

New Zealand Weekly Focus

25 November 2019



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Contents

| | |
|---------------------|----|
| Economic overview | 2 |
| FX/rates overview | 9 |
| Data event calendar | 10 |
| Local data watch | 12 |
| Key forecasts | 13 |
| Important notice | 15 |

NZ Economics Team

Sharon Zollner
Chief Economist
 Telephone: +64 9 357 4094
Sharon.Zollner@anz.com

Michael Callaghan
Economist
 Telephone: +64 4 382 1975
Michael.Callaghan@anz.com

Natalie Denne
Desktop Publisher
 Telephone: +64 4 802 2217
Natalie.Denne@anz.com

Susan Kilsby
Agriculture Economist
 Telephone: +64 4 382 1992
Susan.Kilsby@anz.com

Sandeep Parekh
FX/Rates Strategist
 Telephone: +64 9 357 4065
Sandeep.Parekh@anz.com

Kyle Uerata
Economic Statistician
 Telephone: +64 4 802 2357
Kyle.Uerata@anz.com

Miles Workman
Senior Economist
 Telephone: +64 4 382 1951
Miles.Workman@anz.com

Contact
research@anz.com

Follow us on Twitter
[@sharon_zollner](https://twitter.com/sharon_zollner)
[@ANZ_Research \(global\)](https://twitter.com/ANZ_Research)

Say ahhhhhh

Economic overview

The RBNZ has recently conducted its regular health check of the New Zealand financial system. The test results, diagnosis and prescription will be announced in **this week's Financial Stability Report** (9am Wednesday). We expect the risks to financial stability from high household sector debt to again feature. And given that the pulse of the housing market has recently picked up, we think the balance of risks has shifted towards the RBNZ keeping LVR restrictions unchanged for now. **But it's still a close call.** Like us, we think the RBNZ will be cognisant of the possibility that house prices could take off strongly again, which would not be ideal from a financial stability perspective (among others!). Dairy sector debt and international risks should also feature heavily. The former appears to be on an improving trajectory; the latter are little changed since May.

Chart of the week

House price inflation has been picking up lately. Will the RBNZ decide to ease LVR restrictions this week and fuel the flames? **We think it'd be prudent to wait.**

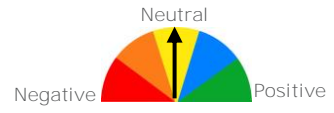
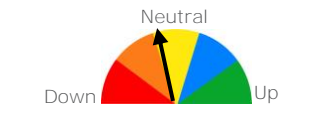
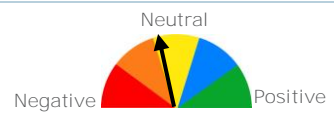
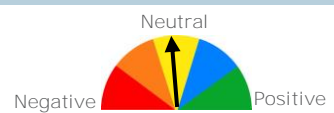
House prices and sales



Source: REINZ, ANZ Research

The ANZ heatmap

| Variable | View | Comment | Risks around our view |
|-------------------|----------------------|--|-----------------------|
| GDP | 2.3% y/y for 2021 Q1 | Growth has slowed. OCR cuts should support a gradual recovery next year. | Neutral |
| Unemployment rate | 4.5% for 2021 Q1 | The labour market is "tight", but the weaker economy will push up unemployment. Wage and employment growth to remain modest. | Neutral |
| OCR | 0.5% in March 2021 | We expect further cuts in May and August next year, bringing the OCR to 0.5%. | Neutral |
| CPI | 1.7% y/y for 2021 Q1 | Below-trend growth will stymie domestic inflation. OCR cuts should support a gradual rise over time. | Neutral |





Economic overview

The RBNZ will release its health check of the NZ financial system on Wednesday.

Summary

The RBNZ has recently conducted its regular health check of the New Zealand financial system. **The test results, diagnosis and prescription will be announced in this week's Financial Stability Report (9am Wednesday).** We expect the risks to financial stability from high household sector debt to again feature. And given that the pulse of the housing market has recently picked up, we think the balance of risks has shifted **towards the RBNZ keeping LVR restrictions unchanged for now. But it's still a close call.** Like us, we think the RBNZ will be cognisant of the possibility that house prices could take off strongly again, which would not be ideal from a financial stability perspective (among others!). Dairy sector debt and international risks should also feature heavily. The former appears to be on an improving trajectory; the latter are little changed since May.

Forthcoming data

Retail Sales – Q3 (Tuesday 26 November, 10:45am). A robust household sector is one of the bright spots in this increasingly uncertain environment. **Don't fail us now.** We've pencilled in a 0.8% q/q lift in sales volumes.

RBNZ Financial Stability Report (Wednesday 27 November, 9:00am). The FSR will likely conclude the financial system remains resilient, but also contain a plug for the value of higher bank capital. We think that retaining current LVR settings would be prudent at this point.

Overseas Merchandise Trade – October (Wednesday 27 November, 10:45am). We expect an unadjusted trade deficit of \$800 million, with exports coming in at \$5.2bn and imports at \$6.0bn. This would see the annual deficit narrow \$0.5bn to \$4.7bn.

ANZ Business Outlook – November (Thursday 28 November, 1:00pm).

ANZ-Roy Morgan Consumer Confidence – November (Friday 29 November, 10:00am).

Building consents – October (Friday, 29 November, 10:45am). Consents have held at a high level recently, but we see limited room for further strong growth from here.

What's the view?

After conducting a health check of the New Zealand financial system, the RBNZ will release its six-monthly Financial Stability Report (FSR) this week – a detailed report that assesses and reports on the soundness and efficiency of the New Zealand financial system.

The November FSR is likely to focus on housing market risks, the resilience of the banking and insurance sectors, and dairy sector debt. The RBNZ is likely to reiterate that the financial system is resilient, but there is also likely to be a plug for the proposal to significantly increase bank capital requirements (the decision regarding which is due Thursday next week, 5 December).

But the big focus will be on any changes to LVR settings. Current LVR settings are as follows:

- For owner-occupier loans, high-LVR loans are defined as those loans that are more than 80% of the property's value (20% deposit). High-LVR owner-occupier loans can make up no more than 20% of a bank's total new lending.
- For investor loans, high-LVR loans are those loans that are more than 70% of the property's value (30% deposit). High-LVR investor loans can make up no more than 5% of a bank's total new lending.

Housing, dairy, banking and insurance sectors will feature.

The big focus will be any easing in LVR settings...



