ANZ Research

New Zealand Weekly Focus

14 October 2019

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New friend request

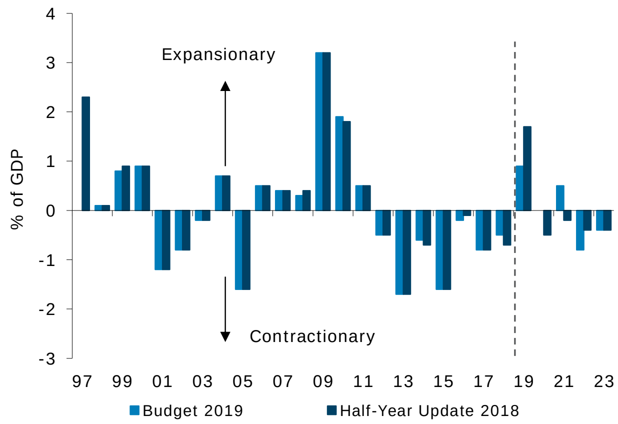
Economic overview

The RBNZ has recently sent the Government a friend request, noting there's scope for fiscal policy to support the economy and the RBNZ's inflation and employment objectives. In the past, when monetary conditions are tightening, fiscal policy has been constrained by the consideration that any extra stimulus will likely end up being crowded out by higher-than-otherwise interest rates. But now, the OCR is low and going lower, the economy isn't firing on all cylinders, inflation pressures appear contained and poised to wane, and the Government has the firepower to lend a hand. So should the Government do a little more to help keep monetary policy in conventional territory? Or should it keep its powder dry just in case one of those nasty tail-end risks to the economy materialise? We think a little more wouldn't hurt, and that the Government is likely to reach the same conclusion, meaning some additional fiscal stimulus is one of the few upside risks to the outlook at present.

Chart of the week

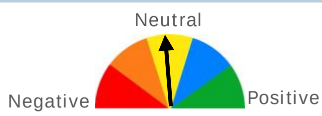
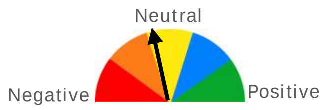
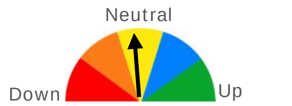
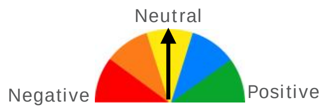
Fiscal stimulus? Not for long on current forecasts.

Core Crown fiscal impulse



Source: NZ Treasury

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.	
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.	
OCR	0.50% in March 2020	We expect further cuts in November, February and May next year, bringing the OCR to just 0.25%.	
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.	

Economic overview

Summary

The RBNZ sent a new friend request. But will the Government accept?

The RBNZ has recently sent the Government a friend request, noting there's scope for fiscal policy to support the economy and the RBNZ's inflation and employment objectives. In the past, when monetary conditions are tightening, fiscal policy has been constrained by the consideration that any extra stimulus will likely end up being crowded out by higher-than-otherwise interest rates. But now, the OCR is low and going lower, the economy isn't firing on all cylinders, inflation pressures appear contained and poised to wane, and the Government has the firepower to lend a hand. So should the Government do a little more to help keep monetary policy in conventional territory? Or should it keep its powder dry just in case one of those nasty tail-end risks to the economy materialise? We think a little more wouldn't hurt, and that the Government is likely to reach the same conclusion, meaning some additional fiscal stimulus is one of the few upside risks to the outlook at present.

Forthcoming data

GlobalDairyTrade auction (Wednesday 16 October, early am). Prices are expected to hold near current levels as the market for dairy products remains relatively balanced in the short-term.

Consumer Price Index – Q3 (Wednesday 16 October, 10:45am). We're expecting annual CPI inflation to dip to 1.5%, with non-tradable inflation holding up.

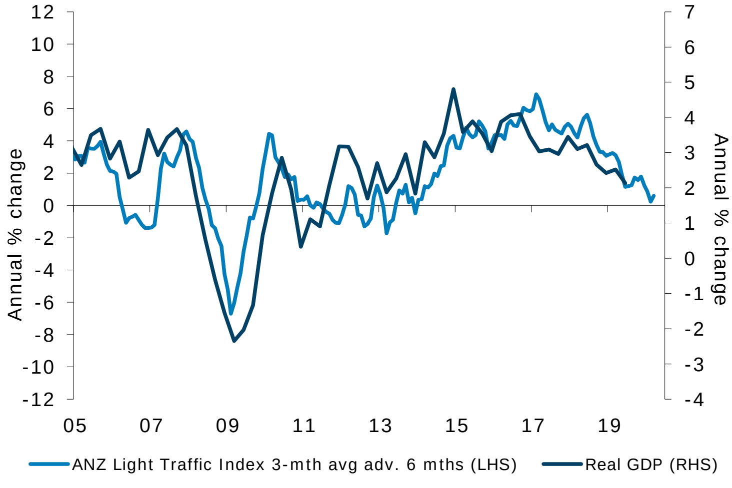
What's the view?

Our indicators suggest that the economy will continue to slow.

The forward-looking indicators we monitor have done a very good job at identifying the slowdown in economic momentum these past couple of years. So there's no reason to think they're providing a bum steer now – and they're suggesting the economy will continue to slow until the end of the year at least.

