ANZ Research

New Zealand Weekly Focus

2 December 2019

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Not out of the woods

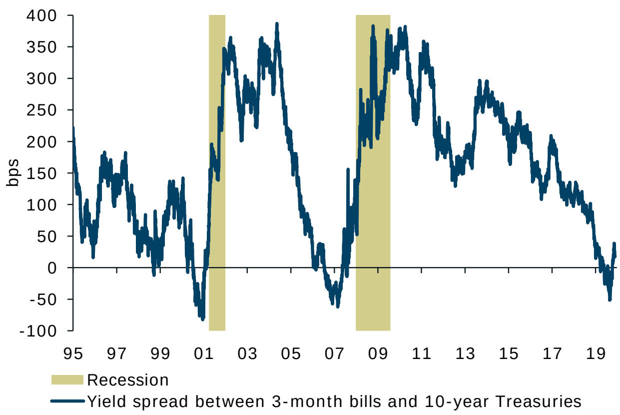
Economic overview

Is the economy at a turning point? Recent developments have certainty been more positive, with business and consumer confidence lifting, the PMI rebounding into expansionary territory, and the housing market picking up. The Government is sounding more amenable to spending a bit more. Our commodity prices are holding up well and global financial market sentiment has lifted, but the hard data is yet to confirm a global growth turnaround. Overall, these developments are consistent with our forecast for growth to stabilise around 2%, but the bank capital decision this week may add a further headwind. We're not out of the woods, but the risks now feel more balanced than a few months ago. That said, we think that beyond the near term the RBNZ still has more work to do to get inflation up to 2% sustainably – we're picking cuts in May and August, taking the OCR down to 0.5%.

Chart of the week

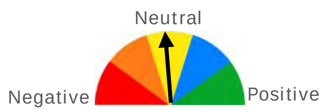
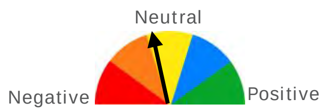
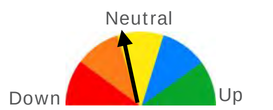
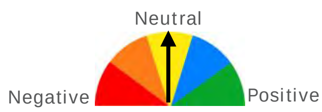
Recession averted? The US interest rate spread – historically a good recession indicator – has bounced back to positive territory. It poses the question, both here and abroad, of whether the worst is behind us.

US 10-year–3-month yield curve spread



Source: Bloomberg, ANZ Research

The ANZ heatmap

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

Economic overview

The data pulse has been more positive lately, but we're not out of the woods yet.

Summary

Is the economy at a turning point? Recent developments have certainty been more positive, with business and consumer confidence lifting, the PMI rebounding into expansionary territory, and the housing market picking up. The Government is sounding more amenable to spending a bit more. Our commodity prices are holding up well and global financial market sentiment has lifted, but the hard data is yet to confirm a global growth turnaround. Overall, these developments are consistent with our forecast for growth to stabilise around 2%, but the bank capital decision this week may add a further headwind. We're not out of the woods, but the risks now feel more balanced than a few months ago. That said, we think that beyond the near term the RBNZ still has more work to do to get inflation up to 2% sustainably – we're picking cuts in May and August, taking the OCR down to 0.5%.

Forthcoming data

Terms of Trade Index – Q3 (Monday 2 December, 10:45am). The terms of trade is expected to lift 2.5%, touching record-high levels as key export prices remain strong despite softening global growth.

GlobalDairyTrade auction (Wednesday 4 December, early am). The GDT Price Index is expected to lift by another 1.5% at this week's event. Offer volumes are starting to decrease seasonally while immediate demand remains robust. It is, however, the first auction since the tariff-free window closed.

ANZ Commodity Price Index – November (Wednesday 4 December, 1:00pm).

Work Put in Place – Q3 (Thursday 5 December, 10:45am). Consent issuance points to a rise in both residential and non-residential work put in place for Q3; we're picking a 2.2% q/q rise.

RBNZ Bank Capital Review (Thursday 5 December, 12 noon). The RBNZ will announce new bank capital requirements and its estimates of the policy's costs and benefits.

What's the view?

Local data has bounced, and the global vibe has improved.

Is the economy at a turning point? Recent domestic economic developments have certainty been more positive, with business and consumer confidence lifting, the PMI rebounding into expansionary territory, and the housing market showing clear signs of picking up. And globally, financial market sentiment has been buoyed lately – although we've yet to see that reflected in the hard data.

Growth looks likely to stabilise at 2%.

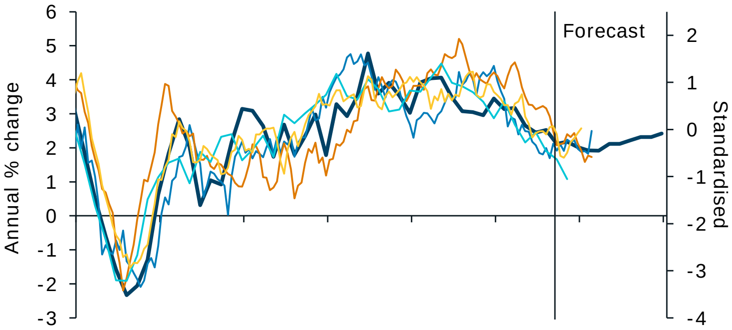
We're not expecting economic momentum will turn around sharply and bolt, but the recent improvement in the 'soft' data does make us more confident in our view that annual growth will stabilise in the near term (around the 2% mark) and gradually accelerate thereafter (figure 1). And while it's too early to say whether the recent improvement will persist and translate into a pick-up in activity, it's certainly encouraging to see some upside risks to the outlook developing, rather than the decidedly one-sided picture we've seen over the past 12 months.

And the risks are feeling more balanced.

That said, we're not out of the woods yet – the headwinds have not gone away and we think that the RBNZ still has more work to do – but the risks are now feeling more balanced than they were a few months ago.