Economic overview

...but we think it's prudent to hold off for now.

We think the balance of risks has recently shifted towards the RBNZ keeping LVR restrictions on hold for now. Evidence has continued to accumulate that lower mortgage rates are reviving the housing market, and we think it makes sense to see where the dust settles before slightly loosening LVR restrictions once more. After all, the RBNZ will get another shot at it in May. Like us, we think the RBNZ will be cognisant of the risk that house price inflation (and by association, mortgage debt) could take off again.

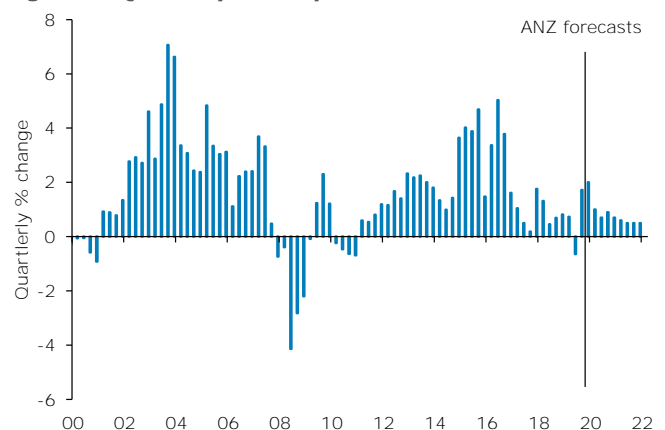
Currently, house price inflation is still running at relatively modest levels, with national house price growth running at 3.3% y/y on a 3-month moving average basis in October. But the recent pick-up in house price inflation has been quite broad-based across the country (figure 1).

Figure 1. Regional house price inflation



Source: REINZ, ANZ Research

Figure 2. Quarterly house price inflation



House price inflation is lifting from low rates...

Auckland house price inflation picked up to -1.0% y/y in October (with solid +1.9% q/q growth over the past quarter), after bottoming out at -3.7% y/y back in June. Outside of the biggest city, the ex-Auckland index has also picked up, with annual house price inflation running at 8.2% in October, up from a recent low of 5.9% y/y in July.

...and market activity is picking up.

House sales have also lifted lately (up 8.2% m/m in October, seasonally adjusted by ANZ) after a prolonged period of softness. House sales tend to lead prices and suggest that housing demand is picking up (figure 3). In addition, the number of days it takes to sell a house, an indicator of the strength of the market that encompasses both demand and supply-side considerations, has dropped further below its historical average.

Figure 3. Annual house prices and sales



Source: REINZ, ANZ Research



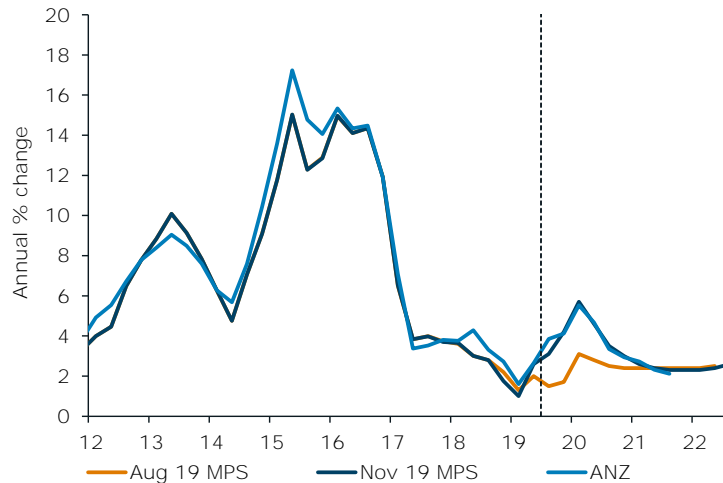
Economic overview

We expect house price inflation to peak at 5.5% y/y.

Looking forward, both we and the RBNZ expect house price inflation to pick up to about 5.5% over the next year (figure 4), close to the rate of growth in nominal household disposable income. But any further boost to house price inflation from here, for example induced by an easing in LVR restrictions, could tip the balance.

That said, we're not expecting a lift back to the double-digit growth of 2016. Policy, credit, and affordability headwinds should prevent the housing market from shooting to the moon once again, but that possibility can't be completely ruled out.

Figure 4. House price inflation



Source: CoreLogic, REINZ, RBNZ, ANZ Research

A hotter housing market could create risks.

We'd expect any pick-up in house price inflation will be accompanied by a lift in housing debt. But on our outlook, this shouldn't get out of hand. Risks regarding some households' ability to service their debt will remain. But with interest rates low (and looking to stay that way for a while yet) these stem more from a potential shock to household incomes as opposed to higher interest rates.

But credit growth has been modest this cycle.

Broadly speaking, credit growth has been quite modest relative to previous cycles (figure 5), meaning credit-to-GDP hasn't bolted (figure 6). But it still remains at a high level, with household sector debt levels particularly concerning.

Figure 5. Sectoral credit growth



Source: RBNZ, ANZ Research

Imbalances could build if housing takes off.

In recent years, it is true that credit growth has outpaced growth in household disposable incomes, but the disconnect hasn't been significant. And growth in household disposable incomes has outperformed house price growth recently (figure 7), limiting the deterioration in housing affordability. But with housing activity now picking up, the question is for how long?

Figure 6. Credit-to-GDP ratio by sector

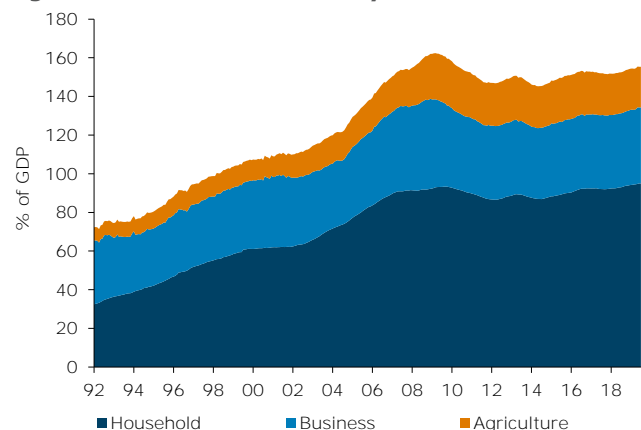
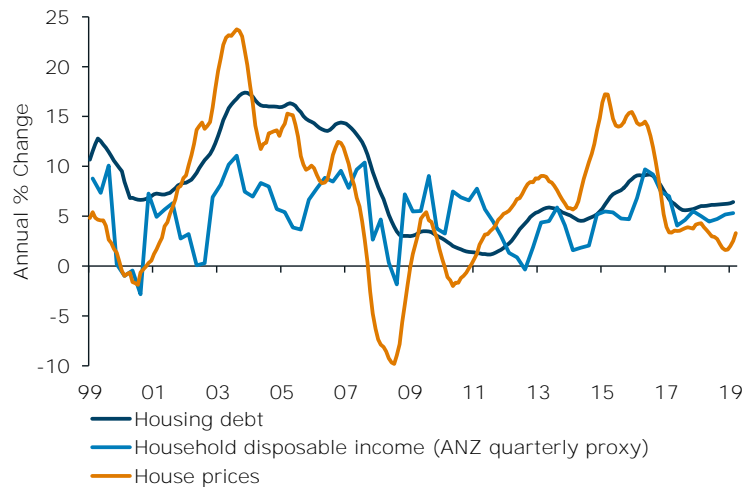




