ANZ Research

New Zealand Weekly Focus

29 October 2019

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Finely imbalanced

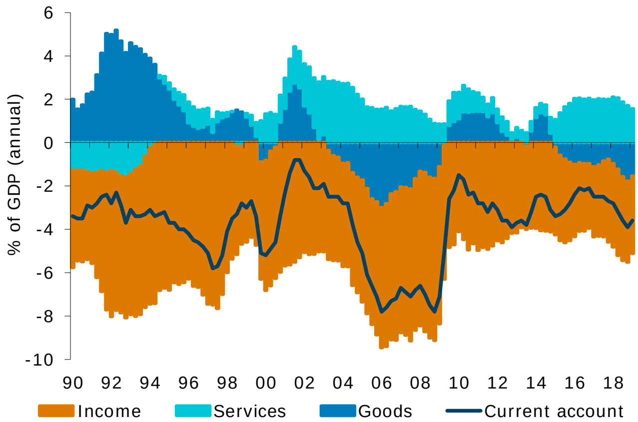
Economic overview

On the whole, the New Zealand economy hasn't built up the same vulnerabilities over this cycle as has been typical. Our national debt funding profile is longer term and more resilient; the current account deficit is contained; our net international investment position has improved; and credit growth has been relatively modest. We can thank a mix of good luck and good management. It's not all wins – we've run a goods trade deficit for the past four years, and household debt is at a record high. But overall, the current expansion is looking more sustainable than some we've had, and the system is less likely to experience a disruptive outflow of foreign capital than in the past. All up, the New Zealand economy is looking less risky, but certainly not riskless.

Chart of the week

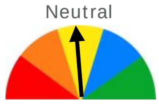
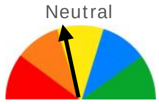
New Zealand's current account deficit – our net income and trade balance with the rest of the world – has been more contained this business cycle, reflecting solid services exports and low global interest rates.

Annual current account balance and components



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

Economic overview

Summary

The NZ economy is more finely imbalanced this cycle.

On the whole, the New Zealand economy hasn't built up the same vulnerabilities over this cycle as has been typical. Our national debt funding profile is longer term and more resilient; the current account deficit is contained; our net international investment position has improved; and credit growth has been relatively modest. We can thank a mix of good luck and good management. It's not all wins – we've run a goods trade deficit for the past four years, and household debt is at a record high. But overall, the current expansion is looking more sustainable than some we've had, and the system is less likely to experience a disruptive outflow of foreign capital than in the past. All up, the New Zealand economy is looking less risky, but certainly not riskless.

Forthcoming data

Building Consents – September (Thursday 31 October, 10:45am). Consents have held at a high level recently, but we see downside risk looming.

ANZ Business Outlook – October (Thursday 31 October, 1:00pm).

ANZ Roy Morgan Consumer Confidence – October (Friday 1 November, 10:00am).

What's the view?

The good: Strong institutions and fiscal position.

Assessments of New Zealand's credit risk by the likes of the IMF and ratings agencies are typically as follows: New Zealand has strong institutions, a strong fiscal position, and an effective macro-prudential policy toolkit mitigating economic and financial market risk. But (and it's a pretty big 'but') we're a small, open economy susceptible to global economic and financial market shocks, household and dairy sector debt is eye-wateringly high, we have a large net international liability position, and consequently, run persistent current account deficits. This week we discuss New Zealand's macro-imbalances and whether the economy is more or less vulnerable to economic and financial market shocks than it's been in the past.

The bad: High household and external debt.

Household debt as a share of disposable incomes is currently at a record high (164.4%). A period of strong housing market activity and rapid house price inflation (in part owing to strong migration-led population growth) has seen to that.

And while low interest rates mean this debt is currently manageable (in aggregate), interest rates could rise – not looking likely for the next few years, to be fair, but not impossible – or households could experience a negative income shock (eg higher unemployment), which is probably the more likely risk of the two.

And if that happens in a systemic way (ie a significant proportion of households can no longer afford to service their home loans) the ensuing fire sales could trigger an asset price correction that erodes household equity, confidence, and demand. In other words, it could quickly spiral into a very nasty economic contraction.

Likewise, there are pockets of the agricultural sector (particularly dairy) where debt levels are uncomfortably high, and where a significant hit to exporter incomes (ie from weaker global demand) or higher interest rates could create some financial instability via a sharp correction in land prices.

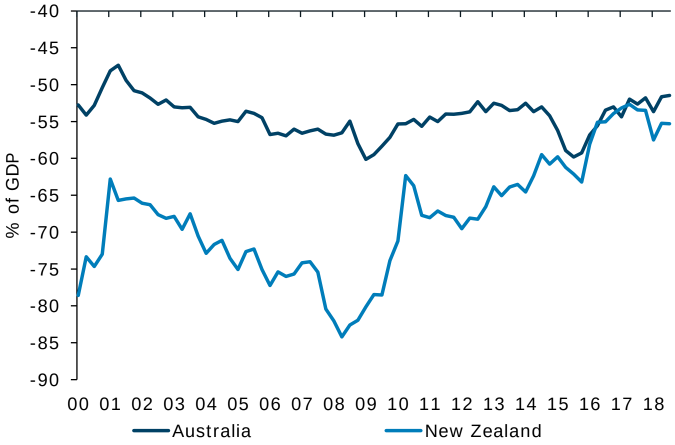
The better: external imbalances have improved markedly.