The components of the NZIER's Quarterly Survey of Business Opinion (QSBO) that correlate well with GDP growth suggest Q3 growth will come out weak. Likewise, our Truckometer indexes out last week are pointing to sub-par growth. Then there's the PMI, PSI, our Confidence Composite Gauge, all the other components of our Business Outlook and the QSBO, and MBIE job ads – all are sending much the same, soft, signal. In fact, the full signal from this suite of indicators suggests that the current economic slowdown will be sharper and/or more persistent than we're forecasting. That equates to downside risks to our outlook.

Figure 1. Light traffic index and GDP



Source: NZ Transport Agency, Statistics NZ, ANZ Research

But we should note that we don't think growth is about to roll over. The household sector is in good stead, export earnings are high (meat returns are around record highs), and monetary conditions are accommodative. We're definitely not forecasting recession, but we are forecasting an economy that's going to struggle to achieve a sustainable lift in inflation towards the 2% target mid-point over the medium term. And that's why we think the RBNZ will cut the OCR further – to just 0.25% by May 2020.

But though we are forecasting further easing, there are question marks around how effective monetary policy will be as the OCR goes deeper into uncharted territory. It is prudent for the RBNZ to scope out the options if things don't go according to plan.

The RBNZ has asked for help if needed…

> *"There remains scope for more fiscal and monetary stimulus, if necessary, to support the economy and maintain our inflation and employment objectives"*
>
> OCR Review Statement, 25 September 2019

And just last week, the Minister of Finance reciprocated.

…and the MoF reciprocated.

> *"Fiscal policy has a part to play alongside monetary policy as we manage these challenging global economic conditions"*
>
> 2018/19 Government Financial Statements, 8 October 2019

Fiscal and monetary policy co-ordination is nothing new. Amongst other things, the principles of responsible fiscal management within the Public Finance Act state the Government must have regard to the interaction between fiscal policy and monetary policy when pursuing its policy objectives.

Historically, monetary policy could crowd out fiscal stimulus.

In the past, when the economy has been in an upswing and monetary policy has been "tight" or tightening, the Treasury's advice has often been that an increase in spending (or a reduction in taxes) by $X is likely to push interest rates up by Y%, therefore crowding out private sector activity. In other words, right when the economy is doing well and delivering tempting cash into the Government's coffers, increased fiscal stimulus would add to inflation pressures and the RBNZ would respond with a higher-than-otherwise OCR. That fact is a useful discipline to help make government spending less pro-cyclical, ensuring that when the Government does make decisions with those hard-earned tax-payer dollars, they actually make a difference to real activity and wellbeing.

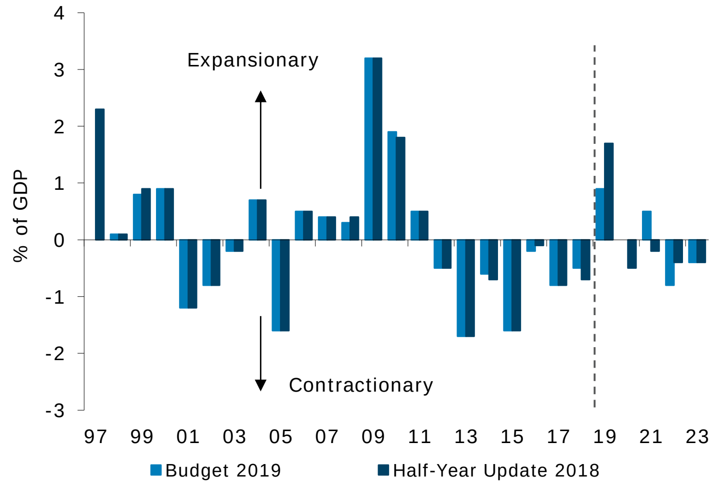
A Treasury observer should be helping co-ordinate policy.

In fact, there is now a formal Treasury position on the RBNZ's Monetary Policy Committee (MPC) that is intended to facilitate the co-ordination of monetary and fiscal policy. Alongside introducing a "dual mandate", the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill created a formal Treasury observer position. The observer attends meetings of the Monetary Policy Committee in a non-voting capacity, with the intention of supporting decision-making by the MPC (for example by sharing information on fiscal policy), and facilitating co-ordination of monetary and fiscal policy. But it's not clear as of yet how well this is working.

The current fiscal impulse is sweet but short.

In addition, the Treasury and Reserve Bank have developed a suite of indicators to get a gauge on how discretionary fiscal policy settings are contributing to aggregate demand. The main indicator we all tend to focus on is the fiscal impulse. As at the 2019 Budget Update, it suggests discretionary fiscal policy settings have been stimulatory this past fiscal year, and that there could be a little more in the pipeline (especially if you consider the likelihood of delayed spending being pushed out into the latter fiscal years). However, fiscal settings will drag mildly on aggregate demand on average over the following few years (figure 2).

Figure 2. Core Crown fiscal impulse



Source: The Treasury

Adherence to 20% net debt has been strict.

So why the drag? It's because the Government needs to keep a lid on things to ensure it meets its self-imposed debt target. And so long as the Government sticks to its target of reducing net core Crown debt to below 20% of GDP within five years of taking office (which is the 2022 fiscal year), there probably isn't a game-changing amount of fiscal firepower available to support the economy over the next few years.

