median 8.0% and Westpac 9.5%). Mining profits were the main source of strength, up 50%, as commodity prices rose by 19% in the quarter. Profits ex mining and ex finance were also positive, increasing by about 7% in the quarter, suggesting that businesses benefitted from an improvement in conditions late in 2016.
- Wage incomes (that is the wages bill) also surprised, but to the low side. Wage incomes contracted by 0.5% in the quarter, following a 0.7% increase in Q3 (revised lower from 1.2%). That is the weakest quarterly result for wage incomes since June 2009, which was associated with the GFC downturn.
- Annual growth in wage incomes slowed to 1.0%, well below average, which is around 5.5% nationally. These are nominal estimates - implying a contraction in real wage incomes.
- The level of inventories rose by 0.3% in the quarter, which will see inventories subtract 0.2ppts from Q4 GDP. We had expected a decline of 0.3ppts, from a 0.1% decline in the level of inventories.
- Mining and manufacturing inventories moved lower in the quarter. In the retail and wholesale sectors, inventory levels advanced further, whereas we had expected a correction after a stock build-up in Q3, which we interpreted as being partly involuntary.

Aus Q4 current account, AUDbn

- Australia's current account position improved markedly in 2016, after having deteriorated in 2015, as a bounce in global commodity prices boosted export earnings.
- Australia's current account deficit narrowed to $3.9bn in the December quarter, a $6.3bn improvement on September. The trade deficit moved sharply in to surplus, to $4.7bn, a $8.2bn turnaround from a $3.5bn deficit. The net income deficit widened in Q4 by $1.9bn to $8.5bn as returns to foreign investors in Australia's resource sector strengthened.
- The current account deficit in December was 0.9% of GDP. That is the smallest deficit since 1980 and a sharp improvement on a 5.6% of GDP deficit at the end of 2015.
- Export earnings increased by 11.8%, +$9.7bn in the December quarter, largely due to higher prices. The import bill rose by 1.7%, +$1.5bn, as volumes increased.
- The terms of trade increased by 9.1% in the December quarter, as export prices rose 9.4% while import prices were little changed, up 0.3%. For 2016, the terms of trade rebounded by 15.6%.
- Real net exports made a small positive contribution to growth in the December quarter, +0.2ppts, after a broadly neutral impact in Q3 and a subtraction of 0.1ppts in Q2. Export volumes grew by 2.2% in Q4, eclipsing a 1.4% rise in imports.
- The net income deficit was 2.0% of GDP in December 2016, a slight deterioration on a 1.6% deficit in September, which was the smallest net income deficit since 1984.

Aus Jan private sector credit

- Credit to the private sector grew by only 0.2% in the opening month of 2017. This was a correction to what was a relatively strong end to 2016, a gain of 0.7% in December, the equal largest monthly increase since September 2008. As is often the case, volatility in the business segment was the driver.
- Business credit jumped 1.1% in December 2016, followed by a 0.3% decline in January. The past year has been a stop-start one for business lending. The July 2016 Federal election saw a number of firms place their investment / borrowing plans temporarily on hold. Late in 2016, commercial finance and credit surged back. The January result reflects some volatility within the rebound trend.
- Housing credit grew by 0.55% in January, matching the results of the previous five months but representing an improvement on the period through March to July 2016. Momentum has rebounded as RBA rate cuts in May and August 2016 provide some support to the housing market.
- That earlier loss of momentum in lending to households and businesses was largely due to a tightening of lending conditions in the housing market that occurred over the second half of 2015 and the temporary impact from the Federal election. We expected a modest rebound in credit growth and that is being borne out.
- Credit growth to the investor segment strengthened to 8.3% annualised over the past six months, although that is still below the 11.2% peak in early 2015. The owner-occupier market has continued to cool, with credit growth to this segment moderating to 5.8% annualised in the six months to January.
- For businesses, new lending, commercial finance, tumbled by 20% in the two months to June. More recently, commercial finance has rebounded, although there was a dip in December. Business credit surged by 9.4% annualised in the December quarter 2016. This brisk pace, reflecting the sharp rebound in commercial finance, is unlikely to be sustained as suggested by the January outcome.

