

New Zealand Weekly Focus

21 October 2019



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Inflated inflation

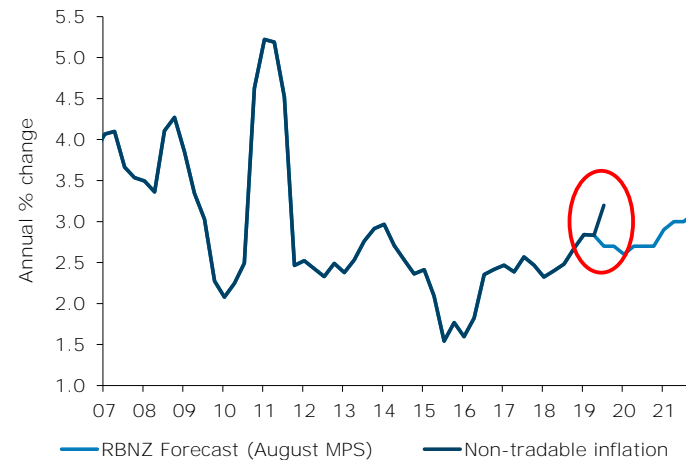
Economic overview

Inflation moved further below 2% in Q3, falling to 1.5% y/y. The RBNZ may find a glimmer of hope in the surprise rise in domestic (non-tradable) inflation to 3.2% y/y, but we think it should be discounted. A decent whack of domestic price increases recently have been driven by factors that the RBNZ quite rightly “look though” (ie regulated prices). Consistent with that, core inflation measures moved broadly sideways, stuck below 2%. Inflation is a lagging indicator anyway, and the growth outlook has deteriorated, suggesting that inflation pressures will ease. All up, the latest rise in domestic inflation will be welcomed by the RBNZ as it reduces downside risks to inflation expectations. But **there’s still** plenty to keep the Monetary Policy Committee up at night.

Chart of the week

Whoa – the RBNZ didn’t see that burst of domestic inflationary pressure coming. But, to be fair, they likely have more important things on their minds; like the weaker economic growth outlook and the risk of inflation expectations slipping.

Annual non-tradable inflation



Source: RBNZ, Statistics NZ

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
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
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
CPI	2.0% y/y for 2020 Q1	Below-trend growth will stymie domestic inflation. OCR cuts should support a gradual rise over time.	Neutral



Economic overview

Annual CPI inflation fell to 1.5% in Q3, but domestic inflation surged.

Inflation slipped further below 2% in Q3.

Domestic prices were stronger...

...but regulated prices drove that...

...and the outlook is getting bleaker.

Summary

Inflation moved further below 2% in Q3, falling to 1.5% y/y. The RBNZ may find a glimmer of hope in the surprise rise in domestic (non-tradable) inflation to 3.2% y/y, but we think it should be discounted. A decent whack of domestic price increases recently **have been driven by factors that the RBNZ quite rightly “look through” (ie regulated prices)**. Consistent with that, core inflation measures moved broadly sideways, stuck below 2%. Inflation is a lagging indicator anyway, and the growth outlook has deteriorated, suggesting that inflation pressures will ease. All up, the latest rise in domestic inflation will be welcomed by the RBNZ as it reduces downside risks to inflation expectations. **But there’s still plenty to keep the Monetary Policy Committee up at night.**

Forthcoming data

Overseas Merchandise Trade – September (Wednesday 23 October, 10:45am).

Dairy production volumes are now lifting but September dairy export data is expected to still be low and meat and log exports are also subdued. Therefore we have pencilled in a trade deficit of \$1.35 billion for September.

What’s the view?

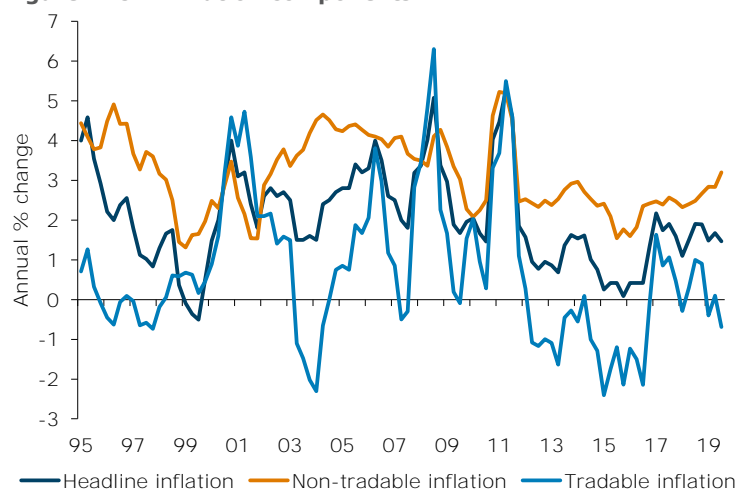
Headline CPI inflation increased 0.7% q/q in Q3 – in line with ANZ forecasts, but stronger than the market or RBNZ expected. Nonetheless, annual inflation moved further away from the RBNZ’s 2% target midpoint, ticking back down to 1.5% y/y from 1.7% (figure 1). But the mix does matter.

