

New Zealand Weekly Focus

17 February 2020



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Something's got to give

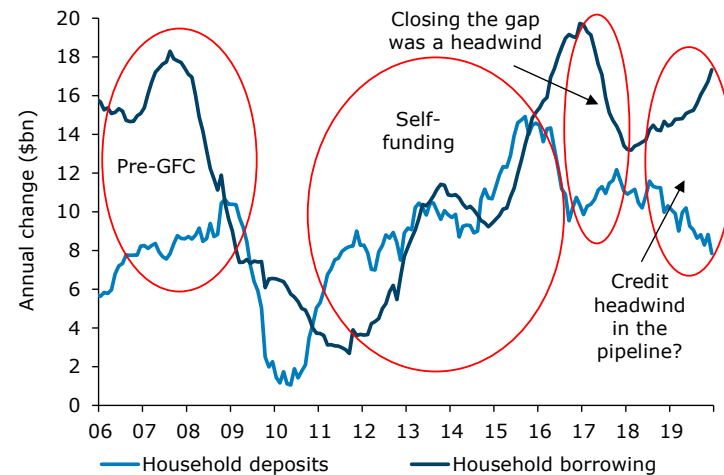
Economic overview

Low interest rates have spurred demand for credit, but bank deposit growth has been declining. The latter may reflect a search for higher returns, reduced foreign buying of assets, and/or increased cash use. It's difficult to disentangle the drivers with any precision, but the slowdown in deposit growth matters. New Zealand banks need deposits to fund their lending, so the recent widening in the bank "funding gap" is something we are watching closely. In the current environment, generating deposit growth may be difficult – although banks can tap non-deposit funding, this has its limits. Closing the gap is likely to result in a tightening in credit conditions, at least to some degree, at a time when credit demand is strong. A significant economic headwind could be in the pipeline.

Chart of the week

Higher interest rates and/or reduced credit availability are possible ways to close the funding gap. Both would represent a tightening in financial conditions.

Bank funding gap



Source: RBNZ, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.9% y/y for 2021 Q1	The outlook for GDP was looking more positive. We expect a COVID-19 dent in growth in the near term, with downside risks.	Neutral
Unemployment rate	3.9% for 2021 Q1	The labour market is "tight". Although the unemployment rate may be thrown around in coming quarters, trend deterioration is looking less likely.	Neutral
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
CPI	1.9% y/y for 2021 Q1	Inflation is around where it needs to be. The domestic picture is positive, but again risks are important.	Neutral



Economic overview

Credit conditions are poised to tighten.

Summary

Low interest rates have spurred demand for credit, but bank deposit growth has been declining. The latter may reflect a search for higher returns, reduced foreign buying of assets, and/or increased cash use. It's difficult to disentangle the drivers with any precision, but the slowdown in deposit growth matters. New Zealand banks need deposits to fund their lending, so the recent widening in the bank "funding gap" is something we are watching closely. In the current environment, generating deposit growth may be difficult – although banks can tap non-deposit funding, this has its limits. Closing the gap is likely to result in a tightening in credit conditions, at least to some degree, at a time when credit demand is strong. A significant economic headwind could be in the pipeline.

Forthcoming data

ANZ Monthly Inflation Gauge – January (Monday 17 February, 1:00pm).

REINZ housing market data – January (Tuesday 18 February, 9:00am). The market has tightened, and that is expected to translate into lifting house price inflation in the short term, though credit headwinds appear to be forming.

GlobalDairyTrade auction (Wednesday 19 February, early am). The GDT Price Index is expected to decline by approximately 2.5% as the market deals with the uncertainties associated with COVID-19.

Retail Trade Survey – Q4 (Monday 24 February, 10:45am). Retail sales volumes posted a strong 1.6% q/q rise in Q3. A technical retracement wouldn't surprise.

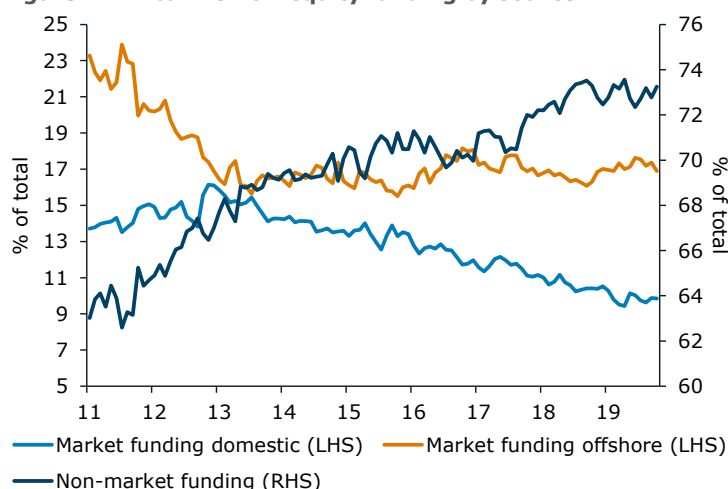
What's the view?