None of this is new – it's been in the RBNZ' Financial Stability Reports for years now.

But taking a glass-half-full view of things, it's worth noting that New Zealand's external imbalances have improved markedly over the past 10 years or so. In particular, the net international investment position (NIIP) has narrowed from a deficit of 84.2% of GDP in March 2009 to a little over 55% currently. And in recent years that hasn't been too different to the situation in Australia (figure 1).

In other words, the imbalance between New Zealand's financial claims over non-residents and their claims on us has gotten smaller relative to GDP. It's true that in dollar terms, the NIIP has widened by around $10bn over the past decade, but the economy has grown a lot more.

Figure 1. New Zealand and Australia net international investment positions



Source: Haver Analytics, ANZ Research

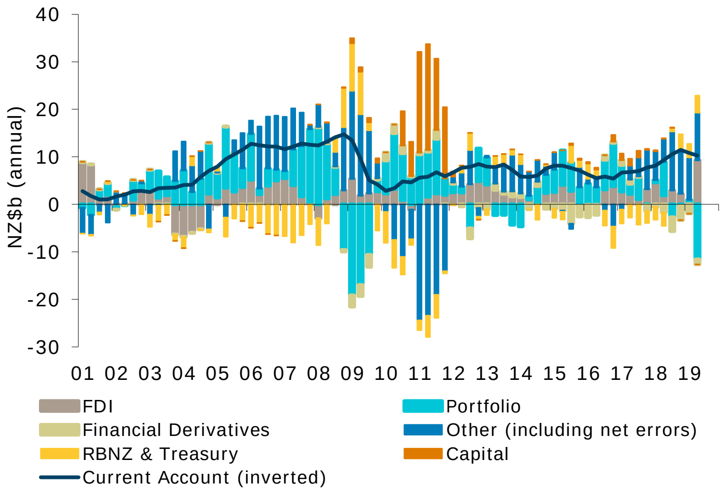
Money flows and valuations drive our external liability position.

There are two main drivers of the nominal NIIP:

- money coming in and out of the country (including foreign direct investment – FDI – and portfolio investment); and
- whether the market value of the various assets (shares, bonds, private companies etc) held here and offshore is going up and down.[1]

As figure 2 shows, in New Zealand's case there's typically more money coming in than going out. This cumulates into greater nominal external liabilities over time. But as long as the economy is growing at least as fast, you're holding your own. And foreign investment brings benefits such as international expertise and linkages to export markets.

Figure 2. Annual net investment inflows (funding the current account)



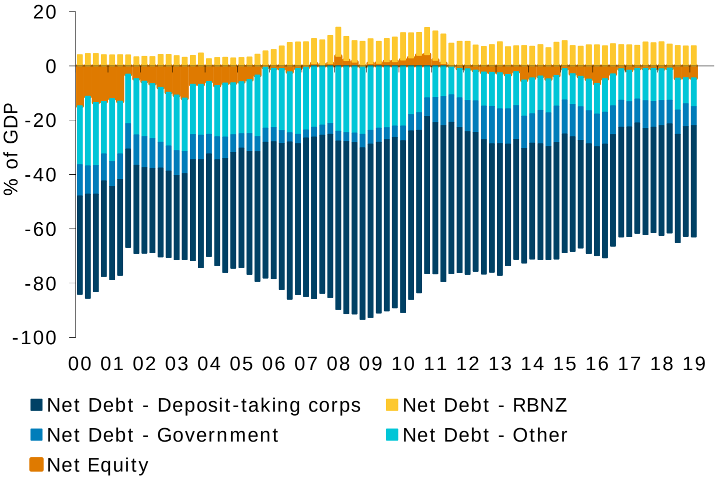
Source: Statistics NZ, ANZ Research

And banks do a lot of funding for the economy.

Figure 3 (over) provides a different cut of the NIIP: net debt by sector. It shows that deposit-taking corporations (ie banks) account for the lion's share. This reflects how commercial banks fund a significant portion of New Zealand's savings deficit by issuing debt offshore.

[1] Inflows of financial capital arise from either inflows of foreign investment increasing liabilities, or from divesting overseas assets. Outflows of financial capital arise from either transactions reducing liabilities, or transactions increasing assets abroad.

Figure 3. Net international investment position composition



Source: Statistics NZ

The current account is a flow measure…

In line with the improvement in the NIIP/GDP ratio, the current account deficit has also been contained. Broadly speaking, the current account represents the change in net liabilities (NIIP) between two points in time, assuming no valuation changes. This is analogous to, say, paying off a home loan, where regular principal and interest repayments represent the current account, and the loan itself represents the NIIP. Some countries are borrowers, some are savers. New Zealand is a borrower.

The recent current account experience has been nothing like the lead-up to the global financial crisis (GFC), when domestic demand was running hot, interest costs were increasing, and the current deficit widened to around 8% of GDP.

…and has been more contained this cycle.

In recent years, the current account has not widened persistently beyond its historical average of 3.6% of GDP (figure 4). And this is despite the fact that this economic cycle has been largely domestically driven (ie migration-led population growth boosting consumption, residential investment, and imports, figure 5). Indeed, despite pretty great terms of trade (export prices vs. import prices), we've been running trade deficits for the past four years. We do like importing stuff.