Figure 7. Housing debt, house prices, and household incomes



Source: Statistics NZ, REINZ, RBNZ, ANZ Research

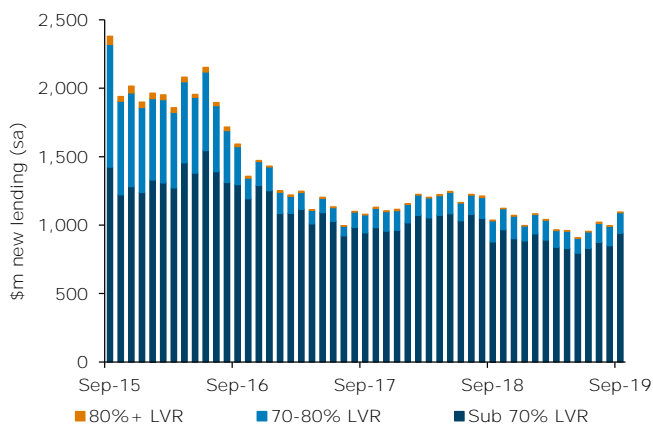
Investor lending has been a focus of recent LVR restrictions.

As noted above, investor lending has been particularly restricted by LVR settings. This is because investor loans are typically more highly leveraged and are thought to carry a higher risk to financial stability. For example, having a larger proportion of property investors in the market may increase house price volatility due to trader-like incentives to exit the housing market as the cycle turns, and/or a higher rate of mortgage defaults and hence fire-sales in times of trouble, if rental incomes deteriorate or other cash-flow hiccups occur.

Investor lending has risen, but the system is less risky than it was.

We have seen a slight pick-up in investor lending in recent months, but the amount of lending remains low relative to history and has been at respectable LVR levels (figure 8). The LVR restrictions have done their job in reducing risky lending, but the recent resurgence and outlook for the housing market suggests that it would be prudent for the RBNZ to hold off on further easing for now.

Figure 8. Investor lending by LVR

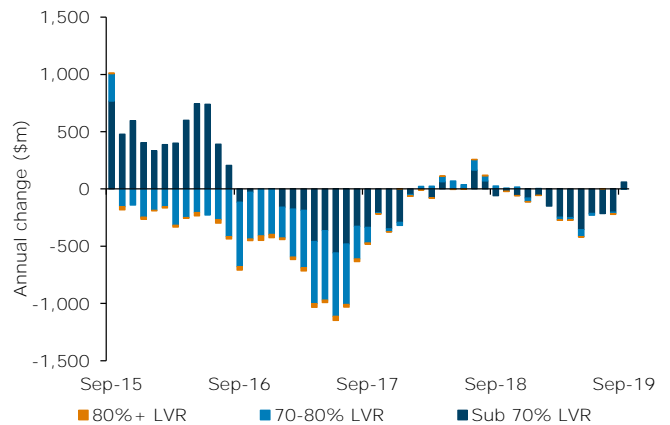


Source: RBNZ, ANZ Research

Affordability remains tough for many.

On the affordability side, there's some significant regional divergence at play. The fall in Auckland house prices over the past year, combined with solid income growth, has seen affordability improve in that region (figure 10). But outside of Auckland, affordability is getting worse and the resurgence in house price inflation won't help with that. It's not the RBNZ's mandate but it's closely related.

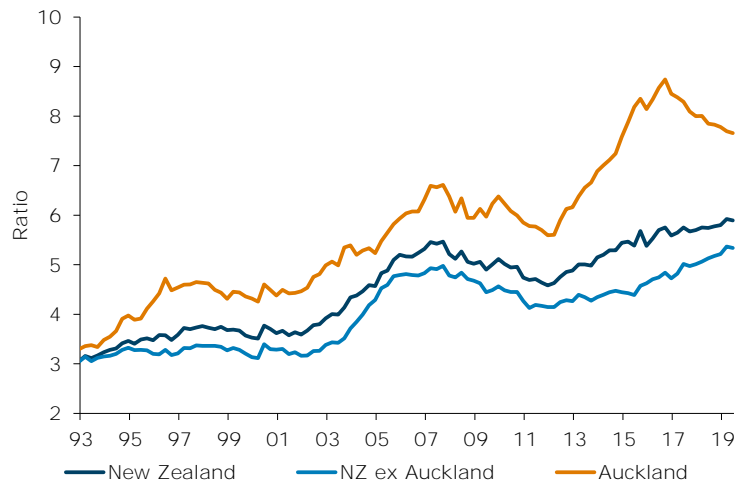
Figure 9. Annual change in new investor lending by LVR





Economic overview

Figure 10. Regional house prices to income



Source: Statistics NZ, REINZ, ANZ Research

It will be a delicate balancing act for the RBNZ.

Given the recent lift in the housing market, the RBNZ will have a delicate balancing act this week when they release the FSR and review LVR settings. The RBNZ has already cut the OCR 75bp this year, leading to substantial falls in mortgage rates (our [November Property Focus](#) discusses this further), which has no doubt made a strong contribution to the recent pick-up in the housing market.

Household debt is high and low rates can add to stability risks.

With the starting point for household debt so high, there is an unavoidable trade-off **between accommodative monetary policy settings to achieve the RBNZ's inflation mandate, and financial stability risks.** In the November MPS, the RBNZ acknowledged that sustained low interest rates have contributed to vulnerabilities in the financial system building up over time. But they also noted that low interest rates are a global, structural trend and that setting marginally tighter monetary policy to reduce financial stability vulnerabilities may have particularly significant implications for their employment and inflation objectives currently.

