ANZ Research

New Zealand Weekly Focus

30 September 2019

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Contents

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Dead or just sleeping?

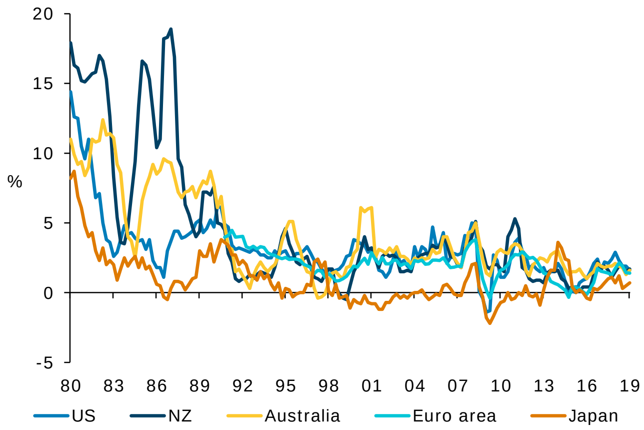
Economic overview

Last week the RBNZ held the OCR at 1% and noted that there is scope for more cuts if necessary. The RBNZ also stated that low long-term interest rates reflect low expected inflation well into the future. Indeed they do. But what if the RBNZ (and us, and everyone else) is wrong and the story of the next decade is sharply higher inflation? This week, we explore a tail risk that no one is talking about. There are several potential catalysts for a return to a high inflation, low growth world: oil price shocks, tariffs and protectionism, or climate change. These 'supply shocks' could have a potent impact if they cause a rise in inflation expectations. Global central banks' independence is steadily eroding – could the commitment to inflation targeting come into question? Our forecasts – everyone's forecasts – are based on the status quo. But the status quo is coming under pressure.

Chart of the week

We expect inflation to remain subdued, but the risks that no one is talking about can be the most damaging. Certainty, global inflation has been stubbornly low for a while.

Headline CPI inflation rates



Source: Bloomberg, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	1.9% y/y for 2020 Q1	Growth has slowed. OCR cuts should support a gradual recovery next year.	Neutral Negative  Positive
Unemployment rate	4.4% 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	0.50% in March 2020	We expect further cuts in November, February and May next year, bringing the OCR to just 0.25%.	Neutral Down  Up
CPI	1.9% y/y for 2020 Q1	There is some near-term upside risk to domestic inflation but spluttering growth will stymie it. OCR cuts should support a gradual rise over time.	Neutral Negative  Positive

Economic overview

Summary

Last week the RBNZ held the OCR at 1% and noted that there is scope for more cuts if necessary. The RBNZ also stated that low long-term interest rates reflect low expected inflation well into the future. Indeed they do. But what if the RBNZ (and us, and everyone else) is wrong and the story of the next decade is sharply higher inflation? This week, we explore a tail risk that no one is talking about. There are several potential catalysts for a return to a high inflation, low growth world: oil price shocks, tariffs and protectionism, or climate change. These 'supply shocks' could have a potent impact if they cause a rise in inflation expectations. Global central banks' independence is steadily eroding – could the commitment to inflation targeting come into question? Our forecasts – everyone's forecasts – are based on the status quo. But the status quo is coming under pressure.

Is a surge in inflation just around the corner?

Forthcoming data

ANZ Business Outlook – September (Monday 30 September, 1:00pm).

NZIER Quarterly Survey of Business Opinion – Q3 (Tuesday 1 October, 1:00pm). Business activity and employment intentions have been weak in recent quarters; we expect this weakness to persist for now.

GlobalDairyTrade auction (Wednesday 2 October, early am). Very little change in prices expected at this week's event after strong gains in the previous auction.

ANZ Commodity Price Index – September (Thursday 3 October, 1:00pm).

What's the view?

The RBNZ held the OCR at 1%.

At the Review last week, the Official Cash Rate (OCR) was left unchanged at 1%. The RBNZ Committee noted that there is scope for a lower OCR if necessary. But new information since the August MPS "did not warrant a significant change to the monetary policy outlook".

But with a bit more upbeat tone.

The RBNZ acknowledged that subdued global growth and low business confidence here at home were dampening the outlook, but reiterated that "low interest rates and increased government spending are expected to support a pick-up in domestic demand over the coming year." We are sceptical, given the recent weaker data flow (PMI, Truckometer, job ads). But in our view, a "watch, worry (privately, while sounding reassuring), and wait" stance at this point is very defensible. There has been a substantial easing in both interest rates and the NZD in the past year, and this will take time to work.

We still expect cuts to take the OCR to 0.25%.

But nonetheless, forward indicators suggest that growth is going to continue to slide over the remainder of the year at least. And with inflation expectations already low and falling, we suspect the RBNZ will again feel the need to shoot first and ask questions later. We continue to expect 25bp cuts in November, February, and May to take the OCR to 0.25% – around its useful limit.

But what if inflation makes a comeback?

But this week, we explore a risk that virtually no one is talking about. In the RBNZ's Statement, the Committee noted that low long-term interest rates reflect low expected inflation into the future. Indeed they do. But what if the RBNZ (and us, and everyone else) is wrong about inflation remaining low, and a surge in inflation is actually the story of this decade?

Evidence-based expectations

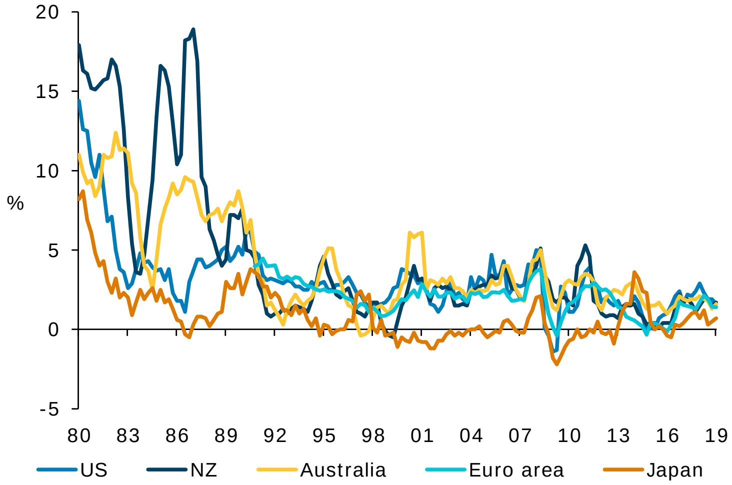
Inflation expectations are low.