Figure 4. International investment position and current account

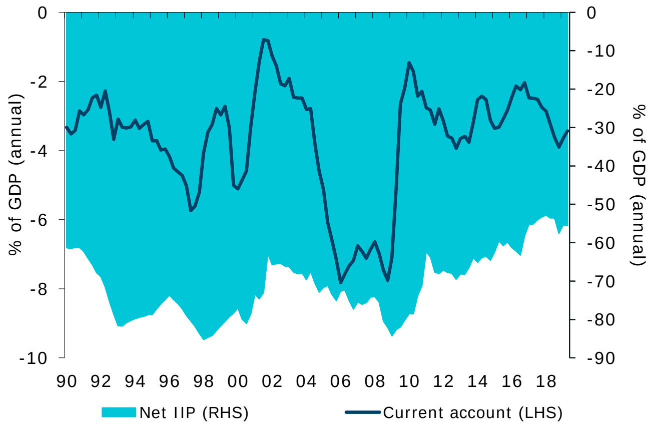
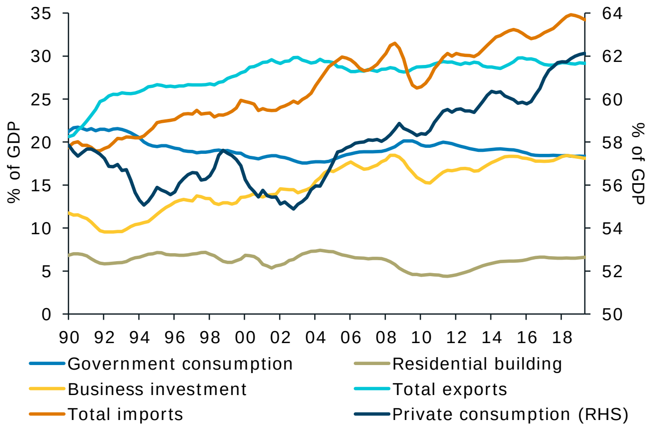


Figure 5. Real GDP expenditure components: share of annual GDP



Source: Statistics NZ

So why has the current account remained so contained this cycle? Should we be proud of ourselves or have we gotten lucky? Figure 6 shows how the current account can be broken down into the sum of the balance of trade (goods and services exports minus imports) and net income from abroad, including transfers.

Figure 6. Annual current account balance

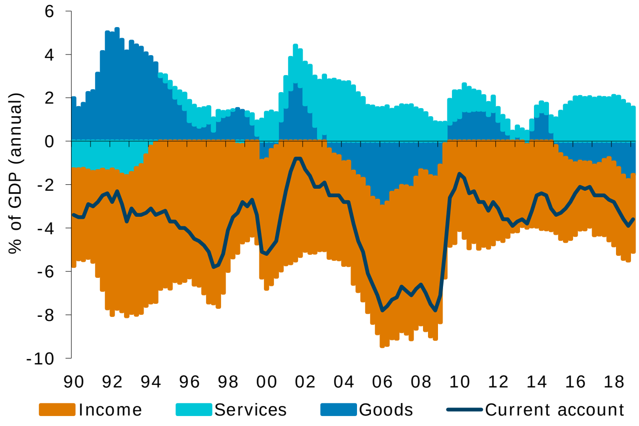
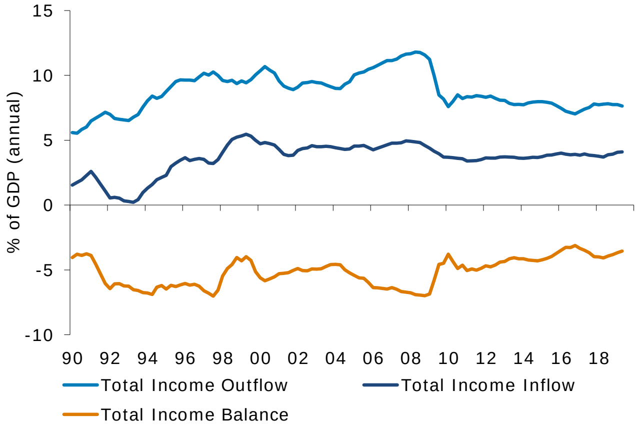


Figure 7. Investment income flows



Source: Statistics NZ

Services exports have been strong…

The goods balance (darker blue bars, figure 6) is volatile, but has tended to fluctuate around zero. The goods balance does tend to deteriorate when the economy is booming, as imports ramp up on the back of higher consumption and investment. On the other side, our goods exports can be thrown around by droughts and the like, given New Zealand's agricultural-based exports, and also fluctuations in the terms of trade (which tends to be good when global growth is high and vice versa). The annual services balance (cyan bars, figure 6) has been in surplus for the past two decades, reflecting solid tourism and education exports.

…and our net income deficit has narrowed…

But the most important factor that has been keeping the current account at a more sustainable level this business cycle has been the income balance (orange bars, figure 6). We can break this down further (figure 7).

…reflecting lower interest rates.

