ANZ Research

New Zealand Weekly Focus

2 September 2019

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Global forces

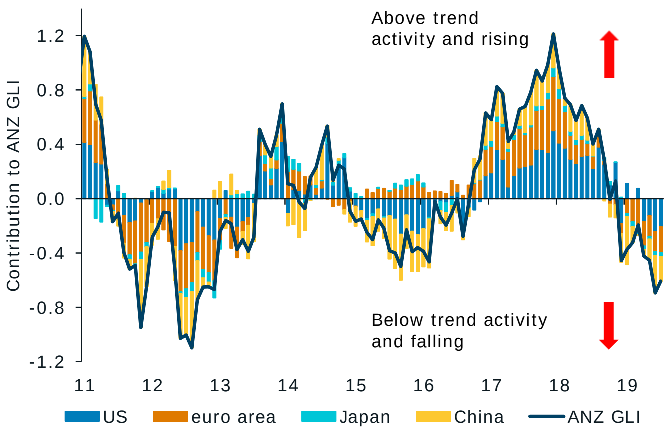
Economic overview

As a small open economy, New Zealand is at the whim of global forces. Recently, the global growth outlook has deteriorated further and trade tensions have escalated dramatically. We step through three key channels which New Zealand has been impacted through; trade, financial markets, and uncertainty. So far, tourist numbers are weaker but our exports and commodity prices have been shielded by continued demand for soft commodities and favourable supply factors. The NZD is doing its job and global financial conditions are looking more fragile, but are still a tailwind. But elevated global uncertainty seems to be weighing on domestic firms' sentiment, investment and employment. Overall, the risks are all looking pretty one sided.

Chart of the week

Our ANZ Global Lead index suggests that the synchronised decline in activity has continued in recent months. Near-term indicators don't suggest a stabilisation in global growth any time soon, let alone a pick-up.

ANZ Global Lead Index



Source: Bloomberg, Markit, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.2% y/y for 2020 Q1	Growth has slowed. OCR cuts should support a gradual recovery, but risks are skewed to the downside.	Neutral  Negative Positive
Unemployment rate	4.2% for 2020 Q1	The labour market is "tight", but the weaker economy will push up unemployment. Wage and employment growth to remain modest.	Neutral  Negative Positive
OCR	0.75% in March 2020	The RBNZ cut the OCR to 1% in August. We expect a further 25bp cut in November, but the risks are skewed to more and/or sooner.	Neutral  Down Up
CPI	1.8% y/y for 2020 Q1	Domestic inflation appears near its peak for now, but OCR cuts should support a gradual rise over the longer term.	Neutral  Negative Positive

Economic overview

The global slowdown will affect NZ through several channels.

Summary

As a small open economy, New Zealand is at the whim of global forces. Recently, the global growth outlook has deteriorated further and trade tensions have escalated dramatically. We step through three key channels which New Zealand has been impacted through; trade, financial markets, and uncertainty. So far, tourist numbers are weaker but our exports and commodity prices have been shielded by continued demand for soft commodities and favourable supply factors. The NZD is doing its job and global financial conditions are looking more fragile, but are still a tailwind. But elevated global uncertainty seems to be weighing on domestic firms' sentiment, investment and employment. Overall, the risks are all looking pretty one sided. In domestic data, this week brings more of the quarterly puzzle pieces for Q2: the terms of trade and work put in place.

Forthcoming data

Terms of trade – Q2 (Monday 2 September, 10:45am). We're expecting a 0.8% q/q rise as export prices lift a touch more than import prices.

GlobalDairyTrade auction (Wednesday 4 September, early am). The seasonal increase in offer volumes will test the depth of the buying bench. Futures prices indicate a 2.5% fall in the GDT Price Index is anticipated by the market.

ANZ Commodity Price Index – August (Wednesday 4 September, 1:00pm).

Volume of Work Put in Place – Q2 (Thursday 5 September, 10:45am). Increases in consent issuance points to a small rise in the quarter, we're picking 1.7% q/q.

What's the view?

The global slowdown, while mild so far, has been broad-based and relentless.

The slowdown in global growth over the past year has been broad-based and synchronised across our trading partners (figure 1), though so far mild in the context of the global financial crisis (GFC). Given it has been focused in manufacturing and trade, Asian economies and Germany have been hit particularly hard. The slowdown has intensified lately, with the UK and Germany actually contracting in the second quarter of this year, with the 'R' word being thrown around liberally about Germany in particular.

Near-term indicators don't suggest a pick-up in activity any time soon (figure 2). In fact, they don't even suggest a stabilisation. Our ANZ Global Lead index incorporates timely PMI business activity surveys, and show that the synchronised decline in activity has continued in recent months.

Figure 1. Trading partner growth

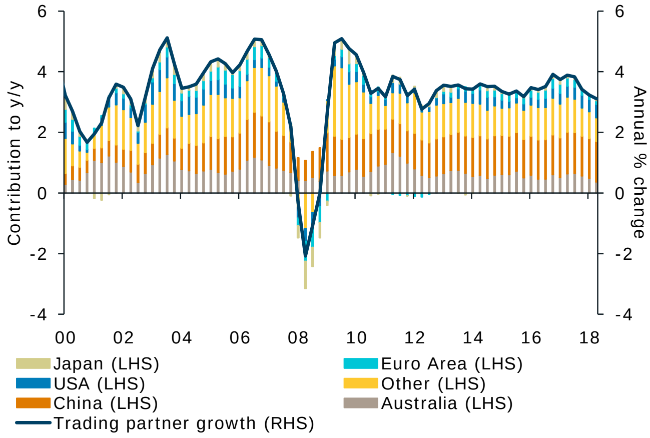
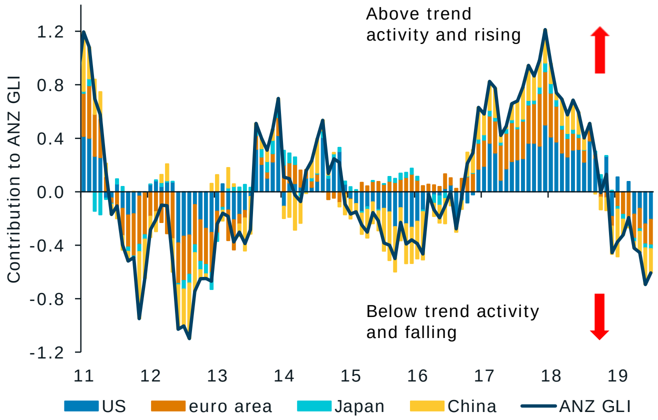