One can't push too far the argument that avoiding an economic downturn in itself reduces financial stability risks. The longer the day of reckoning is put off, the worse it will be, and the true costs of the global "growth at any cost" policies of the past decade will only be known in the fullness of time. The trade-offs are real. But the RBNZ appears comfortable for now that monetary policy is not exacerbating financial stability risks. But if housing goes gangbusters they may get less comfortable.

Dairy debt is elevated...

In addition to housing, dairy sector debt will likely feature heavily in the FSR. Dairy sector debt has been an ongoing financial stability concern for quite some time now, but there are some tentative signs that things are moving in the right direction. Dairy farmers are starting to deleverage (figure 11) and will be better positioned to increase principal repayments in early-2020 as the money starts to flow, given good prospects for a solid dairy payout this season.

...but farmers are starting to deleverage.

Despite slowing trading partner growth, dairy prices have continued to defy gravity. This, combined with the weak NZD, has bolstered farm incomes. **This won't really be noticed on-farm until the second half of the season, when advance rates on milk payments start to lift and on-farm costs subside.** The majority of the costs of operating a dairy farm are typically incurred through the spring, and at this time of the season incomes are low. Therefore it is often not until after Christmas that cash-flows improve, allowing for discretionary spending and increased principal repayments. So these data are about to get interesting.

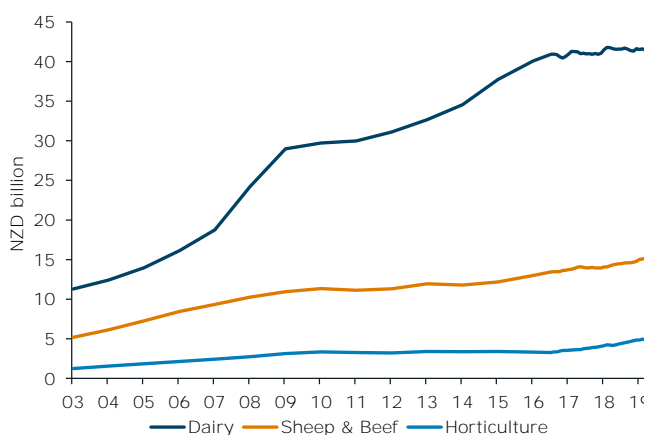


Economic overview

It is unusual for the NZD to be weakening over a period when commodity prices are strong. The NZD been weighed down by low interest rates and weak global economic performance (which typically would also soften commodity demand and prices). However, tight global milk supply has supported global dairy prices and this trend is expected to continue to run through the first quarter of 2020. But this trend will not defy gravity forever.

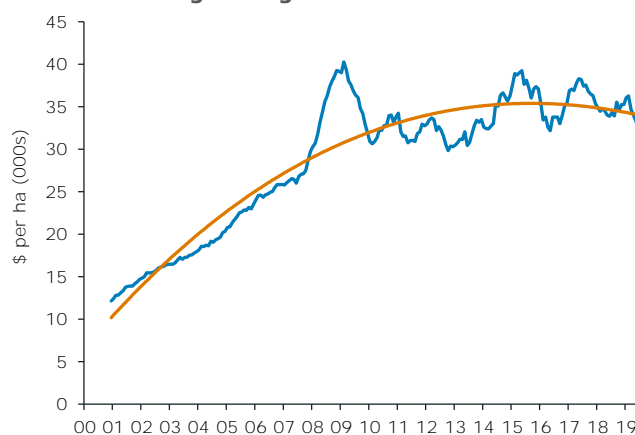
Given the fragile global backdrop, alongside increased regulatory costs and easing land prices (figure 12), reducing farm debt is the prudent thing to do.

Figure 11. Agriculture debt by sector



Source: RBNZ

Figure 12. New Zealand median dairy land prices – 12 month rolling average



Source: REINZ

Bank capital changes will be plugged, ahead of the announcement next week.

Finally, bank capital proposals are likely to get a mention, and market participants and analysts alike will be looking for an indication of where the RBNZ is likely to land when it makes its announcements on 5 December. In the May FSR, the RBNZ noted that “the Reserve Bank’s preliminary assessment was that while the proposals could lead to a slight increase in borrowing costs, this would be more than offset by the benefits of a safer banking system.” Since then the RBNZ has had the chance to review the submissions (and accompanying analysis, including [our own](#)), and should have completed a full cost-benefit analysis, supporting the final decision. As was the case in May, the FSR will likely include the case for sharply higher bank capital requirements, while also reaffirming that the financial system is already sound.

All up, in the absence of tweaks to LVR restrictions the FSR will likely come and go with little fanfare. The next major RBNZ announcement will be regarding bank capital on 5 December.

The week ahead

The big event of the week is the RBNZ’s six-monthly FSR, due Wednesday at 9:00am and closely followed by an 11:00am press conference. Aside from that, it’s a big week ahead for local data. On the consumer side, retail sales for Q3 are due on Tuesday (marking the first of the Q3 GDP partial indicators). Still-strong population growth, low unemployment, gradually lifting wages, and buoyant consumer confidence have kept retail sales trucking along, and we have no reason to think that changed in Q3. We’ve pencilled in lift of 0.8% q/q. This is followed by ANZ-Roy Morgan Consumer Confidence for November on Friday.

On the business activity side, the ANZ Business Outlook survey for November is out on Thursday. We’ll also get an update on the external sector, with October Overseas Merchandise Trade on Wednesday. We expect that export volumes will start to lift as dairy production season peaks and meat returns lift, while forestry exports remain



Economic overview

subdued. Overall, we've pencilled in an unadjusted trade deficit of \$800 million, with exports coming in at \$5.2bn and imports at \$6.0bn. This would see the annual deficit narrow \$0.5bn to **\$4.7bn**. **On Friday, we'll get building consents data for October.** Consents have been very high recently, but we see limited room for further strong growth from here.

Local data

GlobalDairyTrade auction. The GDT Price Index lifted 1.7%, supported by stronger prices for milk powders and cheese; however, the milkfat products gave up some of their recent gains. Whole milk powder prices lifted 2.2% to USD3321/t – a touch weaker than the market expected.

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.

- [NZ Property Focus: Passing through](#)



FX / rates overview

Markets showing signs of impatience.