Aus Q4 GDP

- The Australian economy expanded by 1.1% in the December quarter of 2016. Through the year growth lifted from 1.9% in the September quarter to 2.4%. The result was stronger than market expectations of 0.8%. The main sources of positive surprise were household consumption and business investment.
- After expanding by only 0.5% and 0.4% in the previous two quarters consumption lifted by 0.9% in the December quarter. That was despite a 0.5% contraction in nominal wage incomes, including a decrease of 0.9% in average earnings per employee.
- The strong Q4 lift in consumer spending was funded by a sharp fall in the savings rate from 6.3% in the September quarter to 5.2% in the December quarter. This savings rate is the lowest since September 2008 (3.7%) after which households sharply raised their savings rates to 9-10% in the aftermath of the Global Financial Crisis. This sharp fall is likely to be unintentional (centred mainly in the mining states) and unlikely to be sustained. If earnings growth does not recover prospects for consumer spending seem bleak.

Data wrap

- On a brighter note, business investment surprised on the upside. This improvement appears to be attributable to mining activity. New engineering construction lifted by 1.3% after having contracted by 29% over the previous year. We also estimate that mining equipment investment lifted by 6.7% after contracting by 15% over the previous year. While the sudden improvement in mining seems unsustainable in the near term with major projects still running down there does appear to be some encouraging evidence that the recent surge in commodity prices is having a positive impact on mining spending.

Aus Jan dwelling approvals

- Dwelling approvals rose 1.8% in January retracing most of a downwardly revised 2.5% fall in Dec. The result was above market expectations of a 0.5% dip but the picture of a significant drop in approvals since August remains intact.
- January housing data should be treated with extra caution as the summer low season amplifies an already volatile monthly series.
- Adding to this warning, the detail showed the latest monthly gain was driven by 'units' – the lumpier, more volatile component up 6.2%mth. In contrast, private detached house approvals were down 3%. Within the 'units' component, we estimate high rise approvals rose 1.8% but 'low rise' down sharply by over 10%. The discrepancy between our 'simple' seasonally adjusted estimates and the ABS's more refined measures for total 'unit' approvals is another stark example of Jan seasonal adjustment.
- By state, the rebound was led by a 24% jump in NSW. Though the state breakdown still shows the high rise downturn is more abrupt for NSW and Qld with Vic showing a milder downtrend.
- Notably, the weakness in private sector house approvals was broadly-based with all the major eastern states recording declines. For 'non high rise' approvals more generally, all major states are recording annual declines with small falls in Vic and NSW and more pronounced weakness in Qld and WA.
- The value of renovation and non res building approvals were both weak in Jan (–17.7% and –14.0% respectively) but are even more volatile than dwelling approvals and hence more prone to seasonal adjustment problems.
- Overall, housing markets have had a mixed start to the year, conditions certainly meeting the RBA's recent description of being 'complicated'. Auction markets have had a robust start although there may be some softening vs last year's very strong finish depending on how recent results are adjusted for seasonality. Price growth momentum appears to have mostly carried into the new year, the divergence between strong Sydney and Melbourne markets and other capital cities again stark.
- For construction, dwelling approvals continue to point to a downturn – construction times mean weakness near term will be in 'non high rise' while the high rise pull back impacting construction in 2018.

Aus Jan trade balance

- Australia's trade surplus narrowed sharply as imports jumped and export earnings slipped.
- A $1.3bn surplus was reported for the initial month of 2017, some $2.0bn less than that for December, which was the largest monthly surplus on record. The outcome fell well short of expectations (market median $3.8bn and Westpac $3.9bn). The December surplus was revised to $3.3bn from $3.5bn.
- There was a flood of imports in January, up 3.7%, a rise of $1.09bn, with broad based strength. We had expected imports to be broadly flat in the month.
- It may be that there was a pull-forward, a clustering of imports ahead of Lunar New Year. If correct, that points to a downward correction in February and a rebound in the trade surplus.
- Export earnings slipped, down 2.9%, a decline of $945mn. Weakness was in gold and coal. We had expected export earnings to advance, up a forecast 1.2%.
- This is a disappointing start to the March quarter. It points to the risk that real net exports are less supportive of growth in Q1 than previously anticipated.