Tradable prices continued to provide a drag, rising a soft 0.1% q/q (-0.7% y/y), with stronger food prices offset by a decline in apparel, durable goods, and petrol prices. But the RBNZ may find a glimmer of hope in the rise in annual domestic (non-tradable) inflation to 3.2% y/y from 2.8%. Movements in non-tradable inflation are more persistent than tradable inflation, and are therefore more important for monetary policy.

But digging into the detail, there are a couple of reasons for the RBNZ to discount this solid non-tradable inflation print:

1. Strength in Q3 came from price increases to which **the RBNZ shouldn’t** respond (ie regulated prices that have nothing to do with the state of the economy or with inflation expectations). Consistent with that observation, core inflation measures moved broadly sideways, stuck below 2%.
2. Inflation is a lagging indicator anyway, reflecting where the economy has been. The RBNZ will be downgrading their growth forecasts in November, implying more spare capacity and less inflationary pressure ahead.

Figure 1. CPI inflation components



Source: Statistics NZ



Economic overview

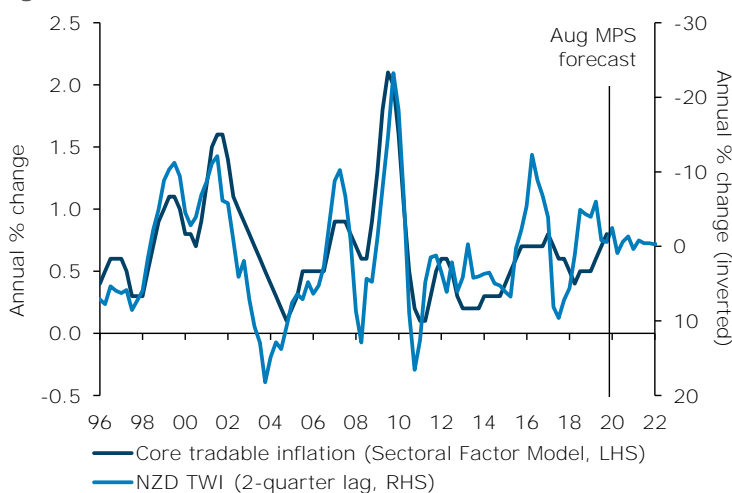
To dig into **what's going on with inflation**, let's take a look at tradable inflation and non-tradable inflation separately.

External prices and tradable inflation

Looking back at figure 1, low or negative tradable inflation has been a significant factor keeping headline inflation below 2% over the past decade. This has reflected the high and appreciating NZD and weak global inflation as modest cyclical price pressures among our trading partners and continued technological improvements have seen import prices fall (eg for computers and other tech goods).

Tradable inflation can be thrown around by volatile components like oil prices, but the underlying trend in tradable inflation is heavily influenced by the New Zealand dollar. A flat NZD over the next couple of years (figure 2) is consistent with annual tradable inflation around 0.6-0.7%. **This is roughly what we're expecting tradable inflation to average over our forecast horizon**, with a weaker TWI offset by soft world prices. That remains a touch below its historical average of 1%.

Figure 2. Core tradable inflation and the NZD



Source: RBNZ

What was surprising in the Q3 inflation print was the softness in apparel and durable goods prices, despite the weakness in the NZD over the past year. This likely reflects a lack of pricing power in the retail sector, which is struggling with strong competition, rising costs, and softer demand.

Tradable inflation is volatile and tends to be transitory, so it is quite rightly discounted to a large extent by the RBNZ. But the effect of low tradable inflation on headline inflation can be significant. This was illustrated in 2014-15, when several years of headline inflation below 2% saw inflation expectations fall, including the key 2-year ahead measure (figure 3) – this was a contributor to the RBNZ's decision to cut the OCR at that time.

With headline inflation at 1.5% currently, inflation expectations are again at risk of slipping below 2%. Low inflation expectations would reinforce low inflation further (weighing on wage and price-setting behaviour), which would effectively raise real interest rates for a given OCR, tightening monetary conditions. That matters even more than usual when your headroom to cut the OCR is limited, as it is now. As we discuss in a [previous Weekly](#), we believe the RBNZ would react aggressively if inflation expectations were to fall further from here.

Tradable prices have been a significant drag on inflation.

The high NZD has been a factor in that.

Low tradable inflation risks expectations slipping lower.

And the RBNZ are intently focused on these measures.



