New Zealand Weekly Focus

9 December 2019

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A little brighter

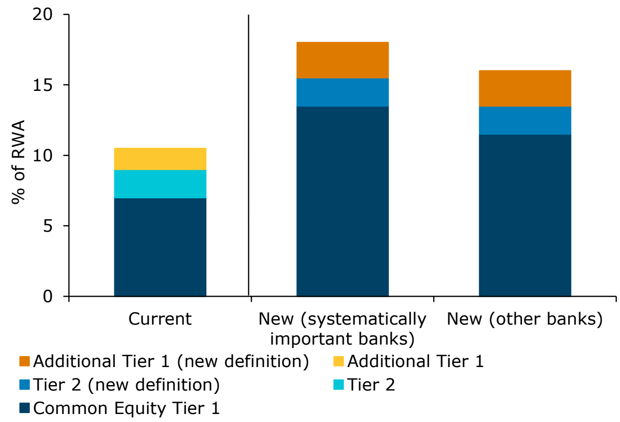
Economic overview

As we head into the summer months, the economic outlook is looking a little brighter. This week, the Government looks set to commit to further investment spending. Last week, the RBNZ announced its bank capital decisions, and the changes announced were softer than those initially proposed, meaning they are likely to be less of a headwind to the economy than previously thought. We've also seen a lift in business sentiment, a pick-up in the housing market, and robust commodity prices. Reflecting these more positive developments, we have changed our OCR call to only one 25bps cut in May, removing our August placeholder cut for the bank capital changes. However, while things are looking a little sunnier at the margin, we still think the RBNZ will conclude that a bit more monetary stimulus will be required eventually. The economy still faces a number of headwinds and clouds are expected to form on the horizon in time.

Chart of the week

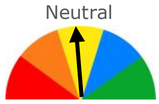
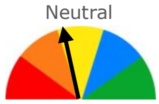
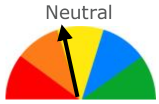
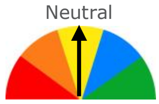
The RBNZ bank capital decisions expanded the amount and type of alternative capital allowed, which, along with a longer transition period, will reduce the cost.

Bank capital ratio requirements



Source: RBNZ

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.	 Neutral Negative Positive
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.	 Neutral Negative Positive
OCR	0.75% in March 2021	We expect a further cut in May next year, taking the OCR to 0.75%.	 Neutral Down Up
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 Negative Positive

Economic overview

Summary

Heading into summer, the outlook for the NZ economy is looking a bit brighter.

As we head into the summer months, the economic outlook is looking a little brighter. This week, the Government looks set to commit to further investment spending. Last week, the RBNZ announced its bank capital decisions, and the changes announced were softer than those initially proposed, meaning they are likely to be less of a headwind to the economy than previously thought. We've also seen a lift in business sentiment, a pick-up in the housing market, and robust commodity prices. Reflecting these more positive developments, we have changed our OCR call to only one 25bps cut in May, removing our August placeholder cut for the bank capital changes. However, while things are looking a little sunnier at the margin, we still think the RBNZ will conclude that a bit more monetary stimulus will be required eventually. The economy still faces a number of headwinds and clouds are expected to form on the horizon in time.

Forthcoming data

Economic Survey of Manufacturing – Q3 (Monday 9 December, 10:45am). Recent weakness in the PMI suggests another soft read is on the cards. This is the last piece of the puzzle before we finalise our Q3 GDP pick. Our GDP preview note will be out later in the week.

ANZ Truckometer – November (Tuesday 10 December, 10:00am).

NZ Half-Year Economic and Fiscal Update (Wednesday 11 December, 1:00pm). More infrastructure spending is coming; the question is how much?

Food Price Index – November (Thursday 12 December, 10:45am). A seasonal decline in food prices from fruit and vegetables is expected.

Rental Price Index – November (Thursday 12 December, 10:45am). Continued increases in rental prices should support a quarterly rise in CPI rents.

ANZ Monthly Inflation Gauge – November (Thursday 12 December, 1:00pm).

BNZ-BusinessNZ Manufacturing PMI – November (Friday 13 December, 10:30am). The PMI flipped from contraction to expansion last month. But these data are volatile. We're watching closely to see if recent strength is maintained.

What's the view?

The outlook is brighter, with more fiscal spending and a less painful bank capital outcome.

The economic outlook is looking a little brighter than it was, and we have changed our OCR call. Following the 75bps of cuts seen earlier this year, we now expect only one more 25bps cut in May, removing our placeholder cut (in August) that we had in there for the impact of the bank capital changes. The more positive outlook reflects:

- Clear signals that the Government is set to announce it is loosening the purse strings at this week's Half-Year Economic and Fiscal Update (HYEFU);
- The outcome of the RBNZ's bank capital decisions, which were softer than initially proposed; and
- Other tentative signs that the outlook may be improving a little (as discussed in our ANZ Weekly Focus last week), such as a lift in business surveys, a pick-up in the housing market, and improved market sentiment.