Figure 2. ANZ Global Lead Index



Source: Haver Analytics, Bloomberg, Markit, ANZ Research

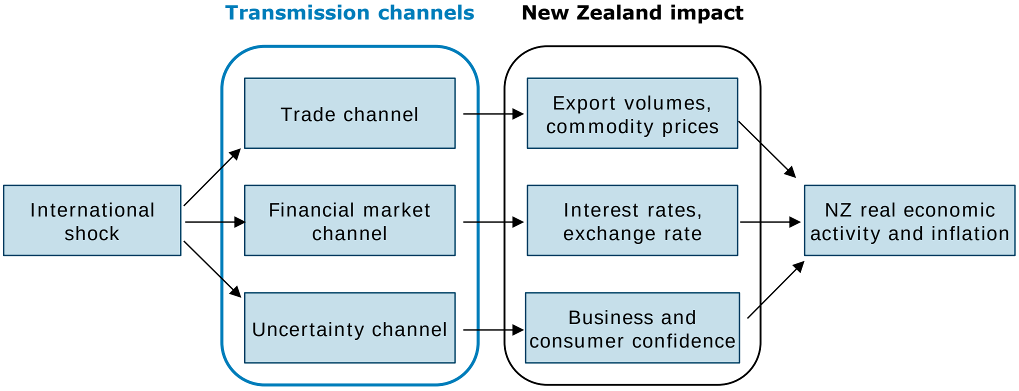
The global economy can impact NZ via trade, financial markets and confidence.

Global trade and industrial production has slumped…

However, the slowdown has so far largely been confined to externally-facing manufacturing sectors, and a key point of debate has been the extent to which this will flow through into broader growth and households – that's the point at which the rubber hits the road for most New Zealand exporters. Domestic spending in many economies has also taken a hit, with business investment paralysed by trade and demand uncertainty. The big risk from here is that the slowdown in growth starts to filter through to labour markets and household spending as unemployment rates start to creep higher, broadening and intensifying the economic slowdown.

It's not an inspiring backdrop, and New Zealand – as a small open economy – is at the whim of global forces. Global developments can impact New Zealand through trade (both goods and services – tourism and education), financial markets, and uncertainty.[1] This week we look at the story so far (figure 3).

Figure 3. Transmission channels of international shocks to New Zealand

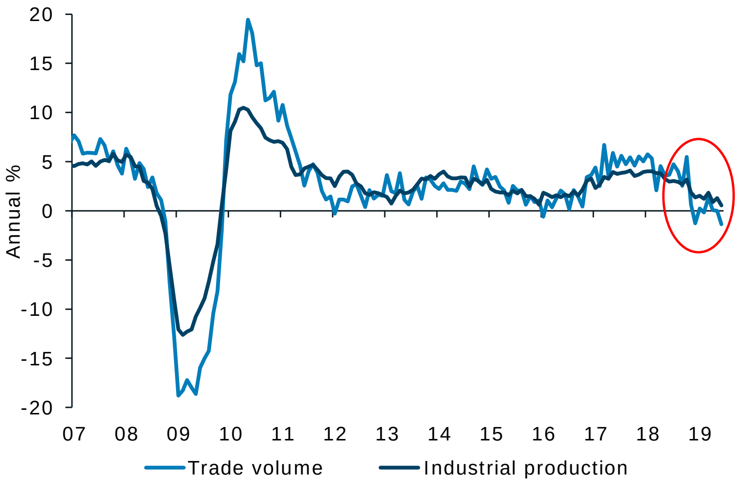


Source: RBNZ, ANZ Research

The trade channel

Globally, growth in trade volumes and industrial production has slowed sharply this year (figure 4). In fact, trade volumes actually fell over the past year, with the weakest growth since the GFC. Global industrial production has barely increased over the past year, and is also experiencing the weakest growth since the GFC. And the renewed escalation in trade tariffs and tensions over the past month paints a bleak picture for the outlook from here.

Figure 4. Global trade and industrial production



Source: Bloomberg, ANZ Research

[1] See Callaghan, Cassino, Vehbi, and Wong (2019), 'Opening the toolbox: how does the Reserve Bank analyse the world?', RBNZ Bulletin, 82(4).

Economic overview

…and trade tensions have re-escalated…

At the start of August, the US announced 10% tariffs on the USD300bn of Chinese imports that weren't already subject to tariffs. A few weeks later, China announced retaliatory tariffs on USD75bn of US imports, in two waves, effective 1 September and 15 December. US autos will have a 25% tariff imposed from 15 December, and other tariffs are 5-10%.

The US then retaliated in turn, with President Trump stating that the proposed 10% levy on USD300bn of Chinese goods would be raised to 15% and the existing 25% levy on USD250bn of goods would lift to 30%. Trump also "ordered" (generally interpreted as "urged") US companies to pull out of China and produce in the US.

…suggesting a sustained slowdown.

The latest escalation suggests that uncertainty will continue to weigh on global trade, industrial production, and investment in the months ahead, with no sign of a resolution any time soon.

So amidst this global trade slowdown, how has New Zealand fared? To date, not too badly.

NZ trade has been sheltered by ongoing demand for soft commodities and supportive supply conditions.

The soft commodity-based nature of our main exports has supported export volumes and prices so far – growing conditions have been pretty favourable, and even worried people still need to eat. And so far, the slowdown has been focused in manufacturing and has not yet fed through significantly into employment and consumption. Of course, a lag in these dynamics is typical, so we can't conclude we have dodged this bullet.

On top of that still-solid base of demand, some export industries have seen price-supportive global supply conditions. For example, there has been very strong demand for our meat exports from China, given the reduction in domestic Chinese pork supply from the sizeable outbreak of African swine fever there. Another reason our export volumes have held up is because our relatively non-complex export industry is not closely integrated into global supply chains (unlike the smartphone industry, for example), so there has been less disruption compared to other tech-heavy economies. Sometimes, keeping it simple has its advantages. Grow it, market it well, sell it.

Our trade relationship with China presents opportunities, but also vulnerabilities. New Zealand's terms of trade have risen in recent decades and are currently not far off record highs – which has been, not coincidentally, accompanied by a rapidly increasing proportion of our exports heading to China (figure 6). This concentration of market share poses a risk if the Chinese economy does slow sharply from here, whether that's a result of the trade war with the US or something else.

But services exports have taken a hit.

While goods exports have so far proven resilient (albeit with some wobbles in the prices of logs and wool), there are signs that this weakness is weighing on services exports, particularly international tourist arrivals from China and Europe. And our other exporters may not remain immune for long, with the BNZ-BusinessNZ manufacturing PMI indicator falling into contractionary territory in July. The measurable impact might be modest so far, but downside global demand risks are building.