The income balance reflects the income from New Zealanders' investments offshore (dark blue line, figure 7), minus the income from foreigners' investment in New Zealand (blue line, figure 7). The income balance has improved in recent decades, because of interest rates, which have trended lower globally. Basically, New Zealand is a net debtor nation, so the long-run global trend lower in interest rates has suited us just fine and seen our income deficit improve (narrow).

Figures 8 and 9 show how the downward trend in income outflows (ie interest and dividend payments to foreign investors) – and the overall income balance – has been heavily influenced by the movement lower in interest rates. So in short, New Zealand got lucky, to a large extent. Foreigners have been happy to fund our significant borrowing at ever-lower interest rates.

Figure 8. Income outflows and interest rates

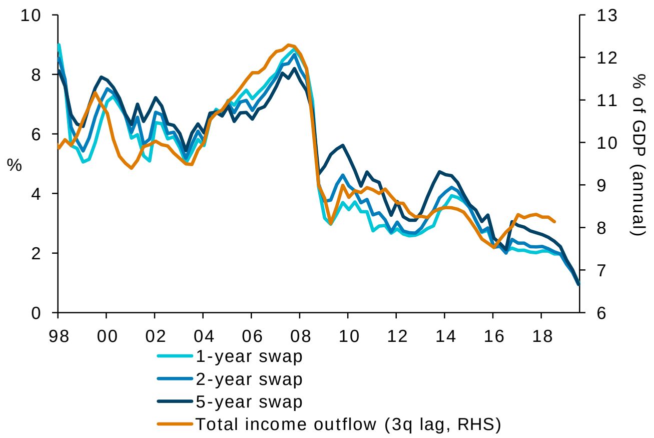
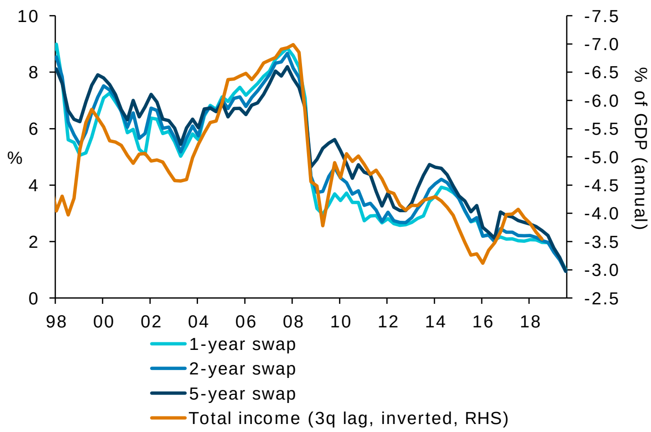


Figure 9. Income balance and interest rates



Source: Statistics NZ, Bloomberg, ANZ Research

Economic overview

There are other reasons to be chuffed:

But it's not all luck; we can be chuffed with ourselves for some things. Not only has the current account remained contained and the share of net international liabilities fallen, some of the underlying details of our funding profile are less risky than they have been in the past too:

Funding is longer-term.

- New Zealand has become far less reliant on short-term funding, in favour of longer-term funding (figure 10). The experience of the GFC (where global short-term funding markets seized up), and the implementation of the RBNZ's Core Funding Ratio (requiring more bank funding from stable and longer-term sources) have been key reasons for this shift. Longer maturity of debt means that New Zealand will be less susceptible to global liquidity crises in the future.

Credit growth has been modest.

- Credit growth has been far more modest this business cycle, running closer to nominal GDP growth and at dramatically lower rates than we saw prior to the GFC (figure 11). While household debt levels are still high (and represent a risk to financial stability that the RBNZ is sure to touch on at the upcoming November Financial Stability Report), economy-wide debt to GDP hasn't blown out like it did last cycle, and this does suggest that the current economic expansion has been more sustainable.

The NZD helps us out.

- Most of our foreign borrowings are hedged into NZ dollars, so the effect of a tanking exchange rate on debt burdens (a key vulnerability for developing nations with heavy borrowings in USD, for example) is minimal. Indeed, the freely floating exchange rate is a hugely important shock absorber for the New Zealand economy.

Figure 10. Proportion of short-term debt funding

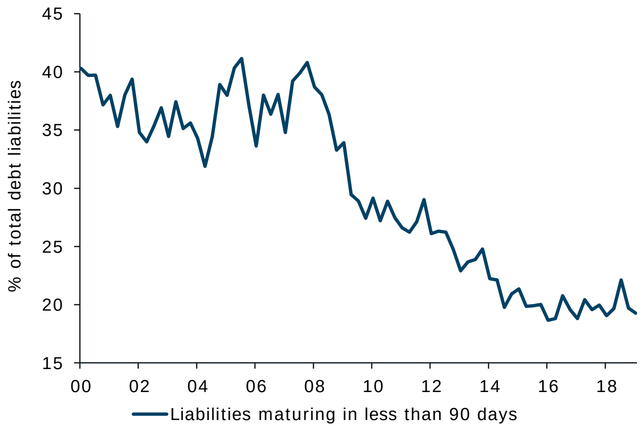
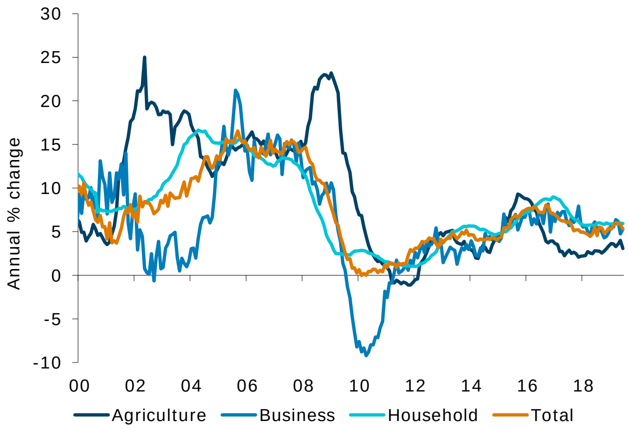


Figure 11. Sectoral credit growth



Source: Statistics NZ, RBNZ

It's rating agencies' job to worry.