But the books are in good shape…

…and an election is coming.

That said, there could nonetheless be some help on the way. The Government Financial Statements for year ended June 2019 released last week showed the Government's books are in healthy shape – even after looking through some of the positive one-offs. Provided the Treasury doesn't downgrade their economic outlook too meaningfully, the strong starting point suggests that there should be room for a little extra spending and/or tax cuts in the future while still meeting the 20% debt target. And as the 2020 election approaches, calls for more infrastructure spending and tax cuts are likely to get louder.

In some regards, a little more fiscal stimulus couldn't come soon enough. Monetary policy is running out of conventional runway, and no doubt the Treasury is considering if fiscal policy should do more to help keep monetary policy out of the uncertain and untested (in NZ), unconventional space.

But just more spending might not be a silver bullet.

But it's worth noting the global experience of the past ten years – and in particular the recent Australian experience. The fiscal stimulus over the ditch is significant, with the public sector accounting for almost all of the growth in GDP and employment over the past 12 months. Yet business sentiment is languishing. Fiscal policy can fill a growth hole but its ability to reignite an economy's animal spirits is highly debatable. That requires the hard stuff – structural reform of bottlenecks. The Government has some good ideas regarding the provision of infrastructure for property development, for example, but it's much more difficult than throwing some money around.

More help would require a loosening of the debt target.

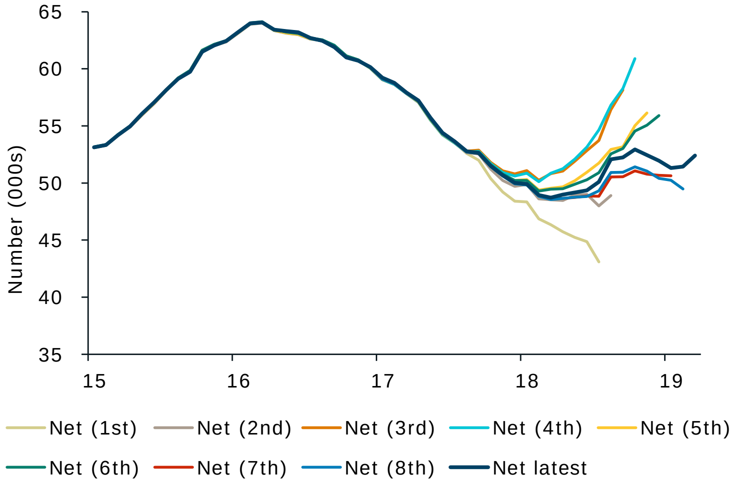
So were the Minister of Finance's recent comments a nod that the Government is gearing up to do more to lean against the slowdown? Or was this more along the lines of reassurance that we have options – that fiscal policy is willing to respond to a more significant downturn if downside risks materialise and the wellbeing of New Zealanders (ie employment and incomes) threatens to deteriorate? It's not yet clear, but whether the aim is to help out monetary policy or support employment in the case of a more marked downturn, making a meaningful difference would require a loosening of the net debt target.

But before a policy response can be formulated, policy makers on both sides of the Terrace need to understand what's causing the economy to slow. In last week's Weekly we discussed why the economy is slowing, and suggested it might partly be because the migration cycle is easing faster than the official data suggest.

Economic overview

It's now pretty much impossible to get a pulse on the migration cycle in anything resembling real time since the change to the outcomes-based methodology. While that might be a pretty standard state of affairs internationally, it's frustrating given migration-induced population growth has contributed around two thirds of overall economic growth this cycle – that's potentially two thirds of the economy's momentum we're now struggling to monitor.

Figure 3. Revisions to annual net migration data



Source: Statistics NZ, ANZ Research

The level of net migration feeds into the broader question of how much of the economic slowdown reflects constrained capacity and how much is due to weak demand. This is important for determining the appropriate policy prescription.

The outlook for employment is getting bleaker by the day.

Unfortunately, high-frequency data can be noisy and the tier 1 hard data isn't timely. For example, quarterly labour market statistics are released with a two-month lag, and GDP data is released with a three-month lag. Fiscal policy can be slow moving to start with, so waiting for confirmation that the economy is in a sorry state from these data risks the additional stimulus arriving pretty late to the party.

Forward-indicators suggest employment opportunities have recently deteriorated, suggesting capacity pressures are indeed poised to wane and that households could soon do with a little more in their back pocket (figure 4).