Banks' ability to fund is of paramount importance to the health of the economy.

Credit matters – a lot! The economy can have all its ducks in a row in terms of strong fundamentals (eg high terms of trade, a buoyant household sector) but if credit is costly and/or difficult to obtain, it may be difficult to reap the benefits and keep the momentum going. **Banks provide 94% of non-financial borrowing** (ie loans for houses, businesses and agriculture), so their ability to fund is of paramount importance to the health of the economy and financial system.

Domestic non-market funding (eg term deposits with local banks) makes up the lion's share of how banks fund their lending (figure 1), but wholesale funding (both domestic and offshore) is also an important source.

Figure 1. NZ bank's non-equity funding by source



Source: RBNZ, ANZ Research

Domestic deposits account for the lion's share of bank funding...



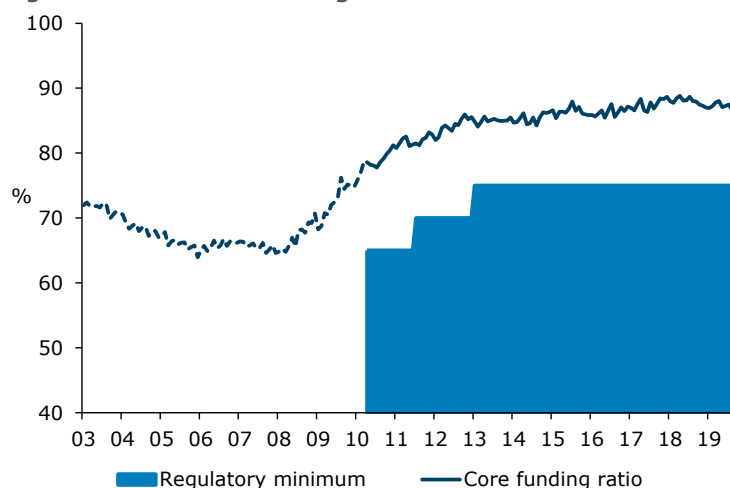
Economic overview

...and this has lifted over time.

The composition of bank funding has changed significantly since the Global Financial Crisis (GFC). During the GFC, wholesale debt funding costs sky-rocketed and availability plummeted as global liquidity dried up. This experience resulted in an immediate movement away from this type of funding, especially at short terms. Offsetting the impact on bank balance sheets, heightened uncertainty contributed to a shift of deposits away from finance companies and into banks. This combination meant banks began to rely more heavily on deposits to fund their lending. Reliance on offshore funding (of whatever term) decreased, and the average maturity of this debt changed substantially, with more funding at longer maturities.

These market changes were cemented by the Reserve Bank's introduction of the **core funding ratio** (CFR) in 2010 (figure 2), which introduced a regulatory minimum on the proportion of bank funding that must be from more stable funding sources (such as term deposits and long-term wholesale debt), which tend to be in place for at least one year.

Figure 2. Banks' core funding ratio



Core funding ratio requirements were introduced in 2010...

...making NZ banks more able to weather changes in global funding markets...

...but more reliant on deposits.

Credit and deposits growth can't diverge significantly for an extended period.

Source: RBNZ

The movement towards more stable "core" funding has been great from a financial stability perspective. Banks now rely less on short-term wholesale funding – reducing the need for continued rollover in markets that history has now shown can be fickle or completely dry up in a stress event. This in turn reduces the probability of a credit crunch by ensuring that banks have sufficient funding if markets become disrupted, by ensuring that funding is robust, and by reducing the mismatch between banks' assets (loans over many years) and its liabilities (deposits and the like that are shorter duration). Of course, this mismatch can never be totally eliminated – there's not a lot of demand for 25-year term deposits. But reducing it makes bank balance sheet more robust to changing funding conditions.

So in short, New Zealand banks are now more able to weather changes in global funding markets, but it does mean that they are even more reliant on deposits to fund their lending growth.

A building economic headwind

Deposit and credit growth have always been intertwined; deposits have always been a key part of banks' funding to lend, and lending in turn creates deposits. But there is now a binding link between deposit growth and credit growth that was not there before the GFC. The funding gap that prevailed before the GFC could not endure now (figure 3); it was funded by short-term global wholesale funding that proved to be fickle.