Round–up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Mon 27	Q4 company profits	1.0%	20.1%	8.0%
	Q4 inventories	0.9%	0.3%	0.5%
Tue 28	Q4 current account balance, AUDbn	-10.2	-3.9	-4.0
	Q4 net exports, ppts cont'n	-0.20	0.20	0.20
	Q4 public demand	-0.6%	1.4%	-
	Jan private sector credit	0.7%	0.2%	0.5%
Wed 1	Q4 GDP	-0.5%	1.1%	0.8%
	Q4 GDP, annual growth	1.9%	2.4%	2.0%
	Feb CoreLogic home value index	0.7%	1.4%	-
	Feb AiG PMI	51.2	59.3	-
Thu 2	Jan dwelling approvals	-2.5%	1.8%	-0.5%
	Jan trade balance, AUDbn	3.3	1.3	3.8
Fri 3	Feb AiG PSI	54.5	49.0	-

New Zealand: week ahead & data wrap

This week we received the first reading of business confidence for the year. After rounding out 2016 on a positive note, confidence has waned a bit. But overall, firms are still feel upbeat about their own prospects. This bodes well for a solid pace of growth continuing this year.

With the economy now in its seventh year of sustained expansion, firms have largely used up their spare labour and capital resources. Against this, it's not surprising to see that firms are planning to take on new staff and increase investment. While this should help reinforce the expansion, that fact that it's no longer as easy to scale up activity will act as a bit of a handbrake on growth. It will also contribute to building inflation pressures, but as we outline later we expect the rise in CPI inflation to be gradual.

As it's been for some time, population remains an important part of the growth story, as New Zealand's positive economic backdrop, including solid growth in employment, makes us an attractive location for New Zealanders and non-New Zealanders alike. The latest migration figures for January showed this trend has a bit longer to run, with a record annual inflow of 71,000 people.

Over the past year, low numbers of New Zealanders chose to leave, and the number returning home continued to climb. The net outflow of 1,700 in the year to January was the lowest since 1984, well down on levels of nearly 40,000 in 2012. With Australia's labour market remaining sluggish, crossing the ditch for work isn't as appealing as it once was. And while economic growth in Australia is expected to improve after a soft patch in 2016, prospects are expected to wane again next year, meaning any improvement in Australia's labour market might be short-lived.

At the same time, we've continued to see strong levels of arrivals of non-NZ citizens, especially from Europe, China and other parts of Asia. A large chuck of these gains have been people arriving on work visas. While this has helped firms meet their staffing needs, the pressure that a rapidly rising population places on infrastructure and housing means that migration will likely be a hot topic ahead of September's election.

It's not just long-term migration boosting demand. Visitor arrivals have continued to surge, topping 3.5 million in the year to January. That's up 11% on a year earlier. The tourism sector is benefitting from increased demand for services globally and a growing middle class in China, with New Zealand's relative safety also adding to our appeal. There's been strong growth in arrivals from all regions, but standouts have been China, South East Asia and the United States – all boosted by the introduction of new air routes. The sheer growth in visitor numbers has delivered a significant boost to retail and services spending, even as the strengthening NZ dollar has dampened tourists spending power. While the outlook for tourism remains positive, the pace of growth is expected to slow, especially given the tight supply of accommodation in tourist hotspots like Auckland and Queenstown.

But it's not all about people. A number of other factors are in play, including construction, which continues to grow strongly even as reconstruction in Canterbury in eases back. Building activity rose 1.9% in the December quarter, and over 14% in 2016 as a whole. Construction is expected to push high this year, reflecting a large pipeline of building in Auckland, and planned infrastructure work nationwide. However, emerging capacity constraints will provide some brake on growth and see sustained pressure on costs.

