ANZ Research

New Zealand Weekly Focus

21 January 2020

Contents

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On track, flat track

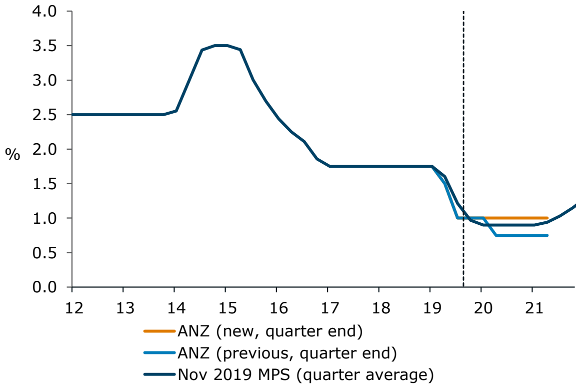
Economic overview

We've updated our OCR call, removing the cut we had pencilled in for May. Our central forecast is now for a flat OCR track. Since the November MPS, forward-looking activity indicators have improved, the Government has announced more spending is in the pipeline, the housing market has strengthened, and inflation looks like it is sitting close to target. It's true that revisions mean that GDP decelerated more sharply over 2019 than previously thought. But momentum appears to be stabilising, and it now looks more likely that the economy will be able to generate growth around trend over the medium term, despite headwinds. The RBNZ has scope to be patient and await further signals on the economic direction. Downside risks have not gone away – we see the market's pricing of a decent chance of further cuts as entirely appropriate – but a near-term cut would require an abrupt change of circumstances. Our full set of forecasts will be updated in our ANZ Quarterly Economic Outlook on 28 January, following the release of Q4 CPI.

Chart of the week

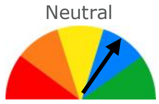
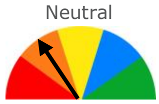
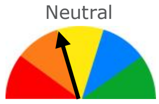
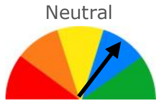
Although we expect a flat OCR in coming quarters, the road ahead for market pricing may continue to be bumpy as developments unfold.

OCR projection – ANZ and RBNZ November MPS



Source: ANZ Research, RBNZ

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.3% y/y for 2021 Q1 (under review)	The outlook for GDP is looking more positive, with growth around trend now looking more achievable on average over the medium term.	Neutral  Negative Positive
Unemployment rate	4.5% for 2021 Q1 (under review)	The labour market is "tight". Although the unemployment rate may be thrown around in coming quarters, trend deterioration is looking less likely.	Neutral  Down (better) Up (worse)
OCR	1% in March 2021	We expect the RBNZ to be on hold for the foreseeable future, but downside risks remain. Market pricing for a small chance of cuts is appropriate.	Neutral  Down Up
CPI	1.7% y/y for 2021 Q1 (under review)	Inflation is around where it needs to be. Around trend growth looks set to see medium-term inflation more comfortably at near target.	Neutral  Negative Positive

Economic overview

Summary

We've updated our OCR call, removing the cut we had pencilled in for May. Our central forecast is now for a flat OCR track. Since the November MPS, forward-looking activity indicators have improved, the Government has announced more spending is in the pipeline, the housing market has strengthened, and inflation looks like it is sitting close to target. It's true that revisions mean that GDP decelerated more sharply over 2019 than previously thought. But momentum appears to be stabilising, and it now looks more likely that the economy will be able to generate growth around trend over the medium term, despite headwinds. The RBNZ has scope to be patient and await further signals on the economic direction. Downside risks have not gone away – we see the market's pricing of a decent chance of further cuts as entirely appropriate – but a near-term cut would require an abrupt change of circumstances. Our full set of forecasts will be updated in our ANZ Quarterly Economic Outlook on 28 January, following the release of Q4 CPI (on Friday this week).

We're now calling a flat OCR track.

Forthcoming data

Performance Services Index – December (Tuesday 21 January, 10:30am). An easing trend has been in play since 2016, but recent prints have remained robust.

GlobalDairyTrade auction (Wednesday 22 January, early am). The market indicates that an increase in the GDT Price Index in the vicinity of 1.5% is likely, as constrained supply continues to underpin pricing.

The big news this week is Q4 CPI.

Net migration – November (Thursday 23 January, 10:45am). Downward revisions have been signalled, which matches our intuition. But how economically meaningful the revisions are will depend on both their size and timing. Treat with caution.

Consumer Price Index – Q4 (Friday 24 January, 10:45am). We expect headline CPI will print at 0.5% q/q, with annual inflation accelerating to 1.9% from 1.5% – stronger than the RBNZ's November MPS pick of 1.6%. Core inflation may increase modestly.

What's the view?

We've changed our OCR call to a flat track

We have removed the cut we had pencilled in for May this year, and our central projection is now for the OCR to remain unchanged over 2020 at 1%. Previously, we had expected that a deceleration in growth would see capacity pressures and inflation ease, and that it would be difficult for the economy to grow at a pace sufficient to keep inflation close to target – running the risk of inflation expectations slipping, against a backdrop of global uncertainty and downside risks. However, a lot has changed in a short time. Global risks have not gone away, but the domestic picture has turned.

We have removed the cut we had pencilled in for May.

The RBNZ did cut the OCR three times last year, as we forecast they would, but our view that more cuts would come this year now appears too pessimistic. Previous cuts are working their magic on the housing market, and the medium-term outlook now has a fiscal underpinning. The RBNZ are forward looking, and with the near-term inflation outlook looking more robust they now have scope to be patient as they await further signals on the economic direction. And although capacity pressures have likely eased, there are signs that the economy may indeed be able to generate the growth needed to keep inflation and the labour market on track.

