Summary of the New Zealand economic outlook

- The New Zealand economy has a little less wind in her sails, with the outlook tempered by:
  - slowing migration-led population growth
  - a wary business sector
  - a subdued housing market, and
  - credit conditions (including bank capital changes)

- But a few factors should keep the ship on course:
  - a buoyant household sector
  - solid export earnings, and
  - interest rates and the NZD are lower

- Inflation remains below 2% and is expected to continue to fall short.

- The RBNZ will use up its conventional fuel to keep the ship on course and prevent inflation from sinking. We expect cuts in November, February, and May, to take the OCR to just 0.25%.
The ship is slowing

Growth isn’t picking up soon

- Domestic growth looks set to bob around 2% y/y. The RBNZ are likely to remain disappointed.
- Risks appear skewed towards a sharper slowdown in the near term.

Source: Statistics NZ, NZIER, Roy Morgan, NZTA, BNZ-BusinessNZ, ANZ Research
**The expansion has slowed, but it’s not done yet**

- Consumer sentiment has dipped a bit but private consumption should remain buoyed, supported by solid income growth and still-positive net migration inflows.

- The housing market outlook is uncertain. We expect it to remain contained, as the effect of lower mortgage rates is moderated by the softening economy and policy changes.

- Residential investment should remain at a high level. But cost, credit, and capacity constraints in this sector aren’t going away in a hurry.

- A lower NZD and still-solid world prices should keep export earnings elevated, but we expect exporters to remain cautious, choosing to deleverage.

- Lower interest rates are unlikely to entice a significant pick-up in business investment from here, with businesses gloomy and credit availability threatening to constrain activity further.

- The Government’s books are in great shape, but the 20% debt target means the bulk of any fiscal stimulus is now behind us and could soon become a drag.
Inflation fell to 1.5% y/y in Q3. Growing spare capacity means inflation will continue to fall short.

Inflation expectations are low and at risk of becoming unanchored to the downside, which would reinforce low inflation into the future.

Source: Statistics NZ, ANZ Research
Summary of the Primary Sector outlook

- Global demand for New Zealand’s food-based exports remains strong despite economic growth slowing in key markets, with tight supply providing a tailwind.

- The red meat sector is benefitting from the reduction in China’s pork production, which means the country now has a hearty appetite for imported beef and lamb.

- The forestry sector has slowed harvesting activity following the spectacular fall in log prices in China earlier this year. But prices for export logs have recovered slightly in recent months.

- The New Zealand milk production season has started at a solid rate. Milk prices are forecast to lift this season. We are forecasting a milk price of $7.15 per kg MS for the current season and $7.50 per kg MS for 2020-21.

- In the horticulture sector, investment in kiwifruit and apple orchards is strong, as is investment in more niche fruits such as avocados and berries. But environmental regulations pose challenges for the sector.
A storm brews

Summary of the International outlook

• The broad-based global slowdown has continued, and near-term indicators don’t suggest that things are going to get better any time soon.

• Weakness has so far largely been concentrated in trade, manufacturing, and business investment.

• But things could get rather ugly if global labour markets and household spending follow suit. Indeed, retail sales and services sector activity have weakened in key economies in recent months.

• The prospect of inflation moving back up towards central banks’ targets is diminishing. Inflation expectations are low and at risk of becoming unanchored.

• Global central banks have stepped up their monetary policy easing efforts but are becoming increasingly constrained.
Softening the blow

The significant easing in monetary policy settings should help the global economy navigate the slowdown.

But if the outlook darkens further, monetary policy will become increasingly constrained.

Source: Bloomberg, BIS, ANZ Research
Summary of the Financial Markets outlook

- Markets were left reeling by the ongoing weakness in the global data pulse and US-China trade tensions. Global yields have crept lower amid further central bank policy easing.

- Local yields set another new low this quarter. We expect the slowdown in global growth and geopolitical tensions to continue to weigh on long-end yields.

- The domestic and global growth environment, combined with credit headwinds from the RBNZ’s proposed capital changes, will weigh on the NZD. This will see NZD break the USD 0.60 barrier in the coming quarter.

- We now see the RBNZ pushing conventional monetary policy to its limits with a 25bp cut at the November MPS, and two further 25bp cuts in February and May 2020, taking the OCR down to just 0.25%.
## ANZ macroeconomic forecasts

<table>
<thead>
<tr>
<th>Calendar Years</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019(f)</th>
<th>2020(f)</th>
<th>2021(f)</th>
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<td><strong>NZ Economy (annual average % change)</strong></td>
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<tr>
<td>Real GDP (production)</td>
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<td>3.1</td>
<td>2.9</td>
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<td>2.8</td>
<td>2.3</td>
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<td>2.2</td>
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<td>4.9</td>
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<tr>
<td>Other investment</td>
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<td>4.0</td>
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<td>2.2</td>
<td>3.1</td>
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<td>Stockbuilding(^1)</td>
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<td>0.2</td>
<td>-0.1</td>
<td>0.4</td>
<td>-0.7</td>
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<tr>
<td>Total Imports</td>
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<td>Employment (annual %)</td>
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<td>Unemployment Rate (sa; Dec qtr)</td>
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<td>Labour Cost Index (annual %)</td>
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<td>Terms of trade (OTI basis; annual %)</td>
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<td>Current Account Balance ($bn)</td>
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<td>as % of GDP</td>
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<td>CPI Inflation</td>
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<td>1.9</td>
<td>1.6</td>
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<td>Non-tradable Inflation</td>
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<td>REINZ House Price Index</td>
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\(^1\) Percentage point contribution to growth

Source: Statistics NZ, REINZ, ANZ Research
### Key market forecasts

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<th>FX Rates</th>
<th>Dec-19</th>
<th>Mar-20</th>
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<th>Dec-20</th>
<th>Mar-21</th>
<th>Jun-21</th>
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<td>NZD/USD</td>
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<th>Dec-20</th>
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<td>NZ OCR</td>
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<td>NZ 90 day bill</td>
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<td>NZ 2-yr swap</td>
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<tr>
<td>NZ 10-yr bond</td>
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<td>1.20</td>
<td>1.45</td>
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Forecasts are end of quarter

Source: Bloomberg, ANZ Research
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