Figure 5. ANZ Commodity Price Index (world prices)

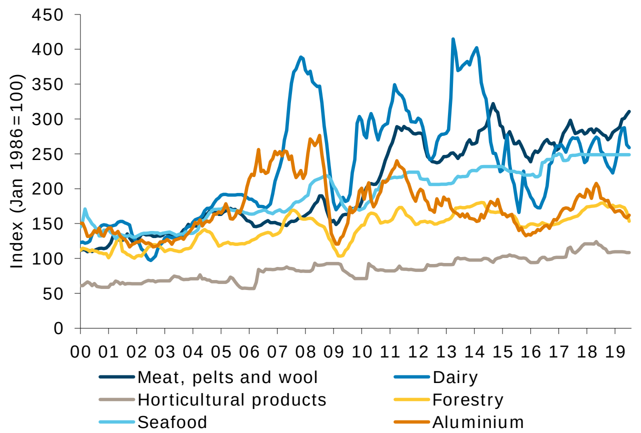
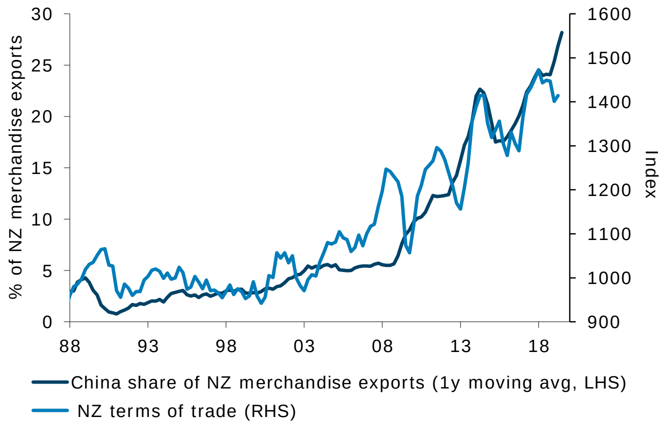


Figure 6. NZ terms of trade



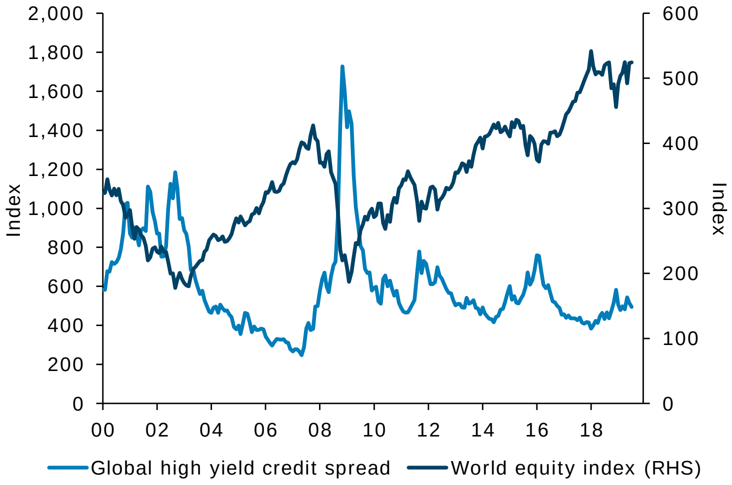
Source: Statistics NZ, ANZ Research

The financial market channel

Globally, financial conditions are supportive of growth.

Globally, central banks have been successful in bringing about stimulatory financial conditions in many economies. With lower policy rates, and expectations of even further easing ahead, equity prices remain high, credit spreads are contained, and volatility is still near historical average levels, despite recent spikes (figure 7). Bond yields have also fallen substantially globally, as investors flock to safe-haven assets in a low interest rate world.

Figure 7. Global equity prices and high-yield credit spreads



Source: Bloomberg, ANZ Research

Upward pressure on the NZD has been offset by RBNZ rate cuts.

The main financial market channel through which the New Zealand economy has been impacted so far is via the NZD (figure 8). The NZD has fallen substantially, even as our commodity prices have held up, on the back of OCR cuts and widespread expectations of more to come. The NZD can at times also trade as a proxy for global risk aversion, and it's fair to say that nervousness is rising.

Normally, the NZD tracks our commodity prices pretty well (figure 9), but with our commodity prices resilient so far, the recent NZD fall will provide a much-needed income boost to our exporters.

Figure 8. NZD trade-weighted index

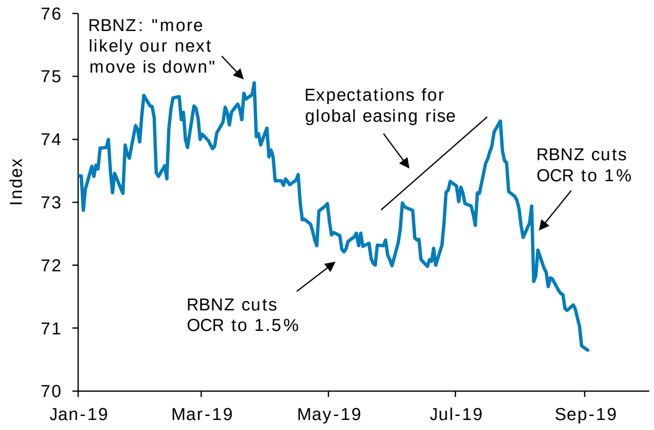
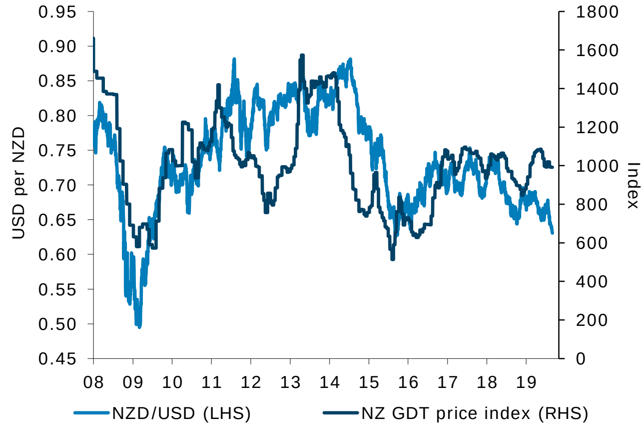


Figure 9. NZD/USD and dairy prices



Source: Bloomberg, GDT, ANZ Research

But it hasn't been a one-way street. There has been upward pressure on the NZD over the past few months as the RBA and Federal Reserve cut policy rates – and there's a further 105bp of cuts priced in to interest rate curves for the Fed over the next year, and 50bp of cuts by the RBA. The RBNZ was quick out of the blocks, but it may get harder to stay ahead of the pack in the global race to the bottom as the impacts of ever-lower rates on the price and availability of credit become more nuanced, as we discussed last week. And the exchange rate channel is a zero-sum game, but history suggests the risk proxy channel will work in New Zealand's favour. In times of trouble, money tends to head home, and New Zealand isn't 'home' for a particularly large proportion of the world's wealth.