Adding to this, the Minister of Finance announced just over the weekend that Cabinet has agreed to a significant boost to infrastructure investment, and that he has directed the Treasury to help bring together a package of projects that can be brought into the Government's short and medium-term plan of investments. A $400 million school maintenance package (to be spent over the next two years) has already been confirmed, which on its own isn't a game changer from an economic outlook perspective (being worth around 0.1% of annual nominal GDP), but we'll be watching closely to see what follows. While we won't get a gauge on the size and magnitude of any additional spending until the Half-Year Economic and Fiscal Update and Budget Policy Statement is released on 11 December, this does represent a (possibly small) upside risk to our medium-term GDP outlook.

Figure 1. Near-term GDP growth indicators



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

There was a broad-based pick up in the ANZBO survey.

In one of the clearest signs of an improving vibe, the November ANZ Business Outlook Survey was much stronger across the board. Headline business confidence jumped 16 points to a net 26% of respondents reporting that they expect general business conditions to deteriorate in the year ahead. While still not a great level, this is the highest read this year. Firms' expectations for their own activity over the year ahead, a better economic indicator, rose 17 points to +13. This is also the strongest read in 2019 (figure 2).

Employment intentions rose 12 points to a net 3% of firms intending to lift employment. Investment intentions rose 12 points to +6%, with lifts across every sector. Capacity utilisation lifted 5 points to +5%. Profit expectations also jumped 16 points. It remains in the red, with a net 5% expecting lower profitability, but that's the strongest read in 19 months. Commercial construction intentions rose 6 points to +6; residential lifted 13 points to +8. But the construction sector is still planning to cut jobs.

Figure 2. ANZ Business Confidence and Own Activity

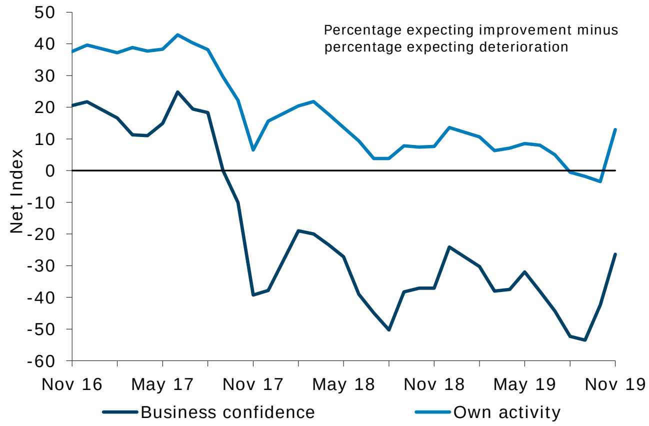
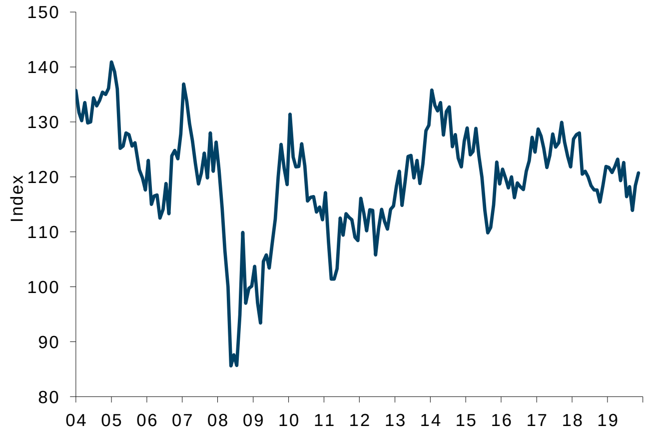


Figure 3. ANZ-Roy Morgan Consumer Confidence



Source: Roy Morgan, ANZ Research

And consumer confidence ticked up.

In addition to less negative businesses, the ANZ-Roy Morgan Consumer Confidence Index rose 3 points to 121 in November (figure 3), to just above the historical average. The lift was driven by increased confidence about the economic outlook, but confidence that it's a good time to buy a major item lifted as well, importantly.

PMIs also suggest that growth will stabilise.

Putting it together, our confidence composite gauge lifted sharply this month, primarily due to the sharp lift in ANZBO indicators. It is consistent with our view that while the headwinds facing the economy are real, the tailwinds are too, and growth should bottom out around the 2% mark.

Other activity surveys are also showing signs of life. After spending three months in contractionary territory (below 50), the BNZ-BusinessNZ PMI rebounded 3.9 points in November – back into the expansionary zone. While PMIs can be quite volatile on a monthly basis, this at least provides tentative evidence that the gradual slowdown in core manufacturing activity (reflecting the broader economic slowdown), is finding a floor (figure 4). Combined with a robust Performance of Services Index, these data suggest momentum could pick up a little earlier than we're forecasting (figure 5). But on the other hand, the weaker signal from other forward indicators such as our Truckometer indexes balances the risks out.

Figure 4. Manufacturing GDP (ex-primary) and PMI

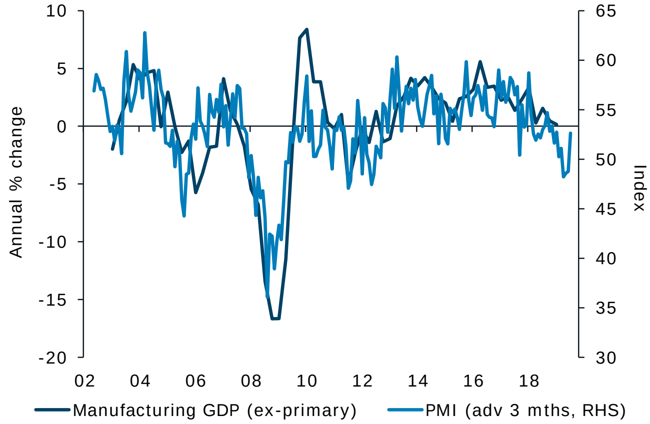
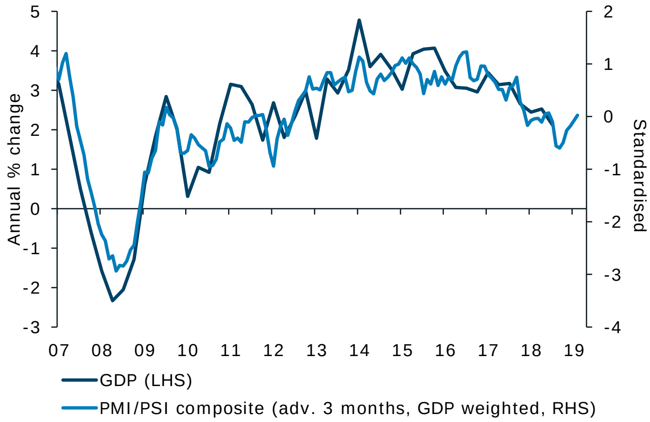