Figure 4. MBIE job ads and HLFS employment

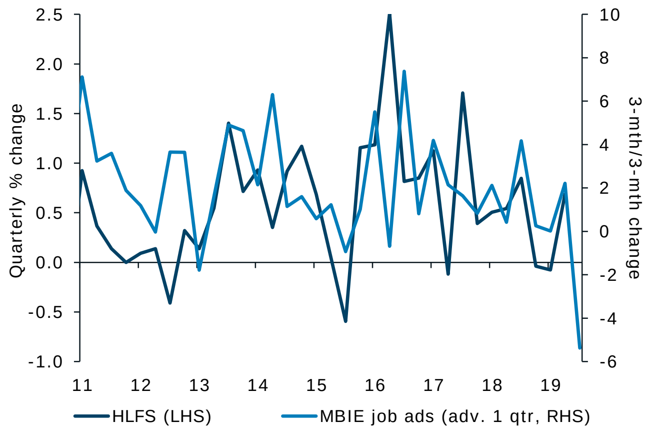
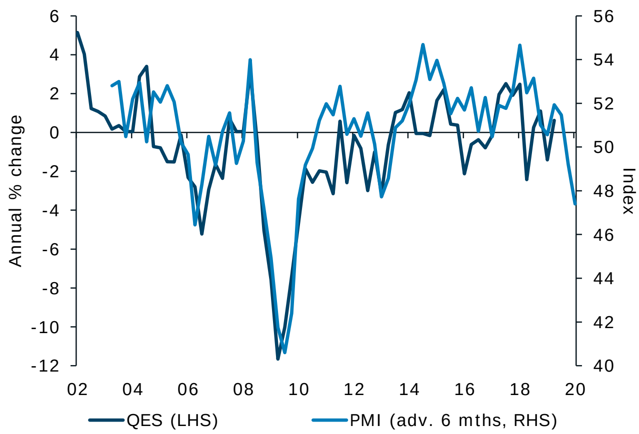


Figure 5. Manufacturing PMI employment and QES manufacturing employment



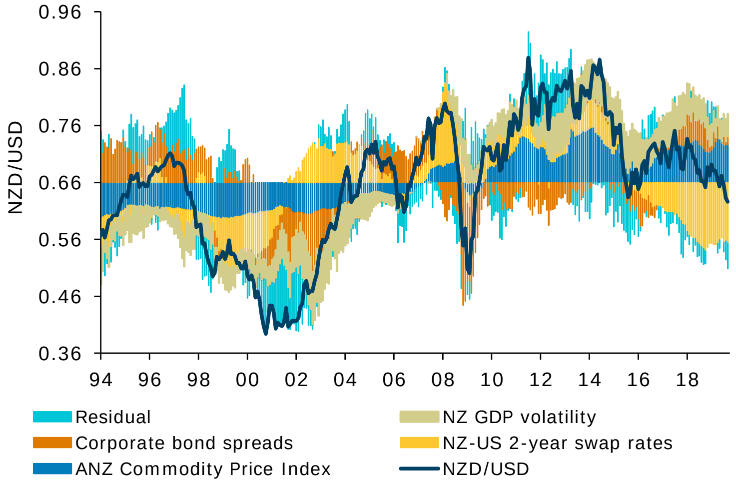
Source: Statistics NZ, MBIE, BNZ, BusinessNZ, ANZ Research

Economic overview

A global crash could spur the Government into action.

A further deterioration in the global economy is one catalyst that could give the Government the green light to deviate from its debt target and spend a little more without fear of undue criticism. The Government has been talking up the uncertain global environment – and rightly so, as we are a small open economy that's vulnerable to global forces and the current global environment is hardly trade-friendly. But so far, New Zealand has been lucky. Commodity prices have been holding up pretty well on balance (owing largely to supply-side developments) and lower interest rates are keeping the NZD under pressure and supporting exporter earnings.

Figure 6. NZD drivers



Source: Bloomberg, ANZ Research

But that's not to say that global forces haven't contributed to the slowdown in domestic activity. Confidence and tourism impacts are real, as we discussed in a recent Weekly.

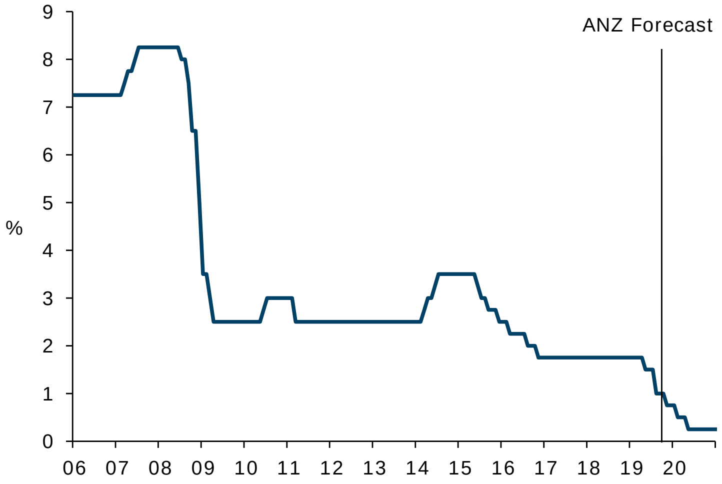
Macroeconomic policy has more work to do.

All up, given lead indicators continue to deteriorate, it's our expectation that macroeconomic policy has more work to do. The good news is that monetary policy is already ahead of the game and fiscal policy has plenty of headroom should the Government decide to use it. But there's probably not a game-changing amount of fiscal firepower if the Government sticks to its 20% point target for net debt in the 2022 fiscal year (thereafter 15-25% of GDP).

The RBNZ can take it to the limit…

As the economy continues to slow, and inflation pressures and expectations wane, we expect the RBNZ to cut the OCR 25 basis points in November, February and May, taking it to just 0.25% – which we think is around its useful limit. While markets are now pricing in more than a full 25 basis point cut for November, we think that in this fragile economic environment, with business sentiment in the doldrums, and households feeling a little warier, another double cut would risk doing more harm than good by adding to the sense of crisis. Better to cut 25 basis points, signal more will be delivered if the outlook warrants and not spook the horses. Regardless of how we get there, lower interest rates can do very little to fix uncertainty or weak global demand. And as the OCR goes lower, we think it will be less effective at adding stimulus.