We now see only one further rate cut next year.

However, while things are looking a little sunnier at the margin, it is important not to lose sight of the big picture: we still see the OCR lower in time. In our view, the economy still faces a number of headwinds that look set to see growth disappoint the RBNZ's expectations – not a grim outlook at all, but not enough momentum for the RBNZ to be confident of hitting its medium-term inflation target. In particular, we are sceptical that business investment will respond as strongly as the RBNZ anticipates to lower interest rates. We will continue to monitor our call as developments unfold, including after the Half-Year Economic and Fiscal Update (HYEFU) next week.

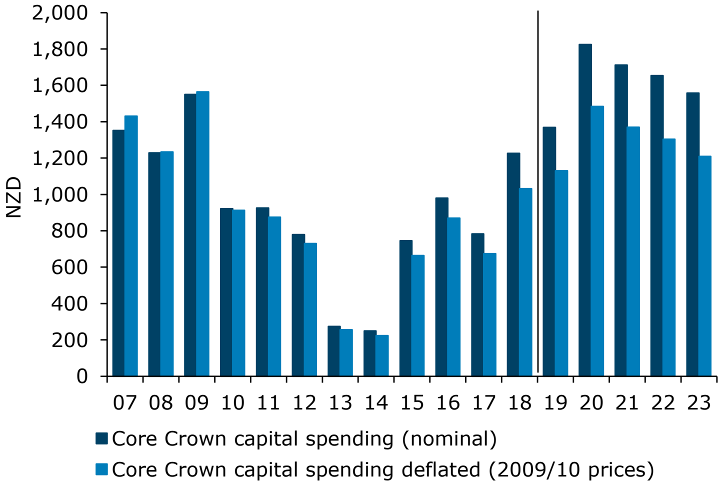
Economic overview

Loosening the purse strings

More infrastructure spending is looming.

Over the past week there have been clear signals from the Government of an imminent infrastructure spend-up to combat the infrastructure deficit (figure 1). And this week at HYEFU, the government is expected signal a fiscal loosening, so that it can open its wallet for more capital spending.

Figure 1. Capital spending per capita (2019 Budget forecasts)



Source: Statistics NZ, Treasury, ANZ Research

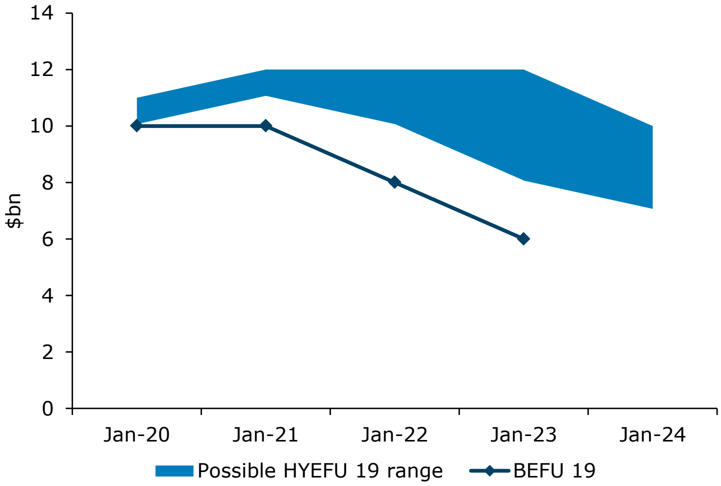
Recent comments by the Minister of Finance suggest that the Government is ready to declare "job done" on their target of bringing net core Crown debt down to 20% of GDP within five years of taking office. Previously, spending decisions were made subject to the constraint of keeping net debt on a 20% of GDP trajectory into the 2022 fiscal year. Now it looks like the Government is happy to apply the previously-signalled 15%-25% window target a little earlier. That's a wide range, but we suspect the Government won't want to push the debt ratio too close to the limit.

The purse-strings are set to loosen…

Overall, we think the Government could comfortably bump up spending by $5-15 billion over the next five years, but it might want to hold something back for Budget 2020 and the 2020 election. We think Debt Management will wait until Budget 2020 before announcing a new bond syndication – at which time a 2041 nominal and 2045 linker seem likely contenders. There's plenty of scope to build up outstandings of the new 2031 NZGB between now and then.

…meaning more debt issuance.

Figure 2. Bond issuance and possible guidance



Source: Treasury, ANZ Research

More government spending will inevitably boost demand in the economy. But given the long lead time in planning and delivering infrastructure spending, it will be challenging – as it always is, for every government – to implement new initiatives as quickly as might be hoped. Progress may be particularly difficult to achieve quickly at present, given capacity pressures, particularly those biting in the construction sector.

But fiscal stimulus may come a bit late to satisfy the RBNZ.