Figure 5. GDP and PMI/PSI composite index



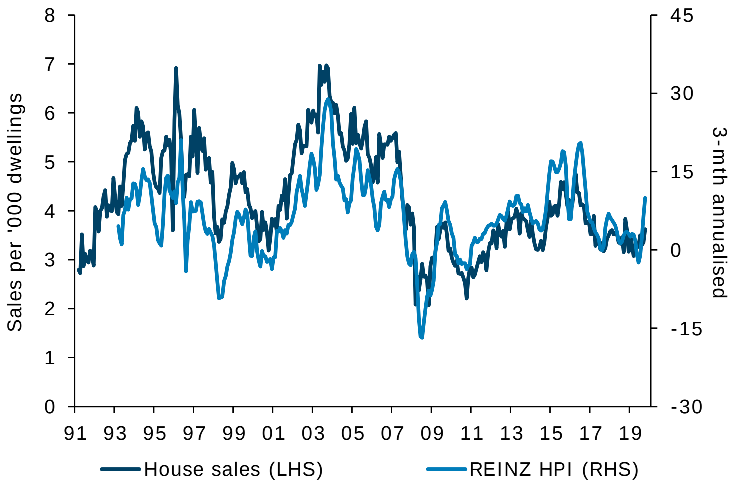
Source: Statistics NZ, BNZ-BusinessNZ, ANZ Research

Lower rates are also reigniting the housing market.

Along with the recent bounce in activity indicators, there are some other signs that the stimulus from the RBNZ's 75bps of rate cuts over the past year are starting to filter through into the economy.

The housing market is picking up, after an extended period of subdued activity. House price inflation has been strong and house sales have lifted in the last three months (figure 6), suggesting that the substantial falls that we've seen in mortgage rates over the past year are indeed starting to boost housing demand.

Figure 6. House prices and sales



Source: REINZ, ANZ Research

Economic overview

The global picture is still bleak…

On the global front, the picture is still iffy at best but at least things haven't deteriorated further lately. And financial market sentiment has been buoyed by more positive comments coming out of US-China trade discussions.

…but market sentiment has been buoyed.

Reflecting the improved sentiment, the US yield curve, which has over history been a useful recession indicator, has snapped out of inversion, easing US recession concerns for now (figure 7). A combination of Federal Reserve rate cuts over the past 6 months has put downward pressure on 3-month rates, while US 10-year yields have bounced on better global financial market sentiment. But it is worth keeping in mind that the bounce in financial market sentiment – spurred by some easing in trade tensions – is yet to be reflected in the hard economic data. And financial market sentiment is notoriously temperamental.

The hard data remains weak.

Turning to the actual economic data, global trade volumes continue to fall and industrial production growth globally has been flat over the past year (figure 8). The near-term growth outlook remains very subdued in many economies, and timely indicators of the global manufacturing sector (such as PMIs) suggest continued cause for concern.

Figure 7. US 10-year–3-month yield curve spread

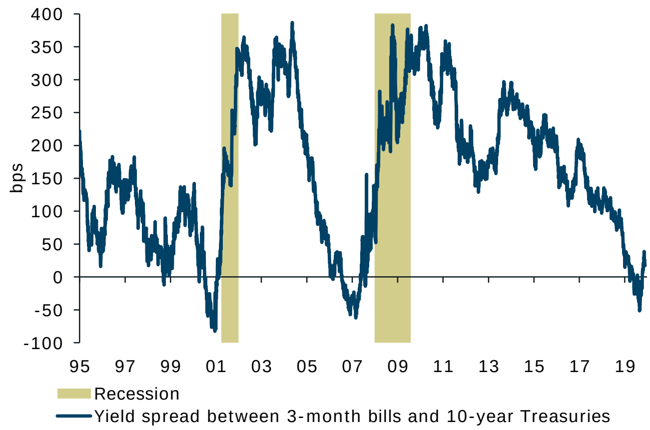
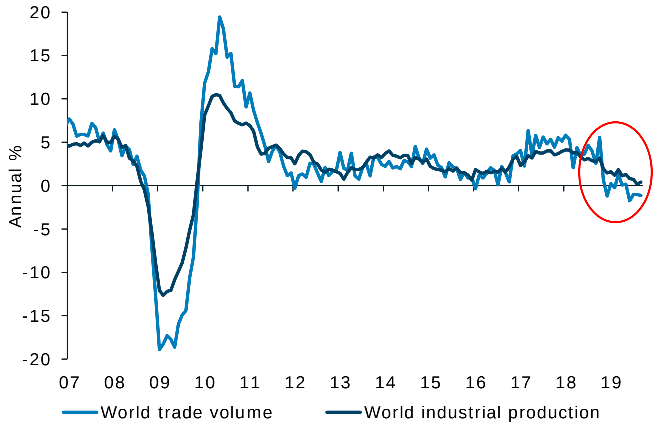


Figure 8. Trade volumes and industrial production



Source: Bloomberg, ANZ Research

NZ has been reasonably sheltered so far.

But New Zealand hasn't done too badly at all amidst this global slowdown to date. Yes, slowing global growth is weighing on services exports (chiefly tourism) to some degree, but tourist arrivals and spending haven't exactly fallen off a cliff (the weaker NZD is no doubt helping). Other, more direct, ways in which slowing global demand typically transmits to the New Zealand economy, such as commodity prices and bank funding costs, have been behaving themselves too. But still-soggy business confidence is likely a function of global uncertainties to some extent, as history shows that it is very unusual for the New Zealand economy to accelerate away while its major trading partners are heading in the other direction.