Important talks and reports.

Rates were little moved.

NZD claims top spot despite a firmer USD.

Summary

The NZD was the only currency to post a material gain against the USD this week. Meanwhile, the USD was firmer thanks to an improvement in the domestic data pulse. US-China trade talks continued to progress but the market is becoming impatient with delays to the signing of 'phase one'.

Key events this week

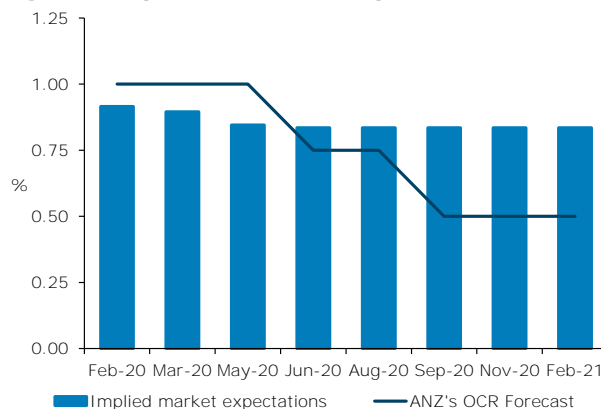
RBA Lowe's speech (Tuesday 26 November, 10:05pm). Governor Lowe will give his view on unconventional monetary policy based on lessons from his peers.

RBNZ Financial Stability Report (Wednesday 27 November, 09:00am). The RBNZ will give their assessment of NZ's financial stability.

Rates

There was little on offer domestically for local participants to get excited about. As such, the local yield curve was only 2-3bp lower at the short end, with the long end largely unchanged. The market remains cautiously optimistic on a US-China trade deal but a lack of movement on this front has seen many participants become impatient. An improvement in the global data pulse has also been a reason to be optimistic, with the data now suggesting that the recent decline in global manufacturing may have bottomed out. As at the time of writing, the market has a 32% chance of a 25bp cut priced in for the February 2020 RBNZ meeting, with the odds of a 25bp cut not rising much past 40% at any RBNZ meeting next year.

Figure 1. Expectations for a 25bp cut remains muted



Source: Bloomberg, ANZ Research

FX

NZD posted a gain and claimed a first-place finish for the second week in a row. The USD was broadly stronger against all G-10 peers, with the GBP lagging.

NZD/USD: NZD remained in close orbit around its USD 0.64 post-RBNZ level and fared better than most against a broadly stronger USD. Global events remain the primary driver for the NZD, whilst domestic data provides only a momentary distraction.

NZD/AUD: AUD was left in the middle of the pack. The RBA minutes gave the currency little reason to rally, as the central bank retained a modest dovish bias, whilst a slowing in global trade headlines also weighed.

NZD/EUR: New ECB President Christine Lagarde's speech failed to encourage the currency higher, despite her pledge to do whatever it takes support EU growth.

NZD/GBP: Soft data and election headlines did little to support to the GBP last week. The currency's fate remains hinged on the 12 December election result.

NZD/JPY: JPY was little changed week-on-week and enjoyed a second-place finish after finding support amidst a fading in risk appetite.



Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time | |
|--------|---------|---|------------------------------------|----------|----------|-------|
| 25-Nov | GE | IFO Business Climate - Nov | 95.0 | 94.6 | 22:00 | |
| | GE | IFO Expectations - Nov | 92.5 | 91.5 | 22:00 | |
| | GE | IFO Current Assessment - Nov | 97.9 | 97.8 | 22:00 | |
| 26-Nov | UK | CBI Retailing Reported Sales - Nov | -11 | -10 | 00:00 | |
| | UK | CBI Total Dist. Reported Sales - Nov | -- | -21 | 00:00 | |
| | US | Chicago Fed Nat Activity Index - Oct | -0.2 | -0.45 | 02:30 | |
| | US | Dallas Fed Manf. Activity - Nov | -3.8 | -5.1 | 04:30 | |
| | NZ | Retail Sales Ex Inflation QoQ - Q3 | 0.5% | 0.2% | 10:45 | |
| | AU | ANZ-RM Consumer Confidence Index - 24-Nov | -- | 109.9 | 11:30 | |
| | JN | PPI Services YoY - Oct | 1.8% | 0.5% | 12:50 | |
| | GE | GfK Consumer Confidence - Dec | 9.6 | 9.6 | 20:00 | |
| | UK | Finance Loans for Housing - Oct | 42150 | 42310 | 22:30 | |
| | 27-Nov | US | Advance Goods Trade Balance - Oct | -\$71.2B | -\$70.4B | 02:30 |
| US | | Wholesale Inventories MoM - Oct P | 0.1% | -0.4% | 02:30 | |
| US | | House Price Purchase Index QoQ - Q3 | -- | 1.0% | 03:00 | |
| US | | FHFA House Price Index MoM - Sep | 0.3% | 0.2% | 03:00 | |
| US | | S&P CoreLogic CS 20-City MoM SA - Sep | 0.30% | -0.16% | 03:00 | |
| US | | S&P CoreLogic CS 20-City YoY NSA - Sep | 2.00% | 2.03% | 03:00 | |
| US | | Richmond Fed Manufact. Index - Nov | 6 | 8 | 04:00 | |
| US | | New Home Sales - Oct | 708k | 701k | 04:00 | |
| US | | New Home Sales MoM - Oct | 1.0% | -0.7% | 04:00 | |
| US | | Conf. Board Consumer Confidence - Nov | 127.0 | 125.9 | 04:00 | |
| NZ | | RBNZ Financial Stability Report - Nov | -- | -- | 09:00 | |
| NZ | | Trade Balance NZD - Oct | -1000M | -1242M | 10:45 | |
| NZ | | Exports NZD - Oct | 5.00B | 4.47B | 10:45 | |
| NZ | | Imports NZD - Oct | 6.00B | 5.71B | 10:45 | |
| NZ | | Trade Balance 12 Mth YTD NZD - Oct | -4900M | -5213M | 10:45 | |
| AU | | Construction Work Done - Q3 | -1.0% | -3.8% | 13:30 | |
| GE | | Import Price Index MoM - Oct | -0.1% | 0.6% | 20:00 | |
| GE | | Import Price Index YoY - Oct | -3.5% | -2.5% | 20:00 | |
| 28-Nov | | US | MBA Mortgage Applications - 22-Nov | -- | -2.2% | 01:00 |
| | | US | GDP Annualized QoQ - Q3 S | 1.9% | 1.9% | 02:30 |
| | US | Personal Consumption - Q3 S | 2.8% | 2.9% | 02:30 | |
| | US | GDP Price Index - Q3 S | 1.7% | 1.7% | 02:30 | |
| | US | Core PCE QoQ - Q3 S | 2.2% | 2.2% | 02:30 | |
| | US | Durable Goods Orders - Oct P | -0.8% | -1.2% | 02:30 | |
| | US | Durables Ex Transportation - Oct P | 0.1% | -0.4% | 02:30 | |
| | US | Initial Jobless Claims - 23-Nov | 221k | 227k | 02:30 | |
| | US | Continuing Claims - 16-Nov | 1691k | 1695k | 02:30 | |
| | US | MNI Chicago PMI - Nov | 47.0 | 43.2 | 03:45 | |
| | US | Personal Income - Oct | 0.3% | 0.3% | 04:00 | |
| | US | Personal Spending - Oct | 0.3% | 0.2% | 04:00 | |
| | US | PCE Deflator MoM - Oct | 0.3% | 0.0% | 04:00 | |
| | US | PCE Deflator YoY - Oct | 1.4% | 1.3% | 04:00 | |
| | US | PCE Core Deflator MoM - Oct | 0.1% | 0.0% | 04:00 | |
| | US | PCE Core Deflator YoY - Oct | 1.7% | 1.7% | 04:00 | |
| | US | Pending Home Sales MoM - Oct | 0.2% | 1.5% | 04:00 | |
| | US | Pending Home Sales NSA YoY - Oct | 6.0% | 6.3% | 04:00 | |