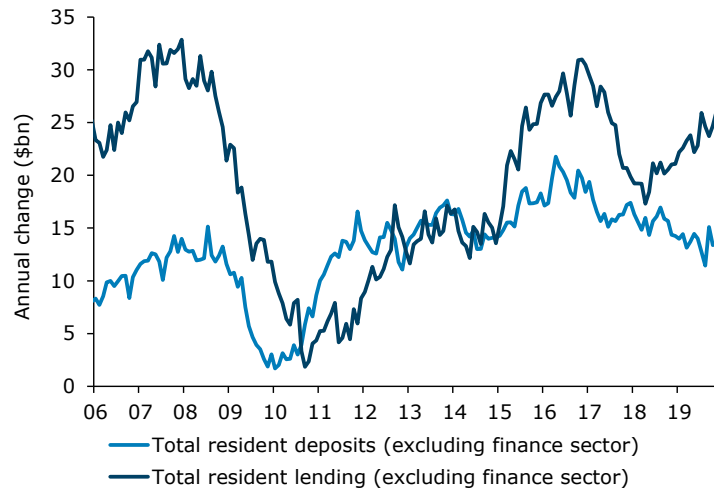
Following the recession associated with the GFC, between around 2011 and 2015, lending and deposits growth generally lifted together; for the most part, banks were able to self-fund the increase in new lending, as deposits moved out of finance companies and into banks.



Economic overview

But the two have been diverging over the past couple of years...

Figure 3. Total resident funding gap



Source: RBNZ, ANZ Research

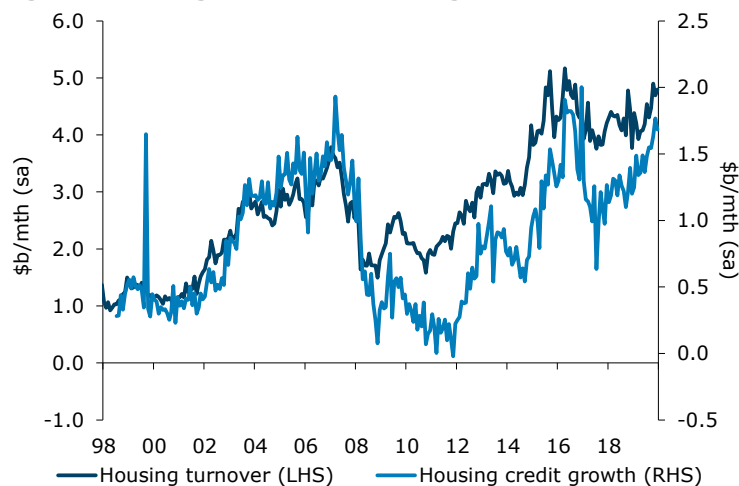
However, in 2015/16 as the Auckland housing market took off, the funding gap widened and lending was reined in to narrow the gap, reinforced by the Reserve Bank's restrictions on high loan-to-value-ratio mortgage lending. This lending slowdown was a significant headwind for the housing market and economic growth over 2017. And more recently, strong credit demand on the back of the recent resurgence in the housing market alongside soft deposits growth has seen the gap open up again.

...as resurgence in the housing market has boosted credit demand...

The explanation as to why credit growth has lifted markedly recently is pretty straightforward: the housing market has responded vigorously to lower interest rates (figure 4). But with funding constraints biting, this may not last long. House prices have lifted 6% over the second half of 2019, with house price inflation sitting at 5.3% y/y in December. REINZ housing market data for January is due out tomorrow, with momentum expected to continue in the short term. We see house price inflation hitting 8% y/y by mid-2020, but with a fairly sharp moderation towards around 3% thereafter. Credit and affordability constraints should cap the upside, despite ongoing supply constraints and still-elevated (albeit moderating) population growth.

It also looks like the housing turnover we have seen has been associated with people taking on a bit more debt – unsurprising with interest rates so low. So credit growth has been even more rapid than it might have been on the back of that turnover. But that sort of change in behaviour is fairly neutral for the gap – creating both more lending and deposits.

Figure 4. Housing turnover and credit growth



Source: RBNZ, REINZ, ANZ Research



Economic overview

On the deposits side, the explanation for the slowdown is not as obvious as you might think. In theory, in a closed banking system, deposits and credit growth go hand in hand. That is, whenever a bank makes a loan, it creates a matching deposit in the borrower's bank account¹. But there appears to be some leakage from "traditional" deposits happening at present. Accelerating credit growth certainly isn't translating into strong deposit growth. So what's going on? Due to data limitations we can't provide definitive answers, but we have a few ideas.

Low interest rates and the search for yield

Low interest rates generally aren't great news for savers, although how they will respond isn't necessarily straightforward. For some people, lower interest income will encourage spending rather than saving ("why bother?"), or they may need to spend more of their nest egg simply out of necessity. Spending would then transfer the deposits into business accounts. Other households might decide to save more to compensate for a lower return, eg those with a target for their retirement savings. This would send funds the other way. But overall, whether a person decides to save or spend is neutral for overall deposits, provided the funds remain in the domestic banking system.

