

Quarterly Economic Outlook Chartpack

Ticket to ride

January 2019



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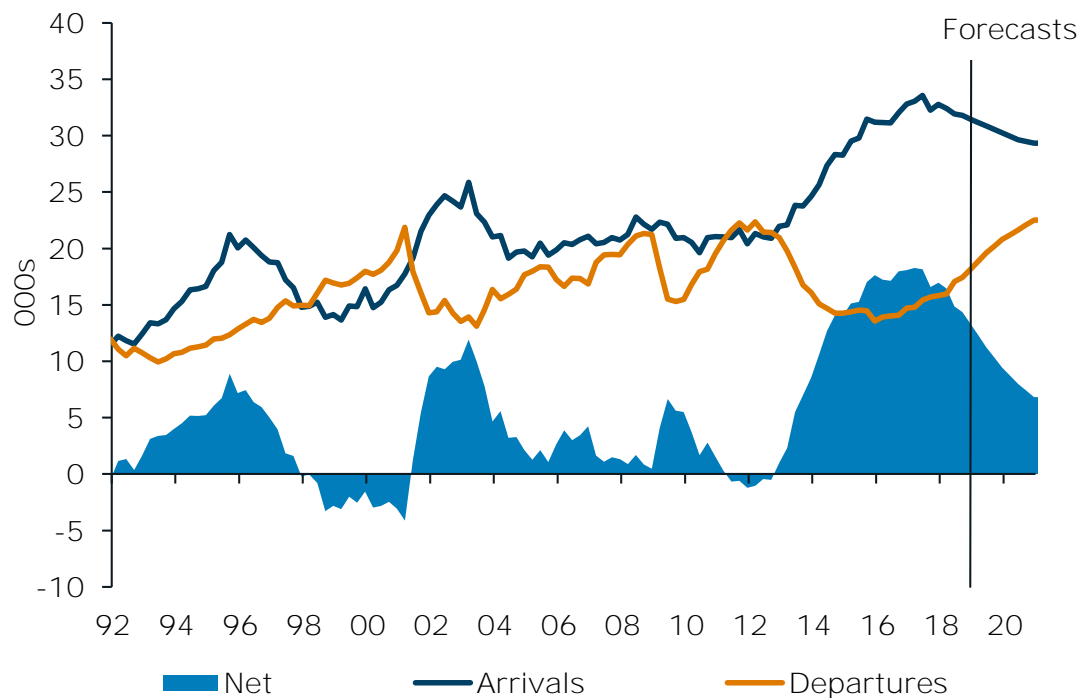
Momentum
has slowed

Summary of the New Zealand economic outlook

- Growth momentum has slowed.
- Drivers of growth continue to become less synchronised:
 - the growth impetus from migration poised to shrink
 - the housing market has cooled
 - the terms of trade are looking past their cycle peak **as storm clouds loom over China's growth** outlook
- Adding to headwinds, confirmed and probable changes to bank capital requirements suggest financial conditions will gradually tighten.
- Slowing growth in the context of inflation shy of the RBNZ's target midpoint means the case for a little extra monetary stimulus will become evident.
- We expect the RBNZ's eventual next move will be a cut.