The RBNZ can be patient; the outlook has improved.

That's not to say that all the risks have gone away by any means – we see market pricing tilted towards a chance of further cuts as entirely appropriate – but a near-term cut now seems unlikely without an unforecastable, abrupt catalyst.

While we have updated our OCR call, the details of our other forecasts are currently under review. A new set of forecasts will be released in our ANZ Quarterly Economic Outlook on 28 January, after the release of Q4 CPI. Our current thinking on the direction of changes is summarised in our ANZ heat map (figure 1).

Economic overview

Our broader set of forecasts is under review.

Figure 1. ANZ heatmap

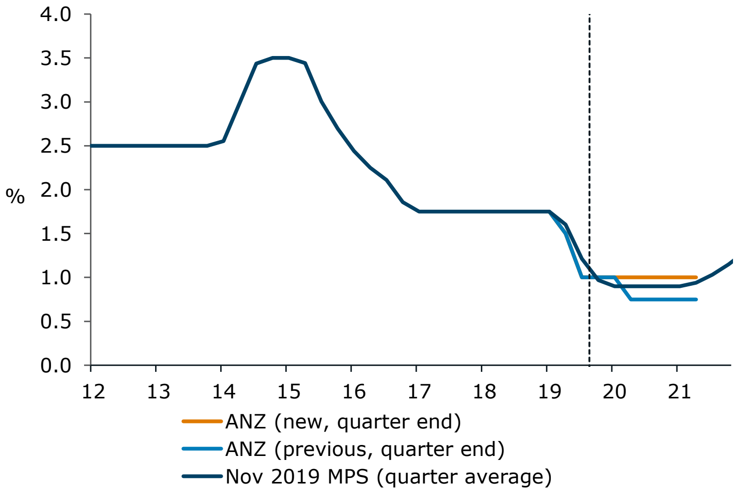
Variable	View	Comment	Risks around our view
GDP	2.3% y/y for 2021 Q1 (under review)	The outlook for GDP is looking more positive, with growth around trend now looking more achievable on average over the medium term.	Neutral Negative  Positive
Unemployment rate	4.5% for 2021 Q1 (under review)	The labour market is "tight". Although the unemployment rate may be thrown around in coming quarters, trend deterioration is looking less likely.	Neutral Down (better)  Up (worse)
OCR	1% in March 2021	We expect the RBNZ to be on hold for the foreseeable future, but downside risks remain. Market pricing for a small chance of cuts is appropriate.	Neutral Down  Up
CPI	1.7% y/y for 2021 Q1 (under review)	Inflation is around where it needs to be. Around trend growth looks set to see medium-term inflation more comfortably at near target.	Neutral Negative  Positive

The outlook is looking a bit better

November was a line-ball call.

Whether to cut or hold was a line-ball call for the RBNZ at the time of the November MPS, as illustrated by their published OCR track (figure 2). In the end, the Monetary Policy Committee decided the best strategy was to leave the OCR unchanged.

Figure 2. OCR projection – ANZ and RBNZ November MPS



Source: ANZ Research, RBNZ

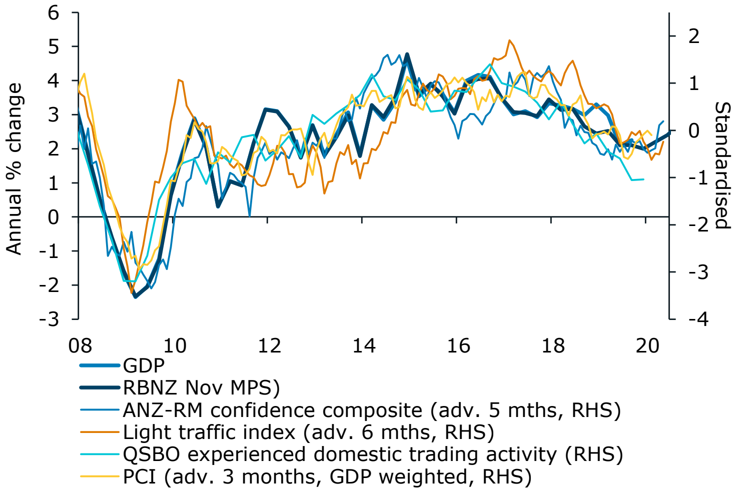
Since the November MPS, a number of developments have improved the outlook. Anecdotes have turned on a dime. But the data flow has changed its tone too:

Since then, activity data has improved.

- Activity indicators have improved. Growth decelerated over 2019 – indeed, recent GDP revisions show the slowdown was more marked than initially estimated. And growth is expected to have ended the year at a low ebb, with the economy growing at a below-trend pace. However, our suite of forward-looking near-term activity indicators suggests growth is finding a floor or even a turning point (figure 3, over). More pessimistically, reported activity data from the QSBO out last week points to the economy tracking sideways, and is the weakest indicator here by quite some way. But we are cautious about taking too much signal from any one data source, particularly business surveys, which have been overly downbeat in recent times relative to actual outcomes. We take some comfort from the fact that the recent stabilisation has been fairly broad based. To be sure, it's not a picture of growth taking off by any means, but thus far it appears consistent with the RBNZ's November MPS forecast for a gradual improvement in growth into 2020.