Lower long-term rates have supported low mortgage rates.

What about the interest rate channel? Lower global long-term interest rates have filtered through to the New Zealand curve, as long-term interest rates are highly correlated globally. Along with OCR cuts, this has seen wholesale rates fall to record lows, resulting in significant falls in fixed mortgage rates in New Zealand. These lower lending rates will provide some support for investment and the housing market domestically. We are more confident of the latter, given current subdued business sentiment, but this will run into financial stability considerations working in the opposite direction (ie LVR restrictions), meaning there is a cap on how stimulatory this particular channel will be allowed to become.

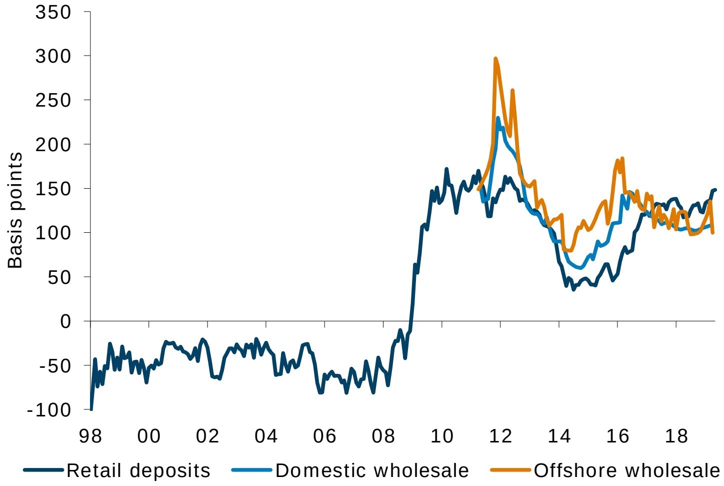
The equity wealth effect is less important in NZ.

Global equities are also highly correlated. But for New Zealand, equities are a much smaller percentage of household wealth than the US, so the equity price wealth effect is less important here. With a much higher proportion of New Zealanders' wealth tied up in houses, it is house price inflation that matters more for New Zealanders. And on that front, house price inflation and activity has been soft lately – though this could turn around pretty smartly, given the sharp falls in mortgage rates.

Bank funding costs are a vulnerability.

Another channel through which global financial conditions generally impact New Zealand is through bank funding costs. For example, global credit spreads blew out during the GFC, which made bank wholesale funding much more expensive. This added upward pressure to mortgage rates, limiting the effectiveness of OCR cuts. Credit spreads are reasonably tight today, but bank funding costs (relative to the OCR) still remain elevated compared to prior to the crisis (figure 10). At low levels of interest rates, banks are facing other funding cost pressures from trying to attract and retain deposit funding.

Figure 10. NZ bank funding cost spreads



Source: RBNZ, ANZ Research

Financial channel risks look one-sided from here.

Funding costs remain a vulnerability. New Zealand is in a better shape structurally than it was prior to the GFC, with a current account deficit at only 4% of GDP (versus 8% in 2007), lower net foreign debt, and more stable core funding. But we can't get smug, given our high household debt levels and exposure to offshore funding costs. Monetary policy couldn't easily offset adverse developments here given an OCR starting point of 1.0%.

All up, while global financial conditions remain benign, the risks are looking one-sided if the global economy takes another step lower and investors do get seriously spooked.

The uncertainty channel

Businesses put hiring and investing on hold in uncertain times.

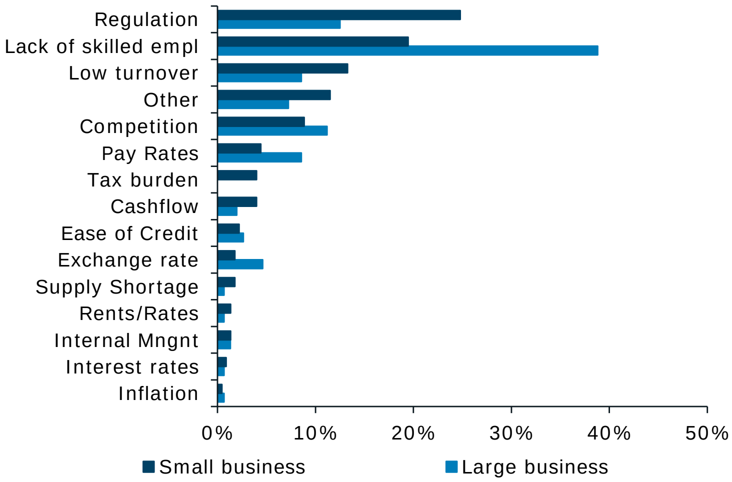
The uncertainty, or confidence, channel is likely an important one that's already affecting activity in New Zealand. Elevated uncertainty about both trade and broader growth has been cited by many global central banks as a significant driver of the synchronised slump in trade activity and business investment globally. When businesses are uncertain, they delay investment and hiring.

Recession fears and trade uncertainty have been elevated.

Here in New Zealand, concerns around global recession risks are heightened as geopolitical tensions, economic data and market signals have deteriorated. And business investment in New Zealand has been weak. However, it is impossible to distinguish how much global versus domestic uncertainty is weighing. For example, businesses have also been wary of the impact of potential changes to employment and environment laws, with regulation cited as a key problem facing businesses (figure 11).

But domestic uncertainty plays a role too.

Figure 11. Key problems facing New Zealand businesses



Source: ANZ Research

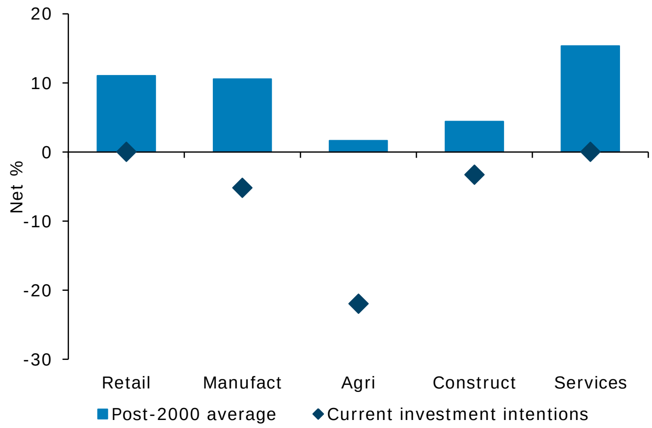
The business activity outlook was dismal in August.

Business sentiment has certainty been weak over the past year. In August, headline business confidence fell another 9 points to -53% in the ANZ Business Outlook. Firms' expectations for their own activity over the year ahead fell 6 points to a net -1% – about the same number of firms report expecting activity to fall as rise. This is the lowest level since April 2009.