Figure 3. Surveyed inflation expectations



Source: RBNZ

Domestic prices and non-tradable inflation

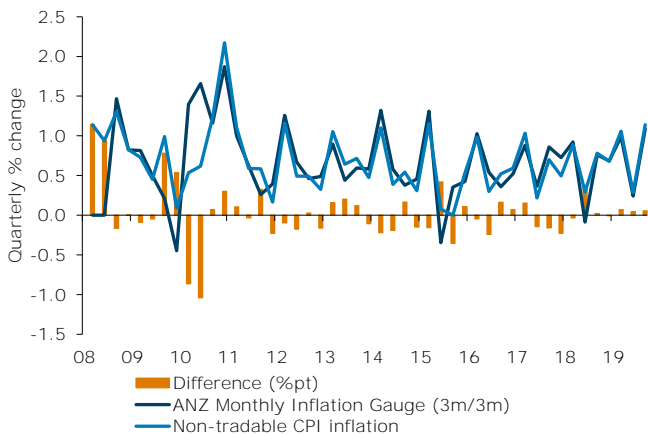
Domestic prices were strong.

The other component of the CPI is non-tradable inflation, which reflects wages, rents and inflation expectations. The price of a haircut is a classic example. This kind of inflation tends to be more persistent than tradable inflation and be more directly caused by domestic capacity pressures – so it is important for forward-looking inflation-targeting monetary policy. In Q3, non-tradable inflation surged to 3.2% y/y from 2.8% y/y. **That’s the highest level of annual non-tradable inflation since 2009 (excluding the GST-induced surge around 2011).**

The mighty MIG got a bit lucky.

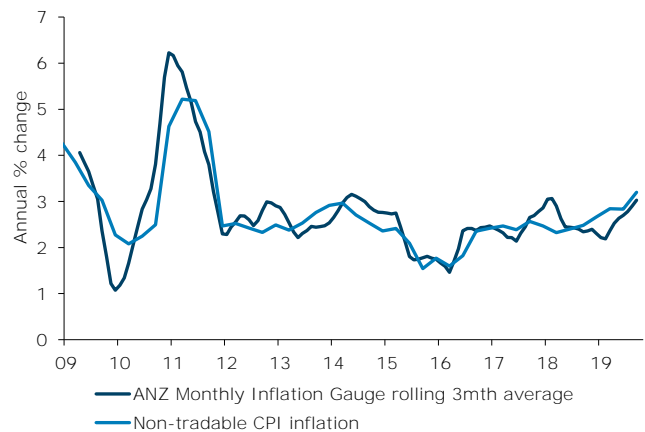
The strength in non-tradable inflation was well-signalled by our [Monthly Inflation Gauge](#) (figures 4 and 5), although to be fair there were a few offsetting misses lurking within the components.

Figure 4. Quarterly inflation measures



Source: Statistics NZ, ANZ Research

Figure 5. Annual inflation measures



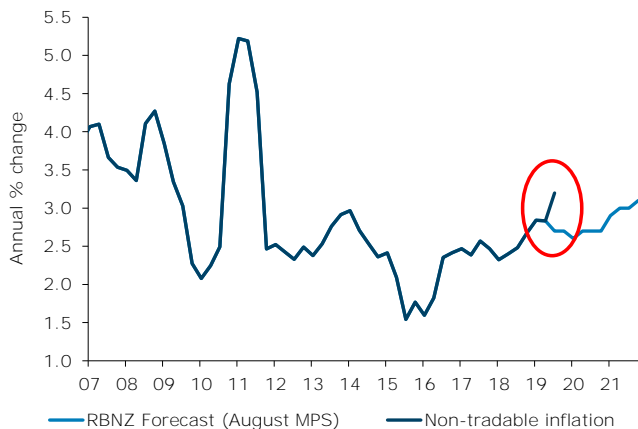
Startling, but transitory.

But as figure 6 shows, this was big news for the RBNZ – in fact, as figure 6 shows, annual non-tradable inflation right now is higher than the RBNZ expected it to be by the end of 2021!

However, the details of the release were a bit less exciting than the chart suggests. The **RBNZ’s measure of ‘core’ non-tradable inflation** remained stubbornly stuck at 2.7% y/y in Q3 (figure 7), suggesting that one-off, transitory factors drove the recent spike.