There are good reasons for global real (inflation-adjusted) interest rates to be very low at the moment. There are more savings than there is demand to borrow. Demographics matter a lot here; so too does productivity. But a given real interest rate could be associated with very different *nominal* interest rates, depending on what's going on with inflation, and even more importantly, *expected* inflation. There are different ways of measuring inflation expectations (surveys of forecasters, businesses and households, or financial market pricing), but in most of the world, the various measures are all suggesting a high degree of consensus that inflation is more or less dead. Is it a no brainer? Or complacency?

To be fair, these expectations appear pretty well founded. The last ten years provide a lot of evidence to support the notion that inflation will stay low. Unprecedented stimulatory monetary policy, both conventional and unconventional, over the past decade has generated asset price inflation, certainly, but not much in the way of consumer price inflation (figure 1). Structural factors are often pointed to as explanations for the disinflationary impulse globally: technology, aging demographics and globalisation, and the first two at least are not going away any time soon.

And global inflation has been stubbornly low for a while.

Figure 1. Headline CPI inflation rates

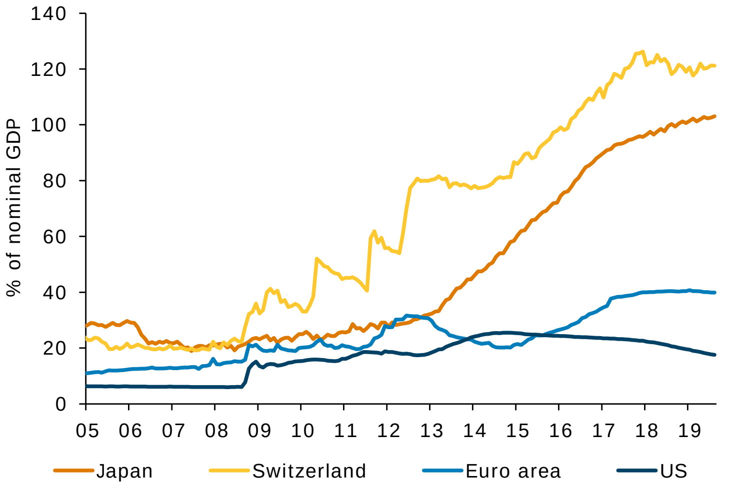


Source: Bloomberg, ANZ Research

Globally a lot of money has been 'printed'.

Meanwhile, the global money supply has grown enormously. Central bank balance sheets have become swollen with assets bought with newly 'printed' money as a result of quantitative easing (figure 2). Central banks have bought government debt and in some cases corporate debt and even equities. And with the renewed weakening in the global outlook, it doesn't look like there is any end to the money creation in sight.

Figure 2. Central bank balance sheets

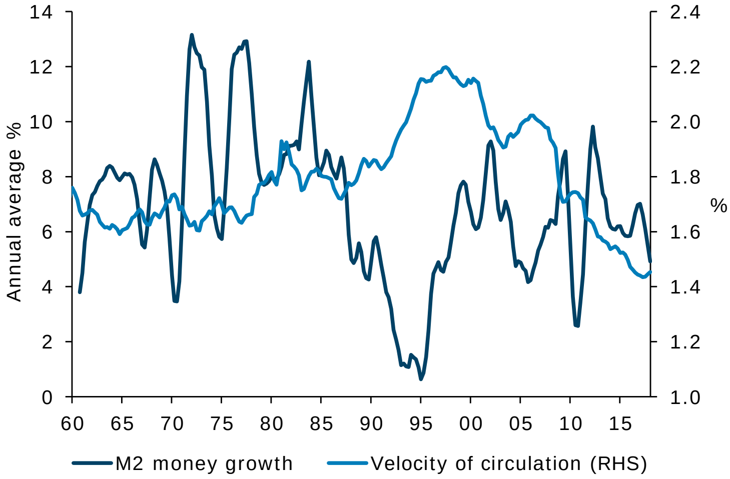


Source: Bloomberg, ANZ Research

So how can money be immune to the laws of demand and supply? How can it be that one can increase the supply of money dramatically yet not meaningfully diminish its value, ie how much real stuff you can exchange each unit of it for?

The answer is that all that newly printed money is not spinning around economies very fast. Although the volume of money in its broadest sense has grown a lot in countries that have used quantitative easing, it's largely just sitting in the vaults. That means that money supply measures that attempt to capture the amount of money that's out there actually doing something haven't grown at unusual rates. In the jargon, the 'velocity' of money has declined. Figure 3 shows the velocity of the US M2 money supply, is at its lowest in at least 60 years, for example.