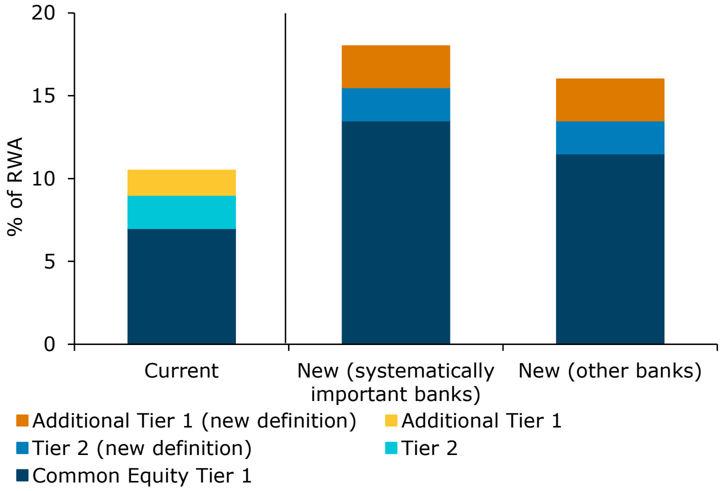
And fiscal stimulus could come too late for the RBNZ. In order to take the pressure off monetary policy, a boost to GDP growth would be most helpful in the year ahead, to head off the possibility that inflation and inflation expectations slip further. Nonetheless, the RBNZ will take comfort in the medium-term implications for GDP, shoring up the outlook at the margin.

Increase in capital requirements to be less of a headwind

Bank capital changes were announced, and were materially softer than proposed.

Last week saw the announcement of the RBNZ's final decisions on changes to bank capital requirements. Banks can fund their lending through either debt (in wholesale markets or retail deposits) or capital (owners' equity). And, as expected, the RBNZ has decided to increase the proportion of bank funding that must come from capital.

Figure 3. Capital ratio requirements



Source: RBNZ

More eligible capital and a longer transition period will help reduce the costs.

However, the final changes that were announced included a material softening relative to previous proposals. The total required level of tier-1 capital for the major banks will be 16%, as was previously proposed, but the transition period has been extended to seven years (from five). And importantly, the definition and amount of allowable tier-1 capital has been expanded from the original proposals.

The key aspects of the decisions were:

- A 16% level of tier-1 capital for the major banks and 14% for others;
- More of this can be met with alternative tier-1 capital, a softening from the original proposal (2.5%pts versus 1.5%pts);
- Alternative tier-1 capital can now include redeemable preference shares and tier-2 can include long-term subordinated debt without conversion features (compared to stricter definitions originally proposed);
- In practice, these changes versus the initial proposals mean that less of the increase in capital must be met with common equity, which is expensive, thus reducing the overall cost of the proposals;
- There will be a 7-year transition period for all banks (versus 5 for big banks and 7 years for smaller banks initially proposed) with the policy to kick off in July 2020;
- Risk-weighted assets for the big-4 will be raised to ~90% of the amount calculated under the standard approach (as proposed) from October 2020.

Economic overview

The RBNZ estimates that the capital changes will increase retail interest rates by around 20bps, and reduce GDP by 0.2% in the long run. Expansion of the type capital that is allowable to meet the requirements, along with the longer transition timeframe, is expected to mitigate adverse economic effects.

But the changes won't be costless.

A back-of-the-envelope update of our previous modelling suggests a 30-60bp impact on the overall cost of credit (with differing impacts by sector) – larger than the RBNZ's estimates, but much lower than the RBNZ's previous proposals.

We'll be closely watching how credit conditions evolve.

Tighter financial conditions as a result of the changes will be a headwind for the economy, though there is considerable uncertainty about how strongly it'll blow. While it's difficult to know how it will all play out, there is a risk of a reduction in the availability of credit, particularly to agricultural and business sectors (reflecting the higher capital required for lending to these sectors). This comes at a time when both banks and businesses (particularly farmers) are already indicating that credit conditions have been tightening (figures 4 and 5).

Overall, we expect a larger GDP impact than the RBNZ of around 0.5%, though it could be as large as 1% if credit is squeezed. However, any impacts will be over a long transition period and difficult to separately identify in practice.