Employment, investment and export intentions are at dismal levels, along with profit expectations. The activity outlook and investment intentions are sitting below average across a range of sectors (figures 12 and 13).

Figure 12. Activity outlook by sector

Figure 13. Investment intentions by sector



Source: ANZ Research

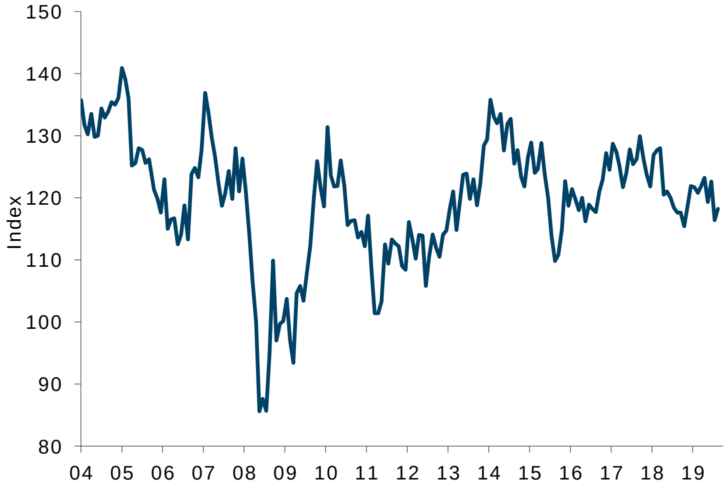
Economic overview

Consumer confidence has softened, but remains robust.

Despite the gloom in the business sector, consumers have been doing alright. Consumer confidence rose 2 points in August to 118, and remains down from recent peaks, but not far below its historical average of 120 (figure 14). Confidence in both current and future conditions lifted, but consumers continue to be surer about the here and now.

Households are feeling relatively robust, and low interest rates are set to provide another support. But a key downside risk over the year ahead is in the fact that employment indicators have deteriorated abruptly: employment intentions out of key business surveys (ANZBO, QSBO, PMI) and job ads. While the labour market is undeniably tight at the moment, that appears set to change, as the economic slowdown filters through.

Figure 14. ANZ consumer confidence



Source: Roy Morgan, ANZ Research

Activity could rebound once uncertainty resolves…

To the extent that uncertainty is dampening activity and investment in New Zealand currently, there is potentially an upside risk – an overshoot in output and employment once uncertainty resolves, as delayed investment catches up.[2] That said, the longer uncertainty remains elevated, the greater the risk that companies abandon their investment and spending plans altogether.

…if it does.

Monetary policy can help to ease borrowing costs, which incentivises more investment and spending, but it can't resolve uncertainty. And with the recent escalation in trade tensions, it doesn't look like global uncertainty is set to be resolved any time soon.

The New Zealand economy remains vulnerable to global twists and turns

It could be worse.

Putting it all together, "it could be worse" is a reasonable summary of the current influence of weaker global growth on the New Zealand economy.

Exports and commodity prices have held up.

To date, New Zealand's export markets have been relatively sheltered, helped by continued demand for our soft commodities and supportive global supply factors like diminished pork supply in China due to swine fever, and constrained global dairy production. But the risk from here is that weakness in global demand starts to spill over more clearly into our commodity prices and demand for exports (particularly services).

Lower world rates have lifted the NZD.

The financial market channel has also been benign so far too. This partly reflects the actions of global central bank policy easing (and the expectation of more to come), that has helped to stabilise market sentiment and asset prices. With low long-term interest rates and no blowout in credit spreads yet, financial conditions have remained favourable. But the risk on this front is looking one-sided as well. It is possible that markets get seriously spooked and financial market turmoil feeds through to higher bank funding costs

[2] Bloom (2009), 'The impact of uncertainty shocks', Econometrica, 77(3).

Uncertainty appears to be holding back activity. But there's a domestic element too.

and from there to higher bank lending rates in New Zealand. Meanwhile, upward pressure on the NZD from central bank easing overseas has so far been offset by pre-emptive rate cuts by the RBNZ.

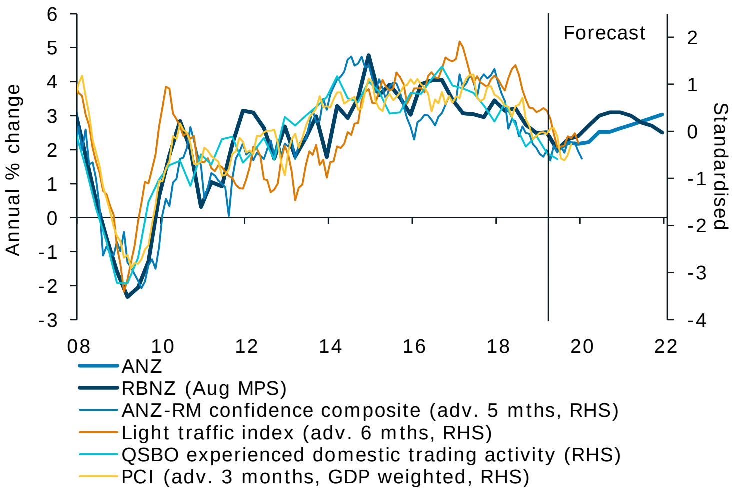
Finally, uncertainty appears to be a key factor globally in weak industrial production and business investment activity, and here in New Zealand too.

It is important to note that it isn't all global factors responsible for the slowdown in the New Zealand economy, which has been in train for some time. The slowdown in the housing market has likely played an important role; construction activity and household spending are closely linked to housing market activity, and growth in both has slowed in recent years. And a change in Government has inevitably increased policy uncertainty too.

We expect growth to stabilise, and the RBNZ to cut further.

We are forecasting a stabilisation in domestic growth from here, as the weaker NZD boosts export incomes and lower lending rates support activity and the housing market. With solid export returns, continued household spending, and a bit of government spending coming through, growth should find a floor (figure 15). We expect the RBNZ to cut the OCR further in November this year, to 0.75%, to provide a bit more support to employment and inflation.

Figure 15. GDP growth and forward-looking indicators



Source: Statistics NZ, NZIER, BusinessNZ-BNZ, NZ Transport Agency, Roy Morgan, ANZ Research

But the risks are elevated and skewed to the downside.

But it's fair to say the risks to our growth and inflation forecasts have become firmly skewed to the downside since we last reviewed them in July, and the global growth outlook and its flow-through to the New Zealand economy is a key part of that risk. Something to keep a close eye on.