And of course, the outlook for the dairy sector is now looking much better than it has for a couple of years, removing what had been a key drag on economic growth. We're forecasting a milk price this season of $6.20/kgMS, a far cry from last season's $3.90/kgMS. A pull-back in global supply has been the swing factor for global dairy prices, which are nearly 50% higher than mid-2016 despite easing back a bit this year. It's looking like prices might come under a bit more downward pressure in next week's GlobalDairyTrade auction, with Fonterra revising up the volume of milk powder on offer for the second consecutive auction following upside surprises to its summer milk collections.

At the same time as we've seen the prices of our exports push higher, we've seen ongoing softness in import prices, which declined over 6% in the year to December. Price declines were widespread across goods, reflecting the strengthening New Zealand dollar and subdued global inflation. This highlights the ongoing challenge that the Reserve Bank faces in getting inflation back to its 2% target. While it's clear that consumer price inflation has passed its trough (this week's business survey showed further evidence of this, with one-year ahead inflation expectations rising to 1.7%), subdued imported inflation means that the Reserve Bank needs to generate a stronger pick-up in domestic inflation. As such, we expect the OCR to remain on hold for an extended period – a point reiterated in a speech by the Reserve Bank Governor this week. In particular, the Governor reinforced the neutral policy stance of the February Monetary Policy Statement, and highlighted balanced risks around the OCR.

Round-up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
27 Feb	Jan net migration	6040	6460	–
28 Feb	Jan trade balance, $m	–36	–285	–25
	Feb business confidence	21.7	16.6	–
1 Mar	Q4 terms of trade	–1.6%	5.7%	4.0%
3 Mar	Q4 building work put in place	1.4%	1.9%	–1.5%

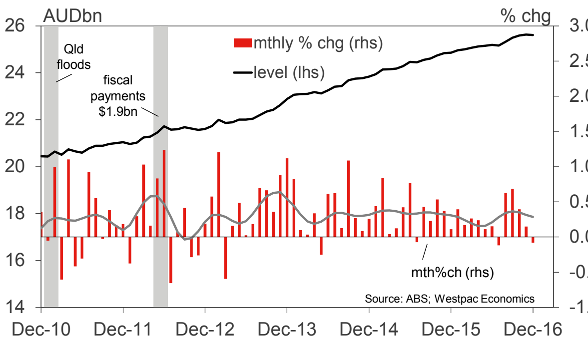
Data previews

Aus Jan retail trade

Mar 6, Last: –0.1%, WBC f/c: 0.2%
Mkt f/c: 0.4%, Range: 0.1% to 1.0%

- The December retail report showed a disappointingly soft finish for monthly sales to a quarter that had seen a solid gain for volumes. Monthly sales dipped 0.1% in Dec with annual growth edging down to 3%yr. Household goods retailers had a particularly weak finish, some of which may relate to the closure of Woolworths' Masters Home Improvement stores. Retail sales ex household goods recorded a decent 0.4% gain.
- The Jan month was likely another wobbly one for retailers. Consumer sentiment dipped back into 'cautiously pessimistic' territory in Dec-Jan. Both the NAB and AiG surveys also show retailers struggling compared to consumer service sectors. On balance we expect Jan to show a modest 0.2% gain, mainly as the drag from household goods retail dissipates. Risks are mainly to the downside.