Figure 4. Factors affecting credit availability

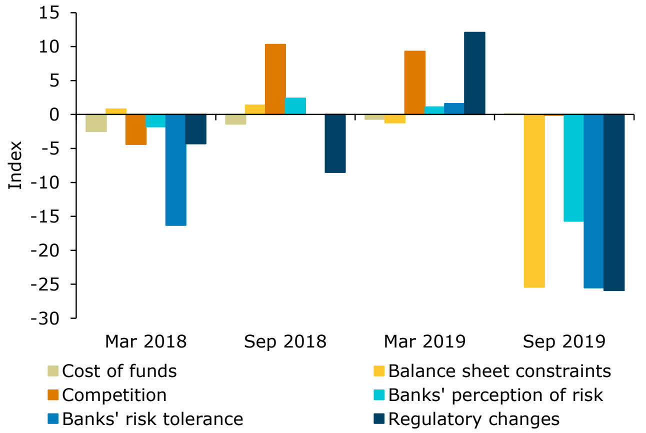
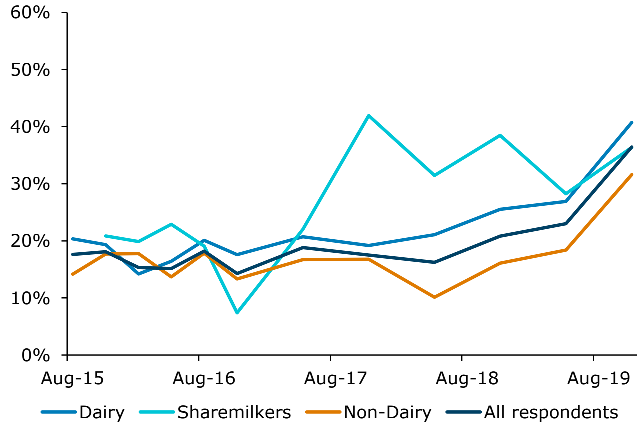


Figure 5. Proportion of farmers reporting changed conditions over the last six months



Source: RBNZ, Federated Farmers, ANZ Research

Clouds still expected to form

But headwinds are still aplenty.

There have been a number of other positive economic developments recently. The housing market has picked up in response to lower mortgage rates, business surveys have improved, and New Zealand commodity prices are robust (meat is soaring), defying the global slowdown. That said, it is important to remember that the RBNZ needs that – and more – for its employment and inflation targets to be met.

Financial conditions have tightened since the November MPS.

In our view, the RBNZ will conclude that a still-lower OCR will be needed in time. Economic growth looks set to underwhelm, relative to what is needed to generate sustainably higher inflation. Previous OCR cuts will continue to provide a boost and fiscal spending is a positive, but we would not want to overstate those forces. The exchange rate and wholesale interest rates have risen following the RBNZ's November pause, and the consequent tightening in financial conditions has diminished a key tailwind for the economy (figures 6 and 7).

Other drivers of growth are lacking.

Likewise, a meaningful near-term boost to growth from government spending will be difficult to achieve in practice. And at the same time, while income growth is looking pretty solid, other drivers of growth are missing: population growth is waning, construction is reaching its limits, and tourism activity has come down a notch. And although the RBNZ's capital proposals will have less of an impact, they will nonetheless be a headwind.

Figure 6. NZ 2-year swap rate

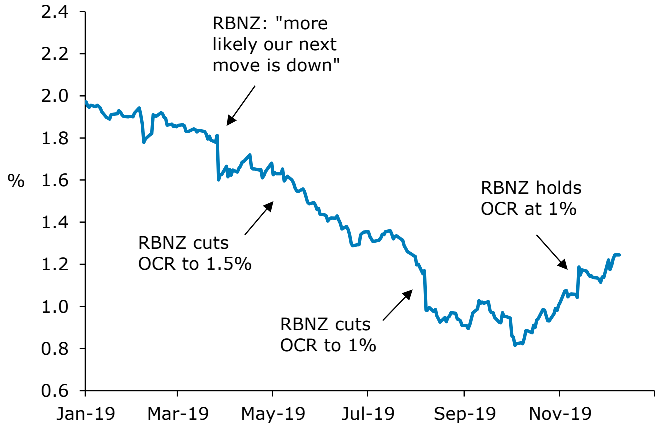
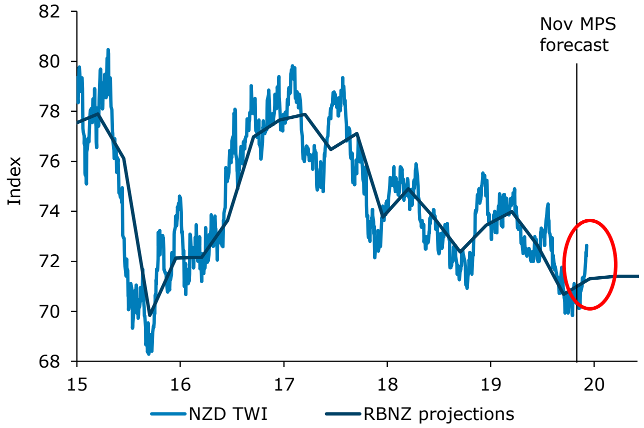


Figure 7. NZ dollar trade-weighted index



Source: Bloomberg, RBNZ, ANZ Research

The RBNZ is still set to be disappointed by GDP growth.