Figure 6. Non-tradable inflation and RBNZ forecasts

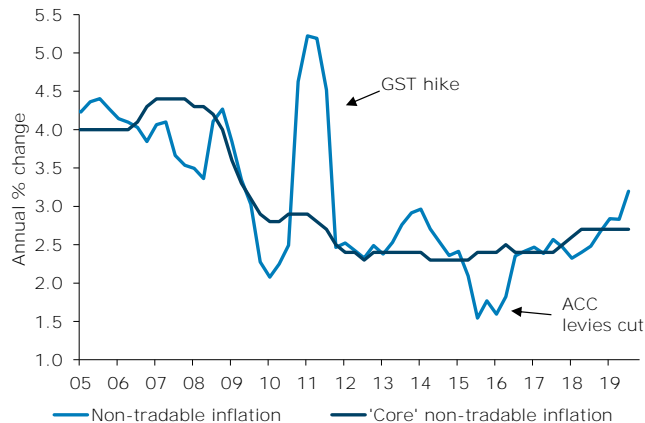


Source: RBNZ, Statistics NZ

The RBNZ won't respond to regulatory or transitory price pressure.

And there has been plenty of that within non-tradable inflation lately.

Figure 7. Non-tradable and 'core' non-tradable



Indeed, the drivers of the strength in domestic inflation in Q3 were components to which the RBNZ are unlikely to feel the need to respond. The RBNZ tends to carefully distinguish between price increases that are regulatory in nature or likely to be transitory for other reasons, and price increases that reflect rising capacity pressure and resource stretch, and therefore contain more information about the likely path of inflation going forward. Looking at the breakdown of non-tradable inflation, it seems like regulatory and transitory factors have been a key driver of price movements lately.

For example, in the past quarter non-tradable inflation rose 1.1% q/q, but:

- **Road user charges** saw other private transport services rise 5.5% q/q, which added 0.1%pts to the Q3 non-tradable print. These are regulated price increases that the RBNZ can look through.
- **Property rates** rose a solid 4.9% and added 0.4%pts to the Q3 non-tradable print, but again, these are regulated price increases.
- **Domestic airfares** rose 15.7% and added 0.2%pts to the Q3 non-tradable print. This is a market price but this increase was unusually large and will likely recoil in the near term, particularly if demand is softening.

And over the past year, non-tradable inflation has risen 3.2% y/y, but:

- **Insurance costs** have risen 4.8% y/y and added 0.35%pts to annual non-tradable inflation. But this pick-up in insurance costs has resulted from a shift to risk-based pricing in the insurance industry, rather than reflecting broad capacity pressures.
- **Restaurant meals and ready-to-eat food prices** have surged, rising 3.1% y/y and adding 0.35%pts to annual non-tradable inflation. **But this hasn't been organic strength** – it has been concentrated in June quarters, as minimum wage increases boosted costs. Outside of that, price rises have been more subdued.
- **Rental prices** are up 2.9% y/y and have added 0.6%pts to annual non-tradable inflation. But this has been boosted by **Stats NZ's new measure of rents**, which is based on bond lodgings, while the previous methodology was based on a survey. Under this new method, annual rental inflation will average 1%pt higher than otherwise.
- **Cigarette and tobacco prices** are up 7.7% y/y and have added a hefty 0.5%pts to annual non-tradable inflation. But there appears to be limited appetite to extend tobacco tax increases beyond the last regulated increase in 2020, given **the taxes'** regressive nature and diminishing effectiveness. So there is a risk that this contribution drops off sharply in the future.



Economic overview

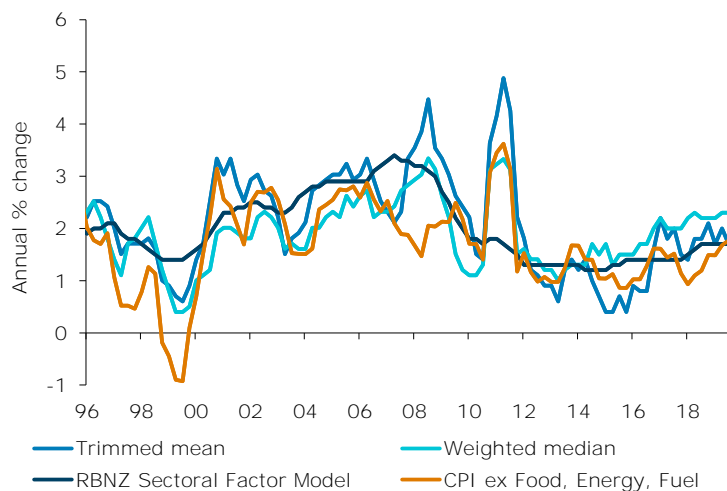
Soft core measures mean recent domestic strength should be dismissed.

It's important to note that regulated price rises can weigh on disposable incomes, with adverse effects on discretionary spending, and can therefore – ironically – imply lower inflation pressures down the line (inflation lags economic activity). So while regulated price rises might offer a near-term bump to inflation and inflation expectations, there could be a potential offsetting downside risk to the RBNZ medium-term inflation and their maximum sustainable employment objectives. Similarly, while minimum wage increases lift workers' incomes, margin squeeze owing to minimum wage rises could weigh on employment growth, opening up capacity in the labour market and capping overall household income growth. Uncertain offsetting impacts like these are all over the place in macroeconomics and certainly keep forecasting the economy and inflation interesting.