Economic overview

Figure 3. Forward-looking activity indicators and GDP

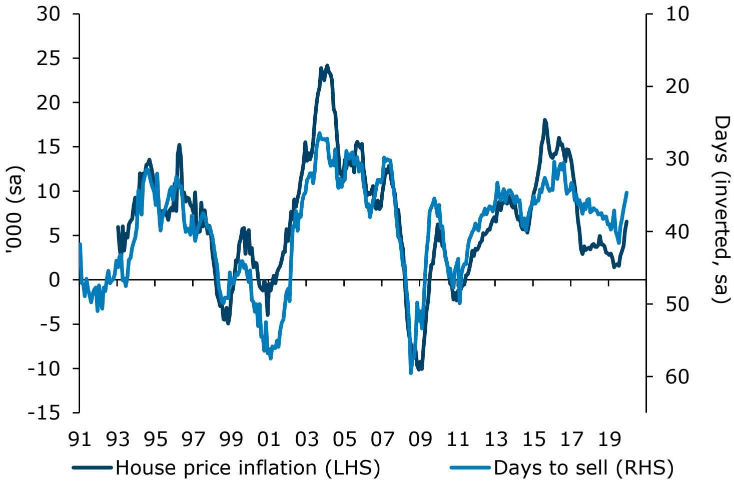


Source: ANZ Research, BNZ-BusinessNZ, NZIER, RBNZ, Statistics NZ

House prices have rebounded.

- The housing market has strengthened. REINZ housing market data out last week confirmed house prices rebounded over the second half of 2019, rising 6% since June. House price inflation is still below its long-run average of 6.8% y/y and close to where nominal GDP growth is running. But low interest rates appear to be passing through to the housing market more than we previously expected and the market's demand-supply balance has continued to tighten (figure 4). Annual house price inflation will continue to rise in coming quarters on the back of previous increases, even if price increases are more modest into 2020. But a little more strength looks possible in the short term (for more detail see our ANZ Property Focus out later this week). The rebound in the housing market is a mixed blessing to be sure, but it'll be supportive for consumption, particularly in the context of the current tight labour market. And added to that, consents data points to further growth in residential investment over coming quarters, also supported by low interest rates, notwithstanding continuing challenges in the construction industry. That sort of growth is indeed welcome.

Figure 4. REINZ house price inflation and days to sell

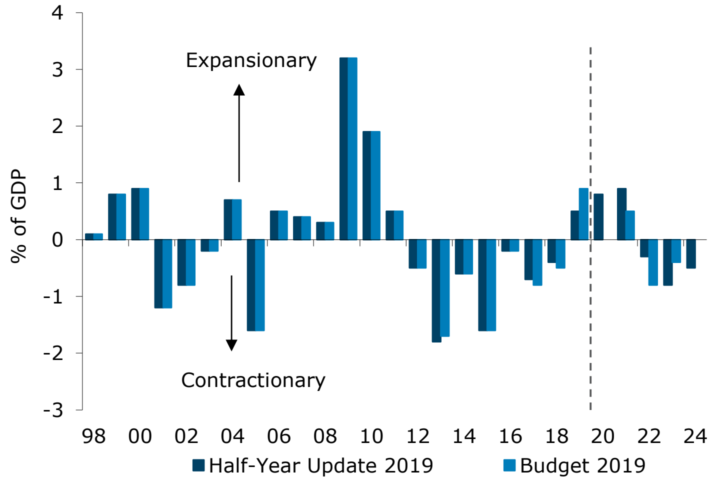


Source: REINZ

And fiscal spending is supportive of medium-term growth.

- The Government has announced more spending. The Half-Year Economic and Fiscal Update, released in December, incorporated an extra $12 billion in infrastructure spending over the next few years. Although a significant ramp-up will be difficult to achieve and may take longer than hoped, especially given the delays typical with infrastructure planning, the move towards more spending will support the outlook over the medium term, and provide assurances to those in industries related to the spend. Overall, the increase in the forecast horizon isn't expected to be large, but it is welcome from a growth perspective (figure 5). And perhaps more importantly, the shift toward spending comes alongside the Government formally declaring 'mission accomplished' on its target of bringing net core Crown debt down to 20% of GDP. This means plans for even more spending may well emerge this year, especially as the election campaign ramps up, and with both major parties already signalling a desire to do more, at least in the infrastructure space.

Figure 5. Fiscal impulse



Source: The Treasury

- The RBNZ released its final bank capital decision. There were significant changes and we now estimate the resulting economic headwind will be roughly half the strength implied by the initial proposals. However, this is not news for our OCR call, as we removed an OCR cut at the time of the announcement in December.

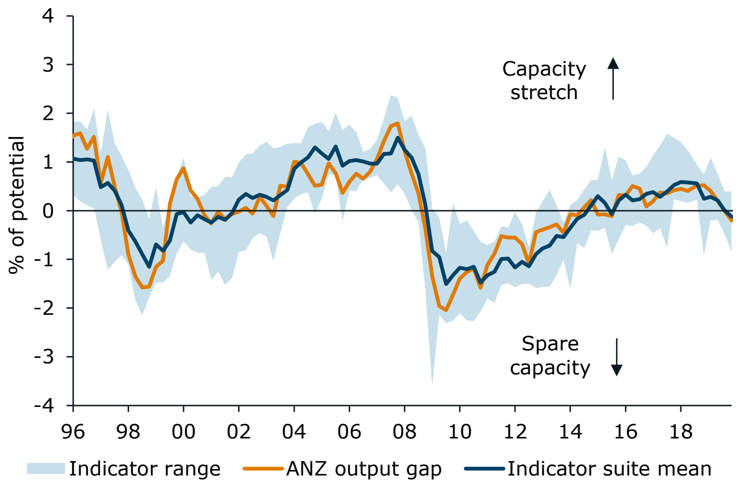
Capacity pressures have eased

Growth decelerated last year.