Continued on following page



Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time | |
|--------|---------|-------------------------------------|-----------------------------|-------|----------------|-------|
| 28-Nov | US | Federal Reserve releases Beige Book | -- | -- | 08:00 | |
| | JN | Retail Sales MoM - Oct | -10.4% | 7.2% | 12:50 | |
| | JN | Retail Sales YoY - Oct | -3.8% | 9.2% | 12:50 | |
| | NZ | ANZ Activity Outlook - Nov | -- | -3.5 | 13:00 | |
| | NZ | ANZ Business Confidence - Nov | -- | -42.4 | 13:00 | |
| | AU | Private Capital Expenditure - Q3 | 0.0% | -0.5% | 13:30 | |
| | EC | M3 Money Supply YoY - Oct | 5.5% | 5.5% | 22:00 | |
| | EC | Economic Confidence - Nov | 101.0 | 100.8 | 23:00 | |
| | EC | Business Climate Indicator - Nov | -0.14 | -0.19 | 23:00 | |
| | EC | Industrial Confidence - Nov | -9.1 | -9.5 | 23:00 | |
| | EC | Services Confidence - Nov | 8.8 | 9.0 | 23:00 | |
| | EC | Consumer Confidence - Nov F | -- | -7.2 | 23:00 | |
| | UK | Nationwide House PX MoM - Nov | 0.1% | 0.2% | 28 Nov - 4 Dec | |
| | UK | Nationwide House Px NSA YoY - Nov | 0.2% | 0.4% | 28 Nov - 4 Dec | |
| 29-Nov | GE | CPI MoM - Nov P | -0.6% | 0.1% | 02:00 | |
| | GE | CPI YoY - Nov P | 1.2% | 1.1% | 02:00 | |
| | GE | CPI EU Harmonized MoM - Nov P | -0.7% | 0.1% | 02:00 | |
| | GE | CPI EU Harmonized YoY - Nov P | 1.2% | 0.9% | 02:00 | |
| | NZ | ANZ Consumer Confidence MoM - Nov | -- | 4.0% | 10:00 | |
| | NZ | ANZ Consumer Confidence Index - Nov | -- | 118.4 | 10:00 | |
| | NZ | Building Permits MoM - Oct | -- | 7.20% | 10:45 | |
| | JN | Tokyo CPI YoY - Nov | 0.6% | 0.4% | 12:30 | |
| | JN | Tokyo CPI Ex-Fresh Food YoY - Nov | 0.6% | 0.5% | 12:30 | |
| | JN | Industrial Production MoM - Oct P | -2.0% | 1.7% | 12:50 | |
| | JN | Industrial Production YoY - Oct P | -5.3% | 1.3% | 12:50 | |
| | UK | GfK Consumer Confidence - Nov | -14 | -14 | 13:01 | |
| | AU | Private Sector Credit MoM - Oct | 0.3% | 0.2% | 13:30 | |
| | AU | Private Sector Credit YoY - Oct | 2.7% | 2.7% | 13:30 | |
| | GE | Retail Sales MoM - Oct | 0.2% | 0.0% | 20:00 | |
| | GE | Retail Sales NSA YoY - Oct | 3.0% | 3.4% | 20:00 | |
| | GE | Unemployment Change (000's) - Nov | 5.0k | 6.0k | 21:55 | |
| | GE | Unemployment Claims Rate SA - Nov | 5.0% | 5.0% | 21:55 | |
| | UK | Net Consumer Credit - Oct | £0.9B | £0.8B | 22:30 | |
| | UK | Consumer Credit YoY - Oct | -- | 6.0% | 22:30 | |
| | UK | Net Lending Sec. on Dwellings - Oct | £3.8B | £3.8B | 22:30 | |
| | UK | Mortgage Approvals - Oct | 65.4k | 65.9k | 22:30 | |
| | UK | Money Supply M4 MoM - Oct | -- | 0.7% | 22:30 | |
| | UK | M4 Money Supply YoY - Oct | -- | 4.0% | 22:30 | |
| | UK | M4 Ex IOFCs 3M Annualised - Oct | -- | 7.9% | 22:30 | |
| | EC | Unemployment Rate - Oct | 7.5% | 7.5% | 23:00 | |
| | EC | CPI MoM - Nov P | -0.4% | 0.1% | 23:00 | |
| | EC | CPI Core YoY - Nov P | 1.2% | 1.1% | 23:00 | |
| | EC | CPI Estimate YoY - Nov | 0.9% | 0.7% | 23:00 | |
| | 30-Nov | CH | Composite PMI - Nov | -- | 52.0 | 14:00 |
| | | CH | Manufacturing PMI - Nov | 49.5 | 49.3 | 14:00 |
| | | CH | Non-manufacturing PMI - Nov | 53.1 | 52.8 | 14:00 |