Looking through some of the temporary factors, other underlying measures of inflation confirm that the Q3 strength in the annual non-tradable inflation is a bit misleading, and not representative of intensifying domestic resource pressures.

Despite the strong tick-up in annual non-tradable inflation, movements in core inflation measures were mixed. On average, the core measures moved sideways, still largely falling short of 2% (figure 8). The RBNZ's preferred measure, the sectoral factor model, remains stubbornly stuck at 1.7%.

Figure 8. Core inflation measures



Source: Statistics NZ, RBNZ

But the biggest concern for the RBNZ is the medium-term outlook for inflation, which is looking far less assured. While the starting point for non-tradable inflation is stronger, the RBNZ's economic outlook is due for a downgrade at the upcoming November MPS. In fact, the suite of forward-indicators we monitor suggest downside risk even to our relatively modest outlook (figure 9).

The outlook isn't great.

We should acknowledge there is a risk that this slowdown in economic activity is more driven by capacity pressures (rather than weak demand) than we've judged it to be, which would imply that inflation pressures could be a little stronger than expected going forward. However, both the raft of transitory price increases and the evidence from our capacity suite (figure 10) suggests capacity pressures are waning rather than strengthening.



Figure 9. Forward GDP indicators and forecasts

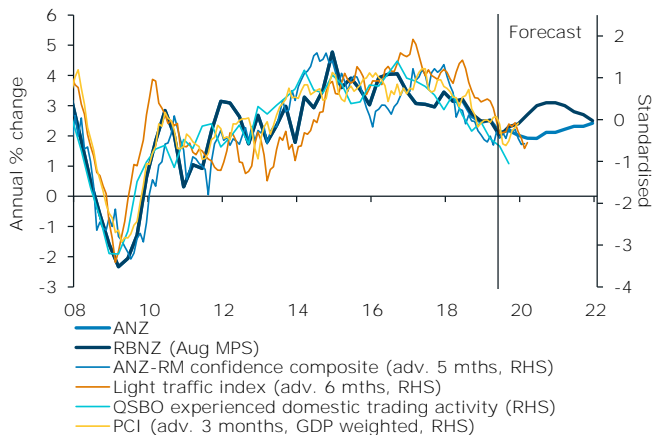
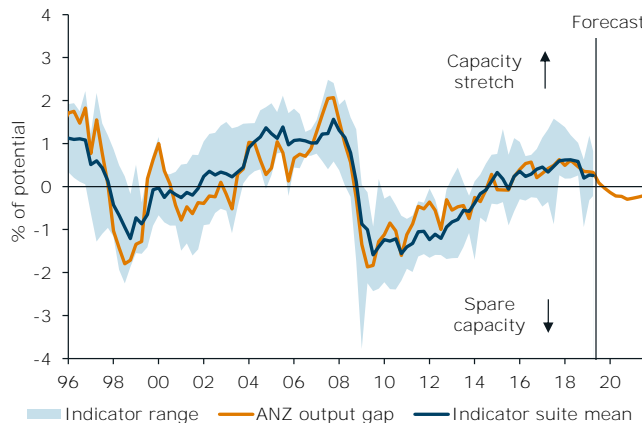


Figure 10. ANZ capacity indicator suite



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

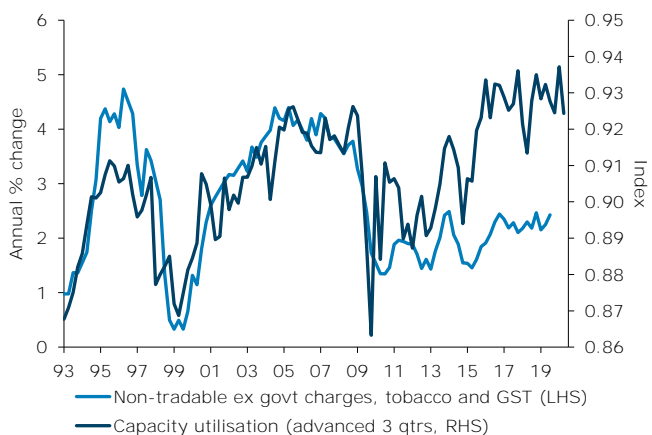
It's also worth recalling that over this cycle, inflation has been far less sensitive to capacity pressure than we have seen in the past – the relationship has weakened (figure 11). This is a global phenomenon. It means that the RBNZ has to push the economy even harder, and the unemployment rate even lower, in order to get inflation up.

Capacity has eased, and pricing intentions have dropped.