Commodity prices are holding up.

But the fact is, prices for New Zealand's food commodities remain strong. To be sure, it is more a function of tight global supply for milk and meat than it is a story of strong demand, but demand is clearly holding up.

- Despite weaker GDP growth in key markets such as China, whole milk powder prices have lifted almost a third over the past 12 months. And there is little on the immediate horizon to indicate these prices won't be maintained, as global milk supplies remain tight – futures prices suggest the average market participant expects prices to remain robust at least until early-2020.
- Meat prices have been bolstered by a massive hole in global pork production due to the outbreak of African swine fever in China. This has pushed prices for manufacturing grade beef to a five-year high (figure 9) and diverted New Zealand beef to China that would previously have been destined for the US.

Figure 9. Manufacturing grade bull beef

Source: AgriHQ, ANZ Research

At the farmgate level, strong commodity prices, combined with the relatively weak NZD, have resulted in record returns for lambs, ewes and cattle.

The lower NZD is boosting export returns.

Normally the NZD tracks our commodity prices fairly well, but relatively aggressive OCR cuts in New Zealand have seen the NZD fall this year. The NZD is down about 3% since the start of the year on a trade-weighted basis (figure 10). The lower NZD is giving exporters an additional income boost, supporting import-competing firms, and – importantly for the RBNZ's inflation mandate – adding to imported price pressure.

Figure 10. NZ dollar trade-weighted index

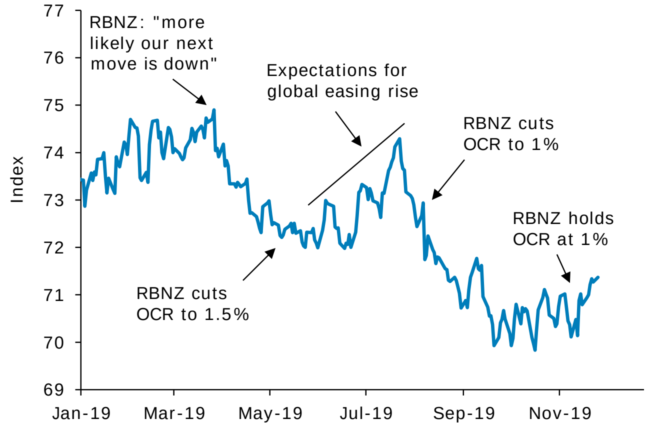
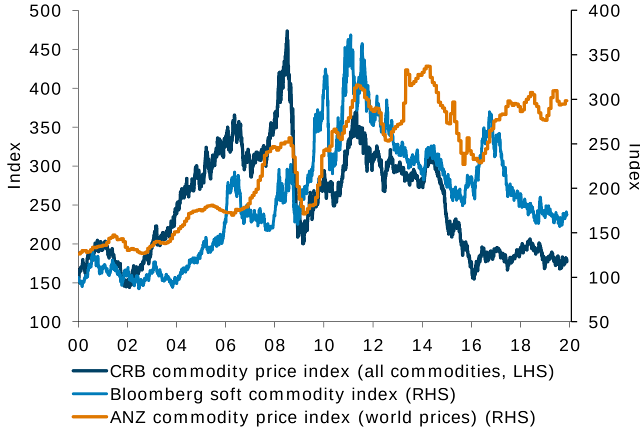


Figure 11. NZ vs world commodity prices



Source: Bloomberg, ANZ Research

And financial markets are benign…

An important channel through which a weak global economy normally impacts New Zealand is through higher bank funding costs as financial market volatility picks up. But so far, global financial markets have remained in yield-seeking mode even as global growth has slowed. Equity markets remain near record highs and credit spreads are tight, supporting lower bank funding costs and accordingly, low retail borrowing costs. That said, domestic factors such as anticipation of the Reserve Bank's higher capital requirements for banks have seen credit conditions tighten lately, particularly for commercial and agricultural lending.

And while New Zealand is proving fairly immune so far, global risks remain:

…but risks linger.

- New Zealand commodity prices could stop defying gravity (figure 11) and fall back into line with the global trend.

- It's fair to say some silliness has entered global credit markets, which history suggests will be followed eventually by an outbreak of fear, though the timing is impossible to estimate. A repricing of risk could tighten financial conditions and raising borrowing costs, putting upward pressure on New Zealand mortgage rates.

The RBNZ did not ease LVR restrictions given upside housing risks.

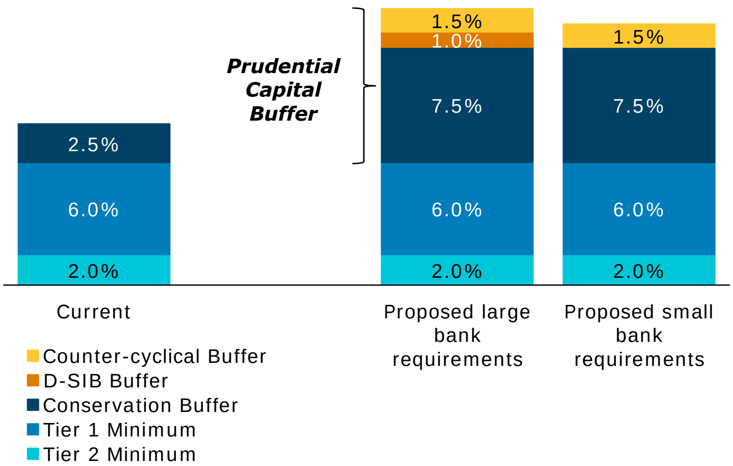
The RBNZ Financial Stability Report (FSR) last week passed with little fanfare, with the RBNZ reiterating that the New Zealand financial system remains "resilient", but higher bank capital buffers are nonetheless deemed necessary to improve "longer-term" resilience. The RBNZ kept loan-to-value ratio mortgage lending restrictions unchanged as we had expected, highlighting the risk of a resurgence in higher-risk mortgage lending given low interest rates.