So who cares? Well typically, only ratings agencies and the IMF in normal times. But in times of trouble, it can matter a lot, and so they do get considered in assessments of risk.

Rating agency Standard & Poor's (S&P) note that New Zealand's economic imbalances remain somewhat elevated because of persistent current account deficits, high external debt, and an economy that is exposed to commodity price fluctuations.

But NZ is in a better spot.

That's true, but it's a bit of a glass-half-empty view of things. For ten years or so into an economic expansion the New Zealand economy's external imbalances are in a better spot than they have tended to be in previous decades, as discussed.

These risk assessments matter.

But recently, S&P's assessment of economic risks in New Zealand has improved, largely reflecting a moderation in the housing market. S&P actually use these risk assessments to adjust bank capital ratios to compare them between countries, the idea being that 'par' bank capital for riskier countries is higher.[2]

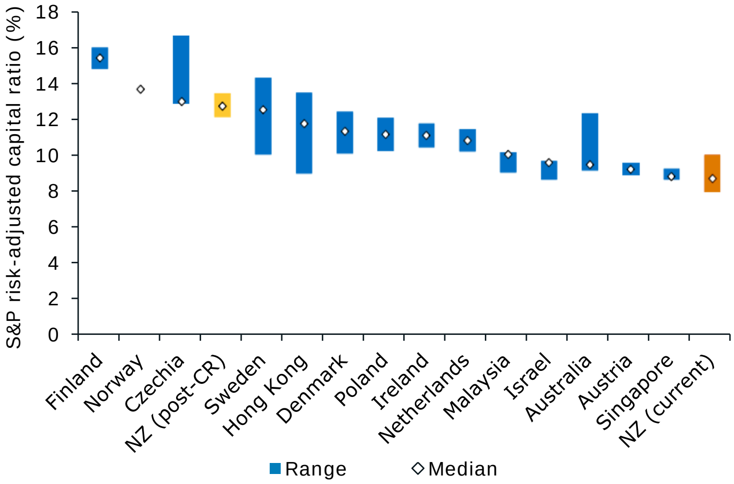
[2] S&P calculates its own risk-adjusted Tier 1 capital ratios for many banks around the world, using a methodology that attempts to reduce the influence of differing national applications of the Basel framework while still taking into account the different risk profiles of the countries in which each bank operates (Bascand, 2019).

Economic overview

In February this year, their assessment that New Zealand was pretty dodgy meant that the Reserve Bank's proposed capital ratios would put us comfortably in the upper half of the pack, from a starting point of the very lowest of a bunch of peers, on a "risk-adjusted" basis (figure 12).

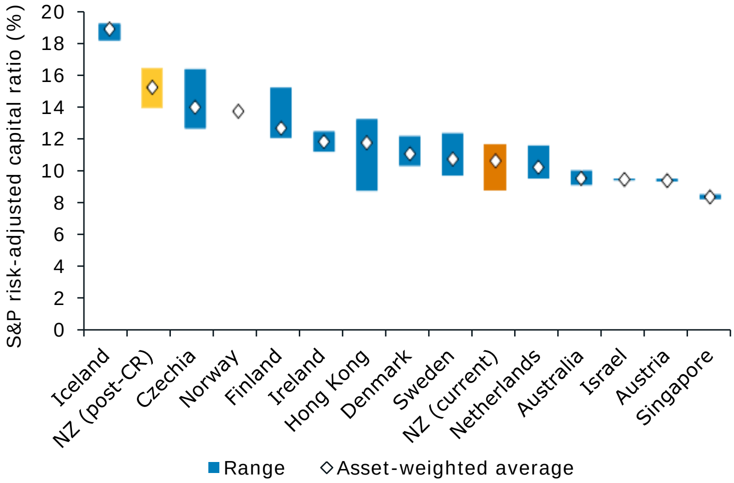
But the new risk assessment changes that picture dramatically, suggesting that we are middling currently and that the new RBNZ proposals would push us to the top of the pops in S&P risk adjusted capital (RAC) ratios (figure 13), far above Australia. The only peer country noted with a higher risk-adjusted capital ratio is Iceland, which went through a large financial crisis not too long ago.

Figure 12. S&P risk adjusted capital ratio (February 2019, old risk assessment)



Source: Standard and Poor's, RBNZ

Figure 13. S&P risk adjusted capital ratio (October 2019, new risk assessment)



Source: Standard and Poor's, RBNZ

We've managed imbalances well for many decades.