Monthly retail sales

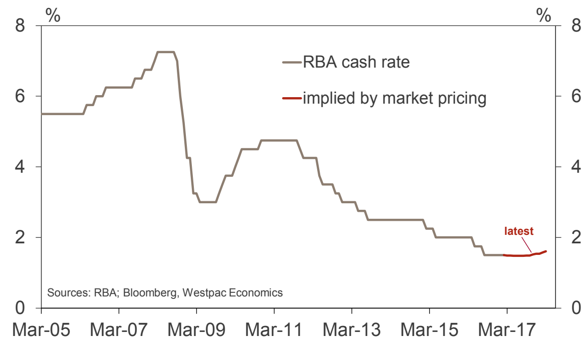


Aus RBA policy decision

Mar 7, Last: 1.50%, WBC f/c: 1.50%
Mkt f/c: 1.50%, Range: 1.50% to 1.50%

- The RBA is firmly on hold. Recent commentary has been more upbeat with global prospects improving and the Bank reaffirming its forecasts for 3% growth this year and next – a view that would have been supported by the Q4 GDP rebound.
- Labour markets and housing are the prime focus. On the former, conditions remain mixed with the weakness in household incomes in the Q4 national accounts likely to be of some concern. Against this, the latest resurgence in dwelling prices is clearly a limiting factor for further policy easing.
- While there is no chance of a rate move and an explicit 'bias' towards future policy is equally unlikely, there will be great interest in how these issues are handled in the Governor's decision statement.
- See p2 for a full discussion.

RBA cash rate & market pricing

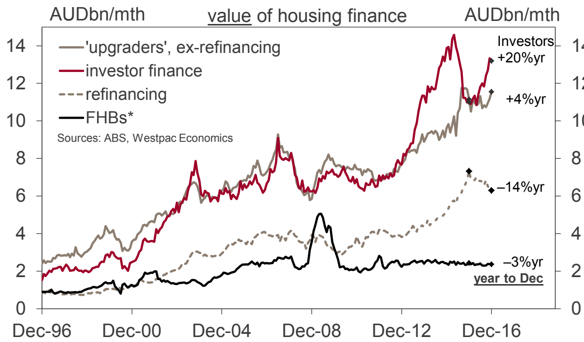


Aus Jan housing finance (no.)

Mar 10, Last: 0.4%, WBC f/c: –1.0%
Mkt f/c: -1.0%, Range: -2.5% to 1.0%

- Housing finance approvals to owner occupiers edged up 0.4% in Dec, up a solid 2.4% ex refi. The value of housing finance approvals to investors dipped 1% – a bit softer than might have been expected given the wider market's strong finish to 2016. Stepping back from monthly moves, finance approvals saw a resurgence over the second half of the year led by investor activity and aided by rate cuts in May and Aug.
- Industry data points to a small1% dip in owner occupier loans in Jan. As always, Jan housing data should be treated with more than the usual caution due to volatility associated with seasonal adjustment over the summer period.

Value of finance approvals by segment



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

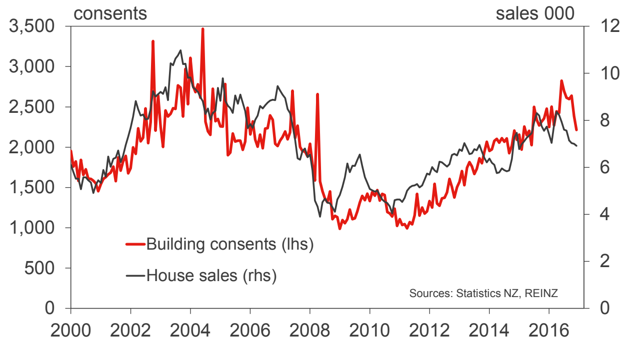
Data previews

NZ Jan building consents

Mar 6, Last: -6.2%, Westpac f/c: 5.2%

- Dwelling consent issuance fell sharply in late-2016. In part this due to a normal pull back following earlier strength. There were also disruptions associated with the Kaikoura earthquakes. But on top of those factors, there has been notable softness in consent issuance in Auckland. Issuance in Auckland has been easing back for several months and is currently at levels well below what is required to meet the needs of population growth.
- With teething issues around the Unitary plan being worked out, and earthquake related disruptions fading, we expect to see consent issuance picking up again in January. Nevertheless, issuance in Auckland is expected to remains below the required levels.