Bank capital changes could lift lending rates and constrain credit.

In the end, the FSR was the warm-up act for the main event: the RBNZ's final bank capital decision, due on Thursday. [1] Higher bank capital requirements will put upward pressure on lending rates and constraining credit availability (particularly for the relatively risky commercial and agricultural sectors), but opinions differ on how meaningful the impacts will be. The RBNZ thinks their initial proposal would increase rates by 20-40bp, we think by closer to +80bp. But we'll wait to see what Thursday brings.

The market will be interested to see if there is any softening to the initial proposals. In the FSR, it was noted that the RBNZ is considering alternative options, refining its costs and benefits analysis, re-considering interest rate impacts, and assessing transitional impacts in light of feedback received.

Figure 12. Proposed changes to bank capital rules



Source: RBNZ

Q3 GDP could change the picture a bit.

There's also the final big data piece for the year to look forward to – Q3 GDP, due a bit before Christmas. We're expecting a soft 0.4% q/q print, but it's the potential revisions to GDP that could be more interesting. Revisions tend to be large in the Q3 release, and we suspect that the GDP revisions could make previous growth higher. That sounds good, but the rub is that it might make the most recent growth slowdown look a bit sharper than the data currently suggests. That would at least be consistent with the Quarterly Survey of Business Opinion's domestic trading activity, which has fallen sharply in the year to Q3 and typically tracks GDP closely.

[1] The RBNZ has proposed to raise the level of tier 1 capital banks must hold to 16% (15% for smaller banks) of newly-defined risk-weighted assets over a five-year transition period (figure 12), alongside proposed changes to the treatment of existing capital and risk-weighted assets. The RBNZ estimates that major banks currently hold tier-1 capital equal to 11.5% of newly-defined risk-weighted assets.

Economic overview

Overall, the risks are now more balanced.

But overall, the latest data flow out of the NZ economy makes us more confident in our current growth forecasts – the risks are now looking more balanced, rather than strongly tilted to the downside. The impact of lower mortgage rates and a lower NZD is still working its way through the economy, and the 'vibe' is getting a bit better – even if that's getting ahead of the hard data.

The recent bounce back is still consistent with subdued growth.

The recent bounce-back in some of our leading indicators is consistent with our view of continued subdued – but hardly awful – growth near-term, but it reduces some downside growth risks. Recent more positive developments give the RBNZ some time to wait and watch the incoming data, supporting our view that they won't be in a rush to cut at their next meeting in February.

But risks abound.

But we're still not out of the woods. The jury is still out on whether recent weakness in global manufacturing and trade has spread into an otherwise robust household sector, particularly in the US. And back home, employment intentions have been weak for a while, though they bounced back in November. Yes, the labour market is robust now, but it typically lags economic activity by half a year or so.

The RBNZ need more to see inflation at 2%.

Looking further out, we still think that the RBNZ won't get the growth they need to see inflation settle sustainably at 2%. While we aren't necessarily sure it would be a great idea to cut the OCR too much further, we suspect that in time the RBNZ's models will tell them that to give the economy the boost required to see inflation to move back up to 2% robustly, the OCR needs to go under 1%. We are picking two further 25bp in May and August next year, to take the OCR to 0.5%.

The week ahead

The focus of the week is the RBNZ's bank capital review announcement, which is due Thursday at 12 noon and will include a media conference.

Apart from that, a bunch of data releases will let us know how our commodity prices are weathering the global slowdown. Today, the Terms of Trade Index for Q3 is due. Terms of trade are expected to lift to a record level as key export prices remain strong despite softening global growth; we're picking a 2.5% q/q lift. We'll also get an update on dairy prices from the GlobalDairyTrade auction in the early hours of Wednesday morning. Dairy prices are expected to lift by a further 1.5% at this week's event. The quantity of milk powder on offer is 7% less than the previous event as offerings start to fall in alignment with the seasonal decrease in milk production. Finally, our ANZ Commodity Price Index for November will be released on Wednesday.

On the activity side, on Thursday we'll get Q3 Building Work Put in Place data. Consent issuance points to a rise in both residential and non-residential work put in place; we're picking a 2.2% q/q lift.

Local data

Retail Sales – Q3. Retail sales volumes were stronger than expected in Q3, up 1.6% q/q. This represents some modest upside to our Q3 GDP pick of 0.4% q/q, but it's still early days in terms of partial GDP indicators. Nonetheless, it's clear that a robust household sector remains one of the economy's bright spots.

RBNZ Financial Stability Report. The RBNZ kept loan-to-value ratio restrictions unchanged, highlighting the risk of a resurgence in higher-risk lending given low interest rates. The New Zealand's financial system remains "resilient" but higher bank capital buffers are nonetheless deemed necessary to improve "longer-term" resilience.

Overseas Merchandise Trade – October. The trade deficit for October eased back to $1.01 billion. Exports lifted to $5.03 billion while imports were also stronger, lifting to $6.05 billion. The annual trade deficit narrowed a little further to $5.04 billion.

Economic overview

ANZ Business Outlook – November. The November ANZ Business Outlook Survey was stronger across the board. Headline business confidence jumped 16 points to a net 26% of respondents reporting that they expect general business conditions to deteriorate in the year ahead, while firms' expectations for their own activity over the year ahead, a better economic indicator, rose 17 points to +13.

ANZ-Roy Morgan Consumer Confidence – November. The ANZ-Roy Morgan Consumer Confidence Index rose 3 points to 121 in November. The lift was driven by increased confidence about the economic outlook.

Building consents – October. Building consents fell 1.1% in October, declining slightly after a solid 7.2% rise the month prior. Building consents have been solid lately, largely driven by multi-unit dwellings, but stand house consents jumped in October.

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.

- ANZ Business Outlook: Happier
- ANZ Consumer Confidence: Summer is coming
- RBNZ Financial Stability Report: No surprises there

FX / rates overview

Summary

Reheating old tensions.

Geopolitical tensions continued to drive markets with sentiment dented following President Trump's signing of the Hong Kong Human Rights and Democracy Act. China has vowed to retaliate but has offered little detail. Meanwhile, FX markets continued to range, with a late surge giving the NZD a chance to test key resistance levels.