That's a pretty big change in view for what's actually been a pretty small change in the economic data since February. This example shows two truths that sit uncomfortably together: structural imbalances matter (not least insofar as they affect risk assessments and credit ratings), but how much they matter in practice is actually really hard to know, since every economy is different in a multitude of ways. The fact that New Zealand has not had a financial crisis despite 45 years of persistent current account deficits suggests that the freely floating (and just as importantly, sinking) exchange rate is doing its buffering job pretty well, helping the economy adjust and preventing external imbalances from causing crises when nasty shocks come along.

Economic overview

But that is not to say we can get smug. The big risks that could see the current account deficit blow out from here are:

- A worsening in the income balance, driven by a sharp increase in global interest rates;
- A growing trade imbalance, as either:
  - an overheating economy drives unsustainably high import growth;
  - goods exports collapse, perhaps driven by drought conditions (affecting export volumes) or a sharp deterioration in the terms of trade; or
  - services exports (chiefly tourism) crash as foreign households reign in their discretionary spending. However, NZD depreciation would likely provide some offset to both weaker goods and services exports.

But things could get worse.

We're a small, commodity-exporting economy after all and one that's more and more reliant on China's consumers. And in terms of broader financial stability risks, households do have a lot of debt, and so too do some dairy farmers. But all up, the New Zealand economy's external imbalances seem to be less of a risk at present than they have been in the past.

We're less risky, but not riskless.

The week ahead

This week we'll get the October read on business and consumer sentiment, with our ANZ Business Outlook on Thursday at 1pm and the ANZ-Roy Morgan consumer confidence survey on Friday at 10am. Building permits for the September month are also due. Consent issuance has been holding at a high level for some time now, led by multi-unit issuance in Auckland. However, recent survey data have been suggesting there's a moderation in the pipeline. Has consent issuance continued to defy the signal sent from the survey data? We'll find out on Thursday.

Local data

Overseas Merchandise Trade – September. The trade deficit for September came in at $1.24bn. Exports lifted to $4.47bn (from $4.13bn) while imports were stable at $5.71bn. The annual trade balance narrowed $340m to -$5.21bn.

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.

- Property Focus: Easy does it

FX / rates overview

Summary

Risk sentiment continued to drive markets as the global data pulse thinned last week. A lack of development on the trade front saw optimism fade while questions around a Brexit deal weighed further on sentiment. As a result, the USD broadly outperformed and global fixed income markets saw yields edge lower.

Risk drives as data remains scarce.

Key events this week

Big movers.

AU Q3 CPI (Wednesday 30 October, 1:30pm). A downside surprise could give the market a reason to price up the odds of a cut at the RBA's next meeting.

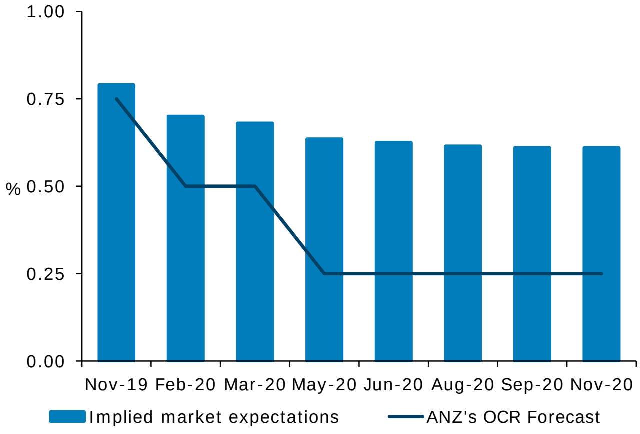
FOMC rate decision (Thursday 31 October, 7:00am). With a 25bp cut all but certain, the FOMC's forward guidance will be closely followed.

Rates

Crouch, touch, pause…reset.

Yields edged lower last week. A lack of development on the US-China trade front, amid rising uncertainty around Brexit, saw sentiment shift once again with the local curve falling 5-6bp as a result. With little data on offer domestically, geopolitical events remained the primary driver for the local curve. Short-end rates were well anchored by the market's expectation for a 25bp cut at the RBNZ's November MPS. At present, the market is pricing in an 85% chance of a 25bp cut, with the market's implied terminal rate unchanged at 0.60%.

Figure 1. Market implied OCR expectations



Source: Bloomberg, ANZ Research

FX

A fading in risk sentiment saw the USD firm once again last week. Meanwhile, rising Brexit uncertainties saw the GBP go from the top of the leader board to the bottom.

GBP and NZD suffer as the USD firms.

NZD/USD: The NZD struggled when faced with a pullback in the market's risk appetite. As such, the currency joined the prior week's winners at the bottom of the barrel and underperformed its commodity-linked peers along the way.

NZD/AUD: AUD also struggled as the USD firmed but fared better than the NZD. AU CPI will be the focus for this pair this week.

NZD/EUR: Once again, the EUR was left middling. Outgoing ECB president Draghi left the ECB's policy rate unchanged whilst sounding the need for ongoing fiscal support once more. Euro area GDP and inflation data will be in focus this week.

NZD/GBP: GBP fell sharply as the optimism around PM Johnson's Brexit deal faded last week. That said, markets were hopeful that the three-month extension to Brexit granted by the EU, will give policymakers some opportunity to agree a deal.