NZ housing activity

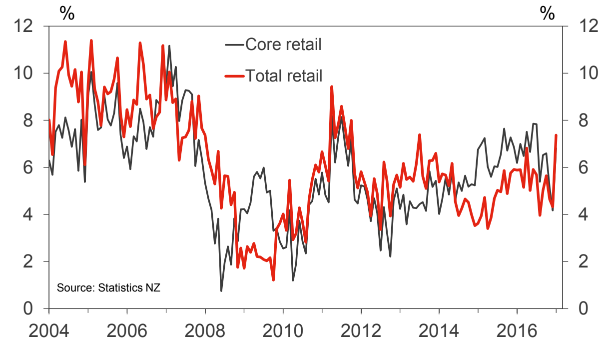


NZ Feb retail card spending

Mar 6, Last: +2.7%, Westpac f/c: -0.4%

- After levelling off in late 2016, retail spending surged in January. Gains were widespread, with solid increases in spending on durables and consumables.
- Following the strong January result, we expect to see some moderation in spending in February and are forecasting a 0.4% decline over the month. Nevertheless, the outlook for retail spending over the coming year is very positive. Population growth remains strong, employment is up, and we continue to see strong tourist inflows.

Card transactions, annual % change

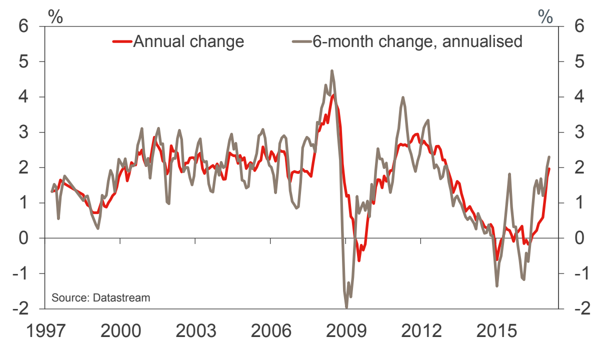


ECB Mar meeting

Mar 9, Last: –0.40%, WBC –0.40%

- Of late, the ECB has come under some pressure to signal an end to its alternative easing measures. This shift in sentiment arguably has as much to do with global financial market optimism as it does the jump in the headline inflation rate, from –0.2%yr a year ago to +2.0%yr at February 2017 – the ECB's medium-term target.
- While economic growth continues to run at a robust pace, 1.7%yr at December 2016, and the labour market has improved materially, overall risks to the inflation target are negligible. This is because substantial slack remains.
- At their March meeting, it is likely that President Draghi and the Governing Council will recognise the above positive developments, but their focus will remain on lingering slack – best represented by soft core inflation (0.9%yr) and high levels of unemployment outside of Germany. There remains a need for continued extraordinary support of the economy.

Euro headline inflation jumps on base effect



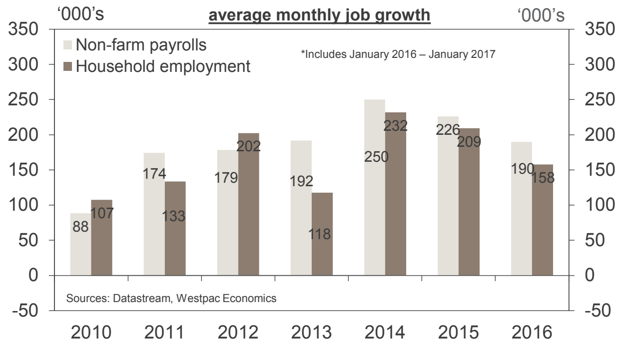
Data previews

US Feb nonfarm payrolls

Mar 10, Last: 227k, WBC 170k

- Nonfarm payrolls reported a strong 227k increase in January following three months where the average monthly gain was a more subdued 148k.
- Over the six months to January 2017, payrolls growth has averaged 183k per month. While a step down from the prior six month's 208k, it is still a strong result – particularly given full employment has been attained.
- A moderation in the pace of employment growth has been expected for some time, and there has been tentative evidence of one in the business survey detail – the ISM employment indexes have both eased back in recent months.
- Come February, we expect a slight moderation to 170k, albeit with downside risks. From the household survey, the unemployment rate is likely to round down to 4.7%.