Figure 3. Velocity of circulation and money growth in the US



Source: Bloomberg, ANZ Research

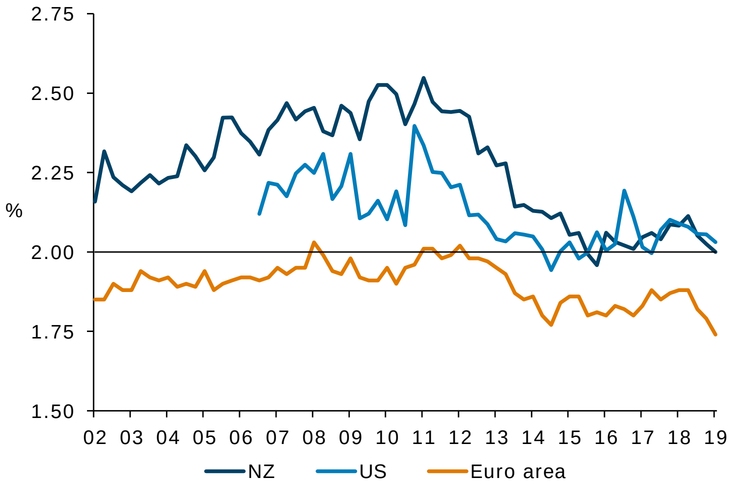
There is an accounting identity in ECON 101: MV=PY. That is, changes in the money supply (M) multiplied by the velocity of money (V) must turn up in either the price level (P) or real output (Y). This isn't a theory; it's an identity. It must always hold true.

The big risk is unanchored inflation expectations.

What determines the velocity of money is not well understood. But there are two things we do know: it is mean-reverting over time, and it moves up and down with inflation expectations. If inflation is high, money becomes a hot potato. An extreme example illustrates the point: in Germany's 1920s hyperinflation, workers were paid twice a day so they could rush out at lunchtime and spend their money before it lost even more of its value by the evening.

The upshot is, a lift in global inflation expectations could be a pretty big deal, in terms of the potential for becoming self-fulfilling. There's certainly no sign of that for now (figure 4) with most central banks' concerned that inflation expectations are at risk of becoming entrenched too low.

Figure 4. NZ, US, and euro area surveyed long-term inflation expectations



Source: RBNZ, Federal Reserve Bank of Philadelphia, ECB, ANZ Research

Economic overview

One thing's for sure; as long as inflation expectations remain anchored at low levels, the risk of high inflation is greatly diminished. But if inflation expectations were to pick up and gather momentum, it can be a pesky (and very costly) thing to get back under control – the 1991/2 recession here in New Zealand certainly did the job, but can't recommend for a good time.

Inflation surprises haven't all been one-way lately.

Is inflation turning already? Globally, inflation surprises haven't all been one-way lately, including here in New Zealand. But in most countries, too-low inflation remains the problem. And that makes sense, with demand both globally and in New Zealand slowing. Indeed, we are forecasting inflation in New Zealand to remain subdued, with headline inflation a bit below 2% over the next couple of years as the economy struggles to fire and more slack opens up. And we are forecasting global inflation to stay low for the same reasons.

But weak demand doesn't guarantee weak inflation.

But it is unfortunately entirely possible to have high inflation and low growth at the same time: "stagflation", the worst of all worlds. In the 1970s, oil price shocks drove inflation sharply higher at the same time as unemployment rates rose. Inflation expectations were high and unanchored and it took aggressive monetary policy tightening to get inflation back down. And prior to that, the macroeconomic environment in the 1960s looked eerily similar to the environment we are in today – unemployment was low and inflation was low and stable (figures 5 and 6).

Figure 5. US CPI inflation and unemployment

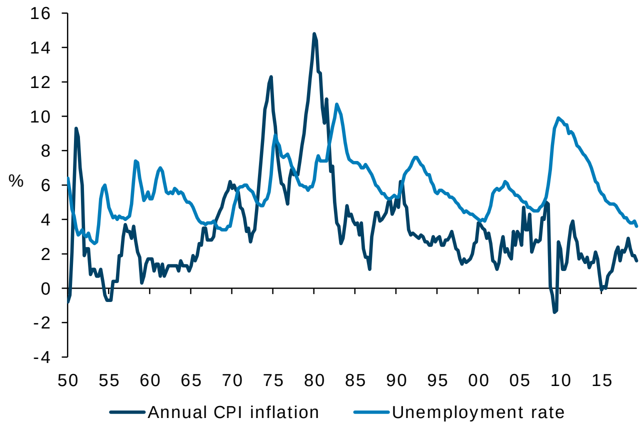
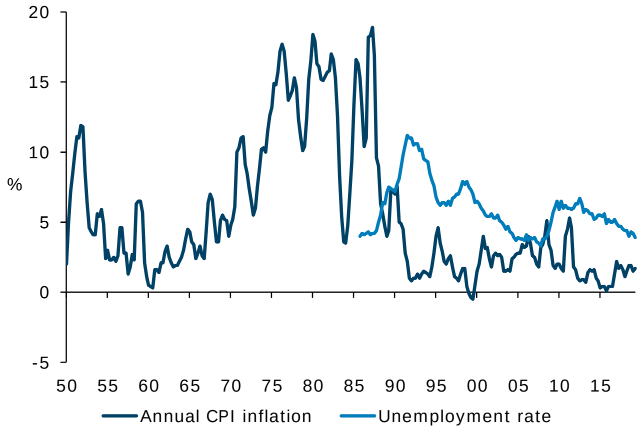


Figure 6. NZ CPI inflation and unemployment



Source: Bloomberg, ANZ Research

So what could push us from the nice restrained 1960s environment to the raging '70s? It shouldn't be possible, of course, given the widespread adoption of inflation targeting. But hold that thought; let's start by taking a look at potential inflationary 'shocks' to the global economy.

Inflation catalysts

Price increases can be caused either by an increase in demand, or a decrease in supply. A sharp upswing in global demand is certainly looking pretty unlikely any time soon, but it isn't hard to think of potential 'supply shocks'.

Historically, oil shocks have been important.