This means that what is more important for deposits is not how much people save, but what people do with their savings. The recent low interest rate environment has encouraged investors to take on more risk in a "search for yield" (a bit of a misnomer – people are always in search of yield). Increased risk appetite has encouraged movement into assets like overseas equities in search of higher returns, contributing to flows out of "traditional" domestic bank deposits.

Indeed, the rise of managed funds, KiwiSaver and other tech-based investment platforms have made it easier than ever for households to access these markets. To the extent that these funds are investing in overseas assets, like equities, this will result in capital outflows. Technically, in this case, the NZD would still exist as "deposits", likely held by some overseas intermediary. But these deposits would no longer be in the traditional New Zealand bank deposit base.

To the extent that managed funds and KiwiSaver accounts invest in bank deposits (presumably not much), this will tend to be in large chunks, meaning that less of the deposits will be counted as core funding.²

For those households who do not want to take on risky assets, the polar opposite behaviour – putting cash under the mattress – would also result in less deposit growth. Although we don't think that this is a large part of what is going on, it is probably part of the mix. The RBNZ [has found](#) that cash use has been on a trend increase, with low interest rates effectively making cash cheaper to hold as you're not giving up much interest by doing so.

Overall, these investment trends are contributing to leakage out of traditional deposits, making it harder for banks to fund themselves through deposit growth.

So what can banks do? Banks can increase deposit interest rates in an attempt to compete with alternative investments, and we expect that may happen to some extent. Indeed, the spread between deposit rates and the OCR has already widened (figure 5).

But, in reality, the scope to do this is limited. Deposits are a lower-return and lower-risk product that simply can't compete with the risk-reward properties of other assets in an environment where investors are looking to move into riskier assets in search of returns.

...and low interest rates change how people save...

...with technology also facilitating.

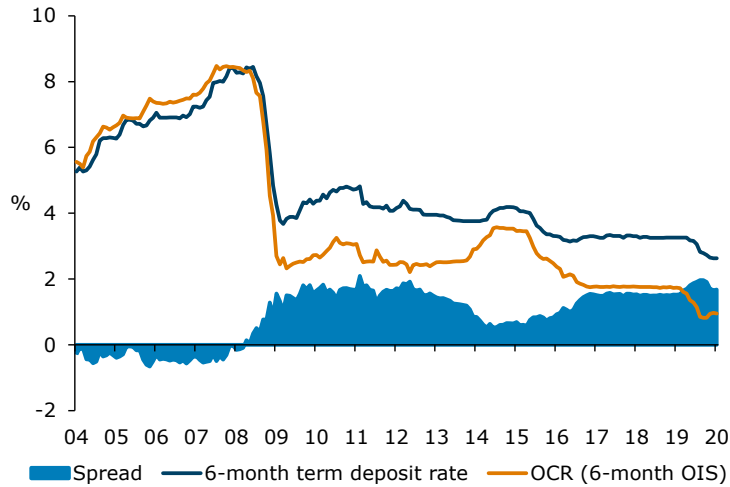
¹ See [Money creation in the modern economy](#) for further details.

² The RBNZ's [liquidity policy](#) states that the larger the deposit then the less core-funding rich it is (ie. 90% of a deposit less than \$5m can be counted as core funding versus 20% of a deposit that's \$50m or higher). This is on the reasonable assumption that very large deposits are probably only biding time before moving on to some other purpose.



Economic overview

Figure 5. 6-month deposit rate and OCR



Source: Bloomberg

This could change of course – equities have been unusually low-volatility in the past decade, but that could change pretty fast, with immediate consequences for how much risk people decide they are comfortable taking. In short, investors might decide that despite low returns they'd prefer to put a bit more money in term deposits, particularly now the Government is introducing a deposit guarantee scheme. In that case, deposits growth could once again accelerate. The demand for credit would probably also be reducing in that kind of environment. But that wouldn't be a great way to bridge the funding gap.

Risk appetite is also a factor.

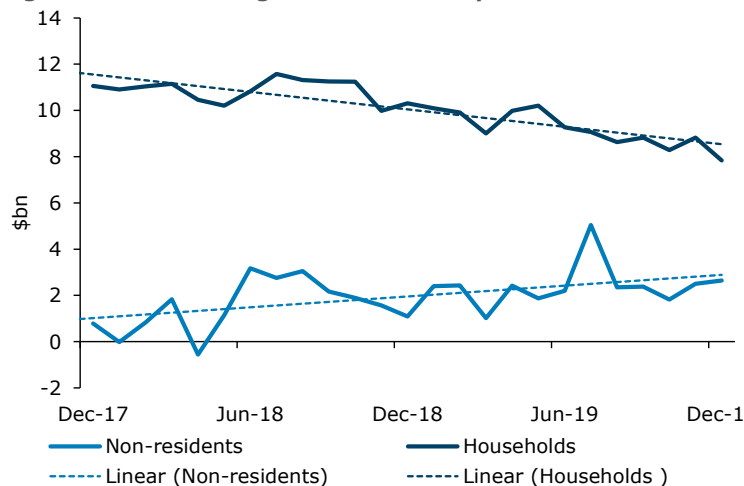
Changes to the composition

Policy changes may have also contributed to the widening funding gap. Following the ban on foreign buyers purchasing houses (which came into effect in October 2018), non-residents have gone from net buyers of houses to net sellers. In late 2017, foreigners were buying about 600 houses each quarter on net; now they are selling 100-200 per quarter. This is not large in the context of overall housing transactions (40,000 per quarter). But it is significant for bank deposits if capital is leaving the country, whereas previously it was flowing in.