Offsetting the recent positive data flow is the fact that taking a look in the rear-view mirror, we now know that GDP decelerated more sharply over 2019 than previously thought. As a result, it is likely that capacity pressures in the economy have eased. Growth is thought to have ended the year on particularly low ebb – somewhere in the vicinity of 1.8% y/y in Q4 2019. By comparison, the RBNZ's November MPS estimate of potential growth was 2.3%.

The RBNZ will want to gauge the impact on resource pressures.

Figure 6. ANZ capacity indicator suite and output gap estimate



Source: ANZ Research

It is possible that the RBNZ revises down its estimate of the economy's speed limit, implying less of a decline in inflation pressure, given that things still seem pretty stretched out there. Indeed, a downgrade would be consistent with upcoming revisions to migration (out this week), which are expected to pull down population estimates. But we wouldn't want to overplay it. The RBNZ has discounted recent migration estimates in any case, and whether or not it is significant news will depend partly on how far back the revisions go. The RBNZ ultimately relies on a broad set of indicators when assessing capacity stretch.

We expect a small amount of slack has emerged.

Based on a wide range of data and given the extent of the deceleration last year, it seems clear that there has been some easing in capacity pressures, even if it is not large. We have completed a preliminary update of our capacity indicator suite (figure 6, above), incorporating recent GDP data, business surveys, and assuming that the labour market has been fairly stable (data is due out 5 February, a week before the MPS). This shows a gentle easing in capacity pressures, with a small amount of slack opening up.

But we're still close to full employment.

It is important to emphasise that assessing the degree of capacity pressure in the economy (and hence pipeline inflation pressure) is fraught. It is based on a highly uncertain concept, where assessments are based on techniques that are far from flawless, and where estimates have a tendency to be revised over time. But while levels get revised, directional estimates tend to be more robust, and it seems clear that resource pressure has declined somewhat over the past 12 months. All up, we conclude that recent data looks broadly consistent with the economy being close to maximum sustainable employment. The labour market is tight and, anecdotally, it's pretty busy out there. We think the RBNZ will be looking for more information from the labour market data and on the path of GDP before making big calls on this one.

Growth around trend looks a little easier to achieve.

Growth now looks more likely to be at least at trend.

Although there may be a little spare capacity out there, drivers of growth are now more firmly in place to keep the economy on track. To be fair, this is partly because the "track" we're trying to stay on has gotten flatter, with estimates of the economy's "speed limit" having been revised down over time. That's helpful for the RBNZ in that less growth is necessary to generate inflation. It's less helpful to the extent that lower potential growth reflects previous low investment and low productivity growth, though whether it is this or primarily lower net migration to blame remains a bit unclear at this stage. But in any case, it now looks more like the economy will hit par.

Monetary policy is working.

Monetary policy is passing through more effectively to the housing market and business sentiment than we previously expected, which will no doubt be reassuring for the RBNZ. And the level of interest rates is expected to remain stimulatory for some time. Meanwhile, fiscal spending will provide a medium-term boost (and there is near-term upside risk to spending plans, in an election year), while residential investment and consumption are expected to remain supported by the stronger housing market. The terms of trade also look set to remain resilient and stimulus from global central banks is keeping monetary conditions easy and liquidity flowing, providing a floor for global demand. We don't expect the high terms of trade to pass through to activity or inflation as strongly as it might have in previous cycles, since the high export prices are driven by supply factors and farmer debt levels are high – and some of the terms of trade story is lower import prices, which are hardly inflationary. But continued solid returns, for the next six months at least, should provide some certainty, while boosting national incomes.

Tempering this cheerful story, a number of constraining factors are at play, partly reflecting that we are so late in the economic cycle.

It's not all good news; there are plenty of challenges.

- We still think that business investment will be less responsive to monetary stimulus than the RBNZ anticipates
- A rapid ramp-up in fiscal spending will be hard to achieve, even with the best intentions.

- Headwinds from high farmer and household debt levels, business caution and credit constraints persist, not to mention uncertainty from the upcoming election and weakening growth in our largest trading partners.

But inflation looks more on track.

There are clearly reasons to remain cautious. It's not a strong story by any means. But it looks like there's enough demand out there to keep the economy muddling through.

We expect to see growth return to trend and potentially move a little above it over the medium term, such that any residual spare capacity should be fairly easily absorbed. The labour market is expected to stay tight, albeit with some possible volatility in the quarterly outturns. And the fact that inflation is already in a good place, even if it's partly due to one-offs, should be enough to keep the medium-term inflation outlook and inflation expectations on track.

Inflation looks like it will remain close to target

We expect CPI inflation rose to 1.9% y/y to finish the year.

In terms of the detail for Q4 CPI out on Friday, we expect headline CPI will print at 0.5% q/q, with annual inflation accelerating to 1.9% from 1.5%. This is stronger than the RBNZ's November MPS pick of 1.6%, owing largely to higher tradable inflation (ANZ: +0.2% q/q, RBNZ: -0.2% q/q).

