

# Quarterly Economic Outlook Chartpack

Blowin' in the wind

April 2019

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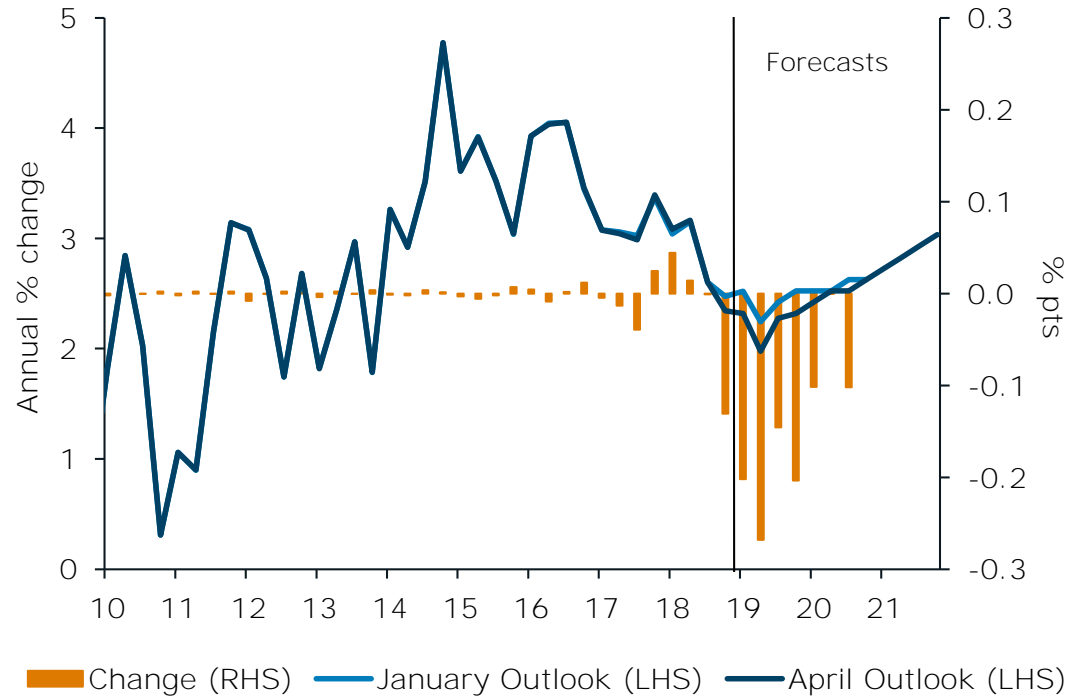
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Further weakness, then a slow pick up

## Annual GDP growth to slow to 2%, then rise to 3%



- Annual GDP growth is forecast to slow to just 2% in Q2 2019, before gradually picking up to 3% by the end of 2021.
- Per capita growth is expected to remain subdued, but lift gradually from sub-1% annual growth currently to just below 2% by 2021.