On that front, this week we'll get a timely update on how commodity prices are faring, with both Q2 Terms of Trade on Monday and the GlobalDairyTrade auction early on Wednesday morning. We're picking a 0.8% q/q rise in the terms of trade as export prices lift a touch more than import prices. Meanwhile, the seasonal increase in offer volumes will test buyers with offer volumes now at peak levels for certain products on offer. While tightening global milk supply should underpin demand in the longer term, future prices indicate we are likely to see a 2.5% fall in the GDT Price Index at this week's event.

Later on Wednesday, the ANZ Commodity Price Index will provide an update on our broad commodity basket for August. Lastly, on Thursday, the Volume of Work Put in Place for Q2 will provide a glimpse into construction activity for the quarter. Increases in consent issuance points to a small rise in the quarter, we're picking 1.7% q/q.

Economic overview

Local data

ANZ Business Outlook – August. Headline business confidence fell another 8 points to -52% in the August ANZ Business Outlook. Firms' views of their own activity fell 6 points to -1%. Employment, investment and export intentions all fell to dismal levels, along with profit expectations. Inflation indicators were weaker despite higher reported costs.

ANZ Roy Morgan Consumer Confidence – August. The Consumer Confidence Index rose 2 points to 118 in August, unwinding some of last months' 6-point fall. The Current Conditions Index rose 1 point to 127, while the Future Conditions Index lifted 2 points to 112.

Building Consents – July. Building consents fell 1.3% m/m in July. Monthly consents are volatile, but the print is broadly consistent with our view that construction activity is near its peak.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
2-Sep	AU	Ai Group Perf of Mfg Index - Aug	--	51.3	10:30
	NZ	Terms of Trade Index QoQ - Q2	1.0%	0.9%	10:45
	AU	Australia PMI Mfg - Aug F	--	51.3	11:00
	AU	CoreLogic House Px MoM - Aug	--	0.1%	12:00
	JN	Jibun Bank PMI Mfg - Aug F	--	49.5	12:30
	AU	Melbourne Institute Inflation MoM - Aug	--	0.3%	13:00
	AU	Melbourne Institute Inflation YoY - Aug	--	1.8%	13:00
	AU	Consumer Inflation Expectation - Sep	--	3.5%	13:00
	AU	Inventories SA QoQ - Q2	0.3%	0.7%	13:30
	AU	Company Operating Profit QoQ - Q2	2.0%	1.7%	13:30
	AU	ANZ Job Advertisements MoM - Aug	--	0.8%	13:30
	CH	Caixin PMI Mfg - Aug	49.8	49.9	13:45
	GE	Markit/BME Manufacturing PMI - Aug F	43.6	43.6	19:55
	EC	Markit Manufacturing PMI - Aug F	47.0	47.0	20:00
	UK	Markit PMI Manufacturing SA - Aug	48.4	48	20:30
3-Sep	AU	ANZ-RM Consumer Confidence Index - 1-Sep	--	114.1	11:30
	AU	BoP Current Account Balance - Q2	A$1.5B	-A$2.9B	13:30
	AU	Net Exports of GDP - Q2	0.3	0.2	13:30
	AU	Retail Sales MoM - Jul	0.2%	0.4%	13:30
	AU	RBA Cash Rate Target - Sep	1.00%	1.00%	16:30
	UK	Markit/CIPS Construction PMI - Aug	46.6	45.3	20:30
	EC	PPI MoM - Jul	0.2%	-0.6%	21:00
	EC	PPI YoY - Jul	0.2%	0.7%	21:00
4-Sep	US	Markit Manufacturing PMI - Aug F	50.0	49.9	01:45
	US	ISM Manufacturing - Aug	51.2	51.2	02:00
	US	ISM Employment - Aug	--	51.7	02:00
	US	ISM Prices Paid - Aug	46.8	45.1	02:00
	US	ISM New Orders - Aug	50.5	50.8	02:00
	US	Construction Spending MoM - Jul	0.3%	-1.3%	02:00
	NZ	QV House Prices YoY - Aug	--	2.2%	05:00
	AU	Ai Group Perf of Services Index - Aug	--	43.9	10:30
	AU	CBA PMI Services - Aug F	--	49.2	11:00
	AU	CBA PMI Composite - Aug F	--	49.5	11:00
	JN	Jibun Bank PMI Composite - Aug F	--	51.7	12:30
	JN	Jibun Bank PMI Services - Aug F	--	53.4	12:30
	NZ	ANZ Commodity Price - Aug	--	-1.4%	13:00
	AU	GDP SA QoQ - Q2	0.5%	0.4%	13:30
	AU	GDP YoY - Q2	1.4%	1.8%	13:30
	CH	Caixin PMI Composite - Aug	--	50.9	13:45
	CH	Caixin PMI Services - Aug	51.7	51.6	13:45
	GE	Markit Services PMI - Aug F	54.4	54.4	19:55
	GE	Markit/BME Composite PMI - Aug F	51.4	51.4	19:55
	EC	Markit Services PMI - Aug F	53.4	53.4	20:00
	EC	Markit Composite PMI - Aug F	51.8	51.8	20:00
	UK	Markit/CIPS Services PMI - Aug	51.0	51.4	20:30
	UK	Markit/CIPS Composite PMI - Aug	50.5	50.7	20:30
	UK	Official Reserves Changes - Aug	--	$1749M	20:30
	EC	Retail Sales MoM - Jul	-0.6%	1.1%	21:00