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 |
|-----------------------|---|-------------------|---|
| 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. We think that retaining current LVR settings would be prudent at this point. |
| Wed 27 Nov (10:45am) | Overseas Merchandise Trade – October | Narrow | Exports are expected to rise as dairy production peaks and meat returns lift, while forestry exports remain subdued. |
| Thu 28 Nov (1:00pm) | ANZ Business Outlook – November | -- | -- |
| Fri 29 Nov (10:00am) | ANZ Roy Morgan Consumer Confidence – November | -- | -- |
| Fri 29 Nov (10:45am) | Building Consents – October | Wary | Consents have held at a high level recently, but we see downside risk looming. |
| Mon 2 Dec (10:45am) | Terms of Trade Index – Q3 | Increasing | Terms of trade are expected to lift as key export prices remain strong despite softening global growth. |
| Wed 4 Dec (early am) | GlobalDairyTrade auction | Improving | Prices are expected to slowly lift as the season progresses and offer volumes ease back. |
| Wed 4 Dec (1:00pm) | ANZ Commodity Price Index – November | -- | -- |
| Thu 5 Dec (10:45am) | Work Put In Place – Q3 | Small rise | Consent issuance points to a rise in both residential and non-residential work put in place for Q3. |
| Mon 9 Dec (10:45am) | Economic Survey of Manufacturing – Q3 | Soft | A manufacturing PMI below 50 over Q3 suggest the ESM will remain soft, and that's after Q2's 2.7% contraction. |
| Tue 10 Dec (10:00am) | ANZ Truckometer – November | -- | -- |
| Wed 11 Dec (1:00pm) | NZ Half-Year Economic and Fiscal Update | Prudence | The Government is expected to stick to its fiscal prudence knitting for now, echoing the RBNZ's patient message. |
| Thu 12 Dec (10:45am) | Food Price Index – November | Small dip | A seasonal decline in food prices from fruit and vegetables is expected. |
| Thu 12 Dec (10:45am) | Rental Price Index – November | Small rise | Continued increases in rental prices should support a quarterly rise in CPI rents. |
| Thu 12 Dec (1:00pm) | ANZ Monthly Inflation Gauge – November | -- | -- |
| Fri 13 Dec (10:30am) | BNZ-BusinessNZ Manufacturing PMI – November | Rebound | The PMI flipped from contractionary to expansionary mode last month. But these data are volatile on a m/m basis. We're watching closely to see if recent strength is maintained. |
| Mon 16 Dec (10:30am) | Performance Services Index – November | Watching | An easing trend has been in play since 2016, but recent prints have remained robust. |
| Tue 17 Dec (1:00pm) | ANZ Business Outlook – December | -- | -- |
| Wed 18 Dec (early am) | GlobalDairyTrade auction | Increasing | Further price increases are expected as the market balance favours exporters rather than importers. |
| Wed 18 Dec (10:45am) | Balance of Payments – Q3 | Contained | The current account should remain contained in Q3 owing to elevated export prices and low global interest rates. |
| Thu 19 Dec (10:45am) | Gross Domestic Product – Q3 | Weak | We've pencilled in quarterly growth of just 0.4%, which absent revisions would see annual growth tick up to 2.2% - a technical bounce opposed to a turning point in momentum. |
| Fri 20 Dec (10:00am) | ANZ Roy Morgan Consumer Confidence – December | -- | -- |
| 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 | 0.6 | 0.6 | 0.5 | 0.6 | 0.6 |
| GDP (% yoy) | 2.1 | 2.2 | 2.0 | 1.9 | 2.0 | 2.2 | 2.2 | 2.3 | 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 | 2.3 | 2.4 |
| Employment (% qoq) | 0.6 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Employment (% yoy) | 1.4 | 0.9 | 1.1 | 1.4 | 1.2 | 1.3 | 1.3 | 1.4 | 1.4 |
| Unemployment Rate (% sa) | 3.9 | 4.2 | 4.3 | 4.4 | 4.4 | 4.5 | 4.5 | 4.5 | 4.5 |
| Current Account (% GDP) | -3.4 | -3.3 | -3.3 | -3.3 | -3.3 | -3.5 | -3.4 | -3.4 | -3.4 |
| Terms of Trade (% qoq) | 1.6 | 3.2 | -2.0 | 2.1 | 0.1 | 0.3 | 0.2 | 0.0 | 0.1 |
| Terms of Trade (% yoy) | -0.8 | 2.5 | 3.8 | 4.9 | 3.4 | 0.5 | 2.7 | 0.6 | 0.6 |

| | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Retail ECT (% mom) | 1.8 | 0.1 | -0.1 | 0.6 | -0.5 | 0.3 | 0.1 | 1.3 | 0.2 | -0.6 |
| Retail ECT (% yoy) | 3.8 | 3.6 | 1.0 | 5.0 | 3.4 | 1.5 | 2.0 | 3.1 | 0.6 | 1.6 |
| Car Registrations (% mom) | 4.3 | 1.3 | -3.0 | 2.0 | -1.5 | -2.7 | 4.4 | 0.8 | 6.5 | -6.3 |
| Car Registrations (% yoy) | -12.1 | -3.9 | -2.9 | -0.5 | -12.6 | -11.0 | -5.4 | -5.2 | 4.7 | -6.6 |
| Building Consents (% mom) | 13.1 | 1.8 | -7.0 | -7.3 | 14.7 | -3.9 | -1.1 | 0.9 | 7.2 | -- |
| Building Consents (% yoy) | 31.9 | 28.0 | 2.8 | -3.2 | 8.1 | 9.9 | 18.6 | 12.5 | 23.7 | -- |
| REINZ House Price Index (% yoy) | 2.8 | 3.0 | 2.4 | 1.4 | 1.7 | 1.7 | 1.6 | 2.7 | 3.3 | 3.9 |
| Household Lending Growth (% mom) | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | -- |
| Household Lending Growth (% yoy) | 5.9 | 5.9 | 5.9 | 5.9 | 6.0 | 5.9 | 5.9 | 6.0 | 6.2 | -- |
| ANZ Roy Morgan Consumer Conf. | 121.7 | 120.8 | 121.8 | 123.2 | 119.3 | 122.6 | 116.4 | 118.2 | 113.9 | 118.4 |
| ANZ Business Confidence | .. | -30.9 | -38.0 | -37.5 | -32.0 | -38.1 | -44.3 | -52.3 | -53.5 | -42.4 |
| ANZ Own Activity Outlook | .. | 10.5 | 6.3 | 7.1 | 8.5 | 8.0 | 5.0 | -0.5 | -1.8 | -3.5 |
| Trade Balance (\$m) | -935 | -94 | 825 | 361 | 175 | 330 | -706 | -1628 | -1242 | -- |
| Trade Bal (\$m ann) | -6433 | -6715 | -5739 | -5578 | -5602 | -4987 | -5490 | -5551 | -5213 | -- |
| ANZ World Comm. Price Index (% mom) | 2.0 | 2.8 | 4.1 | 2.6 | 0.0 | -3.9 | -1.4 | 0.3 | 0.0 | 1.2 |
| ANZ World Comm. Price Index (% yoy) | -2.2 | -2.2 | 0.6 | 2.2 | 0.7 | -2.4 | -0.5 | 0.9 | 3.4 | 7.2 |
| Net Migration (sa) | 4930 | 4590 | 3490 | 4080 | 3970 | 4110 | 4760 | 4150 | 3440 | -- |
| Net Migration (ann) | 54985 | 56037 | 55571 | 55660 | 55342 | 55548 | 56405 | 55993 | 54624 | -- |
| ANZ Heavy Traffic Index (% mom) | 4.8 | 0.1 | -2.1 | 3.8 | 0.6 | -4.8 | 3.9 | -4.3 | 2.9 | 2.5 |
| ANZ Light Traffic Index (% mom) | 2.0 | -0.8 | 0.7 | 0.2 | 0.7 | -2.1 | 1.4 | 0.3 | -0.3 | 0.1 |
| ANZ Monthly Inflation Gauge (% mom) | 1.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.3 | 0.5 | 0.3 | 0.3 | 0.2 |