Figure 7. OCR forecast



Source: Bloomberg, ANZ Research

...and pressure on the Government will grow.

And that means pressure on the Government to review its fiscal strategy is likely to intensify from here. But forecasting economic activity is hard enough, let alone trying to forecast political decisions. So we'll keep our government activity forecasts broadly unchanged until announcements are made that justify a change. However, looking through the noise, the stronger-than-expected starting point for the Government's books suggest there could be a little more to come. But the big question is whether the Government will stick to its strict debt target.

Now is a good time to plan.

For now at least, it's probably going to take a more significant shock than the gradual slowdown currently underway before the Government throws its strategy out the window, particularly if the household sector remains in good heart. But we're certainly not ruling anything out. Regardless, it would be prudent for the Government to at least have a plan for when the economy (read: the household sector) turns. Fiscal stimulus, particularly on the capital spending side, can take quite some time to hit cruising speed. But it's not just spending; taxes could be cut and policies constraining supply and contributing to wariness among firms could be mitigated. But those are harder yards politically.

Otherwise, the RBNZ may be forced to go unconventional.

But alas, if the fiscal response is too slow and/or too small, any more negative economic news will likely see the RBNZ take monetary policy into unconventional space. For what it's worth, given New Zealand banks are highly dependent on domestic deposits to fund their lending, we think QE would be more effective than negative interest rates. Low interest rates are already making it difficult for banks to maintain household deposit growth.

At least the economy is a better shape this time around.

Taking our own advice not to spook the horses, we should also note that this economic cycle has actually been fairly prudent on many fronts: credit growth has been modest compared to the last cycle, the current account deficit has been contained, and the net external liability position has improved over the past decade or so. To the extent that the depth of the bust is determined by the height of the boom, then perhaps the downturn (when it eventually arrives) will be relatively shallow. However, some imbalances have built up that will need to be unwound at some point: household debt (which will hamper the effectiveness of monetary policy for years), house prices, and dairy sector debt. We certainly can't get smug.

Economic overview

The week ahead

The main event this week will be Q3 CPI on Wednesday. We're expecting annual CPI inflation to dip to 1.5%, with non-tradable inflation holding up. This is actually a little stronger than the RBNZ's latest forecast. However, the outlook is what matters, and the trifecta of slowing growth, waning capacity pressures, and slipping inflation expectations means that inflation is unlikely to surprise on the upside for long.

There is also another GlobalDairyTrade auction in the early hours of Wednesday morning. Offer volumes remain high, limiting upward price movements, but the market remains supported by slower global milk supply growth. Therefore we anticipate prices will be stable at this week's event.

Local data

Food Price Index – September. Food prices were flat in September, stronger than the 0.4% m/m decline we were expecting.

Rental Price Index – September. The stock measure of rental prices (the measure used in the CPI) rose 0.2% m/m, as expected.

ANZ Monthly Inflation Gauge – September. The Gauge was up 0.3% m/m in September, supported by airfares and housing-related components. For the September quarter, the Gauge rose 1.1% q/q, which would be a big upside surprise for the RBNZ. Annual inflation in the Gauge ticked up to 3.0% from 2.9%.

BNZ-BusinessNZ Manufacturing PMI – September. The PMI was unchanged at 48.4 in September, remaining in contractionary territory.

Performance Services Index – September. The PSI was little changed, dipping to 54.4 in September, remaining in expansionary territory. This suggests services growth around a trend pace, but the risk is that it could softer further in the future.

What you may have missed

Please contact us if you would like to be added to the distribution list for any of these publications. Otherwise click on the links below to view reports.

- Agri Focus: Meating demand.
- Let's get fiscal. A discussion of the scope for fiscal stimulus.
- CPI Preview: Falling short.
- ANZ Monthly Inflation Gauge: On the house.
- ANZ Truckometer: Losing traction.
- ANZ NZ Commodity Price Index – TWI-light.
- NZ Dairy Update: No use crying over spilt milk.

FX / rates overview

Summary

Cooler heads prevail

Market sentiment rose from the depths this week as the US and China agreed to a partial trade deal as part of the first phase of trade agreements. Meanwhile, fears of a hard Brexit receded as PM Johnson's meeting with his Irish counterpart renewed hopes of a deal. The above saw the tides shift for markets, with the USD weakening broadly and yields rising as uncertainties fade.

Key events this week

Key domestic data

NZ Q3 CPI (Wednesday 16 October, 10:45am). We're expecting annual inflation to fall to 1.5%, though with a bit more strength in non-tradables than the RBNZ forecast.

AU employment data (Thursday 17 October, 1:30pm). Labour market indicators have been softening of late, despite three interest rate cuts in the past six months.

Rates

The yield curve steepens

The NZ curve followed global moves and saw yields rise this week in the aftermath of the trade negotiations. The shift in sentiment saw yields on the 10-year US Treasuries rise by 20bp this week, with the NZ curve surviving the late sell-off due to our time zone. Expectations for a 25bp cut to the OCR at the November MPS remain unchanged, however, with markets still 100% priced. That said, the odds of a 50bp cut have halved to just 7%, from 14% last week.