NZD/JPY: The JPY enjoyed some relief in the risk-off environment last week. This pair will remain at the mercy of sentiment and the resulting safe-haven flow.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
29-Oct	AU	ANZ-RM Consumer Confidence Index - 27-Oct	--	111.6	11:30
	JN	Tokyo CPI YoY - Oct	0.7%	0.4%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Oct	0.7%	0.5%	12:30
	UK	Nationwide House Px NSA YoY - Oct	0.3%	0.2%	20:00
	UK	Nationwide House PX MoM - Oct	0.0%	-0.2%	20:00
	UK	Net Consumer Credit - Sep	£0.9B	£0.9B	22:30
	UK	Consumer Credit YoY - Sep	--	5.4%	22:30
	UK	Net Lending Sec. on Dwellings - Sep	£3.8B	£3.9B	22:30
	UK	Mortgage Approvals - Sep	65.0k	65.5k	22:30
	UK	Money Supply M4 MoM - Sep	--	0.4%	22:30
	UK	M4 Money Supply YoY - Sep	--	3.2%	22:30
	UK	M4 Ex IOFCs 3M Annualised - Sep	--	5.9%	22:30
30-Oct	US	S&P CoreLogic CS 20-City MoM SA - Aug	-0.10%	0.02%	02:00
	US	S&P CoreLogic CS 20-City YoY NSA - Aug	2.10%	2.00%	02:00
	US	Conf. Board Consumer Confidence - Oct	128.0	125.1	03:00
	US	Pending Home Sales MoM - Sep	0.8%	1.6%	03:00
	US	Pending Home Sales NSA YoY - Sep	3.6%	1.1%	03:00
	JN	Retail Sales MoM - Sep	3.5%	4.6%	12:50
	JN	Retail Sales YoY - Sep	6.0%	1.8%	12:50
	AU	CPI QoQ - Q3	0.5%	0.6%	13:30
	AU	CPI YoY - Q3	1.7%	1.6%	13:30
	AU	CPI Trimmed Mean QoQ - Q3	0.4%	0.4%	13:30
	AU	CPI Trimmed Mean YoY - Q3	1.6%	1.6%	13:30
	AU	CPI Weighted Median QoQ - Q3	0.4%	0.4%	13:30
	AU	CPI Weighted Median YoY - Q3	1.3%	1.3%	13:30
	GE	Unemployment Change (000's) - Oct	3.0k	-10.0k	21:55
	GE	Unemployment Claims Rate SA - Oct	5.0%	5.0%	21:55
	EC	Economic Confidence - Oct	101.1	101.7	23:00
	EC	Business Climate Indicator - Oct	-0.24	-0.22	23:00
	EC	Industrial Confidence - Oct	-8.8	-8.8	23:00
	EC	Services Confidence - Oct	9.2	9.5	23:00
	EC	Consumer Confidence - Oct F	-7.6	-7.6	23:00
31-Oct	US	MBA Mortgage Applications - 25-Oct	--	-11.9%	00:00
	US	ADP Employment Change - Oct	110k	135k	01:15
	US	GDP Annualized QoQ - Q3 A	1.6%	2.0%	01:30
	US	Personal Consumption - Q3 A	2.6%	4.6%	01:30
	US	GDP Price Index - Q3 A	1.9%	2.4%	01:30
	US	Core PCE QoQ - Q3 A	2.2%	1.9%	01:30
	GE	CPI MoM - Oct P	0.0%	0.0%	02:00
	GE	CPI YoY - Oct P	1.0%	1.2%	02:00
	GE	CPI EU Harmonized MoM - Oct P	0.0%	-0.1%	02:00
	GE	CPI EU Harmonized YoY - Oct P	0.8%	0.9%	02:00
	US	FOMC Rate Decision - Oct	1.75%	2.00%	07:00
	NZ	Building Permits MoM - Sep	--	0.8%	10:45
	JN	Industrial Production MoM - Sep P	0.4%	-1.2%	12:50
	JN	Industrial Production YoY - Sep P	-0.1%	-4.7%	12:50
	NZ	ANZ Activity Outlook - Oct	--	-1.8	13:00
	NZ	ANZ Business Confidence - Oct	--	-53.5	13:00