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) | | | | | |
|----------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
| | Sep-19 | Oct-19 | Today | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
| NZD/USD | 0.626 | 0.641 | 0.641 | 0.62 | 0.59 | 0.61 | 0.61 | 0.63 | 0.63 |
| NZD/AUD | 0.928 | 0.930 | 0.944 | 0.93 | 0.91 | 0.92 | 0.90 | 0.91 | 0.90 |
| NZD/EUR | 0.575 | 0.575 | 0.582 | 0.56 | 0.56 | 0.58 | 0.58 | 0.58 | 0.57 |
| NZD/JPY | 67.69 | 69.28 | 69.70 | 67.0 | 62.0 | 64.1 | 64.1 | 66.2 | 66.2 |
| NZD/GBP | 0.510 | 0.496 | 0.499 | 0.48 | 0.45 | 0.46 | 0.45 | 0.46 | 0.47 |
| NZ\$ TWI | 68.2 | 68.9 | 71.23 | 67.3 | 64.8 | 66.9 | 66.4 | 67.8 | 67.3 |
| Interest rates | Sep-19 | Oct-19 | Today | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
| NZ OCR | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 0.75 | 0.50 | 0.50 | 0.50 |
| NZ 90 day bill | 1.15 | 1.10 | 1.21 | 1.23 | 1.12 | 0.87 | 0.70 | 0.70 | 0.70 |
| NZ 10-yr bond | 1.09 | 1.31 | 1.34 | 1.35 | 1.35 | 1.35 | 1.45 | 1.55 | 1.55 |
| US Fed funds | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| US 3-mth | 2.09 | 1.91 | 1.92 | 2.15 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 |
| AU Cash Rate | 1.00 | 0.75 | 0.75 | 0.75 | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 |
| AU 3-mth | 0.95 | 0.93 | 0.89 | 0.95 | 0.70 | 0.45 | 0.45 | 0.45 | 0.45 |

| | 22-Oct | 18-Nov | 19-Nov | 20-Nov | 21-Nov | 22-Nov |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Official Cash Rate | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| 90 day bank bill | 1.05 | 1.22 | 1.21 | 1.21 | 1.20 | 1.21 |
| NZGB 05/21 | 0.86 | 0.99 | 0.97 | 0.97 | 0.97 | 0.98 |
| NZGB 04/23 | 0.89 | 1.02 | 1.00 | 0.99 | 0.98 | 1.00 |
| NZGB 04/27 | 1.18 | 1.29 | 1.27 | 1.24 | 1.22 | 1.24 |
| NZGB 04/33 | 1.58 | 1.58 | 1.57 | 1.55 | 1.52 | 1.53 |
| 2 year swap | 1.00 | 1.17 | 1.16 | 1.14 | 1.13 | 1.14 |
| 5 year swap | 1.11 | 1.25 | 1.23 | 1.20 | 1.20 | 1.22 |
| RBNZ TWI | 71.07 | 70.87 | 70.81 | 71.18 | 71.05 | 71.07 |
| NZD/USD | 0.6418 | 0.6401 | 0.6407 | 0.6420 | 0.6433 | 0.6410 |
| NZD/AUD | 0.9354 | 0.9401 | 0.9396 | 0.9426 | 0.9448 | 0.9444 |
| NZD/JPY | 69.68 | 69.80 | 69.72 | 69.62 | 69.87 | 69.65 |
| NZD/GBP | 0.4952 | 0.4940 | 0.4954 | 0.4976 | 0.4971 | 0.4993 |
| NZD/EUR | 0.5760 | 0.5788 | 0.5788 | 0.5802 | 0.5805 | 0.5814 |
| AUD/USD | 0.6862 | 0.6809 | 0.6819 | 0.6812 | 0.6809 | 0.6786 |
| EUR/USD | 1.1142 | 1.1058 | 1.1069 | 1.1066 | 1.1082 | 1.1021 |
| USD/JPY | 108.57 | 109.05 | 108.82 | 108.44 | 108.62 | 108.66 |
| GBP/USD | 1.2961 | 1.2957 | 1.2932 | 1.2902 | 1.2942 | 1.2834 |
| Oil (US\$/bbl) | 54.16 | 57.05 | 55.21 | 57.11 | 58.58 | 57.77 |
| Gold (US\$/oz) | 1487.81 | 1458.07 | 1465.49 | 1475.98 | 1468.38 | 1461.93 |
| NZX 50 | 11090 | 10873 | 10892 | 10975 | 10958 | 10946 |
| Baltic Dry Freight Index | 1806 | 1338 | 1304 | 1260 | 1255 | 1284 |
| NZX WMP Futures (US\$/t) | 3130 | 3265 | 3265 | 3360 | 3340 | 3340 |



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