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
4-Sep	EC	Retail Sales YoY - Jul	2.0%	2.6%	21:00
	US	MBA Mortgage Applications - 30-Aug	--	-6.2%	23:00
5-Sep	US	Trade Balance - Jul	-$53.5B	-$55.2B	00:30
	US	Federal Reserve releases Beige Book	--	--	06:00
	NZ	Volume of All Buildings SA QoQ - Q2	1.3%	6.2%	10:45
	AU	Trade Balance - Jul	A$7200M	A$8036M	13:30
	GE	Factory Orders MoM - Jul	-1.4%	2.5%	18:00
	GE	Factory Orders WDA YoY - Jul	-4.2%	-3.6%	18:00
	GE	Markit Construction PMI - Aug	--	49.5	19:30
	US	Challenger Job Cuts YoY - Aug	--	43.2%	23:30
6-Sep	US	ADP Employment Change - Aug	146k	156k	00:15
	US	Nonfarm Productivity - Q2 F	2.2%	2.3%	00:30
	US	Unit Labor Costs - Q2 F	2.5%	2.4%	00:30
	US	Initial Jobless Claims - 31-Aug	215k	215k	00:30
	US	Continuing Claims - 24-Aug	1688k	1698k	00:30
	US	Markit Services PMI - Aug F	51.0	50.9	01:45
	US	Markit Composite PMI - Aug F	--	50.9	01:45
	US	Factory Orders - Jul	1.0%	0.6%	02:00
	US	Factory Orders Ex Trans - Jul	--	0.1%	02:00
	US	Durable Goods Orders - Jul F	2.1%	2.1%	02:00
	US	Durables Ex Transportation - Jul F	-0.4%	-0.4%	02:00
	US	Cap Goods Orders Nondef Ex Air - Jul F	--	0.4%	02:00
	US	Cap Goods Ship Nondef Ex Air - Jul F	--	-0.7%	02:00
	US	ISM Non-Manufacturing Index - Aug	54.0	53.7	02:00
	AU	Ai Group Perf of Construction Index - Aug	--	39.1	10:30
	GE	Industrial Production SA MoM - Jul	0.4%	-1.5%	18:00
	GE	Industrial Production WDA YoY - Jul	-3.9%	-5.2%	18:00
	GE	Labor Costs SA QoQ - Q2	--	1.1%	18:00
	GE	Labor Costs WDA YoY - Q2	--	2.5%	18:00
	AU	Foreign Reserves - Aug	--	A$65.3B	18:30
	UK	Halifax House Prices MoM - Aug	0.2%	-0.2%	19:30
	UK	Halifax House Price 3Mths/Year - Aug	3.4%	4.1%	19:30
	UK	BoE/TNS Inflation Next 12 Mths - Aug	--	3.1%	20:30
	EC	Employment QoQ - Q2 F	--	0.2%	21:00
	EC	Employment YoY - Q2 F	--	1.1%	21:00
	EC	GDP SA QoQ - Q2 F	0.2%	0.2%	21:00
	EC	GDP SA YoY - Q2 F	1.1%	1.1%	21:00
7-Sep	US	Change in Nonfarm Payrolls - Aug	158k	164k	00:30
	US	Unemployment Rate - Aug	3.7%	3.7%	00:30
	US	Average Hourly Earnings MoM - Aug	0.3%	0.3%	00:30
	US	Average Hourly Earnings YoY - Aug	3.0%	3.2%	00:30
	US	Average Weekly Hours All Employees - Aug	34.4	34.3	00:30
	US	Labor Force Participation Rate - Aug	--	63.0%	00:30
	CH	Foreign Reserves - Aug	$3105.0B	$3103.7B	UNSPECIFIED

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency.
Note: All surveys are preliminary and subject to change

Local data watch

Domestic growth momentum has decelerated and global risks are heightened. As headwinds persist, we expect a lower OCR will be required this year to support growth, inflation and employment. The resilience of domestic data, the trend in inflation and global developments will all bear watching closely.

Date	Data/event	Economic signal	Comment
Mon 2 Sep (10:45am)	Terms of Trade – Q2	Small lift	We're expecting a 0.8% q/q rise as export prices lift a touch more than import prices.
Wed 4 Sep (early am)	GlobalDairyTrade auction	Easing	Seasonal increase in offer volumes will test buyers but tightening global milk supply should underpin demand.
Wed 4 Sep (1:00pm)	ANZ Commodity Price Index – Aug	--	--
Thu 5 Sep (10:45am)	Volume of Work Put in Place – Q2	Small rise	Increases in consent issuance points to a small rise in the quarter, we're picking 1.7% q/q.
Mon 9 Sep (10:45am)	Economic Survey of Manufacturing – Q2	Watching	An easing trend has been at play here too. We're looking for a floor.
Tue 10 Sep (10:00am)	ANZ Truckometer - August	--	--
Thu 12 Sep (10:45am)	Food Price Index – August	Small lift	A small lift in food prices from fruit and vegetables is expected.
Thu 12 Sep (10:45am)	Rental Price Index – August	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Thu 12 Sep (1:00pm)	ANZ Monthly Inflation Gauge - August	--	--
Fri 13 Sep (10:30am)	BNZ-BusinessNZ Manufacturing PMI – August	Watching	An easing trend has been at play here. We're looking for a floor.
Mon 16 Sep (10:30am)	Performance Services Index – August	Watching	Looking to see if July's rebound was more noise than signal.
Wed 18 Sep (early am)	GlobalDairyTrade auction	Steady	Seasonal increase in offer volumes will test buyers but tightening global milk supply should underpin demand.
Thu 19 Sep (10:45am)	Current Account – Q2	Widen	The annual current account is expected to widen slightly as a share of GDP.
Thu 19 Sep (10:45am)	Gross Domestic Product – Q2	Trough	We think Q1 growth was held up by a few temporary factors, and have pencilled in a soft 0.4% q/q lift for Q2.
Wed 25 Sep (10:45am)	Overseas Merchandise Trade – August	Steady	Export volumes still subdued due to low winter production restricting dairy and meat volumes will low prices moderate log export volumes and returns.
Wed 25 Sep (2:00pm)	RBNZ OCR Review – September	Watching	A dovish statement should set the scene for a November OCR cut to 0.75%.
Fri 27 Sep (10:00am)	ANZ Roy Morgan Consumer Confidence – Sep	--	--
Mon 30 Sep (10:45am)	Building Consents – August	Wary	Consents have held at a high level recently, but we see downside risk looming.
Mon 30 Sep (1:00pm)	ANZ Business Outlook – Sep	--	--
Tue 1 Oct (10:00am)	NZIER Quarterly Survey of Business Opinion – Q3	Watching	Business activity and employment intentions have been weak in recent quarters; we expect this weakness to persist for now.
Wed 2 Oct (early am)	GlobalDairyTrade auction	Improving	Slowing global milk supply should spur buyers into action resulting in improving demand.
On balance		**Data watch**	**Domestic and global data has softened and we expect a lower OCR this year with inflation pressures fading.**

Key forecasts and rates

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
GDP (% qoq)	0.6	**0.4**	**0.6**	**0.6**	**0.6**	**0.7**	**0.6**	**0.7**	**0.7**
GDP (% yoy)	2.5	**2.0**	**2.2**	**2.2**	**2.2**	**2.5**	**2.5**	**2.6**	**2.7**
CPI (% qoq)	0.1	0.6	**0.4**	**0.1**	**0.7**	**0.3**	**0.6**	**0.2**	**0.6**
CPI (% yoy)	1.5	1.7	**1.2**	**1.2**	**1.8**	**1.5**	**1.6**	**1.7**	**1.7**
LCI Wages (% qoq)	0.3	0.8	**0.6**	**0.5**	**0.4**	**0.8**	**0.6**	**0.6**	**0.4**
LCI Wages (% yoy)	2.0	2.2	**2.3**	**2.3**	**2.3**	**2.3**	**2.2**	**2.3**	**2.3**
Employment (% qoq)	-0.2	0.8	**0.3**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.5	1.7	**1.0**	**1.4**	**1.8**	**1.3**	**1.4**	**1.4**	**1.5**
Unemployment Rate (% sa)	4.2	3.9	**4.1**	**4.2**	**4.2**	**4.3**	**4.3**	**4.3**	**4.2**
Current Account (% GDP)	-3.6	**-3.6**	**-3.7**	**-3.8**	**-3.9**	**-4.0**	**-4.0**	**-4.0**	**-4.0**
Terms of Trade (% qoq)	1.0	**0.8**	**0.4**	**-0.1**	**0.5**	**0.1**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	-2.0	**-1.6**	**-2.0**	**1.1**	**0.6**	**0.9**	**0.6**	**0.8**	**0.4**