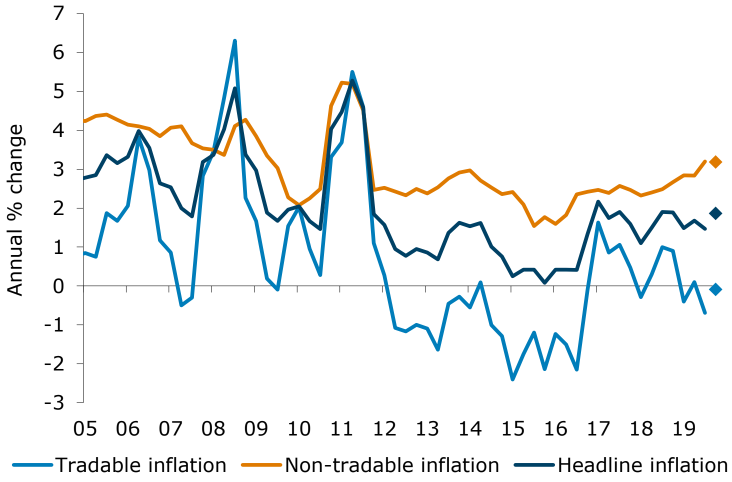
Underlying inflation has improved modestly.

But importantly, at 0.7% q/q (3.2% y/y) we also think non-tradable (domestic) inflation will come in a touch stronger than the RBNZ's November forecast of 0.6% q/q (3.1% y/y). Annual non-tradable inflation has accelerated recently towards the goldilocks zone of around 3%. While some of this is courtesy of regulated prices (eg road user charges and tobacco excise), our ANZ Monthly Inflation Gauge suggests underlying inflation pressures have also intensified modestly. And that suggests core inflation measures may edge slightly closer to the target mid-point in Q4.

The medium-term target looks more achievable.

The upshot is that the RBNZ's medium-term target now seems more achievable. Inflation is likely to come within a whisker of the 2% target midpoint in Q4 (figure 6), and non-tradable inflation is in its happy place. Given our expectation for a gradual improvement in GDP growth, we no longer expect to see worrying slippage in inflation from here. We now expect that core inflation and inflation expectations will remain broadly flat over the medium term.

Figure 6. Headline, non-tradable and tradable inflation



Source: Statistics NZ, ANZ Research

Giving the RBNZ scope to be patient

The RBNZ can be patient, so "on hold" is our central view.

Taking it all together, the data suggests the Reserve Bank can afford to be patient, so in terms of a central view, an "on hold' stance looks right to us for now. That is, as always, assuming no sudden negative 'shocks' to the economy. We don't think that downside risks have gone away by any means, as we talked about in last week's ANZ Weekly Focus.

Economic overview

But there are big downside risks.

As a small, open economy New Zealand is very affected by global developments, via the terms of trade, confidence, financial and credit markets and export demand. And it is fair to say, despite the current devil-may-care attitude of global markets, there are many risks out there that could see things go off the rails. The risk continues to be that a large external shock comes along that ends up sending New Zealand interest rates to the lower bound, given pent-up vulnerabilities like the large amount of household and dairy debt out there. The problem is that such shocks tend to be global in origin, marked by sentiment shifts and contagion across markets, and the catalysts are all but impossible to predict. High and rising global debt and asset prices mean the vulnerabilities are growing. But for what it's worth, there are currently no signs that this is the year it'll all crack.

Pricing for a small chance of cuts remains appropriate.

Given the balance of risks, we see market pricing with a small chance of further cuts as appropriate, but a near-term cut now seems unlikely. That said, the path ahead, while we are picking no OCR change, may be anything but boring. The RBNZ under the new decision-making structure has shown itself to be responsive and willing to act – and, if necessary, surprise the market – in its mission to get interest rates as quickly as possible to where they estimate they need to be. The road ahead for market pricing may be bumpy as developments unfold.

Local data

NZIER Quarterly Survey of Business Opinion – Q4. The QSBO improved in Q4, but the details were a touch softer than our own Business Outlook survey. Businesses' reported activity levels (the part of the survey that generally correlates pretty well with GDP) was unchanged at a weak level in Q4, and at face value suggest the economy expanded at an anaemic pace in Q4.

Building Consents – November. Consents issuance fell 8.5% m/m, partially unwinding previous strength. Consent issuance is volatile, but these data suggest that supply will continue to struggle to keep pace with demand.

Food Price Index – December. Food prices declined 0.2% m/m in December.

Rental Price Index – December. Rents lifted 03% m/m, suggesting housing-related prices will remain one of the key factors underpinning CPI inflation.

REINZ housing market data – December. House prices rose 1.2%, to be up 3.4% over Q4. Sales also rose modestly. House prices saw a strong rebound over the second half of 2019, rising 6% since June.

ANZ Monthly Inflation Gauge – December. The Gauge lifted 0.4% m/m, to finish the quarter up 0.8%.

BNZ-BusinessNZ Manufacturing PMI – December. The PMI retreated to 49.3 from 51.2. Looking through monthly volatility, this is consistent with a bottoming out from last year's slide, but more improvement is needed for manufacturing to be back on an expansionary footing.

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 Monthly Inflation Gauge - Driving prices up
- Q4 CPI Preview - Within a whisker of the mid-point
- ANZ Quick Reaction: Quarterly Survey of Business Opinion – Feeling a little better