Overall, GDP looks set to improve next year, but by less than the RBNZ expects. As such, tightness in the labour market looks set to diminish slightly. We see a picture of an economy that is meandering along comfortably enough – which is a pretty good outcome when one considers that our largest trading partners are looking under considerably more pressure – but it is not quite firing on all cylinders, at a time when the economy needs to be running hot to reach the RBNZ’s targets. Ultimately, we think this will necessitate a little more stimulus in time.

We expect an OCR cut to 0.75% in May.

At present, we are forecasting one more 25bp OCR cut in May, taking the OCR to 0.75%, with risks to this outlook finely balanced. On the one hand, there is a risk that the economy bounces back more vigorously than we expect or that the RBNZ is determined to wait a little longer to see how developments unfold. On the other hand, the lift seen in the data is very recent and could prove to be a temporary blip, especially with the easing in financial conditions having partly unwound. How patient the RBNZ can afford to be will depend partly on how inflation expectations evolve. Likewise, developments in global markets always have the potential to change the landscape dramatically for a small, open economy, potentially requiring a large, swift response. Risks on that front remain aplenty, though such shocks are difficult to predict.

And the RBNZ are likely to err on the side of caution.

Stepping back, from a strategic perspective, it makes sense for the RBNZ to err on the side of caution in order to walk the path of least regrets, especially with conventional monetary policy firepower approaching its limits. The risk of a little more inflation is less serious than the risk of providing too little too late. To ensure that the RBNZ meets its targets, a little more stimulus is likely to be delivered in time. But with the RBNZ’s near-term growth forecasts similar to ours, it’s a slow-burn story.

The week ahead

HYEFU is without doubt the main event this week (at 1pm on Wednesday). We’ll also get an update on price pressures in the economy this week, with the release of food and rental prices for November on Thursday at 10:45am. We expect a seasonal decline in food prices from fruit and vegetables, and for continued increases in rental prices to support a quarterly rise in CPI rents. These releases will be closely followed by the ANZ Monthly Inflation Gauge for November, at 1pm.

On the activity side of the economy, the ANZ Truckometer for November is due on Tuesday at 10am. And finally, the BNZ-BusinessNZ Manufacturing PMI for November is due 10:30am on Friday. The PMI flipped from contractionary to expansionary mode last month. But these data are volatile on a monthly basis. We’ll be watching closely to see if recent strength is maintained. Next week we get a starting point update in the form of Q3 GDP. Once all that is on the table we’ll be updating our forecasts in the New Year.

Economic overview

Local data

Terms of Trade Index – Q3. New Zealand's goods terms of trade lifted 1.9% q/q in Q3, with export prices up 1.9% and import prices flat. Net exports of goods look set to be a drag on Q3 GDP, with export volumes down 4.6% and imports up 1.1%.

GlobalDairyTrade auction. Milk powder prices held steady but weakness in milk fat products dragged the GDT Price Index down 0.5%. WMP prices were weaker than expected, largely unchanged at USD3331/MT.

ANZ Commodity Price Index – November. The World Index lifted 4.3% in November, with beef up an astonishing 19% m/m. The overall index up 12.4% y/y. In local currency terms the index lifted 3.5% m/m, constrained by a stronger NZ dollar.

Work Put in Place – Q3. The volume of building work put in place was weaker than expected, rising 0.4% in Q3, following a 1.6% fall last quarter. Non-residential work bounced, up 2.4% q/q, while residential work fell for a second quarter, down 1.1% q/q.

RBNZ Bank Capital Review. The overall decision was in line with the RBNZ's previous proposals, but some aspects were softer. The total required level of Tier-1 capital for the major banks will be 16%, as proposed, but the transition period has been extended to seven years (from five). And importantly, the definition and amount of allowable Tier-1 capital has been expanded from the original proposals.

What you may have missed

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

- Agri Focus: Springing along
- RBNZ Bank Capital Decision and Change in OCR Call
- Half-Year Economic & Fiscal Update Preview
- ANZ Commodity Price Index: Burger fuel

FX / rates overview

Summary

Going from strength to strength.

US non-farm payrolls blew expectations out of the water with all the detail around it unequivocally strong. The local rates market continued to battle steepening yield curves in light of the positive domestic news (softening in bank capital requirements and more infrastructure spending) and the NZD went from strength to strength on all crosses. Meanwhile, US-China trade talks continue to keep the market guessing.

Key events this week

Christmas 'slowdown'.

FOMC policy meeting (Thursday 12 December, 8:00am). No cut is expected but the market will be eager to hear the Fed's thoughts on the year ahead.