US job creation remains strong



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 6					
Aus	Feb MI inflation gauge	2.0%yr	–	–	Inflation is moving higher in the Gauge but yet to see it in the CPI.
	Jan retail sales	–0.1%	0.4%	0.2%	Retailers struggling again despite improved volumes in Q4.
	Feb ANZ job ads	4.0%	–	–	Annual pace has picked up to 7%yr but still well off late 2015 highs.
NZ	Jan building consents	–7.2%	–	5.0%	A recovery after earlier softness and quake disruptions.
Eur	Mar Sentix investor confidence	17.4	18.5	–	Global market sentiment extremely strong.
US	Jan factory orders	1.3%	1.0%	–	Core durable orders fell 0.4% in preliminary Jan estimate.
	Fedspeak	–	–	–	Kashkari at NABE conference.
Tue 7					
Aus	RBA policy decision	1.50%	1.50%	1.50%	Firmly on hold.
Chn	Feb foreign reserves $bn	2998.2	2960.5	–	Past $3trn threshold; participants watching rate of decline closely.
Eur	Q4 GDP (final)	0.4%	0.4%	–	Annual growth a solid 1.7%yr.
UK	Feb Halifax house prices	–0.9%	0.4%	–	Price growth has slowed; low rates and tight supply providing a floor.
US	Jan trade balance US$bn	–44.3	–46.5	–	Exports and imports both reported a solid gain in December.
	Jan consumer credit	14.16	19.00	–	Auto loans and consumer credit continues to push ahead.
Can	Feb Ivey PMI	57.2	–	–	Strong, but employment has deteriorated in past two months.
Wed 8					
NZ	GlobalDairyTrade auction	–3.2	–	–	Futures pointing to a further decline in prices.
	Q4 Survey of manufacturing	2.1%	–	–	Growth in volumes ex. meat and dairy likely to soften after a strong run.
Jpn	Jan current account balance	1112.2	330.0	–	Uptrend as 2016 surplus hit 3.8% of GDP but goods balance moderate.
	Q4 GDP	0.2%	0.4%	–	Preliminary disappointed slightly, growth led by net exports and capex.
Chn	Feb trade balance USDbn	51.34	26.40	–	Strong imports following CNY holidays expected.
	Feb foreign direct investment %yr	–9.2%	–	–	Tentative date, 8–18 March.
Ger	Jan industrial production	–3.0%	2.7%	–	Bounce expected in Jan; relatively unchanged from year ago.
US	Feb ADP employment change	246k	185k	–	Employment growth likely to moderate in February.
	Jan wholesale inventories (final)	2.6%	–	–	Justification to increase inventories limited for most firms.
Thu 9					
Chn	Feb CPI %yr	2.5%	1.7%	–	Another food price induced downward shock anticipated in Feb.
	Feb PPI %yr	6.9%	7.5%	–	Commodity prices have driven sharp rise in upstream prices.
Eur	ECB policy decision	–0.4%	–0.4%	–0.4%	On hold through 2017, bar unforeseen shock to economy.
	European Council	–	–	–	EU politicians discuss the economy, migration and security, 09–10.
UK	Feb RICS house price balance	25%	–	–	Buyer interest has waned.
US	Feb import price index	0.4%	0.1%	–	USD gains to keep tradeable price pressures contained.
	Initial jobless claims	223k	–	–	Continues to make new historic lows.
Can	Jan new housing price index	0.1%	–	–	Annual pace of growth at solid 3.0%yr.
Fri 10					
Aus	Jan housing finance	0.4%	–1.0	–1.0%	A slight fall but Jan housing data generally unreliable.
NZ	Feb retail card spending	2.7%	–0.4%	–0.4%	A moderation after last months large gain. Underlying pace still firm.
	Feb REINZ house sales %yr	–14.7%	–	–	
Chn	Feb M2 money supply %yr	11.3%	11.4%	–	Tentative date, 10–15 March.
	Feb new loans, CNYbn	2030.0	910.0	–	Tentative date, 10–15 March.
	Feb aggregate financing, CNYbn	3737.7	1450.0	–	Tentative date, 10–15 March.
Ger	Jan trade balance €bn	18.7	14.1	–	Germany remains in strong position.
UK	Jan industrial production	4.3%	–	–	The lower GBP has been a boon for manufacturers and exporters...
	Jan trade balance £bn	3.3	–3.3	–	... but import costs are rising, especially for food and fuel.
US	Feb non-farm payrolls	227k	180k	170k	Employment growth to slowly moderate through 2017.
	Feb unemployment rate	4.8%	4.7%	4.7%	On stable participation, unemp rate should edge lower.
	Feb monthly budget statement	51.3	–151.0	–	Deficit under control (for now) thanks to economy's gains.