But it already seems that capacity pressures in the economy are starting to ease, with businesses reporting that demand is becoming more of a problem limiting activity than capacity or the availability of labour, and hiring intentions threatening to turn into firing intentions. Reported employment intentions in the ANZ Business Outlook survey across all sectors of the economy were negative last month.

On the back of that, pricing intentions have dropped sharply in recent quarters (figure 12), which doesn't bode well for inflationary pressures from here.

Figure 11. Capacity utilisation and non-tradable inflation



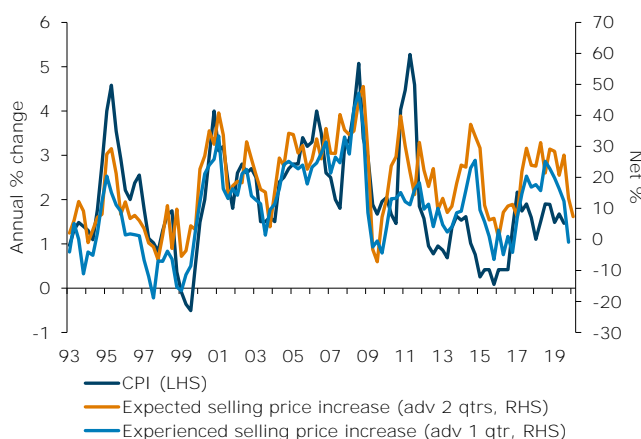
Source: NZIER, Statistics NZ

Capacity pressures aren't going to build any time soon.

We have already seen that capacity pressure in the New Zealand economy has slowed as GDP and employment growth have softened. And we expect spare capacity to persist as the economy continues to bob along at a sub-trend pace, as we outlined in our recent [Quarterly Economic Outlook](#).

Figure 13 shows a breakdown of the drivers of non-tradable inflation in New Zealand, as we have discussed in a [previous Weekly](#). Our outlook for weaker non-tradable inflation is consistent with some recent strength in regulated prices (government charges, light blue bars) dropping out, and further easing in capacity pressure (dark blue bars) as the economy continues to grow below trend.

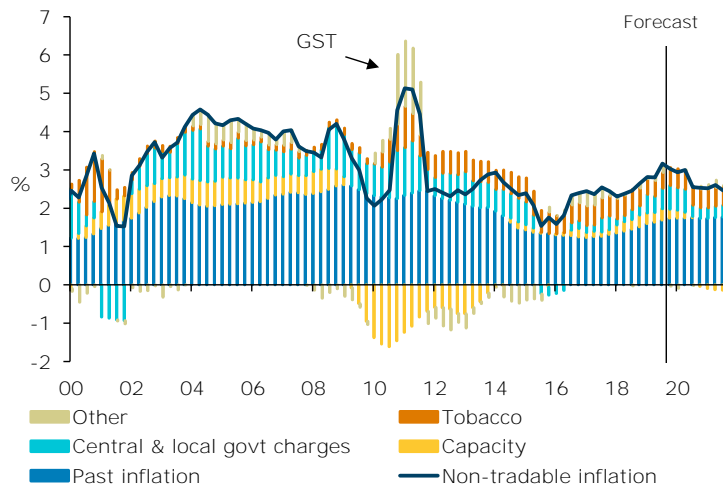
Figure 12. CPI inflation and surveyed selling prices





Non-tradable inflation will fall as the economy weakens and recent strength fades.

Figure 13. Non-tradable inflation decomposition¹



Source: Statistics NZ, ANZ Research

Conclusion

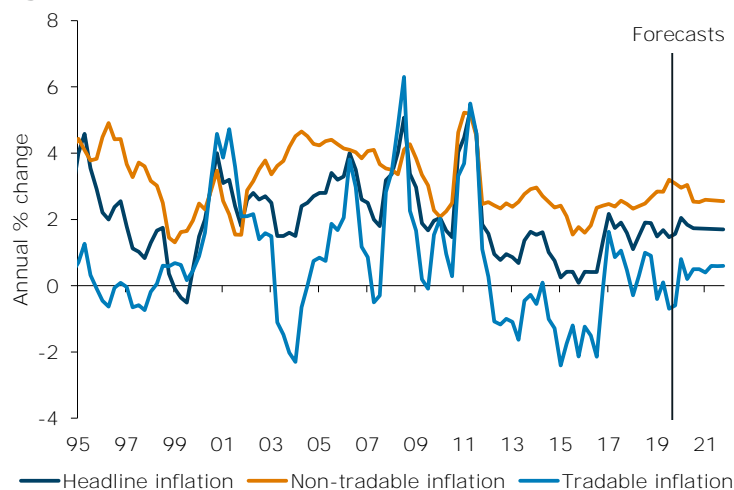
Inflation looks set to continue to fall short of 2%.