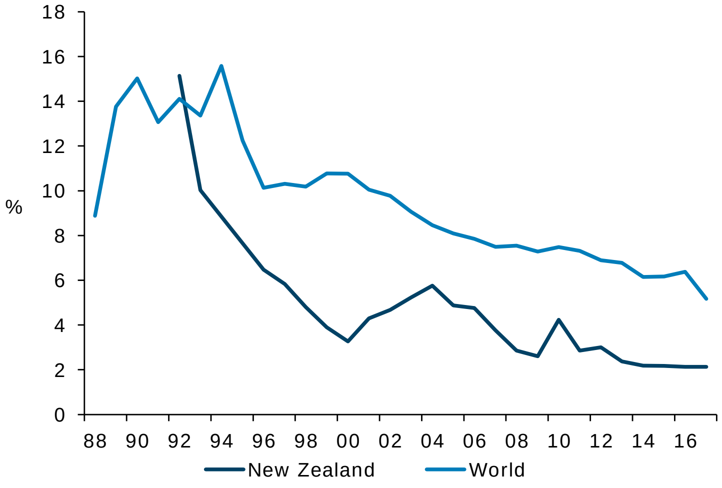
- **Oil:** The traditional supply shock. Global energy markets have evolved a lot since the 1970s, becoming more flexible, and alternative energies are rapidly gaining ground. Nonetheless, the Saudi drone strikes were a reminder that inflation shocks can still emanate in energy markets.
- **De-globalisation**: Globalisation has been cited as a factor in keeping inflation low in recent decades.[1] Tariff rates, for example, steadily declined through to 2017 (figure

[1] Auer, Borio, Filardo (2017), 'The globalisation of inflation: the growing importance of global value chains', BIS Working Paper, and Forbes (2019), 'Has globalisation changed the inflation process?', BIS Working Paper.

7). But the recent move towards protectionism is bad for growth and in theory at least, inflationary, via tariffs and less-efficient supply chains. However, there is likely to be some offset from weaker demand, as firms stop investing and consumers delay spending amidst the turmoil. To date, the effects of trade tensions and tariffs appear to have been dominated by weaker demand and price pressures. But there's a lot of water to flow under this bridge yet.

Tariffs and protectionism can raise costs and prices.

Figure 7. Applied tariff rate, simple mean of all products



Source: World Bank, ANZ Research

- **Climate change:** So far, policies to mitigate climate change have been dominated by making 'good' behaviour cheaper (electric car subsidies) rather than climate-harming behaviours more expensive (a carbon tax). But on the other hand new MARPOL regulations aimed at reducing maritime emissions will raise shipping costs. And scientists predict many more droughts and floods, implying weather-induced disruptions to food supply and general distribution chains. That's inflationary.

Climate change could increase costs and cause shortages.

Central bank independence

In the past decade, central banks around the world have realised the extreme difficulties associated with getting painted into a low-inflation corner and hitting the policy rate zero bound. In this context, it is valid to ask whether central banks would respond symmetrically to upside inflation risks versus downside ones. Given the recent experience, it would seem likely that central banks would give inflation room to run once pressures do pick up. This increases the risk that inflation gets away on them – likely to be seen as the lesser of two evils.

Policy operates with a lag, and central banks are likely to let inflation run.

But what then? If it's a case of strong demand, interest rate rises are BAU, a return to monetary policy working like it says on the box. But supply shocks are quite a different kettle of fish. High inflation and low growth presents an unpleasant trade-off for policy makers; higher interest rates would lower inflation but slow growth further.

That's why there are carve-outs for temporary impacts of supply shocks in inflation targeting mandates. If smoothing inflation means smacking an already weakening economy round the ears, it's probably not worth it. As long as inflation expectations remain contained, that is. That's the kicker. If a supply shock proves to have persistent effects and inflation expectations start to lift to a level incompatible with the inflation target, inflation-targeting central banks are obliged to respond.

Supply shocks present nasty trade-offs.

And the new breed of global politicians might have something to say about that. Already, politicians in several countries, including the US, have felt free to pile direct public pressure on their central bank governors to ease monetary policy in a way that would have been unthinkable only a very short time ago.

Economic overview

Mandates can change and independence can be lost…

Could central bank independence itself be under threat? Central banks globally have been given independence and clear inflation-fighting mandates in recent decades. But the lines between fiscal and monetary policy have become blurred by unconventional policy, and there is pressure for these lines to become fuzzier still. Modern Monetary Theory (MMT) has been gaining in popularity, including amongst politicians.

In short, MMT is the idea that governments who have a monopoly over their own currency don't need to tax the economy (immediately or later) in order to spend money and stimulate it, build infrastructure etc. Governments can just print currency to pay the interest on their debt, meaning the level of debt is no longer a constraint. Just print as much as you need. In fact, under MMT the only limit on government spending is the amount of resources available in the economy. If the government tried to spend in excess of this constraint, inflation would rise. At this point the politicians are supposed to stop printing and dutifully raise taxes. Yeah right.

…and entire frameworks can change.

Indeed, some argue the point at which pricing pressures could spiral into hyperinflation territory wouldn't be high in this environment, as trust in politicians tends to be lower than trust in central banks, meaning inflation expectations are less well anchored. In short, while some argue that the past ten years has 'proven' that governments of 'respectable' countries can print money without consequence (gosh, why are we taxing people at all?), the experience of the 1970s would suggest otherwise. But with monetary policy stuck in a rut, pressure is building for a new approach.

Even without MMT, global debt has arguably gotten well beyond the point at which it can all be paid back. That's a traditional risk in emerging markets. But in terms of public debt, the increase over the past decade has actually been led by advanced economies (figure 8).

Figure 8. Gross government debt

Source: IMF, ANZ Research

Default or deflate?

That matters, because advanced countries tend to borrow in their own currency. So if debt servicing starts to take up an uncomfortable proportion of fiscal budgets, the incentive to just print money to pay the bill will be obvious. Would the person in the street vote for the "austerity forever" candidate or the "I can make this problem go away" guy? (the "let's default" person probably didn't make it onto the ballot).