FX

As Brexit fears recede, GBP soars.

Brexit optimism saw the GBP outperform all G10 currencies this week by a considerable margin, while the JPY lagged amidst a reduction in safe-haven flows.

NZD/USD: The NZD was buoyed by a broadly weaker USD this week, but struggled to keep up with its peers. This left the currency in the middle of the pack as markets now turn their attention to domestic inflation data.

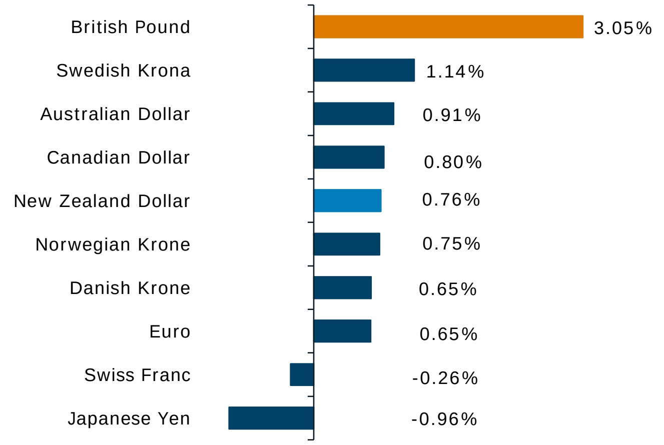
NZD/AUD: AUD outperformed its commodity-linked peers and secured a podium finish as sentiment turned late in the week. Focus will now be on AU labour data.

NZD/EUR: EUR was an afterthought for many as a sparse data calendar saw it ignored for much of the week. UK-EU negotiations will be key for this pair.

NZD/GBP: A significant easing in Brexit anxieties fuelled the GBP's rise to the top of the leader-board. Plenty of work remains before a deal is agreed but recent indications have been enough for markets to fade the odds of a 'hard' Brexit.

NZD/JPY: JPY struggled in the positive risk environment with markets quick to unwind positioning in safe-haven assets following the partial US-China trade agreement.

Figure 1. GBP outperforms G10 peers (USD base)



Source: Bloomberg, ANZ Research

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
14-Oct	GE	Wholesale Price Index MoM - Sep	--	-0.8%	19:00
	GE	Wholesale Price Index YoY - Sep	--	-1.1%	19:00
	EC	Industrial Production SA MoM - Aug	0.3%	-0.4%	22:00
	EC	Industrial Production WDA YoY - Aug	-2.5%	-2.0%	22:00
	CH	Trade Balance - Sep	$34.75B	$34.83B	UNSPECIFIED
	CH	Exports YoY - Sep	-2.8%	-1.0%	UNSPECIFIED
	CH	Imports YoY - Sep	-6.0%	-5.6%	UNSPECIFIED
	CH	Money Supply M0 YoY - Sep	--	4.8%	14-15 Oct
	CH	Money Supply M1 YoY - Sep	3.4%	3.4%	14-15 Oct
	CH	New Yuan Loans CNY - Sep	1360.0B	1210.0B	14-15 Oct
	CH	Money Supply M2 YoY - Sep	8.2%	8.2%	14-15 Oct
15-Oct	NZ	REINZ House Sales YoY - Sep	--	-6.1%	09:00
	NZ	Net Migration SA - Aug	--	5100	10:45
	AU	ANZ-RM Consumer Confidence Index - 13-Oct	--	112.3	11:30
	AU	RBA Oct. Rate Meeting Minutes	--	--	13:30
	CH	CPI YoY - Sep	2.9%	2.8%	14:30
	CH	PPI YoY - Sep	-1.2%	-0.8%	14:30
	NZ	Non Resident Bond Holdings - Sep	--	53.3%	15:00
	UK	Claimant Count Rate - Sep	--	3.3%	21:30
	UK	Jobless Claims Change - Sep	--	28.2k	21:30
	UK	Average Weekly Earnings 3M/YoY - Aug	4.0%	4.0%	21:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Aug	3.7%	3.8%	21:30
	UK	ILO Unemployment Rate 3Mths - Aug	3.8%	3.8%	21:30
	UK	Employment Change 3M/3M - Aug	26k	31k	21:30
	GE	ZEW Survey Current Situation - Oct	-23.0	-19.9	22:00
	GE	ZEW Survey Expectations - Oct	-26.8	-22.5	22:00
	EC	ZEW Survey Expectations - Oct	--	-22.4	22:00
16-Oct	US	Empire Manufacturing - Oct	1	2	01:30
	NZ	CPI QoQ - Q3	0.6%	0.6%	10:45
	NZ	CPI YoY - Q3	1.4%	1.7%	10:45
	AU	Westpac Leading Index MoM - Sep	--	-0.3%	12:30
	UK	CPI MoM - Sep	0.2%	0.4%	21:30
	UK	CPI YoY - Sep	1.8%	1.7%	21:30
	UK	CPI Core YoY - Sep	1.7%	1.5%	21:30
	UK	RPI MoM - Sep	0.0%	0.8%	21:30
	UK	RPI YoY - Sep	2.7%	2.6%	21:30
	UK	PPI Input NSA MoM - Sep	0.2%	-0.1%	21:30
	UK	PPI Input NSA YoY - Sep	-1.8%	-0.8%	21:30
	UK	PPI Output NSA MoM - Sep	0.1%	-0.1%	21:30
	UK	PPI Output NSA YoY - Sep	1.3%	1.6%	21:30
	UK	PPI Output Core NSA MoM - Sep	0.1%	0.2%	21:30
	UK	PPI Output Core NSA YoY - Sep	1.9%	2.0%	21:30
	UK	House Price Index YoY - Aug	0.6%	0.7%	21:30
	EC	Trade Balance SA - Aug	€17.8B	€19.0B	22:00
	EC	Trade Balance NSA - Aug	--	€24.8B	22:00
	EC	CPI MoM - Sep	0.2%	0.1%	22:00
	EC	CPI YoY - Sep F	0.9%	1.0%	22:00
	EC	CPI Core YoY - Sep F	1.0%	1.0%	22:00