We expect CPI inflation to continue to fall short of 2% over the next couple of years, averaging 1.7% (figure 14). Non-tradable inflation is set to drop over the next year, as the slowing economy creates greater slack, and recent transitory strength drops out.

And there's plenty to keep the Committee up at night.

All up, the latest rise in domestic inflationary pressure will be welcome news for the RBNZ, but it **won't be enough to make** them comfortable. Headline inflation is still lagging below 2%, and subdued core inflation measures suggest that headline inflation **won't be getting back up to 2% sustainably any** time soon. Throw in the weaker economic outlook (and the softening in capacity and price pressures that that implies), the fall in pricing intentions in business surveys, and low inflation expectations that remain at risk of slipping further, and there is plenty to keep the Monetary Policy Committee up at night.

Figure 14. CPI inflation



Source: Statistics NZ, ANZ Research

¹ Note: 'Past inflation' includes a lag of quarterly non-tradable inflation, a lag of the 3-year average of headline inflation, and a constant term.



Economic overview

The week ahead

It's a quiet week ahead on the local data front, with only Overseas Merchandise Trade for September, due on Wednesday. We anticipate export volumes will be subdued again in September with the seasonal lift in dairy production not significantly feeding into export volumes until October. Meat and log exports are also low as due to limited stock being processed and a reduction in the volume of trees being felled.

Local data

REINZ housing market statistics – September. Nationwide, house prices were up 0.9% m/m in September (2.7% y/y 3mma). The market tightened, with days to sell dropping.

GlobalDairyTrade auction. The GDT Price Index lifted 0.5%, with higher prices for skim milk powder delivering much of the gain. The WMP Price Index was flat with whole milk powder trading at an average price of USD3133/t, which bodes well for our milk price forecast of \$7.15/kg MS for the 2019-20 season.

Consumer Price Index – Q3. CPI increased 0.7% q/q in Q3, with surprisingly strong domestic non-tradable inflation. Nonetheless, annual inflation moved further away from the RBNZ's 2% target midpoint, ticking back down to 1.5% y/y from 1.7%.

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.

- [Quarterly Economic Outlook: Uncharted](#)
- [NZ Dairy Update: Onward and upward](#)
- [CPI Review: Inner strength](#)



FX / rates overview

Optimistic undertone remains.

Chance to shine.

Edging higher again.

GBP finishes first, with the NZD rounding out the top three.

Summary

Risk sentiment remained buoyed as markets enjoyed a second week of trade optimism while favourable Brexit headlines provided additional support. GBP outperformed on Brexit news, while the USD was broadly weaker as the US data pulse continued to soften. Meanwhile, Federal Reserve speakers gave markets little incentive to pare back expectations of a cut at next week's FOMC meeting.

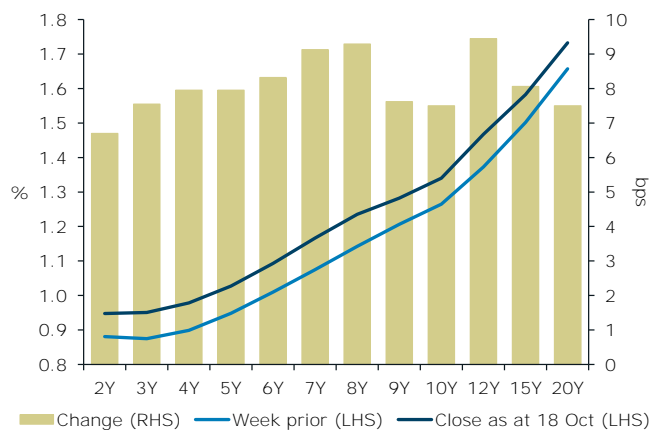
Key events this week

ECB policy meeting (Friday 25 October, 12:45am). The ECB is likely to reinforce its dovish guidance as softer euro area economic activity persists.

Rates

NZ bonds underperformed peers, with the curve rising uniformly by a further 10bp this week. Risk sentiment and other geopolitical developments remained the primary driver for our curve, with another week of risk-on moves as a result of ongoing trade optimism. There was little domestic resistance to the steepening in the yield curve, with domestic inflation coming in slightly ahead of market expectations. Despite the positivity enveloping markets, expectations for a 25bp cut at the RBNZ's November MPS were little changed, a lock at 98%. Meanwhile, expectations for a cut at next week's FOMC meeting remain at around 90%.

Figure 1. Rising NZ yield curve



Source: Bloomberg, ANZ Research

FX

Brexit optimism saw the GBP outperform all G-10 currencies once again, with the NZD enjoying a third-placed finish after lagging its peers for a number of weeks. The USD was weaker against most peers, with the JPY and NOK finishing last.