Economic & financial forecasts

Interest rate forecasts

	Latest (3 Mar)	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 Day Bill	1.79	1.80	1.80	1.80	1.80	1.80	1.80	1.80
3 Year Swap	2.14	2.10	2.20	2.35	2.50	2.40	2.30	2.30
10 Year Bond	2.80	2.95	2.95	3.00	3.05	3.15	3.25	3.40
10 Year Spread to US (bps)	32	40	30	25	20	15	15	10
International								
Fed Funds	0.625	0.625	0.875	0.875	1.125	1.125	1.375	1.375
US 10 Year Bond	2.48	2.55	2.65	2.75	2.85	3.00	3.10	3.30
US Fed balance sheet USDtrn	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB Deposit Rate	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40	–0.40
New Zealand								
Cash	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
90 day bill	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2 year swap	2.35	2.40	2.50	2.50	2.50	2.50	2.60	2.70
10 Year Bond	3.33	3.30	3.45	3.50	3.60	3.65	3.75	4.00
10 Year spread to US	84	75	80	75	75	65	65	70

Exchange rate forecasts

	Latest (3 Mar)	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18
AUD/USD	0.7576	0.76	0.76	0.75	0.74	0.72	0.70	0.68
NZD/USD	0.7062	0.71	0.70	0.68	0.67	0.66	0.65	0.64
USD/JPY	114.38	116	118	118	120	122	124	126
EUR/USD	1.0508	1.05	1.03	1.01	1.00	1.00	0.99	0.98
AUD/NZD	1.0728	1.07	1.09	1.10	1.10	1.11	1.06	1.05

Australian economic growth forecasts

	2016			2017				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2015	2016f	2017f	2018f
GDP % qtr / yr avg	0.8	-0.5	1.1	0.6	0.8	0.8	0.8	2.4	2.5	2.6	2.8
% yr	3.1	1.9	2.4	2.0	2.0	3.3	3.0	2.5	2.4	3.0	2.6
Unemployment rate %	5.7	5.7	5.7	5.7	5.6	5.6	5.6	5.8	5.5	5.5	5.4
CPI % qtr	0.4	0.7	0.5	0.6	0.3	0.7	0.3	–	–	–	–
% yr	1.0	1.3	1.5	2.2	2.2	2.1	1.9	1.7	1.5	1.9	1.9
CPI underlying % qtr	0.5	0.4	0.4	0.5	0.5	0.3	0.4	–	–	–	–
% yr	1.6	1.5	1.6	1.9	1.9	1.8	1.7	2.0	1.6	1.7	2.1

New Zealand economic growth forecasts

	2016				2017			Calendar years			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	2015	2016f	2017f	2018f
GDP % qtr	0.7	0.7	1.1	0.9	0.9	0.7	1.1	–	–	–	–
Annual avg change	2.4	2.7	3.0	3.3	3.5	3.5	3.6	2.5	3.3	3.6	3.4
Unemployment rate %	5.2	5.0	4.9	5.2	4.8	4.6	4.4	4.9	5.2	4.4	4.3
CPI % qtr	0.2	0.4	0.3	0.4	0.5	0.2	0.4	–	–	–	–
Annual change	0.4	0.4	0.4	1.3	1.7	1.5	1.6	0.1	1.3	1.5	2.1

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