Key events this week

Focus on our side of the world.

RBA cash rate decision (Tuesday 03 November, 4:30pm). No cut is expected, but the market will be eagerly awaiting Governor Lowe's forward guidance for 2020.

RBNZ decision on bank capital (Thursday 05 November, 12:00pm). The RBNZ will provide a decision on bank capital alongside a cost-benefit analysis.

Rates

Little change in local rates once again.

It was another quiet week in local interest rates markets with the yield curve largely unchanged week-on-week. The short end found itself a few basis points higher after markets pared their expectations for cuts to the OCR at the RBNZ's February MPS. At present, the market has a 32% chance of a 25bp cut priced in for the RBNZ's first meeting of 2020 with the market-implied terminal cash rate 1bp higher at 0.85%. The long end saw little change as markets endured shifting trade headlines and poor market liquidity as a result of the Thanksgiving Day holiday.

FX

Safe haven currencies fall, despite ongoing shifts in sentiment.

The AUD joined global safe-haven currencies the CHF and JPY near the bottom of the ladder as markets flocked to the USD thanks to an improving data pulse. The SEK and GBP outperformed while the CAD and NZD posted modest gains.

NZD/USD: NZD showed plenty of grit and withstood a late USD rally at the end of the week. Despite paring gains, the NZD remains near a key resistance level with domestic focus squarely on the RBNZ's decision on bank capital this week.

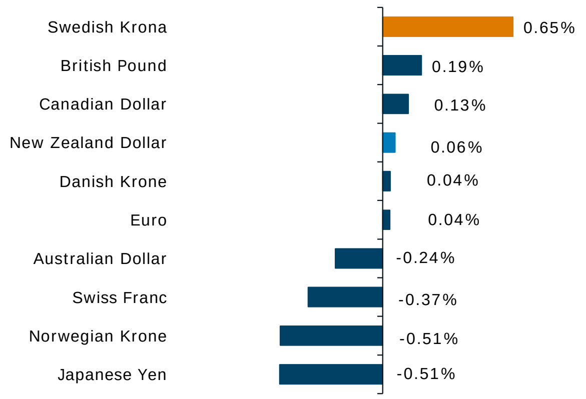
NZD/AUD: AUD struggled to compete with the NZD after Governor Lowe signalled his preferred floor for the RBA's cash rate before providing a road-map to QE in Australia. The RBA's cash rate decision will be an early focus for this pair this week.

NZD/EUR: The beleaguered common currency was little changed week-on-week, and struggled to gain momentum following news of political infighting in Germany.

NZD/GBP: GBP reversed its losses from the week prior. But its fate remains tied to the evolving political landscape, with Labour clawing back votes in recent polls.

NZD/JPY: JPY was the worst performer this week as a mix of poor data and shifting risk appetite weighed on the currency.

Figure 1. G-10 performance (USD base)



Source: Bloomberg, ANZ Research

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
2-Dec	AU	Ai Group Perf of Mfg Index - Nov	--	51.6	10:30
	NZ	Terms of Trade Index QoQ - Q3	1.0%	1.6%	10:45
	AU	CBA PMI Mfg - Nov F	--	49.9	11:00
	AU	CoreLogic House Px MoM - Nov	--	1.4%	12:00
	AU	Melbourne Institute Inflation MoM - Nov	--	0.1%	13:00
	AU	Melbourne Institute Inflation YoY - Nov	--	1.5%	13:00
	AU	ANZ Job Advertisements MoM - Nov	--	-1.0%	13:30
	AU	Building Approvals MoM - Oct	-1.0%	7.6%	13:30
	AU	Building Approvals YoY - Oct	-18.0%	-19.0%	13:30
	AU	Company Operating Profit QoQ - Q3	1.0%	4.5%	13:30
	AU	Inventories SA QoQ - Q3	-0.2%	-0.9%	13:30
	JN	Jibun Bank PMI Mfg - Nov F	--	48.6	13:30
	CH	Caixin PMI Mfg - Nov	51.5	51.7	14:45
	GE	Markit/BME Manufacturing PMI - Nov F	43.8	43.8	21:55
	EC	Markit Manufacturing PMI - Nov F	46.6	46.6	22:00
	UK	Markit PMI Manufacturing SA - Nov F	48.3	48.3	22:30
3-Dec	US	Markit Manufacturing PMI - Nov F	52.2	52.2	03:45
	US	ISM Manufacturing - Nov	49.2	48.3	04:00
	US	ISM Employment - Nov	48.3	47.7	04:00
	US	ISM Prices Paid - Nov	47.0	45.5	04:00
	US	ISM New Orders - Nov	--	49.1	04:00
	US	Construction Spending MoM - Oct	0.3%	0.5%	04:00
	AU	ANZ-RM Consumer Confidence Index - 1-Dec	--	106.8	11:30
	AU	Net Exports of GDP - Q3	0.2	0.6	13:30
	AU	BoP Current Account Balance - Q3	A$6.1B	A$5.9B	13:30
	AU	RBA Cash Rate Target - Dec	0.75%	0.75%	16:30
	UK	Markit/CIPS Construction PMI - Nov	44.5	44.2	22:30
	UK	Unit Labor Costs YoY - Q2	--	2.1%	22:30
	EC	PPI MoM - Oct	0.0%	0.1%	23:00
	EC	PPI YoY - Oct	-1.8%	-1.2%	23:00
4-Dec	NZ	QV House Prices YoY - Nov	--	2.8%	05:00
	AU	Ai Group Perf of Services Index - Nov	--	54.2	10:30
	AU	CBA PMI Services - Nov F	--	49.5	11:00
	AU	CBA PMI Composite - Nov F	--	49.5	11:00
	NZ	ANZ Commodity Price - Nov	--	1.2%	13:00
	AU	GDP SA QoQ - Q3	0.5%	0.5%	13:30
	AU	GDP YoY - Q3	1.6%	1.4%	13:30
	JN	Jibun Bank PMI Services - Nov F	--	50.4	13:30
	JN	Jibun Bank PMI Composite - Nov F	--	49.9	13:30
	CH	Caixin PMI Composite - Nov	--	52.0	14:45
	CH	Caixin PMI Services - Nov	51.2	51.1	14:45
	GE	Markit Services PMI - Nov F	51.3	51.3	21:55
	GE	Markit/BME Composite PMI - Nov F	49.2	49.2	21:55
	EC	Markit Services PMI - Nov F	51.5	51.5	22:00
	EC	Markit Composite PMI - Nov F	50.3	50.3	22:00
	UK	Markit/CIPS Services PMI - Nov F	48.6	48.6	22:30
	UK	Markit/CIPS Composite PMI - Nov F	48.5	48.5	22:30
	UK	Official Reserves Changes - Nov	--	$2212M	22:30