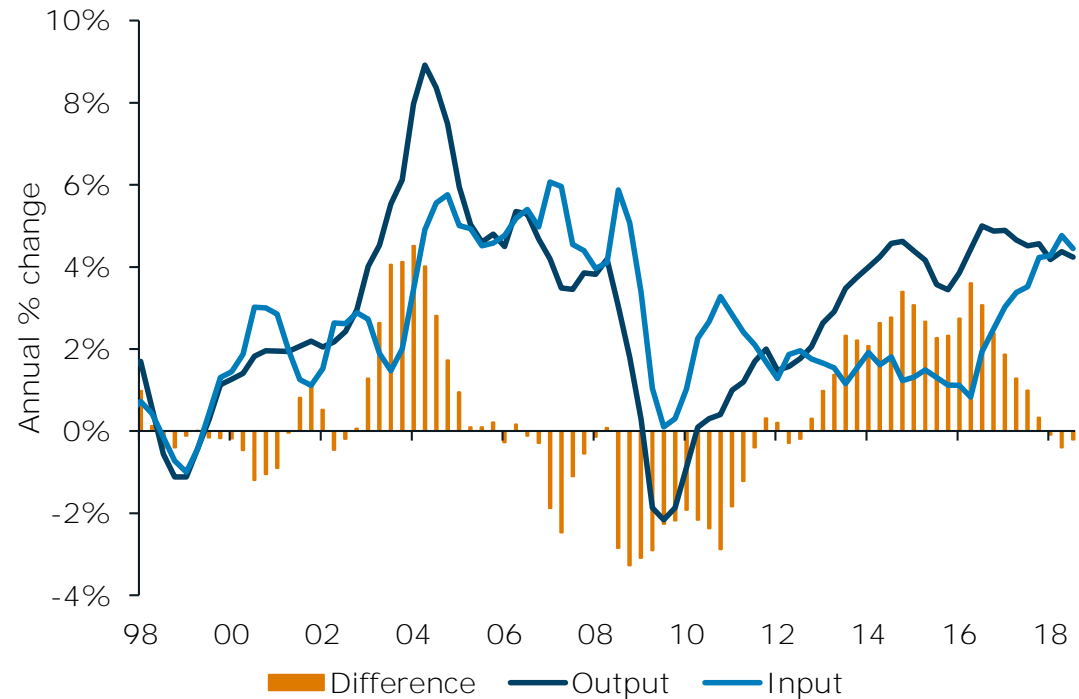
Drivers of growth are lacking

## Growth doesn't look set to break out anytime soon

- Government spending is expected to support growth in the near term. But the spending profile is relatively **front loaded**, meaning the boost to GDP growth won't last long.
- Net exports **aren't** expected to provide significant support from here. A return to more normal weather conditions next season may see growth in primary exports slow. Imports are expected to remain at a high level reflecting strong domestic demand.
- Growth in plant and machinery investment has slowed over the past year. Investment should recover gradually, but investment **intentions aren't sending a strong signal**.
- Residential investment is expected to remain at a high level, but struggle to accelerate in light of acute capacity pressures.

Struggle to  
accelerate

## Building construction producer price indexes

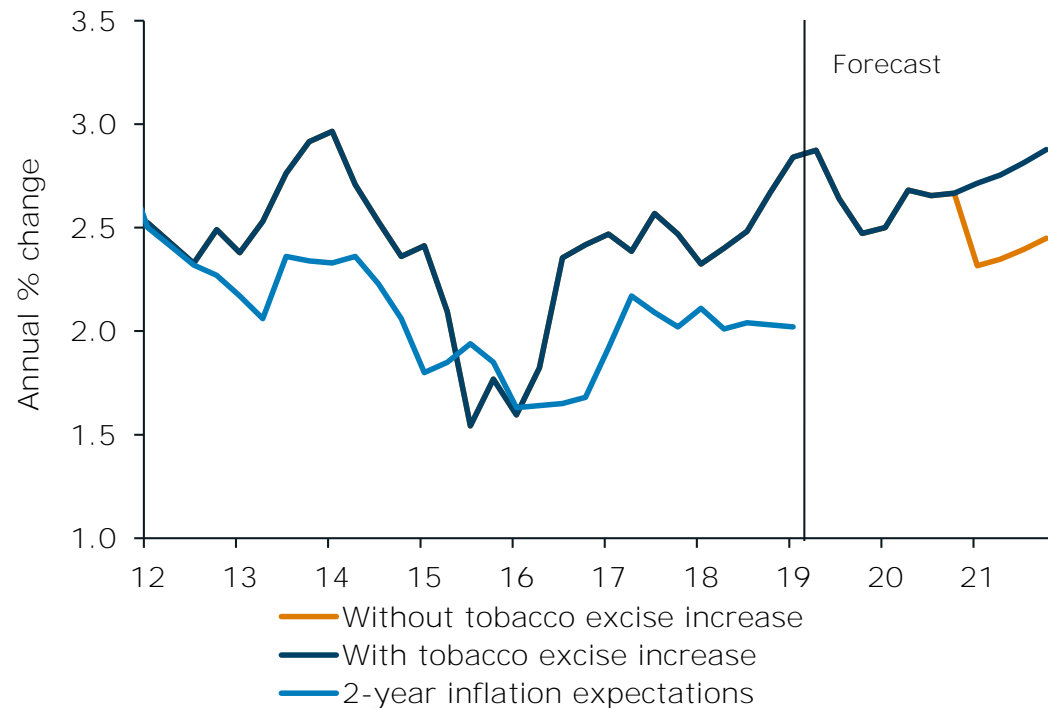


- Construction sector margins are coming under pressure as growth in input prices outpace output prices.
- Construction activity is expected to remain at a high level. But with capacity constraints acute, costs on the rise, and cash-flow pressures building, growth will struggle to accelerate.



Recent strength in inflation to fade

## Non-tradable inflation with/out tobacco excise



- Recent strength in non-tradable inflation is expected to fade, as cost and capacity pressures wane.
- OCR cuts support an eventual sustained lift in headline inflation to 2% by the end of 2021.
- But downside risks remain over the medium term, including the possible end to tobacco excise increases.