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
21-Jan	NZ	Performance Services Index - Dec	--	53.3	10:30
	AU	ANZ-RM Consumer Confidence Index - 19-Jan	--	107.3	11:30
	NZ	Non Resident Bond Holdings - Dec	--	52.7%	15:00
	UK	Claimant Count Rate - Dec	--	3.5%	22:30
	UK	Jobless Claims Change - Dec	--	28.8k	22:30
	UK	Average Weekly Earnings 3M/YoY - Nov	3.1%	3.2%	22:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Nov	3.4%	3.5%	22:30
	UK	ILO Unemployment Rate 3Mths - Nov	3.8%	3.8%	22:30
	UK	Employment Change 3M/3M - Nov	109k	24k	22:30
	GE	ZEW Survey Current Situation - Jan	-13.5	-19.9	23:00
	GE	ZEW Survey Expectations - Jan	15.0	10.7	23:00
	EC	ZEW Survey Expectations - Jan	--	11.2	23:00
	JN	BoJ Policy Balance Rate - Jan	-0.10%	-0.10%	UNSPECIFIED
22-Jan	AU	Westpac Consumer Conf Index - Jan	--	95.1	12:30
	AU	Westpac Consumer Conf SA MoM - Jan	--	-1.9%	12:30
	AU	Skilled Vacancies MoM - Dec	--	-1.3%	13:00
	UK	Public Finances (PSNCR) - Dec	--	£9.9b	22:30
	UK	Public Sector Net Borrowing - Dec	£4.6b	£4.9b	22:30
	UK	PSNB ex Banking Groups - Dec	£5.3b	£5.6b	22:30
23-Jan	UK	CBI Trends Total Orders - Jan	-25	-28	00:00
	UK	CBI Trends Selling Prices - Jan	5	6	00:00
	UK	CBI Business Optimism - Jan	-24	-44	00:00
	US	MBA Mortgage Applications - 17-Jan	--	30.2%	01:00
	US	Chicago Fed Nat Activity Index - Dec	0.15	0.56	02:30
	US	FHFA House Price Index MoM - Nov	0.3%	0.2%	03:00
	US	Existing Home Sales MoM - Dec	1.5%	-1.7%	04:00
	US	Existing Home Sales - Dec	5.43m	5.35m	04:00
	NZ	Net Migration SA - Nov	--	4120	10:45
	JN	Trade Balance - Dec	-¥170.0b	-¥85.2b	12:50
	JN	Trade Balance Adjusted - Dec	-¥236.0b	-¥60.8b	12:50
	JN	Exports YoY - Dec	-4.2%	-7.9%	12:50
	JN	Imports YoY - Dec	-2.6%	-15.7%	12:50
	AU	Consumer Inflation Expectation - Jan	--	4.0%	13:00
	AU	Full Time Employment Change - Dec	--	4.2k	13:30
	AU	Employment Change - Dec	11.0k	39.9k	13:30
	AU	Participation Rate - Dec	66.0%	66.0%	13:30
	AU	Unemployment Rate - Dec	5.2%	5.2%	13:30
	AU	Part Time Employment Change - Dec	--	35.7k	13:30
24-Jan	EC	ECB Main Refinancing Rate - Jan	0.00%	0.00%	01:45
	EC	ECB Marginal Lending Facility - Jan	0.25%	0.25%	01:45
	EC	ECB Deposit Facility Rate - Jan	-0.50%	-0.50%	01:45
	US	Initial Jobless Claims - 18-Jan	214k	204k	02:30
	US	Continuing Claims - 11-Jan	1750k	1767k	02:30
	EC	Consumer Confidence - Jan A	-7.8	-8.1	04:00
	US	Leading Index - Dec	-0.2%	0.0%	04:00
	US	Kansas City Fed Manf. Activity - Jan	-6	-8	05:00
	NZ	CPI QoQ - Q4	0.4%	0.7%	10:45
	NZ	CPI YoY - Q4	1.8%	1.5%	10:45

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
24-Jan	AU	CBA PMI Composite - Jan P	--	49.6	11:00
	AU	CBA PMI Mfg - Jan P	--	49.2	11:00
	AU	CBA PMI Services - Jan P	--	49.8	11:00
	JN	Natl CPI YoY - Dec	0.7%	0.5%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Dec	0.7%	0.5%	12:30
	JN	Jibun Bank PMI Composite - Jan P	--	48.6	13:30
	JN	Jibun Bank PMI Mfg - Jan P	--	48.4	13:30
	JN	Jibun Bank PMI Services - Jan P	--	49.4	13:30
	NZ	Credit Card Spending YoY - Dec	--	4.5%	15:00
	NZ	Credit Card Spending MoM - Dec	--	1.6%	15:00
	GE	Markit/BME Manufacturing PMI - Jan P	44.5	43.7	21:30
	GE	Markit Services PMI - Jan P	53.0	52.9	21:30
	GE	Markit/BME Composite PMI - Jan P	50.5	50.2	21:30
	EC	Markit Manufacturing PMI - Jan P	46.8	46.3	22:00
	EC	Markit Services PMI - Jan P	52.8	52.8	22:00
	EC	Markit Composite PMI - Jan P	51.2	50.9	22:00
	UK	Markit PMI Manufacturing SA - Jan P	48.7	47.5	22:30
	UK	Markit/CIPS Services PMI - Jan P	51.0	50.0	22:30
	UK	Markit/CIPS Composite PMI - Jan P	50.7	49.3	22:30
	GE	Import Price Index MoM - Dec	0.4%	0.5%	31-31 Jan
	GE	Import Price Index YoY - Dec	-0.6%	-2.1%	31-31 Jan
25-Jan	US	Markit Services PMI - Jan P	52.5	52.8	03:45
	US	Markit Composite PMI - Jan P	--	52.7	03:45
	US	Markit Manufacturing PMI - Jan P	52.5	52.4	03:45

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 data has turned upward and growth looks like it will improve gradually from here. Although capacity pressures have eased a little, the medium term outlook is now looking more assured. We see the OCR on hold for the foreseeable future. Global risks are the wild card.