The migration cycle has a lot to answer for

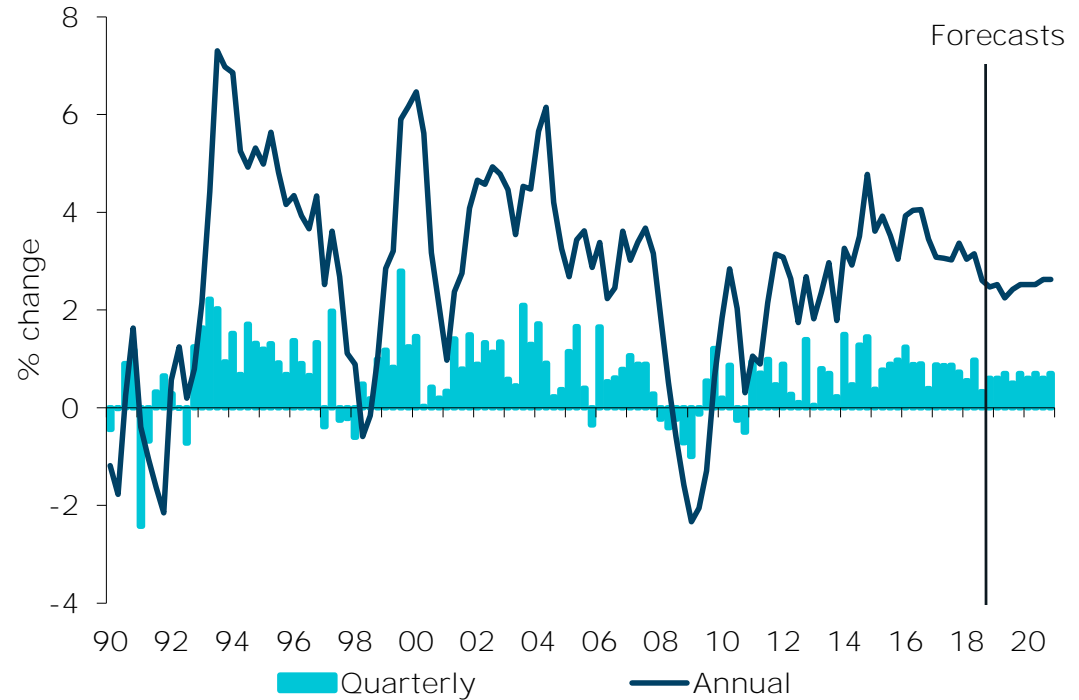
Net migration is a two-edged sword



- Population-driven domestic demand has been a key feature of this economic cycle.
- Slowing net migration inflows are expected to be one of the catalysts behind slowing headline GDP growth.
- But given net migration should remain at a high level for a while yet, it also puts a floor under the deceleration.

Not bad,
given it's off
a high base

Annual GDP growth forecast to average 2.5%



- Annual GDP growth is forecast to continue moderating from 2.6% in Q3 2018 to 2.2% by Q2 2019 before gradually ticking up and stabilising at 2.6% by the end of 2020.
- Quarterly growth averages 0.6% over the forecast horizon.
- Per capita growth is expected to remain subdued.