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
5-Dec	US	MBA Mortgage Applications - 29-Nov	--	1.5%	01:00
	US	ADP Employment Change - Nov	140k	125k	02:15
	US	Markit Services PMI - Nov F	51.6	51.6	03:45
	US	Markit Composite PMI - Nov F	--	51.9	03:45
	US	ISM Non-Manufacturing Index - Nov	54.5	54.7	04:00
	NZ	Volume of All Buildings SA QoQ - Q3	1.0%	-1.5%	10:45
	AU	Trade Balance - Oct	A$6500M	A$7180M	13:30
	AU	Retail Sales MoM - Oct	0.3%	0.2%	13:30
	GE	Factory Orders MoM - Oct	0.5%	1.3%	20:00
	GE	Factory Orders WDA YoY - Oct	-4.8%	-5.4%	20:00
	GE	Markit Construction PMI - Nov	--	51.5	21:30
	EC	Retail Sales MoM - Oct	-0.4%	0.1%	23:00
	EC	Retail Sales YoY - Oct	2.0%	3.1%	23:00
	EC	Employment QoQ - Q3 F	--	0.1%	23:00
	EC	Employment YoY - Q3 F	--	1.0%	23:00
	EC	GDP SA QoQ - Q3 F	0.2%	0.2%	23:00
	EC	GDP SA YoY - Q3 F	1.2%	1.2%	23:00
6-Dec	US	Challenger Job Cuts YoY - Nov	--	-33.50%	01:30
	US	Initial Jobless Claims - 30-Nov	215k	213k	02:30
	US	Continuing Claims - 23-Nov	1661k	1640k	02:30
	US	Trade Balance - Oct	-$48.7B	-$52.5B	02:30
	US	Factory Orders - Oct	0.3%	-0.6%	04:00
	US	Factory Orders Ex Trans - Oct	--	-0.1%	04:00
	US	Durable Goods Orders - Oct F	--	0.6%	04:00
	US	Durables Ex Transportation - Oct F	--	0.6%	04:00
	US	Cap Goods Orders Nondef Ex Air - Oct F	--	1.2%	04:00
	US	Cap Goods Ship Nondef Ex Air - Oct F	--	0.8%	04:00
	AU	Ai Group Perf of Construction Index - Nov	--	43.9	10:30
	AU	Foreign Reserves - Nov	--	A$69.4B	18:30
	GE	Industrial Production SA MoM - Oct	0.2%	-0.6%	20:00
	GE	Industrial Production WDA YoY - Oct	-3.6%	-4.3%	20:00
7-Dec	US	Change in Nonfarm Payrolls - Nov	188k	128k	02:30
	US	Unemployment Rate - Nov	3.6%	3.6%	02:30
	US	Average Hourly Earnings MoM - Nov	0.3%	0.2%	02:30
	US	Average Hourly Earnings YoY - Nov	3.0%	3.0%	02:30
	US	Average Weekly Hours All Employees - Nov	34.4	34.4	02:30
	US	Labor Force Participation Rate - Nov	--	63.3%	02:30
	US	Wholesale Inventories MoM - Oct F	0.2%	0.2%	04:00
	US	Wholesale Trade Sales MoM - Oct	--	0.0%	04:00
	US	U. of Mich. Sentiment - Dec P	97.0	96.8	04:00
	US	U. of Mich. Current Conditions - Dec P	--	111.6	04:00
	US	U. of Mich. Expectations - Dec P	--	87.3	04:00
	US	U. of Mich. 1 Yr Inflation - Dec P	--	2.5%	04:00
	US	U. of Mich. 5-10 Yr Inflation - Dec P	--	2.5%	04:00
	US	Consumer Credit - Oct	$16.00B	$9.51B	09:00

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
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. We're picking 2.5% q/q.
Wed 4 Dec (early am)	GlobalDairyTrade auction	Improving	The GDT Price Index is expected to lift by another 1.5% at this week's event. Offer volumes are starting to decrease seasonally while immediate demand remains robust.
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, we're picking +2.2% q/q.
Thu 5 Dec (12 noon)	RBNZ Bank Capital Review	Rise	The RBNZ will announce new bank capital requirements and its estimates of the policy's costs and benefits.
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	--	--
Thu 9 Jan (10:00am)	ANZ Truckometer – December	--	--
Thu 9 Jan (1:00pm)	ANZ Commodity Price Index – December	--	--
Tue 14 Jan (10:00am)	NZIER Business Opinion Survey – Q4	Poised	The ANZBO has recently improved – a sign that the QSBO is poised to do the same.
Tue 14 Jan (10:45am)	Building Consents – December	Wary	Consents have held at a high level recently, but we see downside risk looming.
Wed 15 Jan (10:45am)	Food Price Index – December	Dip	A seasonal decline in food prices is expected.
Wed 15 Jan (10:45am)	Rental Price Index – November	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
On balance		**Data watch**	**Domestic and global data has softened and we expect a lower OCR with inflation pressures fading.**

Key forecasts and rates

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
GDP (% qoq)	0.5	**0.4**	**0.5**	**0.5**	**0.6**	**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**	**-3.4**	**-3.5**	**-3.6**	**-3.6**	**-3.5**	**-3.6**
Terms of Trade (% qoq)	1.6	**2.5**	**-1.9**	**1.9**	**0.2**	**0.1**	**0.3**	**0.1**	**0.1**
Terms of Trade (% yoy)	-0.8	**1.8**	**3.1**	**4.1**	**2.7**	**0.3**	**2.6**	**0.7**	**0.7**