Foreign residents have become net sellers of houses...

When the seller of a property is foreign, some of the proceeds from sales can be expected to stay in the New Zealand banking system, resulting in a movement from resident to non-resident deposits (which still count as core funding). Consistent with this, resident household deposits have been trending lower while non-resident deposits have trended a little higher (figure 6).

Figure 6. Annual change in household deposit versus non-resident



Source: RBNZ, ANZ Research

...and domestic deposits appear to be getting lost in the transaction.



Economic overview

But to the extent that non-residents are repatriating these funds, then this will be causing capital outflows. It's difficult to know exactly how much capital is moving out of the country as a result of this phenomenon, but the idea that non-residents would allocate more of their assets abroad makes perfect sense to us. Again, the NZD would still exist as "deposits" somewhere – they don't just vanish – but it would again likely be held by some overseas intermediary. The key thing is that the deposits would now be outside the traditional New Zealand bank deposit base.

This may also be showing up in the balance of payments. Since 2018, direct investment by foreigners (which captures assets such as land, but also business interests etc.) has decreased, while portfolio (pure financial) investment has increased – though not as much, with a bit less investment overall.

Overall, we think movement away from foreign ownership of New Zealand housing, the rise of popularity of managed funds and the like in response to lower interest rates, and greater use of cash as a store of value could all be contributing to the recent divergence between credit and deposit growth. However, ascertaining the contributions of these factors is difficult and would require quite a bit more digging.

The looming credit headwind

Whatever the reasons for the slowdown in deposits, closing the bank funding gap could be a significant headwind for economic activity going forward, as we saw in 2017. It's possible that banks could tap wholesale funding markets to bridge the gap, but there are limitations to this strategy. That's not only because of Reserve Bank rules. The ratio of loans to deposits is also a key metric used by investors and in ratings assessments to assess a bank's liquidity. This means that increased funding via wholesale markets (even at a long duration) can weigh on perceptions of risk and thereby increase funding costs.

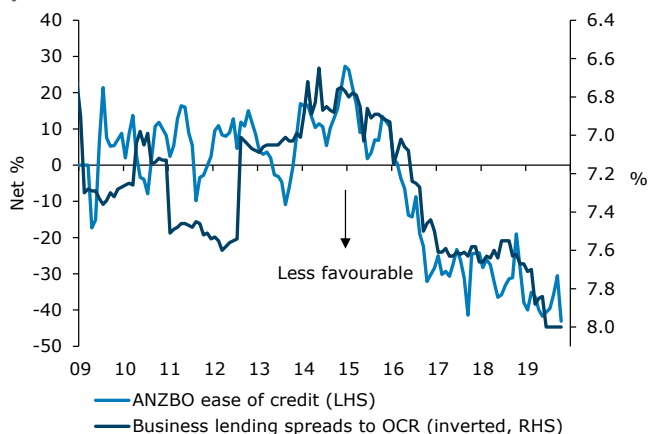
As mentioned previously, it is possible that banks could lift deposit growth to fund the gap, but scope to do this through higher interest rates is limited. This would also increase funding costs and squeeze margins. Alternatively, banks can bridge the gap by rationing lending, either by increasing its price (higher lending rates) or directly reducing its availability. Either way, given the extent of the gap, we expect that lending will need to be reined in to some degree.

This tightening in financial conditions doesn't bode well for economic activity, and indeed it already looks to be putting a dampener on things. Survey data of both businesses and banks show that credit has become harder to get (figure 7 and 8). And while not all of this is owing to slowing deposits growth (eg recent changes to bank capital requirements and re-pricing of risk are also factors), there's little to suggest conditions are about to improve.

Closing the funding gap is expected to see lending reigned in to some degree...