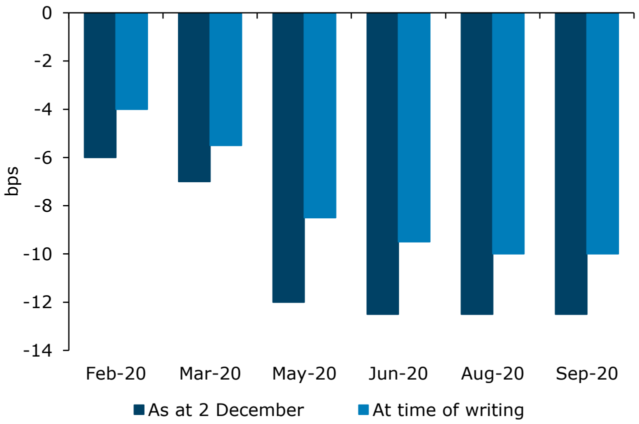
UK general election (Friday 13 December). PM Johnson's Conservative party are expected to win with a majority, but will there be any last minute fireworks?

Rates

Cuts taken out.

Yields in the local rates market continued to rise this week. The RBNZ's decision to soften its stance on bank capital requirements saw curves steepen in response. Following the decision, market expectations for further cuts to the OCR were pared back. At the time of writing, the market has only a 40% chance of a 25bp cut priced in for the year ahead, with the implied terminal cash rate bottoming out at 0.90%.

Figure 1. Rate cut expectations tapered last week



Source: Bloomberg, ANZ Research

FX

The USD was weaker against most G-10 currencies, with the GBP and NZD vying for a first place finish. Meanwhile, the EUR and DKK battled for the wooden spoon.

GBP pips the NZD for the top spot as Johnson is expected to secure victory this week.

NZD/USD: NZD was buoyed by news of infrastructure spending and the RBNZ's decision to soften its stance on bank capital. A pullback in rate cut expectations aided the currency. The Government's fiscal update will be an early focus for markets.

NZD/AUD: AUD failed to keep up with its commodity-linked peers following a smattering of soft domestic data. The worst may not yet be over for the currency as the market awaits business and consumer confidence data this week.

NZD/EUR: The euro struggled to keep up with its G-10 cohort as Germany's data pulse continued to soften. Focus will be on the ECB meeting this week.

NZD/GBP: GBP finished in pole position this week as numerous exit polls showed PM Johnson winning with a sufficient majority to pass Brexit. All eyes will be glued to the election results due at the end of the week.

NZD/JPY: JPY was left middling as weaker risk appetite was offset by an improving global data pulse. Expect the focus on US-China trade to continue to drive the JPY.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
9-Dec	NZ	Mfg Activity SA QoQ - Q3	--	-0.7%	10:45
	NZ	Mfg Activity Volume QoQ - Q3	--	-2.7%	10:45
	JN	GDP SA QoQ - Q3 F	0.2%	0.1%	12:50
	JN	GDP Annualized SA QoQ - Q3 F	0.6%	0.2%	12:50
	JN	GDP Nominal SA QoQ - Q3 F	0.4%	0.3%	12:50
	JN	GDP Deflator YoY - Q3 F	0.6%	0.6%	12:50
	JN	BoP Current Account Balance - Oct	¥1806.8B	¥1612.9B	12:50
	JN	BoP Current Account Adjusted - Oct	¥1731.1B	¥1485.2B	12:50
	JN	Trade Balance BoP Basis - Oct	¥138.8B	¥1.1B	12:50
	GE	Trade Balance - Oct	€19.3B	€21.2B	20:00
	GE	Current Account Balance - Oct	€20.0B	€'25.5B	20:00
	GE	Exports SA MoM - Oct	-0.3%	1.5%	20:00
	GE	Imports SA MoM - Oct	-0.1%	1.2%	20:00
	EC	Sentix Investor Confidence - Dec	-5.3	-4.5	22:30
	CH	New Yuan Loans CNY - Nov	1200.0B	661.3B	9-15 Dec
	CH	Money Supply M2 YoY - Nov	8.4%	8.4%	9-15 Dec
10-Dec	NZ	ANZ Truckometer Heavy MoM - Dec	--	2.5%	10:00
	AU	ANZ-RM Consumer Confidence Index - 8-Dec	--	108.1	11:30
	AU	House Price Index QoQ - Q3	1.5%	-0.7%	13:30
	AU	House Price Index YoY - Q3	-4.6%	-7.4%	13:30
	AU	NAB Business Conditions - Nov	--	3	13:30
	AU	NAB Business Confidence - Nov	--	2	13:30
	CH	CPI YoY - Nov	4.4%	3.8%	14:30
	CH	PPI YoY - Nov	-1.5%	-1.6%	14:30
	UK	Monthly GDP (MoM) - Oct	0.1%	-0.1%	22:30
	UK	Monthly GDP (3M/3M) - Oct	0.0%	0.3%	22:30
	UK	Index of Services MoM - Oct	0.1%	0.0%	22:30
	UK	Index of Services 3M/3M - Oct	0.2%	0.4%	22:30
	UK	Industrial Production MoM - Oct	0.2%	-0.3%	22:30
	UK	Industrial Production YoY - Oct	-1.2%	-1.4%	22:30
	UK	Manufacturing Production MoM - Oct	0.0%	-0.4%	22:30
	UK	Manufacturing Production YoY - Oct	-1.4%	-1.8%	22:30
	UK	Visible Trade Balance GBP/Mn - Oct	-£11700M	-£12541M	22:30
	UK	Trade Balance Non EU GBP/Mn - Oct	-£3500M	-£4032M	22:30
	UK	Trade Balance GBP/Mn - Oct	-£2700M	-£3360M	22:30
	UK	Construction Output MoM - Oct	-0.3%	-0.2%	22:30
	UK	Construction Output YoY - Oct	-0.1%	0.5%	22:30
	GE	ZEW Survey Current Situation - Dec	-22.1	-24.7	23:00
	GE	ZEW Survey Expectations - Dec	0.0	-2.1	23:00
	EC	ZEW Survey Expectations - Dec	--	-1	23:00
	NZ	REINZ House Sales YoY - Nov	--	-4.0%	10-16 Dec
11-Dec	US	NFIB Small Business Optimism - Nov	103.0	102.4	00:00
	US	Nonfarm Productivity - Q3 F	-0.1%	-0.3%	02:30
	US	Unit Labor Costs - Q3 F	3.4%	3.6%	02:30
	NZ	Card Spending Total MoM - Nov	--	-0.2%	10:45
	NZ	Card Spending Retail MoM - Nov	0.5%	-0.6%	10:45
	AU	Westpac Consumer Conf Index - Dec	--	97.0	12:30
	AU	Westpac Consumer Conf SA MoM - Dec	--	4.5%	12:30