Inflation targeting and central bank independence were created by politicians in response to a global public utterly fed up with inflation; they can be taken away by politicians representing a public who doesn't remember the 1970s and is more worried about avoiding tax hikes. And inflation is very correlated globally. If New Zealand were to attempt to swim against the tide and maintain its inflation target when others were turning their back on theirs, we'd end up with an eye-watering exchange rate and untenable pressure would build here too.

Economic overview

If something is unsustainable, it will not last. The long-run political sustainability of inflation targeting globally is pretty questionable. As monetary and fiscal policy become more intertwined, central banks less independent, and food supply disruptions more frequent, the recent inability to generate inflation could be consigned to a quirky chapter in an economic history book.

Sorry, savers.

Unexpected inflation transfers wealth from savers to borrowers. Those who have locked their savings away for a very long fixed nominal return lose (including those invested in bond markets), while those with lots of debt fixed at low interest rates win.

Traditional inflation hedges include gold, real estate, and productive businesses. But arguably the best hedge of all is to have most of your lifetime wealth in income you haven't earned yet. Millennials have been locked out of the housing market saddled with enormous public debt, implying high future tax rates. But perhaps they will have the last laugh.

The week ahead

It's business time this week, with the ANZ Business Outlook Survey for September out at 1:00pm this afternoon. Following that, NZIER's Quarterly Survey of Business Opinion (QSBO) for Q3 is due on Tuesday. QSBO business activity and employment intentions have been weak in recent quarters, and we expect this to persist. We'll also get some key commodity price updates: the GlobalDairyTrade auction on Wednesday morning, where we expect similar price levels to the previous event. Offer volumes are unchanged from previous forecast but are near their seasonal high meaning ongoing strength in demand will be required to support prices. On Thursday, the ANZ Commodity Price Index for September will be released.

Local data

Overseas Merchandise Trade – August (Wednesday 25 September, 10:45am). August recorded one of the weakest trade balances in history with a deficit of $1.56 billion. Exports eased to $4.12 billion while imports held at similar levels at $5.69 billion.

RBNZ OCR Review (Wednesday 25 September, 2:00pm). The OCR was left on hold. The door was left open to further cuts but not opened further. We continue to forecast three more 25bp cuts (in November, February and May) taking the OCR to just 0.25%.

ANZ Roy Morgan Consumer Confidence – September (Friday 27 September, 10:00am).

Building Consents – August (Monday 30 September, 10:45am). Building consents rose 0.8% m/m in August, following a 1.3% fall last month. The monthly data can be volatile, but recent prints are broadly consistent with our view that construction activity is finding a peak.

FX / rates overview

Summary

A change in tone, but still plenty to consider.

As expected, the RBNZ left the OCR unchanged at its September OCR Review, but its upbeat tone caught the market a little off-guard. Governor Lowe provided little guidance on ahead of this week's RBA meeting in his speech last week, whilst US funding markets continued to attract plenty of market (and the Fed's) attention.

Key events this week

Another central bank policy decision.

RBA Cash Rate decision (Tuesday 1 October, 5:30pm). Current pricing puts the probability of a cut at the October RBA meeting at 72%, despite the lack of clear signal from Lowe last week. We are expecting a 25bp cut on Tuesday.

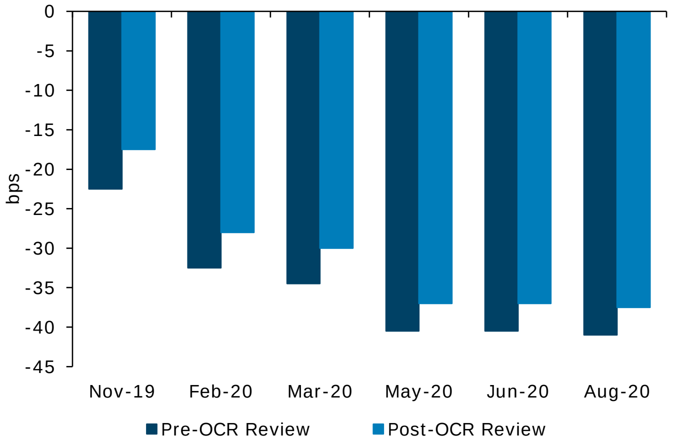
US Non-Farm Payrolls (Saturday 5 September, 1:30am). Markets are expecting a +145k print and no change expected to the unemployment rate.

Rates

RBNZ fails to change market expectations materially.

The long end of the NZ curve continued to edge lower, despite the RBNZ's upbeat Statement, and followed moves seen in fixed income markets globally. Whilst Governor Orr's Statement suggested that further cuts to policy may be limited, the market looked through the Statement and continued to price a terminal cash rate of approximately 0.60%, not far from where it was pre-RBNZ. Moreover, the odds of a 25bp cut at the RBNZ's November meeting remains at around 70%.

Figure 1. Cuts priced in: change in RBNZ expectations



Source: Bloomberg, ANZ Research

FX

The USD remains in vogue.

NZD fared better than most last week, marginally outperforming the USD despite a lack of support or momentum. The CAD was the only other currency to outperform the USD, whilst all other G-10 currencies closed in the red.

NZD/USD: Despite the upbeat RBNZ Statement, the NZD was left middling as market expectations failed to adjust materially. A firmer USD also weighed.

NZD/AUD: The AUD closed on the other side of the ledger. Governor Lowe's speech saw a modest rally ensue but all eyes are on this week's RBA meeting.

NZD/EUR: EUR lost ground as speculation of a rift within the EU weighed as ECB executive council member Lautenschlaeger resigned. EU dataflow was also soft.

NZD/GBP: GBP saw its fortunes flip last week as Brexit anxieties hit a new high. PM Johnson continues to resist any notion of an extension to the 31 October deadline.