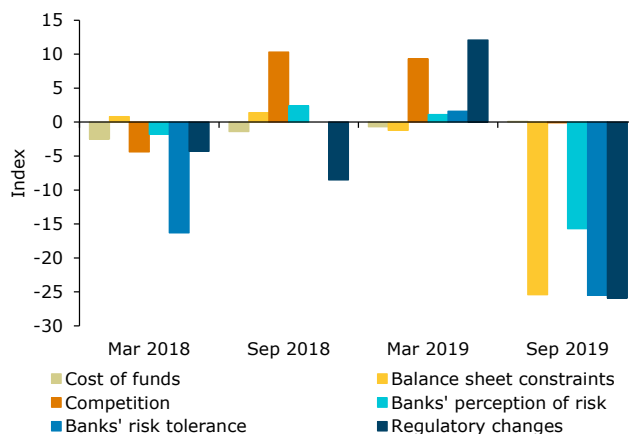
...and this doesn't bode well for economic activity.

Figure 7. ANZBO ease of credit and business lending spreads



Source: RBNZ, ANZ Research

Figure 8. Factors affecting availability of credit



Source: RBNZ, ANZ Research



Economic overview

Businesses and banks are already reporting that credit is harder to get.

Credit conditions could already be putting the brakes on some projects...

...at a time when COVID-19 disruption is already weighing.

The potential economic implications of closing the funding gap are significant. Both the availability of credit and its cost could become less favourable for households and businesses. In addition to households and businesses facing higher-than-otherwise debt servicing costs, credit could become more difficult to obtain (as banks attempt to align the pace of credit growth with resident deposits).

Because banks need to strike a balance between deposits and lending, should the OCR go lower, the pass-through to deposit rates (and therefore lending rates) is likely to diminish. But that's assuming households' appetite to put their money on deposit in the bank is unchanged. A change in sentiment could make bank deposits, which are at the less risky end of the spectrum, more attractive. And if the Reserve Bank is cutting the OCR, it won't be because things are going swimmingly.

It's an unfortunate time for credit availability to be squeezed. The bulk of current credit growth is because people are wanting to take on debt to buy and build houses, invest in commercial property, expand capacity and the like. But parts of the economy are also being hit by massive disruption in the form of the tragic COVID-19 outbreak. Global shipping routes are seriously disrupted. Farmers can't send their cull stock to the works because China's cool chain is congested, and feed in some areas is running very short. Retailers are struggling to get hold of consumer goods to sell. Producers are worried about supply of intermediate goods (building materials, steel, plastics... you name it) and what that might mean down the line. Tourist operators are looking at significant cancellations. It is unclear how long these disruptions will last. Let's hope it's brief. But many businesses will be needing credit to tide them over. Not a good time for the system to run short.

The week ahead

The devastating COVID-19 outbreak will continue to dominate headlines this week, and we'll be watching closely, hoping to see signs that China's containment measures are proving effective and that the number of new confirmed cases slows. A change in the way China classifies new cases saw a large spike in reported cases last week.

China's factories began to reopen last week, but there are still question marks regarding at what capacity. And although most ports are open again, clearing the backlog of cargo will take a long time, with shipments still very significantly disrupted, particularly of chilled and frozen goods. China's Government has announced that keeping imports of food flowing is a priority, but the logistics are daunting, and the trade-offs between restoring economic activity and containing the virus are real and unavoidable.

The RBNZ's February MPS forecasts assumed that the disruption will be short lived, with quarterly growth in Q1 2020 0.3%pts lower than otherwise (assuming that there is no substantial outbreak in New Zealand and that the outbreak overseas is beginning to be contained by the end of the month). As we discussed in [last week's Weekly](#), our initial thinking is that the impact will be a little larger and extend into Q2, with quarterly growth 0.5%pts lower than otherwise over the first half of 2020. But with COVID-19 implications still highly uncertain it's fair to say that the RBNZ's latest forecasts (and ours) are at risk of looking out of date pretty quickly. ANZ Research economists now estimate that Chinese Q1 GDP growth could slow to 3.2-4% y/y, versus 5.8% before the outbreak.

This week brings a scattering of price data with our Monthly Inflation Gauge out at 1pm today, REINZ housing market data for January out on Tuesday, and a GDT auction scheduled for the wee hours of Wednesday morning. REINZ data is expected to show further strength in house prices as momentum has been clearly lifting following OCR cuts last year. The GDT will be watched very closely given the risks COVID-19 presents. Futures pricing suggests the GDT Price Index will ease by approximately 2.5% as the impact of COVID-19 more than offsets the impact drought is expected to have on milk production. We'll also be putting out our ANZecdotes, a summary of what ANZ frontline staff are hearing about the economy and the initial impacts of the virus outbreak.



Economic overview

The Q4 retail trade survey is out next Monday at 10:45am. This is the first partial indicator for Q4 GDP. Retail sales volumes posted a strong 1.6% q/q rise in Q3 as electrical and electronic goods recorded solid demand (possibly owing to the Rugby World Cup). A technical retracement wouldn't surprise, but the underlying pulse is expected to have remained solid.

Local data

ANZ Truckometer – January). The Light Traffic Index rose 2.0% m/m in January, unwinding its December drop, while the Heavy Traffic jumped 4.8% m/m, after two weaker months.