Short term  
gains, longer  
term risks

## Summary of the Primary Sector outlook

- Prices for New Zealand's primary sector outputs are holding up relatively well.
- Global uncertainty and slowing economic activity are not expected to impact primary sector returns in the short term but this remains a key risk in the longer term.
- Dairy prices are being supported by weaker than usual global supply growth, supporting our \$7.30 milk price forecast for 2019/20.
- Other sectors are buoyant, with sheep and beef, horticulture, and forestry returns high.
- The risk of significant trade disruptions appears to be reducing as talks between China and the United States progress, and the Brexit deadline has been pushed out to October.



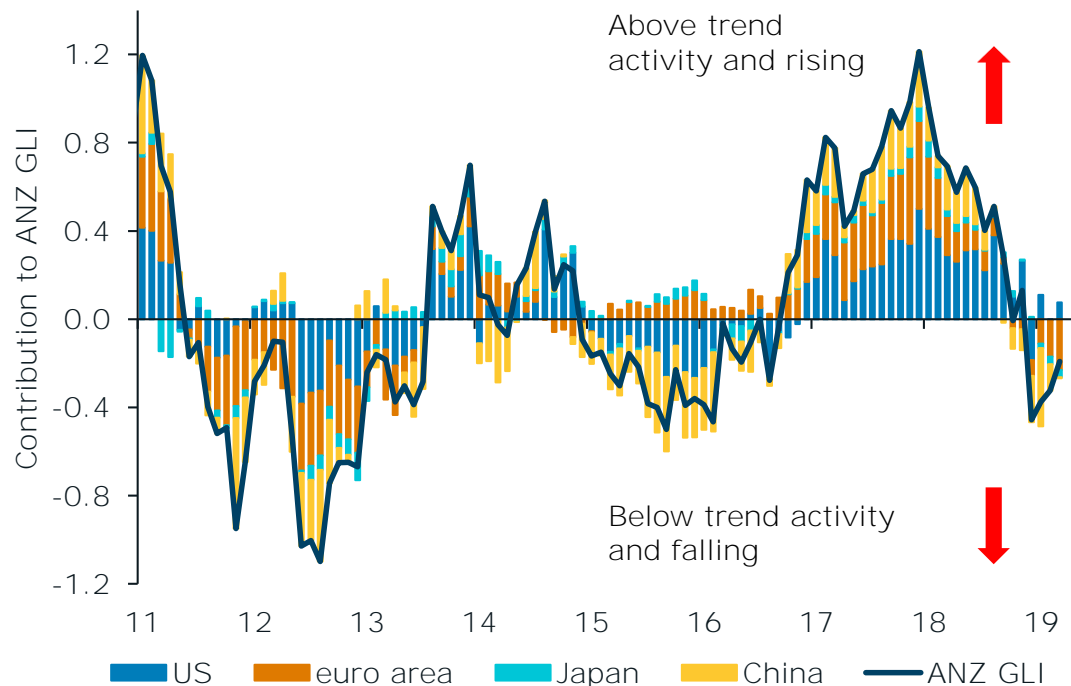
Slowing  
down

## Summary of the International outlook

- Evidence of a slowdown in global growth continues to accumulate. The risks of a sharper slowdown remain.
- Global central banks turned more cautious, supporting a rebound in financial markets.
- Labour markets remain healthy, and wage growth has been picking up. But inflation remains subdued.
- Growth in China remains fragile, but fiscal and monetary policy stimulus will provide support.
- Growth in Australia has moderated, with a weak housing market and soft real wage growth weighing on consumer spending.
- There are mixed signals out of the US, with a sharp loss of momentum over the past six months.
- Euro area growth is particularly weak, reflecting the slowdown in external demand.

Tentative  
stabilisation

## ANZ Global Lead Index



- Recent data indicate some stabilisation in global growth, with tentative signs from leading indicators that slowing activity is finding a floor.
- Nonetheless, the tailwind from the global environment has rapidly reduced for the New Zealand economy.



## Summary of the Financial Markets outlook

First OCR  
cut pencilled  
in for August

- The RBNZ surprised with a shift towards an explicit easing bias in March. We have brought forward our expectations of the first OCR cut to August, with follow-up cuts pencilled in over the next year.
- We expect long-end yields to continue to move with global factors, with the short end moving lower once the first OCR cut is delivered and markets price in a third.
- Expectations of a cut to the OCR have begun to weigh on the NZD, but we believe there is room for the currency to move lower as the RBNZ is unlikely to cut just the once.
- Buoyant commodity prices, alongside positive market risk sentiment, will provide support for the kiwi, but domestic challenges remain. We expect the NZD/USD to reach 0.64 by the end of this year.