Date	Data/event	Economic signal	Comment
Wed 22 Jan (early am)	GlobalDairyTrade auction	Small rise	Slight further price increases are expected as the market balance favours exporters rather than importers.
Thu 23 Jan (10:45am)	Net Migration – November	Revised	Downgrades have been signalled, which we expect will be more consistent with a recent downward trend. Watch with caution.
Fri 24 Jan (10:45am)	Consumer Price Index – Q4	Pick up	We expect headline CPI will print at 0.5% q/q, with annual inflation accelerating to 1.9% from 1.5%.
Thu 30 Jan (10:45am)	Overseas Merchandise Trade – December	Rise	Net exports to remain strong supported by strength in dairy export volumes in December.
Fri 31 Jan (10:00am)	ANZ Roy Morgan Consumer Confidence – January	--	--
Tue 4 Feb (10:45am)	Building Consents – December	Wary	Consents have been holding at a high level. While downside risks remain, recent resurgence in the housing market provides some offset.
Wed 4 Feb (early am)	GlobalDairyTrade auction	Small rise	Market is expected to continue to favour exporters over importers.
Wed 5 Feb (10:45am)	Labour Market Statistics – Q4	Tight	The labour market is tight, but the recent slowdown in economic momentum is yet to filter through.
Wed 5 Feb (1:00pm)	ANZ Commodity Price Index – January	--	--
Mon 10 Feb (10-15 Feb)	REINZ Housing Data – January	Rebound	The housing market rebounded over the second half of 2019, and more strength seems likely, given market tightness.
Tue 11 Feb (10:00am)	ANZ Truckometer – January	--	--
Wed 12 Feb (2:00pm)	RBNZ Monetary Policy Statement – February	Hold the door	The RBNZ can afford to be patient. Inflation appears close to target and the data pulse has improved. We expect the OCR to remain unchanged at 1%.
Fri 14 Feb (10:45am)	Food Price Index – January	Rebound	A seasonal rebound in food prices is expected.
Fri 14 Feb (10:45am	Rental Price Index – January	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Mon 17 Feb (10:45am)	Net Migration – December	Down	The vibe is certainly that migration has been heading downwards, but data can – and does – throw up wild cards.
Mon 17 Feb (1:00pm)	ANZ Monthly Inflation Gauge – January	--	--
Wed 19 Feb (early am)	GlobalDairyTrade auction	Steady	Dairy prices are expected to stabilise in the latter part of the season.
Mon 24 Feb (10:45am)	Retail Sales – Q4	Bright spot	A robust household sector is one of the economy's bright spots. Don't fail us now.
Thu 27 Feb (10:45am)	Overseas Merchandise Trade – January	Easing	Dairy export volumes are expected to ease and a relatively slow start to the meat-processing season will keep export volumes in check.
Thu 27 Feb (1:00pm)	ANZ Business Outlook – February	--	--
Fri 28 Feb (10:00am)	ANZ Roy Morgan Consumer Confidence – February	--	--
Mon 2 Mar (10:45am)	Terms of Trade – Q4		The terms of trade may recoil slightly on a q/q basis, but are expected to remain at a high level.
Wed 4 Mar (10:45am)	Building Consents –January	Hi there	Consents have been holding at a high level. While downside risks remain, recent resurgence in the housing market is expected to provide continued support.
Wed 4 Mar (1:00pm)	ANZ Commodity Price Index – February	--	--
On balance		**Data watch**	**The vibe has improved and we now see the OCR flat for the foreseeable future. Global risks are the wildcard.**

Key forecasts and rates

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
GDP (% qoq)	0.7	**0.6**	**0.6**	**0.5**	**0.6**	**0.6**	**0.6**	**0.6**	**0.7**
GDP (% yoy)	2.3	**1.8**	**2.0**	**2.4**	**2.3**	**2.3**	**2.3**	**2.4**	**2.5**
CPI (% qoq)	0.7	**0.5**	**0.6**	**0.3**	**0.5**	**0.1**	**0.6**	**0.5**	**0.4**
CPI (% yoy)	1.5	**1.9**	**2.2**	**1.9**	**1.8**	**1.6**	**1.7**	**1.9**	**1.8**
LCI Wages (% qoq)	0.6	**0.6**	**0.4**	**0.8**	**0.6**	**0.6**	**0.4**	**0.8**	**0.5**
LCI Wages (% yoy)	2.3	**2.3**	**2.4**	**2.3**	**2.3**	**2.3**	**2.3**	**2.4**	**2.4**
Employment (% qoq)	0.2	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	0.9	**1.1**	**1.4**	**1.2**	**1.3**	**1.3**	**1.4**	**1.4**	**1.4**
Unemployment Rate (% sa)	4.2	**4.3**	**4.4**	**4.4**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**
Current Account (% GDP)	-3.3	**-3.4**	**-3.5**	**-3.7**	**-3.8**	**-3.8**	**-3.7**	**-3.6**	**-3.5**
Terms of Trade (% qoq)	1.9	**-1.1**	**1.2**	**0.3**	**0.1**	**0.3**	**0.0**	**0.1**	**0.1**
Terms of Trade (% yoy)	1.0	**3.2**	**3.4**	**2.2**	**0.5**	**1.9**	**0.8**	**0.6**	**0.6**