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
16-Oct	US	Monthly Budget Statement - Sep	$83.0B	$119.1B	16-19 Oct
17-Oct	US	MBA Mortgage Applications - 11-Oct	--	5.2%	00:00
	US	Retail Sales Advance MoM - Sep	0.3%	0.4%	01:30
	US	Retail Sales Ex Auto MoM - Sep	0.2%	0.0%	01:30
	US	Retail Sales Ex Auto and Gas - Sep	0.3%	0.1%	01:30
	US	Retail Sales Control Group - Sep	0.3%	0.3%	01:30
	US	NAHB Housing Market Index - Oct	68.0	68.0	03:00
	US	Business Inventories - Aug	0.2%	0.4%	03:00
	US	Federal Reserve releases Beige Book	--	--	07:00
	US	Net Long-term TIC Flows - Aug	--	$84.3B	09:00
	US	Total Net TIC Flows - Aug	--	$43.8B	09:00
	AU	Employment Change - Sep	15.0k	34.7k	13:30
	AU	Unemployment Rate - Sep	5.3%	5.3%	13:30
	AU	Participation Rate - Sep	66.2%	66.2%	13:30
	UK	Retail Sales Ex Auto Fuel MoM - Sep	-0.1%	-0.3%	21:30
	UK	Retail Sales Ex Auto Fuel YoY - Sep	2.9%	2.2%	21:30
	UK	Retail Sales Inc Auto Fuel MoM - Sep	-0.2%	-0.2%	21:30
	UK	Retail Sales Inc Auto Fuel YoY - Sep	3.1%	2.7%	21:30
18-Oct	US	Building Permits MoM - Sep	-6.0%	8.2%	01:30
	US	Building Permits - Sep	1340k	1425k	01:30
	US	Housing Starts - Sep	1318k	1364k	01:30
	US	Housing Starts MoM - Sep	-3.4%	12.3%	01:30
	US	Philadelphia Fed Business Outlook - Oct	8	12	01:30
	US	Initial Jobless Claims - 12-Oct	215k	210k	01:30
	US	Continuing Claims - 5-Oct	1670k	1684k	01:30
	US	Industrial Production MoM - Sep	-0.2%	0.6%	02:15
	US	Manufacturing (SIC) Production - Sep	-0.3%	0.5%	02:15
	US	Capacity Utilization - Sep	77.7%	77.9%	02:15
	JN	Natl CPI YoY - Sep	0.2%	0.3%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Sep	0.3%	0.5%	12:30
	CH	Fixed Assets Ex Rural YTD YoY - Sep	5.5%	5.5%	15:00
	CH	Industrial Production YoY - Sep	5.0%	4.4%	15:00
	CH	Industrial Production YTD YoY - Sep	5.5%	5.6%	15:00
	CH	Retail Sales YoY - Sep	7.8%	7.5%	15:00
	CH	Retail Sales YTD YoY - Sep	8.1%	8.2%	15:00
	CH	GDP SA QoQ - Q3	1.5%	1.6%	15:00
	CH	GDP YTD YoY - Q3	6.2%	6.3%	15:00
	CH	GDP YoY - Q3	6.1%	6.2%	15:00
	EC	ECB Current Account SA - Aug	--	€20.5B	21:00
19-Oct	US	Leading Index - Sep	0.1%	0.0%	03:00