NZD/JPY: JPY endured a mixed week. This pair remains tied to risk sentiment, but a softer inflation print and weaker PMIs weighed on the JPY.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
30-Sep	JN	Retail Sales MoM - Aug	2.4%	-2.3%	12:50
	JN	Retail Sales YoY - Aug	0.7%	-2.0%	12:50
	JN	Industrial Production MoM - Aug P	-0.5%	1.3%	12:50
	JN	Industrial Production YoY - Aug P	-3.9%	0.7%	12:50
	NZ	ANZ Activity Outlook - Sep	--	-0.5	13:00
	NZ	ANZ Business Confidence - Sep	--	-52.3	13:00
	AU	Melbourne Institute Inflation MoM - Sep	--	0.0%	14:00
	CH	Composite PMI - Sep	--	53.0	14:00
	CH	Manufacturing PMI - Sep	49.6	49.5	14:00
	CH	Non-manufacturing PMI - Sep	53.9	53.8	14:00
	AU	Private Sector Credit MoM - Aug	0.3%	0.2%	14:30
	AU	Private Sector Credit YoY - Aug	3.0%	3.1%	14:30
	CH	Caixin PMI Mfg - Sep	50.2	50.4	14:45
	GE	Retail Sales MoM - Aug	0.5%	-1.6%	19:00
	GE	Retail Sales NSA YoY - Aug	2.9%	4.4%	19:00
	GE	Unemployment Change (000's) - Sep	5.0k	4.0k	20:55
	GE	Unemployment Claims Rate SA - Sep	5.0%	5.0%	20:55
	UK	GDP QoQ - Q2 F	-0.2%	-0.2%	21:30
	UK	GDP YoY - Q2 F	1.2%	1.2%	21:30
	UK	Current Account Balance - Q2	-£19.0B	-£30.0B	21:30
	UK	Net Lending Sec. on Dwellings - Aug	£4.2B	£4.6B	21:30
	UK	Mortgage Approvals - Aug	66.5k	67.3k	21:30
	UK	Money Supply M4 MoM - Aug	--	0.7%	21:30
	UK	M4 Money Supply YoY - Aug	--	2.7%	21:30
	UK	M4 Ex IOFCs 3M Annualised - Aug	--	4.4%	21:30
	EC	Unemployment Rate - Aug	7.5%	7.5%	22:00
1-Oct	GE	CPI MoM - Sep P	0.0%	-0.2%	01:00
	GE	CPI YoY - Sep P	1.3%	1.4%	01:00
	GE	CPI EU Harmonized MoM - Sep P	0.0%	-0.1%	01:00
	GE	CPI EU Harmonized YoY - Sep P	1.0%	1.0%	01:00
	US	MNI Chicago PMI - Sep	50.0	50.4	02:45
	US	Dallas Fed Manf. Activity - Sep	1.0	2.7	03:30
	NZ	NZIER QSBO - Q3	--	-34	10:00
	AU	Ai Group Perf of Mfg Index - Sep	--	53.1	11:30
	AU	CBA PMI Mfg - Sep F	--	49.4	12:00
	AU	ANZ-RM Consumer Confidence Index - 29-Sep	--	110.1	12:30
	JN	Tankan Large Mfg Index - Q3	1	7	12:50
	JN	Tankan Large Non-Mfg Index - Q3	20	23	12:50
	JN	Tankan Large Mfg Outlook - Q3	0	7	12:50
	JN	Tankan Large Non-Mfg Outlook - Q3	16	17	12:50
	AU	CoreLogic House Px MoM - Sep	--	1.0%	13:00
	JN	Jibun Bank PMI Mfg - Sep F	--	48.9	13:30
	AU	Building Approvals MoM - Aug	2.0%	-9.7%	14:30
	AU	Building Approvals YoY - Aug	-20.0%	-28.5%	14:30
	AU	RBA Cash Rate Target - Oct	0.75%	1.00%	17:30
	UK	Nationwide House Px NSA YoY - Sep	0.5%	0.6%	19:00
	UK	Nationwide House PX MoM - Sep	0.1%	0.0%	19:00
	GE	Markit/BME Manufacturing PMI - Sep F	41.4	41.4	20:55

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
1-Oct	EC	Markit Manufacturing PMI - Sep F	45.6	45.6	21:00
	UK	Markit PMI Manufacturing SA - Sep	47.0	47.4	21:30
	EC	CPI Core YoY - Sep A	1.0%	0.9%	22:00
	EC	CPI Estimate YoY - Sep	1.0%	1.0%	22:00
2-Oct	US	Markit Manufacturing PMI - Sep F	51.0	51.0	02:45
	US	ISM Manufacturing - Sep	50.1	49.1	03:00
	US	Construction Spending MoM - Aug	0.4%	0.1%	03:00
	NZ	QV House Prices YoY - Sep	--	2.3%	05:00
	UK	Markit/CIPS Construction PMI - Sep	45.0	45.0	21:30
3-Oct	US	MBA Mortgage Applications - 27-Sep	--	-10.1%	00:00
	US	ADP Employment Change - Sep	140k	195k	01:15
	AU	Ai Group Perf of Services Index - Sep	--	51.4	11:30
	AU	CBA PMI Services - Sep F	--	52.5	12:00
	AU	CBA PMI Composite - Sep F	--	51.9	12:00
	NZ	ANZ Commodity Price - Sep	--	0.3%	13:00
	JN	Jibun Bank PMI Services - Sep F	--	52.8	13:30
	JN	Jibun Bank PMI Composite - Sep F	--	51.5	13:30
	AU	Trade Balance - Aug	A$6000M	A$7268M	14:30
	GE	Markit Services PMI - Sep F	52.5	52.5	20:55
	GE	Markit/BME Composite PMI - Sep F	49.1	49.1	20:55
	EC	Markit Services PMI - Sep F	52.0	52.0	21:00
	EC	Markit Composite PMI - Sep F	50.4	50.4	21:00
	UK	Markit/CIPS Services PMI - Sep	50.3	50.6	21:30
	UK	Markit/CIPS Composite PMI - Sep	50.0	50.2	21:30
	EC	PPI MoM - Aug	-0.4%	0.2%	22:00
	EC	PPI YoY - Aug	-0.5%	0.2%	22:00
	EC	Retail Sales MoM - Aug	0.3%	-0.6%	22:00
	EC	Retail Sales YoY - Aug	2.0%	2.2%	22:00
4-Oct	US	Initial Jobless Claims - 28-Sep	215k	213k	01:30
	US	Continuing Claims - 21-Sep	1654k	1650k	01:30
	US	Markit Services PMI - Sep F	50.9	50.9	02:45
	US	Markit Composite PMI - Sep F	--	51	02:45
	US	Factory Orders - Aug	-0.4%	1.4%	03:00
	US	Factory Orders Ex Trans - Aug	--	0.3%	03:00
	US	ISM Non-Manufacturing Index - Sep	55.0	56.4	03:00
	US	Durable Goods Orders - Aug F	--	0.2%	03:00
	US	Durables Ex Transportation - Aug F	--	0.5%	03:00
	AU	RBA Financial Stability Review	--	--	14:30
	AU	Retail Sales MoM - Aug	0.5%	-0.1%	14:30
	GE	Markit Construction PMI - Sep	--	46.3	20:30
5-Oct	US	Change in Nonfarm Payrolls - Sep	145k	130k	01:30
	US	Unemployment Rate - Sep	3.7%	3.7%	01:30
	US	Average Hourly Earnings MoM - Sep	0.3%	0.4%	01:30
	US	Average Hourly Earnings YoY - Sep	3.2%	3.2%	01:30
	US	Trade Balance - Aug	-$54.5B	-$54.0B	01:30