NZD/USD: The NZD set a fresh monthly high as risk sentiment and a weaker USD data pulse provided the currency plenty of lift. Offshore events will remain the near-term primary driver for the NZD as the domestic data pulse is thin this week.

NZD/AUD: AUD remained buoyed by offshore events but lagged its peers last week as others played catch-up. Meanwhile, better AU labour data also provided support.

NZD/EUR: EUR was dragged higher by the GBP as markets remained optimistic on Brexit outcomes. The ECB's policy meeting will be in focus this week.

NZD/GBP: GBP finished in pole position as PM Johnson's Brexit deal continued to gather momentum. While the UK Parliament forced Johnson to seek an extension to the 31 October deadline, he will persist with his efforts to leave on the original deadline.

NZD/JPY: The pervasive risk-on tone left the JPY struggling last week. Trade headlines will remain the primary driver this week.



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 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 wanes.
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.
Wed 27 Nov (10:45am)	Overseas Merchandise Trade – October	Steady	Export volumes start to lift as dairy production season peaks and meat returns lift, while forestry exports remain subdued.
Thu 28 Nov (1:00pm)	ANZ Business November – October	--	--
Fri 29 Nov (10:00am)	ANZ Roy Morgan Consumer Confidence – November	--	--
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	0.2	0.6	0.3	0.5	0.2	0.6	0.4
CPI (% yoy)	1.7	1.5	1.6	2.0	1.8	1.7	1.7	1.7	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)	3.0	2.8	2.9	2.4	1.4	1.7	1.7	1.5	2.9	3.5
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)	6510	4930	4580	3660	3710	3840	3770	4640	3530	--
Net Migration (ann)	53823	54559	55730	55369	55064	54538	54274	54954	53809	--
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

FX rates	Actual			Forecast (end month)					
	Aug-19	Sep-19	Today	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
NZD/USD	0.633	0.626	0.638	0.61	0.59	0.61	0.61	0.63	0.63
NZD/AUD	0.940	0.927	0.931	0.94	0.89	0.90	0.88	0.90	0.90
NZD/EUR	0.576	0.574	0.572	0.56	0.56	0.58	0.58	0.58	0.57
NZD/JPY	67.25	67.68	69.18	65.9	62.0	64.1	64.1	66.2	66.2
NZD/GBP	0.521	0.509	0.494	0.50	0.49	0.50	0.50	0.50	0.50
NZ\$ TWI	68.7	68.2	70.72	67.2	64.9	66.8	66.6	67.9	67.6
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	1.05	0.92	0.67	0.50	0.50	0.50	0.50
NZ 10-yr bond	1.06	1.09	1.25	0.90	1.00	1.25	1.25	1.20	1.45
US Fed funds	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75
US 3-mth	2.14	2.10	1.95	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	0.89	0.95	0.70	0.45	0.45	0.45	0.45

	18-Sep	14-Oct	15-Oct	16-Oct	17-Oct	18-Oct
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.14	1.04	1.04	1.04	1.05	1.05
NZGB 05/21	0.85	0.80	0.78	0.79	0.78	0.81
NZGB 04/23	0.85	0.81	0.78	0.80	0.80	0.83
NZGB 04/27	1.11	1.06	1.03	1.05	1.07	1.10
NZGB 04/33	1.44	1.42	1.38	1.42	1.44	1.47
2 year swap	1.00	0.89	0.88	0.90	0.92	0.94
5 year swap	1.03	0.96	0.94	0.96	0.99	1.02
RBNZ TWI	70.57	70.39	70.16	70.06	70.07	70.65
NZD/USD	0.6333	0.6288	0.6276	0.6254	0.6329	0.6382
NZD/AUD	0.9267	0.9310	0.9290	0.9283	0.9268	0.9310
NZD/JPY	68.52	68.03	67.91	68.01	68.86	69.23
NZD/GBP	0.5081	0.5008	0.4960	0.4904	0.4912	0.4919
NZD/EUR	0.5735	0.5700	0.5697	0.5673	0.5695	0.5715
AUD/USD	0.6834	0.6754	0.6755	0.6737	0.6828	0.6856
EUR/USD	1.1044	1.1031	1.1016	1.1025	1.1113	1.1167
USD/JPY	108.19	108.19	108.22	108.73	108.80	108.45
GBP/USD	1.2463	1.2555	1.2653	1.2754	1.2883	1.2984
Oil (US\$/bbl)	58.11	53.59	52.81	53.36	53.93	53.78
Gold (US\$/oz)	1501.25	1494.80	1495.41	1481.68	1486.92	1490.05
NZX 50	10775	11027	11045	11179	11142	11067
Baltic Dry Freight Index	2266	1916	1898	1897	1861	1855
NZX WMP Futures (US\$/t)	3105	3100	3105	3110	3125	3135



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