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Retail ECT (% mom)	-0.5	-2.2	2.1	0.6	-0.1	0.3	-0.4	0.0	-0.1	--
Retail ECT (% yoy)	4.6	0.6	3.5	3.4	0.7	4.5	3.2	1.1	1.6	--
Car Registrations (% mom)	-11.0	-0.6	4.3	1.3	-2.7	1.6	-1.6	-2.8	3.7	--
Car Registrations (% yoy)	-17.9	-15.8	-12.1	-3.9	-2.9	-0.5	-12.6	-11.0	-5.4	--
Building Consents (% mom)	-1.9	4.9	12.9	1.8	-7.0	-7.4	14.7	-4.0	-1.3	--
Building Consents (% yoy)	-3.0	12.5	31.8	28.0	3.0	-3.2	8.2	9.9	18.4	--
REINZ House Price Index (% yoy)	3.1	3.1	2.8	3.0	2.4	1.4	1.7	1.8	1.5	--
Household Lending Growth (% mom)	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	6.0	5.9	5.9	5.9	5.9	5.9	6.0	5.9	5.9	--
ANZ Roy Morgan Consumer Conf.	118.6	121.9	121.7	120.8	121.8	123.2	119.3	122.6	116.4	118.2
ANZ Business Confidence	-37.1	-24.1	..	-30.9	-38.0	-37.5	-32.0	-38.1	-44.3	-52.3
ANZ Own Activity Outlook	7.6	13.6	..	10.5	6.3	7.1	8.5	8.0	5.0	-0.5
Trade Balance ($m)	-1004	9	-935	-94	825	361	180	331	-685	--
Trade Bal ($m ann)	-5556	-6161	-6433	-6715	-5739	-5578	-5597	-4981	-5463	--
ANZ World Comm. Price Index (% mom)	-0.5	-0.2	2.0	2.8	4.1	2.6	0.1	-3.9	-1.4	--
ANZ World Comm. Price Index (% yoy)	-5.1	-3.4	-2.2	-2.2	0.6	2.2	0.7	-2.4	-0.5	--
Net Migration (sa)	4550	5780	4520	4300	3690	3290	4130	3100	--	--
Net Migration (ann)	49525	50631	50869	51521	51156	50523	50256	49427	--	--
ANZ Heavy Traffic Index (% mom)	-2.3	-4.2	4.9	0.3	-2.0	4.1	0.7	-4.3	4.1	--
ANZ Light Traffic Index (% mom)	0.1	-1.8	2.0	-0.8	0.7	0.3	0.8	-2.1	1.5	--
ANZ Monthly Inflation Gauge (% mom)	0.2	-0.1	1.0	0.0	0.0	0.1	0.1	0.3	0.5	--

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Key forecasts and rates

FX rates	Actual Jul-19	Actual Aug-19	Today	Forecast (end month) Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZD/USD	0.656	0.633	0.63	0.63	0.61	0.61	0.63	0.65	0.65
NZD/AUD	0.958	0.940	0.94	0.95	0.94	0.94	0.95	0.97	0.96
NZD/EUR	0.592	0.576	0.57	0.58	0.56	0.56	0.57	0.57	0.56
NZD/JPY	71.35	67.25	66.78	66.2	63.4	62.8	64.3	65.0	65.0
NZD/GBP	0.539	0.521	0.52	0.52	0.50	0.51	0.52	0.51	0.49
NZ$ TWI	71.0	68.7	70.7	68.7	66.9	66.8	68.3	69.1	68.3
Interest rates	**Jul-19**	**Aug-19**	**Today**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**
NZ OCR	1.50	1.00	1.00	1.00	0.75	0.75	0.75	0.75	0.75
NZ 90 day bill	1.50	1.19	1.19	1.18	1.01	1.01	1.01	1.01	1.01
NZ 10-yr bond	1.44	1.06	1.05	1.50	1.45	1.35	1.35	1.35	1.35
US Fed funds	2.25	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00
US 3-mth	2.27	2.14	2.14	2.40	2.15	2.15	2.15	2.15	2.15
AU Cash Rate	1.00	1.00	1.00	1.00	0.75	0.75	0.75	0.75	0.75
AU 3-mth	1.01	0.97	0.97	0.95	0.95	0.95	0.95	0.95	0.95

	30-Jul	26-Aug	27-Aug	28-Aug	29-Aug	30-Aug
Official Cash Rate	1.50	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.49	1.20	1.19	1.19	1.19	1.19
NZGB 05/21	1.03	0.77	0.80	0.80	0.78	0.78
NZGB 04/23	1.07	0.74	0.78	0.78	0.76	0.77
NZGB 04/27	1.33	0.93	0.97	0.97	0.95	0.96
NZGB 04/33	1.69	1.22	1.25	1.25	1.23	1.24
2 year swap	1.24	0.94	0.96	0.94	0.92	0.91
5 year swap	1.31	0.95	0.97	0.96	0.94	0.93
RBNZ TWI	73.09	71.40	71.37	71.18	70.80	70.59
NZD/USD	0.6614	0.6379	0.6372	0.6355	0.6343	0.6328
NZD/AUD	0.9608	0.9427	0.9425	0.9419	0.9407	0.9399
NZD/JPY	71.84	67.51	67.42	67.19	67.40	67.15
NZD/GBP	0.5435	0.5211	0.5199	0.5204	0.5199	0.5188
NZD/EUR	0.5934	0.5737	0.5737	0.5728	0.5728	0.5741
AUD/USD	0.6884	0.6767	0.6760	0.6747	0.6743	0.6733
EUR/USD	1.1146	1.1120	1.1107	1.1093	1.1075	1.0982
USD/JPY	108.62	105.82	105.81	105.74	106.26	106.28
GBP/USD	1.2169	1.2242	1.2255	1.2209	1.2200	1.2156
Oil (US$/bbl)	58.05	53.64	54.93	55.78	56.71	55.10
Gold (US$/oz)	1426.76	1532.59	1530.26	1543.00	1536.53	1520.38
NZX 50	10879	10483	10513	10626	10580	10757
Baltic Dry Freight Index	1899	2168	2213	2267	2277	2378
NZX WMP Futures (US$/t)	3080	3035	3040	3050	3040	3055

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