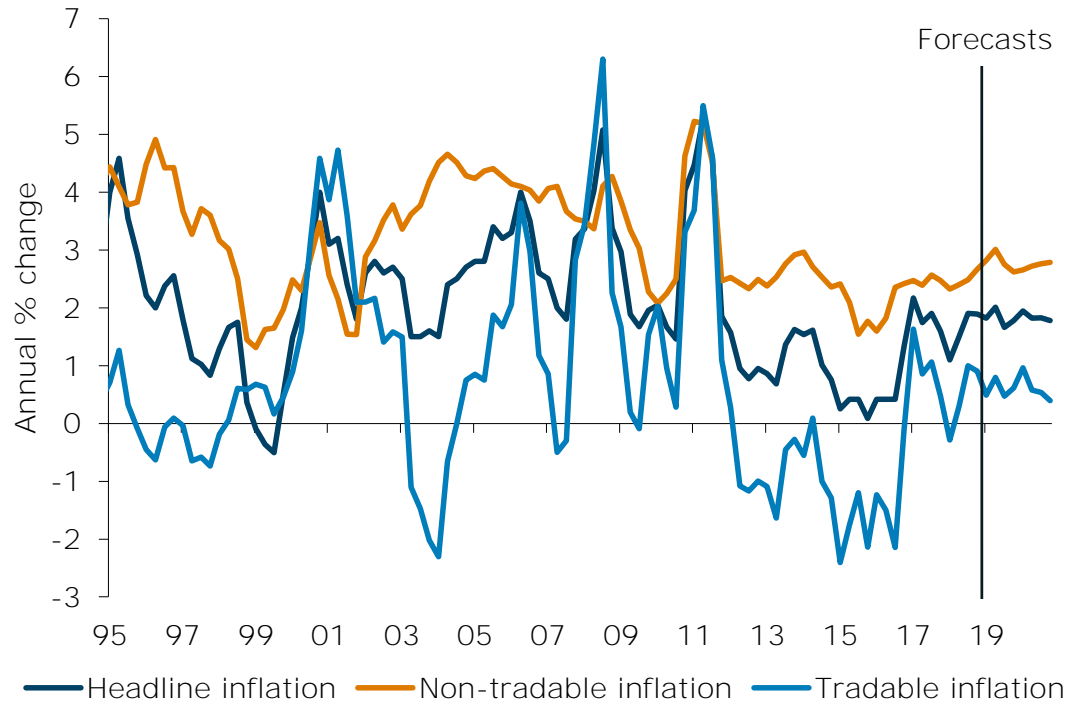
Lots of
moving
parts

The composition of growth is shifting

- Business investment is expected to step up to fill the gap left by a gradual easing in private consumption growth (as slowing population growth more than offsets modest growth in household incomes).
- Residential investment is expected to remain at a high level, but struggle to accelerate in light of acute capacity pressures.
- Expansionary fiscal settings are expected to contribute to growth over the year ahead, but the Government's commitment to its net debt target means the boost to growth will be relatively small and short lived.
- Net exports are expected to support growth for a little while yet, reflecting broad-based strength in agricultural production. But **we don't see net exports** making a sustained positive contribution to growth, given population-driven domestic demand is set to keep imports buoyed.



CPI inflation forecast



- Non-tradable inflation is expected to nudge up in the short term, on account of previous accumulation of capacity pressures that have now begun to dissipate.
- Overall, we see underlying inflation remaining broadly stable over the forecast horizon, with OCR cuts providing an eventual sustained lift to target over the medium term (beyond our forecast horizon).



Holding up,
but downside
risks

Summary of the Primary Sector outlook

- Prices for New Zealand's primary sector outputs are holding up relatively well in the face of risks associated with slowing economic growth in key markets.
- However, history tells us commodity returns are closely linked to global growth, which is under pressure.
- Dairy prices are also being supported by a decline in global supply growth, and if prices continue to trend up our \$6.10 milk price forecast will prove too low.
- Store stock prices are high for both lambs and cattle, and horticulture and forestry are also looking in good shape.
- CPTPP starts to kick in this year, benefiting apples and beef into Japan particularly.



Slowing

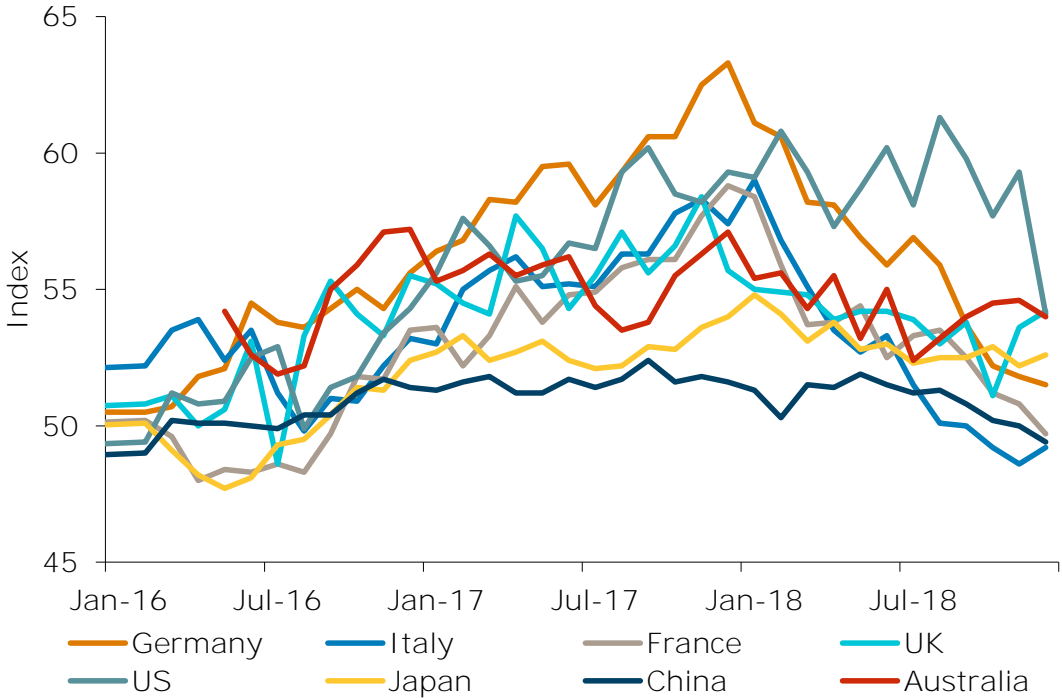
Summary of the International outlook

- Evidence is mounting that global growth is slowing.
- Trade tensions and political challenges remain in focus, but the broader data-flow backdrop has softened.
- Growth in China is expected to be supported by increased stimulus, but headwinds are strengthening.
- Australia has been resilient, but ongoing weakness in the housing market threatens the outlook for both construction and household spending.
- There are mixed signals out of the US, but manufacturing is coming under pressure.
- Euro area growth is wobbling and Brexit uncertainty continues.
- Tightening global liquidity and geopolitical tensions are certainly making themselves felt, and central banks will have to take note.