RBNZ Monetary Policy Statement – February. The RBNZ delivered a hawkish hold. We were expecting the hold part, but thought they might have been a little more concerned about the near-term impacts and risks to the outlook for both domestic and global activity from COVID-19.

Food Price Index –January. As is typical in the month of January, Food prices lifted 2.1% m/m.

Rental Price Index – January. Rents rose 0.3% m/m.

Performance Services Index – January. Bounced higher, consistent with activity indicators to start the year. But that's ancient history now.

Net Migration –January. Not much to take from the data these days due to substantial revisions. We think a gradual moderation is still in play.

What you may have missed

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

- [NZ RBNZ MPS Review – Watch this space](#)
- [NZ Truckometer – Strong start](#)



The RBNZ hasn't validated market pricing but the risks haven't gone away.

Less about macro data and more about anecdotes.

The currency and yield curve have scope to adjust if needed.

Difficult to see the NZD building on gains till we're well clear of virus disruptions; meanwhile USD strength remains a feature.

Summary

Markets remain caught in a tug-of-war between the downside implications of the worsening COVID-19 outbreak and the improved underlying economic picture here and in the US. The RBNZ has made it clear that it is in no mood to ease, citing stabilising global growth, fiscal expansion, and rising household wealth, but it has acknowledged the downside risks. While the Bank's upbeat stance can't be ignored, the RBNZ will be a follower rather than a leader in any move lower in rates and the Kiwi. We remain hostage to virus headlines.

Key events this week

The focus of markets has shifted away from data releases in favour of headlines and timely anecdotes of the spread of COVID-19 and associated trade/port/supply chain disruptions. NZ, US and Australian data this week is mostly second-tier in any case.

Rates

We expect near-term downside risks associated with virus-related disruptions to continue to dominate market sentiment. The RBNZ's sanguine assessment matched the RBA and the Fed's tone, and while that needs to be acknowledged, market interest rates and the NZD are the natural shock absorbers and we will reprice as fresh news comes to hand. Rates will struggle to rise in this environment, and similarly, the Kiwi will be capped, especially with the USD strengthening on the improved data pulse. The NZ/US 10-year spread is as narrow as it has been in some time and we don't think it can be sustained given the macro pulse and risks, with NZ far more exposed to China.

FX

USD strength remains an over-arching theme, driven by both an improving domestic US data pulse and flight-to-safety considerations.

NZD/USD: Likely to struggle to hold onto the post-MPS spike higher as anecdotes of trade disruptions and falling export prices take their toll.

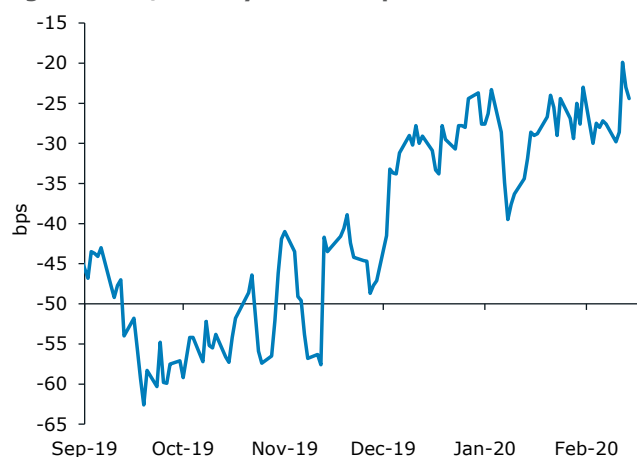
NZD/AUD: Set to resume its upward trend as the post-MPS bounce fades.

NZD/EUR: EUR data remains in the doldrums; with the NZD biased lower, the common theme is USD strength, keeping this cross more stable.

NZD/GBP: Hopes of more expansionary UK fiscal policy should see this cross remain under pressure, especially with the Kiwi under pressure and GBP structurally cheap.

NZD/JPY: USD/JPY remains stuck in a 109/110 range, but the topside looks more vulnerable. Like EUR, the USD strength theme should keep this cross more stable.