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
31-Oct	UK	GfK Consumer Confidence - Oct	-13	-12	13:01
	AU	Building Approvals MoM - Sep	0.0%	-1.1%	13:30
	AU	Building Approvals YoY - Sep	-25.7%	-21.5%	13:30
	AU	Import Price Index QoQ - Q3	0.5%	0.9%	13:30
	AU	Export Price Index QoQ - Q3	-0.5%	3.8%	13:30
	AU	Private Sector Credit MoM - Sep	0.3%	0.2%	13:30
	AU	Private Sector Credit YoY - Sep	2.7%	2.9%	13:30
	CH	Composite PMI - Oct	--	53.1	14:00
	CH	Manufacturing PMI - Oct	49.8	49.8	14:00
	CH	Non-manufacturing PMI - Oct	53.7	53.7	14:00
	GE	Retail Sales MoM - Sep	0.2%	-0.1%	20:00
	GE	Retail Sales NSA YoY - Sep	3.3%	3.2%	20:00
	EC	Unemployment Rate - Sep	7.4%	7.4%	23:00
	EC	GDP SA QoQ - Q3 A	0.1%	0.2%	23:00
	EC	GDP SA YoY - Q3 A	1.1%	1.2%	23:00
	EC	CPI MoM - Oct P	0.1%	0.2%	23:00
	EC	CPI Core YoY - Oct P	1.0%	1.0%	23:00
	EC	CPI Estimate YoY - Oct	0.7%	0.9%	23:00
	JN	BOJ Policy Balance Rate - Oct	-0.10%	-0.10%	UNSPECIFIED
1-Nov	US	Employment Cost Index - Q3	0.7%	0.6%	01:30
	US	Personal Income - Sep	0.3%	0.4%	01:30
	US	Personal Spending - Sep	0.3%	0.1%	01:30
	US	PCE Deflator MoM - Sep	0.0%	0.0%	01:30
	US	PCE Deflator YoY - Sep	1.4%	1.4%	01:30
	US	Initial Jobless Claims - 26-Oct	215k	212k	01:30
	US	Continuing Claims - 19-Oct	1679k	1682k	01:30
	US	PCE Core Deflator MoM - Sep	0.1%	0.1%	01:30
	US	PCE Core Deflator YoY - Sep	1.7%	1.8%	01:30
	US	MNI Chicago PMI - Oct	48.0	47.1	02:45
	NZ	ANZ Consumer Confidence MoM - Oct	--	-3.6%	10:00
	NZ	ANZ Consumer Confidence Index - Oct	--	113.9	10:00
	AU	Ai Group Perf of Mfg Index - Oct	--	54.7	10:30
	AU	CBA PMI Mfg - Oct F	--	50.1	11:00
	AU	CoreLogic House Px MoM - Oct	--	1.1%	12:00
	AU	PPI QoQ - Q3	--	0.4%	14:30
	AU	PPI YoY - Q3	--	2.0%	13:30
	JN	Jibun Bank PMI Mfg - Oct F	--	48.5	13:30
	CH	Caixin PMI Mfg - Oct	51.0	51.4	14:45
	UK	Markit PMI Manufacturing SA - Oct	48.2	48.3	22:30
2-Nov	US	Change in Nonfarm Payrolls - Oct	85k	136k	01:30
	US	Unemployment Rate - Oct	3.6%	3.5%	01:30
	US	Average Hourly Earnings MoM - Oct	0.3%	0.0%	01:30
	US	Average Hourly Earnings YoY - Oct	3.0%	2.9%	01:30
	US	Average Weekly Hours All Employees - Oct	34.4	34.4	01:30
	US	Markit Manufacturing PMI - Oct F	51.5	51.5	02:45
	US	ISM Manufacturing - Oct	49.0	47.8	03:00
	US	Construction Spending MoM - Sep	0.2%	0.1%	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
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	--	--
Thu 29 Nov (10:45am)	Building Consents – October	Wary	Consents have held at a high level recently, but we see downside risk looming.
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 ($m)	9	-935	-94	825	361	175	330	-706	-1628	-1242
Trade Bal ($m ann)	-6161	-6433	-6715	-5739	-5578	-5602	-4987	-5490	-5551	-5213
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

	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	0.635	0.61	0.59	0.61	0.61	0.63	0.63
NZD/AUD	0.940	0.927	0.929	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	69.19	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	70.41	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	1.06	0.92	0.67	0.50	0.50	0.50	0.50
NZ 10-yr bond	1.06	1.09	1.27	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	1.94	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

	25-Sep	21-Oct	22-Oct	23-Oct	24-Oct	25-Oct
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.13	1.04	1.05	1.05	1.05	1.06
NZGB 05/21	0.82	0.82	0.86	0.83	0.80	0.79
NZGB 04/23	0.79	0.85	0.89	0.86	0.83	0.80
NZGB 04/27	1.01	1.14	1.18	1.14	1.12	1.06
NZGB 04/33	1.29	1.52	1.58	1.51	1.48	1.42
2 year swap	0.96	0.97	1.00	0.97	0.95	0.93
5 year swap	0.95	1.07	1.11	1.06	1.04	1.01
RBNZ TWI	70.50	70.83	71.07	71.01	71.09	70.76
NZD/USD	0.6315	0.6410	0.6418	0.6402	0.6396	0.6349
NZD/AUD	0.9321	0.9323	0.9354	0.9362	0.9358	0.9307
NZD/JPY	67.77	69.61	69.68	69.44	69.48	68.99
NZD/GBP	0.5087	0.4938	0.4952	0.4977	0.4961	0.4949
NZD/EUR	0.5744	0.5742	0.5760	0.5764	0.5747	0.5731
AUD/USD	0.6775	0.6876	0.6862	0.6838	0.6834	0.6823
EUR/USD	1.0994	1.1163	1.1142	1.1107	1.1128	1.1080
USD/JPY	107.32	108.58	108.57	108.47	108.64	108.67
GBP/USD	1.2414	1.2982	1.2961	1.2862	1.2893	1.2827
Oil (US$/bbl)	56.49	53.31	54.16	55.97	56.23	56.66
Gold (US$/oz)	1529.11	1491.55	1487.81	1491.23	1490.31	1504.63
NZX 50	10861	11063	11090	10854	10832	10789
Baltic Dry Freight Index	2053	1846	1806	1779	1785	1801
NZX WMP Futures (US$/t)	3130	3135	3130	3130	3130	3130

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