Trending lower



Selected global PMIs



- The global manufacturing sector data has taken a turn for the worse and is undershooting expectations.
- This and other recent developments suggest risks to the global outlook are skewed to the downside.

Source: Bloomberg, ANZ Research



First OCR
cut pencilled
in for
November

Summary of the Financial Markets outlook

- The RBNZ adopted a neutral tone in November but continues to signal eventual rate hikes. In contrast, we see the OCR as more likely to be cut, with the first move pencilled in for November this year.
- A lower OCR and a more cautious Fed are expected to cap long-end yields, but nonetheless we expect recent outperformance of the long end to subside somewhat.
- As the market gradually prices a lower OCR, this will weigh on the NZD. Adding to this, commodity prices have been lower recently; market volatility is unlikely to fully subside; global liquidity continues to tighten; and the global economic cycle is moderating.
- All up, **it's a** challenging backdrop for risk currencies generally. We expect NZD/USD to reach 0.61 by year end.

ANZ macroeconomic forecasts

Calendar Years	2014	2015	2016	2017	2018(f)	2019(f)	2020(f)
NZ Economy (annual average % change)							
Real GDP (production)	3.6	3.5	3.9	3.1	2.8	2.4	2.6
Private Consumption	3.1	3.6	5.3	4.8	3.1	2.9	2.4
Public Consumption	3.4	2.5	2.0	2.9	2.1	2.4	3.2
Residential investment	9.8	5.6	10.8	0.9	2.2	0.6	2.2
Other investment	9.0	3.2	2.1	4.4	4.5	2.3	3.6
Stockbuilding ¹	0.4	-0.3	0.2	-0.2	0.3	-0.5	0.0
Gross National Expenditure	4.4	3.0	4.6	3.9	3.8	2.5	2.8
Total Exports	3.3	7.4	2.1	1.8	3.6	3.6	2.2
Total Imports	7.9	4.0	3.3	6.9	6.4	2.6	3.1
Employment (annual %)	3.6	1.4	5.8	3.7	2.5	1.6	1.4
Unemployment Rate (sa; Dec qtr)	5.5	5.0	5.3	4.5	4.1	3.9	3.8
Labour Cost Index (annual %)	1.8	1.6	1.6	1.9	2.0	2.1	2.5
Terms of trade (OTI basis; annual %)	-5.0	-3.1	6.7	7.9	-1.5	-0.1	0.8
Current Account Balance (\$bn)	-7.5	-7.1	-5.7	-8.1	-10.5	-10.7	-12.3
as % of GDP	-3.1	-2.8	-2.2	-2.9	-3.6	-3.5	-3.9
Prices (annual % change)							
CPI Inflation	0.8	0.1	1.3	1.6	1.9	1.8	1.8
Non-tradable Inflation	2.4	1.8	2.4	2.5	2.7	2.6	2.8
Tradable Inflation	-1.3	-2.1	-0.1	0.5	0.9	0.6	0.4
REINZ House Price Index	7.6	14.8	14.5	3.5	3.2	2.6	2.0

¹ Percentage point contribution to growth

Key market forecasts

FX Rates	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
NZD/USD	0.64	0.62	0.61	0.61	0.61	0.62	0.63
NZD/AUD	0.94	0.93	0.87	0.87	0.87	0.89	0.87
NZD/EUR	0.58	0.57	0.55	0.53	0.51	0.50	0.50
NZD/JPY	70.4	67.0	62.2	61.0	58.6	58.9	59.4
NZD/GBP	0.52	0.52	0.50	0.49	0.47	0.47	0.47
NZD/CNY	4.38	4.25	4.15	4.12	4.09	4.12	4.13
NZ\$ TWI	69.7	67.9	65.2	64.2	62.9	63.1	63.2
Interest Rates	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
NZ OCR	1.75	1.75	1.75	1.50	1.00	1.00	1.00
NZ 90 day bill	1.98	1.98	1.90	1.65	1.23	1.23	1.23
NZ 2-yr swap	2.12	2.18	2.18	2.11	2.02	2.05	2.07
NZ 10-yr bond	2.70	2.80	2.80	2.80	2.90	2.95	2.95

Forecasts are end of quarter

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