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 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 30 Sep (1:00pm)	ANZ Business Outlook – September	--	--
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	Stable	A balanced dairy market is expected to deliver similar prices to the previous event.
Thu 3 Oct (1:00pm)	ANZ Commodity Price Index – September	--	--
Wed 9 Oct (10:00am)	ANZ Truckometer – September	--	--
Thu 10 Oct (10:45am)	Food Price Index – September	Small dip	A seasonal decline in food prices from fruit and vegetables is expected.
Thu 10 Oct (10:45am)	Rental Price Index – September	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Thu 10 Oct (1:00pm)	ANZ Monthly Inflation Gauge – September	--	--
Fri 11 Oct (10:30am)	BNZ-BusinessNZ Manufacturing PMI – September	Watching	An easing trend has been at play here. We're looking for a floor.
Mon 14 Oct (10:30am)	Performance Services Index – September	Watching	An easing trend has been in play here too, but recent prints have remained robust.
Wed 16 Oct (early am)	GlobalDairyTrade auction	Improving	Offer volumes remain high limiting upward price movements but market remains supported by slower global milk supply growth.
Wed 16 Oct (10:45am)	Consumer Price Index – Q3	Dip	We're expecting annual CPI inflation to dip to 1.5%, with non-tradable inflation holding up.
Wed 23 Oct (10:45am)	Overseas Merchandise Trade – September	Steady	Export volumes start to lift as dairy production season is now well underway, but meat and forestry exports remain subdued.
Thu 31 Oct (10:45am)	Building Consents – September	Wary	Consents have held at a high level recently, but we see downside risk looming.
Thu 31 Oct (1:00pm)	ANZ Business Outlook – October	--	--
Fri 1 Nov (10:00am)	ANZ Roy Morgan Consumer Confidence – October	--	--
Tue 5 Nov (1:00pm)	ANZ Commodity Price Index – October	--	--
Wed 6 Nov (10:45am)	Labour Market Statistics – Q3	Wary	The labour market is tight, but leading indicators suggest that weakening is more likely from here.
Tue 12 Nov (10:00am)	ANZ Truckometer – October	--	--
Tue 12 Nov (3:00pm)	RBNZ Inflation Expectations Survey – Q4	Risk	Inflation expectations have been slipping lately – and our ANZBO survey suggests further downside risk.
Wed 13 Nov (2:00pm)	RBNZ Monetary Policy Statement – November	Cut	Time to cut. We expect a 25bp cut in November to take the OCR to 0.75%, with more cuts to come in 2020.
Thu 14 Nov (10:45am)	Food Price Index – October	Small dip	A seasonal decline in food prices from fruit and vegetables is expected.
Thu 14 Nov (10:45am)	Rental Price Index – October	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
On balance		**Data watch**	**Domestic and global data has softened and we expect a lower OCR with inflation pressures fading.**

Key forecasts and rates

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
GDP (% qoq)	0.5	**0.4**	**0.5**	**0.5**	**0.5**	**0.6**	**0.5**	**0.6**	**0.6**
GDP (% yoy)	2.1	**2.2**	**2.0**	**1.9**	**1.9**	**2.1**	**2.1**	**2.2**	**2.3**
CPI (% qoq)	0.6	**0.7**	**0.1**	**0.6**	**0.4**	**0.5**	**0.2**	**0.6**	**0.5**
CPI (% yoy)	1.7	**1.5**	**1.5**	**1.9**	**1.7**	**1.5**	**1.6**	**1.6**	**1.7**
LCI Wages (% qoq)	0.8	**0.6**	**0.6**	**0.4**	**0.8**	**0.6**	**0.6**	**0.4**	**0.8**
LCI Wages (% yoy)	2.2	**2.3**	**2.3**	**2.4**	**2.3**	**2.3**	**2.3**	**2.4**	**2.4**
Employment (% qoq)	0.8	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	1.7	**1.0**	**1.3**	**1.7**	**1.2**	**1.2**	**1.3**	**1.3**	**1.3**
Unemployment Rate (% sa)	3.9	**4.1**	**4.3**	**4.4**	**4.4**	**4.5**	**4.5**	**4.5**	**4.5**
Current Account (% GDP)	-3.4	**-3.4**	**-3.4**	**-3.5**	**-3.7**	**-3.8**	**-3.9**	**-4.0**	**-4.0**
Terms of Trade (% qoq)	1.6	**0.4**	**-0.1**	**0.3**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	-0.8	**-0.3**	**2.9**	**2.2**	**0.6**	**0.2**	**0.4**	**0.1**	**0.3**