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
11-Dec	JN	PPI MoM - Nov	0.1%	1.1%	12:50
	JN	PPI YoY - Nov	0.0%	-0.4%	12:50
	NZ	Half-Year Economic & Fiscal Update - 2019	--	--	13:00
12-Dec	US	MBA Mortgage Applications - 6-Dec	--	-9.2%	01:00
	US	CPI MoM - Nov	0.2%	0.4%	02:30
	US	CPI YoY - Nov	2.0%	1.8%	02:30
	US	CPI Ex Food and Energy MoM - Nov	0.2%	0.2%	02:30
	US	CPI Ex Food and Energy YoY - Nov	2.3%	2.3%	02:30
	US	FOMC Rate Decision - Dec	1.75%	1.75%	08:00
	US	Monthly Budget Statement - Nov	-$206.2B	-$134.5B	08:00
	NZ	Net Migration SA - Oct	--	3440	10:45
	NZ	Food Prices MoM - Nov	--	-0.3%	10:45
	NZ	ANZ Monthly Inflation Gauge - Nov	--	0.2%	13:00
	UK	RICS House Price Balance - Nov	-5%	-5%	13:01
	GE	CPI MoM - Nov F	-0.8%	-0.8%	20:00
	GE	CPI YoY - Nov F	1.1%	1.1%	20:00
	GE	CPI EU Harmonized MoM - Nov F	-0.8%	-0.8%	20:00
	GE	CPI EU Harmonized YoY - Nov F	1.2%	1.2%	20:00
	EC	Industrial Production SA MoM - Oct	-0.5%	0.1%	23:00
	EC	Industrial Production WDA YoY - Oct	-2.4%	-1.7%	23:00
13-Dec	EC	ECB Main Refinancing Rate - Dec	0.00%	0.00%	01:45
	EC	ECB Marginal Lending Facility - Dec	0.25%	0.25%	01:45
	EC	ECB Deposit Facility Rate - Dec	-0.50%	-0.50%	01:45
	US	PPI Final Demand MoM - Nov	0.2%	0.4%	02:30
	US	PPI Final Demand YoY - Nov	1.2%	1.1%	02:30
	US	PPI Ex Food and Energy MoM - Nov	0.2%	0.3%	02:30
	US	PPI Ex Food and Energy YoY - Nov	1.7%	1.6%	02:30
	US	Initial Jobless Claims - 7-Dec	212k	203k	02:30
	US	Continuing Claims - 30-Nov	1677k	1693k	02:30
	NZ	BusinessNZ Manufacturing PMI - Nov	--	52.6	10:30
	JN	Tankan Large Mfg Index - Q4	3	5	12:50
	JN	Tankan Large Non-Mfg Index - Q4	16	21	12:50
	JN	Tankan Large Mfg Outlook - Q4	4	2	12:50
	JN	Tankan Large Non-Mfg Outlook - Q4	16	15	12:50
	JN	Industrial Production MoM - Oct F	--	-4.2%	17:30
	JN	Industrial Production YoY - Oct F	--	-7.4%	17:30
	GE	Wholesale Price Index YoY - Nov	--	-2.3%	20:00
	GE	Wholesale Price Index MoM - Nov	--	-0.1%	20:00
14-Dec	US	Import Price Index MoM - Nov	0.2%	-0.5%	02:30
	US	Export Price Index MoM - Nov	0.1%	-0.1%	02:30
	US	Retail Sales Advance MoM - Nov	0.4%	0.3%	02:30
	US	Retail Sales Ex Auto MoM - Nov	0.3%	0.2%	02:30
	US	Retail Sales Ex Auto and Gas - Nov	0.4%	0.1%	02:30
	US	Retail Sales Control Group - Nov	0.3%	0.3%	02:30
	US	Business Inventories - Oct	0.2%	0.0%	04:00