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Retail ECT (% mom)	-0.2	1.0	-0.6	0.3	0.0	1.2	0.3	-0.5	2.9	-0.8
Retail ECT (% yoy)	1.0	5.0	3.4	1.5	2.0	3.1	0.6	1.6	5.1	3.9
Car Registrations (% mom)	-2.1	1.9	-2.0	-2.7	5.2	-0.1	6.3	-6.5	-1.3	2.3
Car Registrations (% yoy)	-2.9	-0.5	-12.6	-11.0	-5.4	-5.2	4.7	-6.6	3.0	5.6
Building Consents (% mom)	-7.1	-7.3	14.5	-4.2	-1.2	0.8	6.9	-1.3	-8.4	--
Building Consents (% yoy)	2.9	-3.0	8.2	9.4	18.6	12.3	23.4	18.4	7.9	--
REINZ House Price Index (% yoy)	2.4	1.4	1.7	1.8	1.6	2.7	3.2	3.8	5.6	6.6
Household Lending Growth (% mom)	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.6	--
Household Lending Growth (% yoy)	5.9	5.9	6.0	5.9	5.9	6.0	6.1	6.2	6.3	--
ANZ Roy Morgan Consumer Conf.	121.8	123.2	119.3	122.6	116.4	118.2	113.9	118.4	120.7	123.3
ANZ Business Confidence	-38.0	-37.5	-32.0	-38.1	-44.3	-52.3	-53.5	-42.4	-26.4	-13.2
ANZ Own Activity Outlook	6.3	7.1	8.5	8.0	5.0	-0.5	-1.8	-3.5	12.9	17.2
Trade Balance ($m)	825	361	175	330	-732	-1642	-1322	-1039	-753	--
Trade Bal ($m ann)	-5739	-5578	-5602	-4987	-5516	-5591	-5333	-5067	-4816	--
ANZ World Comm. Price Index (% mom)	4.1	2.6	0.1	-3.9	-1.4	0.3	0.0	1.2	4.3	-2.8
ANZ World Comm. Price Index (% yoy)	0.6	2.2	0.7	-2.4	-0.5	0.9	3.4	7.2	12.4	9.4
Net Migration (sa)	3550	3910	4150	4040	5110	4350	4290	4120	--	--
Net Migration (ann)	55721	55707	55577	55609	56812	56606	56191	55614	--	--
ANZ Heavy Traffic Index (% mom)	-1.6	2.6	0.8	-2.4	2.3	-3.5	3.3	2.8	-1.6	-2.5
ANZ Light Traffic Index (% mom)	0.7	0.2	0.8	-2.0	1.4	0.3	-0.3	0.2	1.2	-2.0
ANZ Monthly Inflation Gauge (% mom)	0.1	-0.1	0.2	0.5	0.5	0.3	0.3	0.3	0.1	0.4

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	Nov-19	Dec-19	Today	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
NZD/USD	0.642	0.674	0.661	0.65	0.64	0.64	0.63	0.63	0.63
NZD/AUD	0.950	0.961	0.961	0.97	0.97	0.97	0.95	0.95	0.95
NZD/EUR	0.583	0.600	0.596	0.60	0.58	0.58	0.56	0.56	0.55
NZD/JPY	70.31	73.10	72.78	72.2	71.7	71.7	70.6	70.6	70.6
NZD/GBP	0.497	0.511	0.508	0.49	0.48	0.47	0.46	0.46	0.46
NZ$ TWI	69.64	71.94	72.57	71.1	69.9	69.8	68.4	68.1	68.0
Interest rates	Nov-19	Dec-19	Today	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
NZ OCR	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
NZ 90 day bill	1.23	1.29	1.29	1.20	1.20	1.20	1.20	1.20	1.20
NZ 10-yr bond	1.29	1.65	1.54	1.95	1.67	1.65	1.30	1.30	1.25
US Fed funds	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
US 3-mth	1.91	1.91	1.80	1.90	1.90	1.90	1.90	1.90	1.90
AU Cash Rate	0.75	0.75	0.75	0.50	0.25	0.25	0.25	0.25	0.25
AU 3-mth	0.89	0.92	0.85	0.70	0.45	0.45	0.45	0.45	0.45

	17-Dec	13-Jan	14-Jan	15-Jan	16-Jan	17-Jan
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.22	1.25	1.27	1.28	1.29	1.29
NZGB 05/21	1.07	1.04	1.03	1.02	1.02	1.02
NZGB 04/23	1.12	1.04	1.08	1.07	1.07	1.09
NZGB 04/27	1.42	1.35	1.39	1.39	1.39	1.41
NZGB 04/33	1.79	1.69	1.74	1.74	1.75	1.77
2 year swap	1.22	1.18	1.20	1.19	1.20	1.22
5 year swap	1.37	1.30	1.34	1.32	1.33	1.36
RBNZ TWI	72.77	72.90	72.67	72.49	72.71	72.79
NZD/USD	0.6577	0.6626	0.6616	0.6612	0.6649	0.6615
NZD/AUD	0.9600	0.9604	0.9592	0.9595	0.9607	0.9625
NZD/JPY	72.05	72.81	72.81	72.65	73.13	72.87
NZD/GBP	0.4980	0.5103	0.5095	0.5083	0.5090	0.5083
NZD/EUR	0.5893	0.5960	0.5943	0.5936	0.5959	0.5966
AUD/USD	0.6851	0.6899	0.6898	0.6890	0.6920	0.6879
EUR/USD	1.1160	1.1117	1.1134	1.1139	1.1157	1.1092
USD/JPY	109.55	109.89	110.05	109.88	109.99	110.14
GBP/USD	1.3205	1.2985	1.2985	1.3007	1.3062	1.3016
Oil (US$/bbl)	60.94	58.08	58.23	57.81	58.52	58.54
Gold (US$/oz)	1480.18	1551.21	1545.16	1551.96	1554.79	1557.24
NZX 50	11261	11544	11625	11677	11738	11800
Baltic Dry Freight Index	1281	765	763	768	768	754
NZX WMP Futures (US$/t)	3275	3140	3140	3155	3145	3145

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