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Retail ECT (% mom)	0.1	-0.1	0.6	-0.5	0.3	0.1	1.3	0.2	-0.6	--
Retail ECT (% yoy)	3.6	1.0	5.0	3.4	1.5	2.0	3.1	0.6	1.6	--
Car Registrations (% mom)	1.3	-3.0	2.0	-1.5	-2.7	4.4	0.8	6.5	-6.3	--
Car Registrations (% yoy)	-3.9	-2.9	-0.5	-12.6	-11.0	-5.4	-5.2	4.7	-6.6	--
Building Consents (% mom)	1.9	-7.1	-7.3	14.7	-3.9	-1.1	1.0	7.4	-1.1	--
Building Consents (% yoy)	28.0	2.8	-3.2	8.1	9.9	18.5	12.5	23.8	18.9	--
REINZ House Price Index (% yoy)	3.0	2.4	1.4	1.7	1.7	1.6	2.7	3.3	3.9	--
Household Lending Growth (% mom)	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	--
Household Lending Growth (% yoy)	5.9	5.9	5.9	6.0	5.9	5.9	6.0	6.2	6.2	--
ANZ Roy Morgan Consumer Conf.	120.8	121.8	123.2	119.3	122.6	116.4	118.2	113.9	118.4	120.7
ANZ Business Confidence	-30.9	-38.0	-37.5	-32.0	-38.1	-44.3	-52.3	-53.5	-42.4	-26.4
ANZ Own Activity Outlook	10.5	6.3	7.1	8.5	8.0	5.0	-0.5	-1.8	-3.5	12.9
Trade Balance ($m)	-94	825	361	175	330	-732	-1641	-1319	-1013	--
Trade Bal ($m ann)	-6715	-5739	-5578	-5602	-4987	-5516	-5591	-5330	-5037	--
ANZ World Comm. Price Index (% mom)	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	0.6	2.2	0.7	-2.4	-0.5	0.9	3.4	7.2	--
Net Migration (sa)	4590	3490	4080	3970	4110	4760	4150	3440	--	--
Net Migration (ann)	56037	55571	55660	55342	55548	56405	55993	54624	--	--
ANZ Heavy Traffic Index (% mom)	0.1	-2.1	3.8	0.6	-4.8	3.9	-4.3	2.9	2.5	--
ANZ Light Traffic Index (% mom)	-0.8	0.7	0.2	0.7	-2.1	1.4	0.3	-0.3	0.1	--
ANZ Monthly Inflation Gauge (% mom)	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

	Actual			Forecast (end month)					
FX rates	Oct-19	Nov-19	Today	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
NZD/USD	0.641	0.642	0.643	0.62	0.59	0.61	0.61	0.63	0.63
NZD/AUD	0.930	0.950	0.950	0.93	0.91	0.92	0.90	0.91	0.90
NZD/EUR	0.575	0.583	0.584	0.56	0.55	0.55	0.55	0.56	0.56
NZD/JPY	69.28	70.31	70.46	67.0	62.0	64.1	64.1	66.2	66.2
NZD/GBP	0.496	0.497	0.498	0.48	0.45	0.46	0.45	0.46	0.46
NZ$ TWI	68.9	69.6	71.47	67.3	64.4	66.0	65.5	67.1	66.7
Interest rates	Oct-19	Nov-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	1.10	1.23	1.23	1.24	1.12	0.87	0.70	0.70	0.70
NZ 10-yr bond	1.31	1.29	1.31	1.20	1.30	1.17	1.40	1.30	1.55
US Fed funds	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
US 3-mth	1.90	1.91	1.91	2.05	1.90	1.90	1.90	1.90	1.90
AU Cash Rate	0.75	0.75	0.75	0.75	0.50	0.25	0.25	0.25	0.25
AU 3-mth	0.93	0.89	0.89	0.95	0.70	0.45	0.45	0.45	0.45

	29-Oct	25-Nov	26-Nov	27-Nov	28-Nov	29-Nov
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.06	1.21	1.22	1.23	1.23	1.23
NZGB 05/21	0.85	0.98	0.98	0.97	0.95	0.97
NZGB 04/23	0.88	1.00	1.00	0.99	0.97	0.98
NZGB 04/27	1.16	1.23	1.23	1.21	1.19	1.21
NZGB 04/33	1.54	1.52	1.51	1.49	1.47	1.48
2 year swap	0.98	1.13	1.14	1.13	1.13	1.14
5 year swap	1.08	1.21	1.21	1.19	1.20	1.21
RBNZ TWI	70.53	71.19	71.20	71.41	71.39	71.34
NZD/USD	0.6344	0.6414	0.6420	0.6426	0.6427	0.6422
NZD/AUD	0.9265	0.9448	0.9474	0.9473	0.9493	0.9493
NZD/JPY	69.11	69.82	69.95	70.12	70.34	70.31
NZD/GBP	0.4930	0.4979	0.4994	0.4988	0.4967	0.4970
NZD/EUR	0.5721	0.5824	0.5827	0.5840	0.5837	0.5828
AUD/USD	0.6848	0.6789	0.6776	0.6784	0.6770	0.6763
EUR/USD	1.1090	1.1013	1.1017	1.1005	1.1011	1.1018
USD/JPY	108.94	108.84	108.96	109.12	109.45	109.49
GBP/USD	1.2866	1.2883	1.2853	1.2884	1.2938	1.2925
Oil (US$/bbl)	55.54	58.01	58.41	58.11	58.11	55.17
Gold (US$/oz)	1487.00	1458.71	1458.33	1460.02	1457.50	1463.97
NZX 50	10794	10954	11045	11121	11207	11317
Baltic Dry Freight Index	1802	1351	1426	1440	1467	1528
NZX WMP Futures (US$/t)	3125	3340	3350	3355	3355	3350

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