# ANZ macroeconomic forecasts

| Calendar Years                       | 2015 | 2016 | 2017 | 2018  | 2019(f) | 2020(f) | 2015  |
|--------------------------------------|------|------|------|-------|---------|---------|-------|
| NZ Economy (annual average % change) |      |      |      |       |         |         |       |
| Real GDP (production)                | 3.5  | 3.9  | 3.1  | 2.8   | 2.2     | 2.5     | 2.9   |
| Private Consumption                  | 3.6  | 5.3  | 4.8  | 3.3   | 3.3     | 2.4     | 2.7   |
| Public Consumption                   | 2.5  | 2.0  | 2.9  | 2.2   | 2.5     | 3.2     | 3.2   |
| Residential investment               | 5.6  | 10.8 | 0.9  | 2.7   | 3.3     | 1.7     | 2.1   |
| Other investment                     | 3.2  | 2.1  | 4.4  | 4.3   | 2.8     | 3.7     | 3.9   |
| Stockbuilding <sup>1</sup>           | -0.3 | 0.1  | -0.1 | 0.3   | -0.3    | 0.0     | 0.0   |
| Gross National Expenditure           | 3.0  | 4.6  | 4.0  | 3.6   | 2.5     | 3.0     | 3.2   |
| Total Exports                        | 7.4  | 2.1  | 1.8  | 3.0   | 2.6     | 2.4     | 2.7   |
| Total Imports                        | 4.0  | 3.3  | 6.9  | 5.6   | 1.8     | 3.1     | 3.2   |
| Employment (annual %)                | 1.4  | 5.8  | 3.7  | 2.3   | 1.6     | 1.5     | 1.4   |
| Unemployment Rate (sa; Dec qtr)      | 4.9  | 5.2  | 4.5  | 4.3   | 4.3     | 4.2     | 4.1   |
| Labour Cost Index (annual %)         | 1.6  | 1.6  | 1.9  | 2.0   | 2.2     | 2.3     | 2.3   |
| Terms of trade (OTI basis; annual %) | -3.1 | 6.7  | 7.9  | -4.7  | 2.4     | 0.8     | 0.8   |
| Current Account Balance (\$bn)       | -7.1 | -5.7 | -8.1 | -10.8 | -11.5   | -12.8   | -13.7 |
| as % of GDP                          | -2.8 | -2.2 | -2.9 | -3.7  | -3.8    | -4.0    | -4.1  |
| Prices (annual % change)             |      |      |      |       |         |         |       |
| CPI Inflation                        | 0.1  | 1.3  | 1.6  | 1.9   | 1.5     | 1.9     | 2.0   |
| Non-tradable Inflation               | 1.8  | 2.4  | 2.5  | 2.7   | 2.5     | 2.7     | 2.9   |
| Tradable Inflation                   | -2.1 | -0.1 | 0.5  | 0.9   | 0.1     | 0.7     | 0.8   |
| REINZ House Price Index              | 14.8 | 14.5 | 3.5  | 3.3   | 3.5     | 3.0     | 2.0   |

<sup>1</sup> Percentage point contribution to growth

## Key market forecasts

| FX Rates       | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
|----------------|--------|--------|--------|--------|--------|--------|--------|
| NZD/USD        | 0.65   | 0.64   | 0.64   | 0.63   | 0.63   | 0.63   | 0.63   |
| NZD/AUD        | 0.93   | 0.91   | 0.91   | 0.90   | 0.90   | 0.88   | 0.84   |
| NZD/EUR        | 0.60   | 0.58   | 0.56   | 0.53   | 0.50   | 0.50   | 0.50   |
| NZD/JPY        | 71.5   | 69.1   | 69.1   | 66.2   | 66.2   | 66.2   | 66.2   |
| NZD/GBP        | 0.48   | 0.47   | 0.47   | 0.46   | 0.45   | 0.45   | 0.44   |
| NZD/CNY        | 4.35   | 4.27   | 4.26   | 4.17   | 4.16   | 4.15   | 4.13   |
| NZ\$ TWI       | 70.2   | 68.6   | 67.7   | 65.6   | 64.8   | 64.4   | 63.5   |
| Interest Rates | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
| NZ OCR         | 1.75   | 1.50   | 1.25   | 1.00   | 1.00   | 1.00   | 1.00   |
| NZ 90 day bill | 1.83   | 1.58   | 1.33   | 1.16   | 1.16   | 1.16   | 1.16   |
| NZ 2-yr swap   | 1.67   | 1.64   | 1.60   | 1.54   | 1.56   | 1.63   | 1.64   |
| NZ 10-yr bond  | 2.05   | 2.35   | 2.60   | 2.50   | 2.50   | 2.60   | 2.60   |

Forecasts are end of quarter

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