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Retail ECT (% mom)	-2.2	2.1	0.6	-0.2	0.3	-0.3	0.0	0.0	1.1	--
Retail ECT (% yoy)	0.6	3.5	3.4	0.7	4.5	3.2	1.1	1.6	2.8	--
Car Registrations (% mom)	-1.1	4.7	1.3	-2.5	1.7	-1.7	-2.7	4.0	1.0	--
Car Registrations (% yoy)	-15.8	-12.1	-3.9	-2.9	-0.5	-12.6	-11.0	-5.4	-5.2	--
Building Consents (% mom)	4.9	12.9	1.8	-7.0	-7.4	14.7	-4.0	-1.3	0.8	--
Building Consents (% yoy)	12.5	31.8	28.0	3.0	-3.2	8.2	9.9	18.4	12.2	--
REINZ House Price Index (% yoy)	3.1	2.8	3.0	2.4	1.4	1.7	1.7	1.6	2.9	--
Household Lending Growth (% mom)	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	--	--
Household Lending Growth (% yoy)	5.9	5.9	5.9	5.9	5.9	6.0	5.9	5.9	--	--
ANZ Roy Morgan Consumer Conf.	121.9	121.7	120.8	121.8	123.2	119.3	122.6	116.4	118.2	113.9
ANZ Business Confidence	-24.1	..	-30.9	-38.0	-37.5	-32.0	-38.1	-44.3	-52.3	--
ANZ Own Activity Outlook	13.6	..	10.5	6.3	7.1	8.5	8.0	5.0	-0.5	--
Trade Balance ($m)	9	-935	-94	825	361	175	329	-700	-1565	--
Trade Bal ($m ann)	-6161	-6433	-6715	-5739	-5578	-5602	-4988	-5485	-5484	--
ANZ World Comm. Price Index (% mom)	-0.2	2.0	2.8	4.1	2.6	0.1	-3.9	-1.4	0.3	--
ANZ World Comm. Price Index (% yoy)	-3.4	-2.2	-2.2	0.6	2.2	0.7	-2.4	-0.5	0.9	--
Net Migration (sa)	6090	4610	4470	3570	3560	3770	3990	5100	--	--
Net Migration (ann)	51818	52258	53211	52747	52224	51490	51529	52723	--	--
ANZ Heavy Traffic Index (% mom)	-4.2	4.8	0.1	-2.1	3.8	0.6	-4.8	3.9	-4.2	--
ANZ Light Traffic Index (% mom)	-1.8	2.0	-0.8	0.7	0.2	0.7	-2.1	1.4	0.3	--
ANZ Monthly Inflation Gauge (% mom)	-0.1	1.0	0.0	0.0	0.1	0.1	0.3	0.5	0.3	--

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

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jul-19	Aug-19	Today	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	0.93	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	67.88	66.2	63.4	62.8	64.3	65.0	65.0
NZD/GBP	0.539	0.521	0.51	0.52	0.50	0.51	0.52	0.51	0.49
NZ$ TWI	71.0	68.7	70.4	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	0.50	0.25	0.25	0.25
NZ 90 day bill	1.50	1.19	1.15	1.18	0.93	0.68	0.51	0.51	0.51
NZ 10-yr bond	1.44	1.06	1.10	1.50	1.45	1.35	1.35	1.35	1.35
US Fed funds	2.25	2.25	2.00	2.25	2.00	2.00	2.00	2.00	2.00
US 3-mth	2.27	2.14	2.10	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	0.50	0.25	0.25	0.25
AU 3-mth	1.01	0.97	0.95	0.95	0.95	0.95	0.95	0.95	0.95

	27-Aug	23-Sep	24-Sep	25-Sep	26-Sep	27-Sep
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.19	1.13	1.12	1.13	1.14	1.14
NZGB 05/21	0.80	0.81	0.81	0.82	0.82	0.81
NZGB 04/23	0.78	0.78	0.79	0.79	0.80	0.79
NZGB 04/27	0.97	1.02	1.02	1.01	1.02	1.00
NZGB 04/33	1.25	1.31	1.32	1.29	1.30	1.28
2 year swap	0.96	0.93	0.94	0.96	0.96	0.95
5 year swap	0.97	0.95	0.96	0.95	0.96	0.95
RBNZ TWI	71.37	69.96	70.23	70.50	70.26	70.44
NZD/USD	0.6372	0.6273	0.6297	0.6315	0.6302	0.6296
NZD/AUD	0.9425	0.9264	0.9275	0.9321	0.9322	0.9307
NZD/JPY	67.42	67.41	67.81	67.77	67.80	67.95
NZD/GBP	0.5199	0.5049	0.5060	0.5087	0.5106	0.5124
NZD/EUR	0.5737	0.5710	0.5731	0.5744	0.5766	0.5756
AUD/USD	0.6760	0.6771	0.6789	0.6775	0.6761	0.6764
EUR/USD	1.1107	1.0984	1.0988	1.0994	1.0930	1.0940
USD/JPY	105.81	107.46	107.69	107.32	107.57	107.92
GBP/USD	1.2255	1.2423	1.2444	1.2414	1.2342	1.2292
Oil (US$/bbl)	54.93	58.64	57.29	56.49	56.41	55.91
Gold (US$/oz)	1530.26	1519.40	1521.41	1529.11	1509.33	1497.01
NZX 50	10513	10873	10859	10861	10823	10837
Baltic Dry Freight Index	2213	2108	2116	2053	1963	1857
NZX WMP Futures (US$/t)	3040	3135	3140	3130	3125	3105

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