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
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 (early am)	GlobalDairyTrade auction	Improving	Prices are expected to slowly lift as the season progresses and global supply wans.
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 (10:45am)	Food Price Index – October	Small dip	A seasonal decline in food prices from fruit and vegetables is expected.
Wed 13 Nov (10:45am)	Rental Price Index – October	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
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 (1:00pm)	ANZ Monthly Inflation Gauge – October	--	--
Fri 15 Nov (10:30am)	BNZ-BusinessNZ Manufacturing PMI – October	Watching	An easing trend has been at play here. We're looking for a floor.
Mon 18 Nov (10:30am)	Performance Services Index – September	Watching	An easing trend has been in play here too, but recent prints have remained robust.
Wed 20 Nov (early am)	GlobalDairyTrade auction	Improving	Prices are expected to slowly lift as the season progresses and global supply wanes.
Tue 26 Nov (10:45am)	Retail Sales – Q3	Bright spot	A robust household sector is one of the bright spots in this increasingly uncertain environment. Don't fail us now.
Wed 27 Nov (9:00am)	Financial Stability Report – November	Mixed message	The FSR will likely conclude the financial system remains resilient, but also contain a plug for the value of bank capital requirements. A small loosening in the LVR restrictions is likely.
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	0.7	-0.2	0.3	-0.3	0.0	0.0	1.2	0.4
Retail ECT (% yoy)	0.6	3.5	3.4	0.7	4.5	3.2	1.1	1.6	2.8	0.3
Car Registrations (% mom)	-0.5	4.3	1.3	-2.8	1.6	-1.4	-2.6	4.5	1.1	4.8
Car Registrations (% yoy)	-15.8	-12.1	-3.9	-2.9	-0.5	-12.6	-11.0	-5.4	-5.2	4.7
Building Consents (% mom)	4.9	12.9	1.8	-7.1	-7.4	14.7	-4.0	-1.3	0.8	--
Building Consents (% yoy)	12.5	31.8	28.0	2.9	-3.3	8.2	9.9	18.3	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	0.6	--
Household Lending Growth (% yoy)	5.9	5.9	5.9	5.9	5.9	6.0	5.9	5.9	6.0	--
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	-53.5
ANZ Own Activity Outlook	13.6	..	10.5	6.3	7.1	8.5	8.0	5.0	-0.5	-1.8
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	0.0
ANZ World Comm. Price Index (% yoy)	-3.4	-2.2	-2.2	0.6	2.2	0.7	-2.4	-0.5	0.9	3.4
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	4.9	0.1	-2.2	3.8	0.6	-4.7	3.8	-4.2	2.4
ANZ Light Traffic Index (% mom)	-1.8	2.0	-0.8	0.7	0.2	0.7	-2.1	1.4	0.3	-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	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	Aug-19	Sep-19	Today	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
NZD/USD	0.633	0.626	0.634	0.61	0.59	0.61	0.61	0.63	0.63
NZD/AUD	0.940	0.927	0.932	0.94	0.89	0.90	0.88	0.90	0.90
NZD/EUR	0.576	0.574	0.574	0.56	0.56	0.58	0.58	0.58	0.58
NZD/JPY	67.25	67.68	68.70	65.9	62.0	64.1	64.1	66.2	66.2
NZD/GBP	0.521	0.509	0.501	0.50	0.49	0.50	0.50	0.50	0.50
NZ$ TWI	68.7	68.2	70.56	67.2	64.9	66.8	66.6	67.9	67.9
Interest rates	Aug-19	Sep-19	Today	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
NZ OCR	1.00	1.00	1.00	0.75	0.50	0.25	0.25	0.25	0.25
NZ 90 day bill	1.19	1.15	1.04	0.92	0.67	0.50	0.50	0.50	0.50
NZ 10-yr bond	1.06	1.09	1.21	0.90	1.00	1.25	1.25	1.20	1.45
US Fed funds	2.25	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75
US 3-mth	2.14	2.10	2.00	2.15	1.90	1.90	1.90	1.90	1.90
AU Cash Rate	1.00	1.00	0.75	0.75	0.50	0.25	0.25	0.25	0.25
AU 3-mth	0.97	0.95	0.84	0.95	0.70	0.45	0.45	0.45	0.45

	11-Sep	7-Oct	8-Oct	9-Oct	10-Oct	11-Oct
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.15	1.04	1.04	1.04	1.04	1.03
NZGB 05/21	0.88	0.69	0.70	0.72	0.74	0.80
NZGB 04/23	0.88	0.68	0.69	0.70	0.73	0.80
NZGB 04/27	1.14	0.88	0.89	0.90	0.93	1.03
NZGB 04/33	1.43	1.19	1.20	1.22	1.26	1.38
2 year swap	1.01	0.82	0.82	0.83	0.85	0.89
5 year swap	1.08	0.83	0.84	0.85	0.87	0.94
RBNZ TWI	71.46	70.62	70.41	70.60	70.44	70.57
NZD/USD	0.6418	0.6286	0.6318	0.6312	0.6327	0.6337
NZD/AUD	0.9346	0.9331	0.9371	0.9360	0.9354	0.9333
NZD/JPY	69.10	67.19	67.57	67.78	67.96	68.63
NZD/GBP	0.5198	0.5098	0.5170	0.5163	0.5166	0.5010
NZD/EUR	0.5830	0.5726	0.5750	0.5748	0.5738	0.5742
AUD/USD	0.6867	0.6737	0.6742	0.6744	0.6764	0.6794
EUR/USD	1.1008	1.0978	1.0987	1.0981	1.1026	1.1042
USD/JPY	107.67	106.89	106.95	107.37	107.42	108.29
GBP/USD	1.2347	1.2331	1.2220	1.2227	1.2245	1.2668
Oil (US$/bbl)	55.75	52.75	52.63	52.59	53.55	54.70
Gold (US$/oz)	1493.45	1499.74	1502.44	1502.30	1506.53	1489.01
NZX 50	10925	10976	11016	10941	10887	10924
Baltic Dry Freight Index	2366	1770	1801	1873	1929	1924
NZX WMP Futures (US$/t)	3125	3100	3095	3095	3090	3095

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