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 10 Dec (10:00am)	ANZ Truckometer – November	--	--
Wed 11 Dec (1:00pm)	NZ Half-Year Economic and Fiscal Update	Prudence	More spending is expected, the question is how much?
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.
Thu 16 Jan (1:00pm)	ANZ Monthly Inflation Gauge – December	--	--
Fri 17 Jan (10:30am)	BNZ-BusinessNZ Manufacturing PMI – December	Rebound	The PMI has flipped into expansionary mode. But these data are volatile on a m/m basis. We're watching closely to see if recent strength is maintained.
Tue 21 Jan (10:30am)	Performance Services Index – December	Watching	An easing trend has been in play since 2016, but recent prints have remained robust.
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	**-3.4**	**-3.4**	**-3.6**	**-3.7**	**-3.8**	**-3.8**	**-3.7**	**-3.7**
Terms of Trade (% qoq)	1.4	1.9	**-1.1**	**1.2**	**0.3**	**0.1**	**0.3**	**0.0**	**0.1**
Terms of Trade (% yoy)	-1.0	1.0	**3.2**	**3.4**	**2.2**	**0.5**	**1.9**	**0.8**	**0.6**

	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	-2.8	1.7	-1.3	-2.7	4.6	0.6	6.5	-6.5	0.4
Car Registrations (% yoy)	-3.9	-2.9	-0.5	-12.6	-11.0	-5.4	-5.2	4.7	-6.6	3.0
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	4.3
ANZ World Comm. Price Index (% yoy)	-2.2	0.6	2.2	0.7	-2.4	-0.5	0.9	3.4	7.2	12.4
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	0.656	0.63	0.63	0.63	0.63	0.62	0.62
NZD/AUD	0.930	0.950	0.960	0.94	0.94	0.95	0.95	0.94	0.94
NZD/EUR	0.575	0.583	0.593	0.57	0.58	0.57	0.57	0.55	0.55
NZD/JPY	69.28	70.31	71.28	68.7	69.9	70.6	70.6	69.4	69.4
NZD/GBP	0.496	0.497	0.500	0.49	0.48	0.47	0.47	0.46	0.45
NZ$ TWI	68.89	69.64	72.76	68.5	68.9	68.8	68.7	67.3	67.0
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	0.75	0.75	0.75
NZ 90 day bill	1.10	1.23	1.20	1.24	1.12	0.95	0.95	0.95	0.95
NZ 10-yr bond	1.31	1.29	1.49	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	1.89	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

	6-Nov	2-Dec	3-Dec	4-Dec	5-Dec	6-Dec
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.14	1.22	1.22	1.21	1.20	1.20
NZGB 05/21	0.88	1.01	1.04	1.01	1.05	1.08
NZGB 04/23	0.93	1.03	1.07	1.04	1.09	1.12
NZGB 04/27	1.22	1.26	1.34	1.29	1.35	1.38
NZGB 04/33	1.55	1.54	1.63	1.58	1.65	1.69
2 year swap	1.05	1.19	1.21	1.18	1.21	1.25
5 year swap	1.18	1.27	1.31	1.27	1.31	1.36
RBNZ TWI	70.27	71.56	72.12	72.28	72.64	72.44
NZD/USD	0.6380	0.6472	0.6522	0.6508	0.6530	0.6566
NZD/AUD	0.9247	0.9533	0.9527	0.9530	0.9561	0.9597
NZD/JPY	69.56	70.96	71.00	70.72	71.14	71.29
NZD/GBP	0.4951	0.5017	0.5023	0.4987	0.4971	0.4998
NZD/EUR	0.5754	0.5877	0.5890	0.5877	0.5889	0.5936
AUD/USD	0.6900	0.6789	0.6846	0.6829	0.6830	0.6841
EUR/USD	1.1090	1.1012	1.1073	1.1074	1.1089	1.1060
USD/JPY	109.03	109.64	108.86	108.66	108.94	108.58
GBP/USD	1.2888	1.2900	1.2984	1.3049	1.3137	1.3140
Oil (US$/bbl)	56.35	55.96	56.10	58.43	58.43	59.20
Gold (US$/oz)	1486.09	1456.86	1470.31	1477.09	1474.31	1460.17
NZX 50	10759	11302	11228	11210	11258	11276
Baltic Dry Freight Index	1533	1568	1606	1599	1575	1558
NZX WMP Futures (US$/t)	3240	3350	3340	3290	3285	3285

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