Figure 1. NZ/US 10 year bond spread



Source: Bloomberg, ANZ Research



Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time	
17-Feb	JN	GDP SA QoQ - Q4 P	-1.0%	0.4%	12:50	
	JN	GDP Annualized SA QoQ - Q4 P	-3.8%	1.8%	12:50	
	JN	GDP Nominal SA QoQ - Q4 P	-0.6%	0.6%	12:50	
	JN	GDP Deflator YoY - Q4 P	1.1%	0.6%	12:50	
	NZ	ANZ Monthly Inflation Gauge - Jan	--	0.4%	13:00	
	EC	Construction Output MoM - Dec	--	0.7%	23:00	
18-Feb	EC	Construction Output YoY - Dec	--	1.4%	23:00	
	NZ	REINZ House Sales YoY - Jan	--	12.3%	09:00	
	AU	ANZ-RM Consumer Confidence Index - 16-Feb	--	107.8	11:30	
	AU	RBA Minutes of Feb. Policy Meeting	--	--	13:30	
	NZ	Non Resident Bond Holdings - Jan	--	52.0%	15:00	
	UK	Claimant Count Rate - Jan	--	3.5%	22:30	
	UK	Jobless Claims Change - Jan	--	14.9k	22:30	
	UK	ILO Unemployment Rate 3Mths - Dec	3.8%	3.8%	22:30	
	UK	Employment Change 3M/3M - Dec	170k	208k	22:30	
	GE	ZEW Survey Expectations - Feb	22.0	26.7	23:00	
	GE	ZEW Survey Current Situation - Feb	-10.0	-9.5	23:00	
	EC	ZEW Survey Expectations - Feb	--	25.6	23:00	
	19-Feb	US	Empire Manufacturing - Feb	5.0	4.8	02:30
		US	NAHB Housing Market Index - Feb	75	75	04:00
		US	Net Long-term TIC Flows - Dec	--	\$22.9B	10:00
US		Total Net TIC Flows - Dec	--	\$73.1B	10:00	
AU		Westpac Leading Index MoM - Jan	--	0.05%	12:30	
JN		Trade Balance - Jan	-¥1671.9B	-¥154.6B	12:50	
JN		Trade Balance Adjusted - Jan	-¥560.8B	-¥102.5B	12:50	
AU		Skilled Vacancies MoM - Jan	--	0.6%	13:00	
AU		Wage Price Index QoQ - Q4	0.5%	0.5%	13:30	
AU		Wage Price Index YoY - Q4	2.2%	2.2%	13:30	
EC		ECB Current Account SA - Dec	--	€33.9B	22:00	
UK		CPI MoM - Jan	-0.4%	0.0%	22:30	
UK		CPI YoY - Jan	1.6%	1.3%	22:30	
UK		CPI Core YoY - Jan	1.5%	1.4%	22:30	
UK		RPI MoM - Jan	-0.6%	0.3%	22:30	
UK		RPI YoY - Jan	2.6%	2.2%	22:30	
UK		PPI Input NSA MoM - Jan	-0.4%	0.1%	22:30	
UK		PPI Input NSA YoY - Jan	-0.1%	-0.1%	22:30	
UK		PPI Output NSA MoM - Jan	0.1%	0.0%	22:30	
UK		PPI Output NSA YoY - Jan	1.0%	0.9%	22:30	
UK		PPI Output Core NSA MoM - Jan	0.1%	-0.1%	22:30	
UK		PPI Output Core NSA YoY - Jan	0.8%	0.9%	22:30	
UK	House Price Index YoY - Dec	2.4%	2.2%	22:30		
20-Feb	US	MBA Mortgage Applications - 14-Feb	--	1.1%	01:00	
	US	Housing Starts - Jan	1420k	1608k	02:30	
	US	Housing Starts MoM - Jan	-11.7%	16.9%	02:30	
	US	Building Permits - Jan	1450k	1420k	02:30	
	US	Building Permits MoM - Jan	2.1%	-3.7%	02:30	
	US	PPI Final Demand MoM - Jan	0.1%	0.2%	02:30	
	US	PPI Final Demand YoY - Jan	1.6%	1.3%	02:30	

Continued on following page



Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time	
20-Feb	US	PPI Ex Food, Energy, Trade MoM - Jan	0.1%	0.2%	02:30	
	US	PPI Ex Food and Energy YoY - Jan	1.3%	1.1%	02:30	
	US	FOMC Meeting Minutes - 29-Jan	--	--	08:00	
	NZ	PPI Input QoQ - Q4	--	0.9%	10:45	
	NZ	PPI Output QoQ - Q4	--	1.0%	10:45	
	AU	Employment Change - Jan	10.0k	28.9k	13:30	
	AU	Unemployment Rate - Jan	5.2%	5.1%	13:30	
	AU	Participation Rate - Jan	66.0%	66.0%	13:30	
	GE	GfK Consumer Confidence - Mar	9.8	9.9	20:00	
	GE	PPI MoM - Jan	0.1%	0.1%	20:00	
	GE	PPI YoY - Jan	-0.4%	-0.2%	20:00	
	UK	Retail Sales Ex Auto Fuel MoM - Jan	0.8%	-0.8%	22:30	
	UK	Retail Sales Ex Auto Fuel YoY - Jan	0.5%	0.7%	22:30	
	UK	Retail Sales Inc Auto Fuel MoM - Jan	0.7%	-0.6%	22:30	
	UK	Retail Sales Inc Auto Fuel YoY - Jan	0.6%	0.9%	22:30	
	21-Feb	US	Philadelphia Fed Business Outlook - Feb	11	17	02:30
US		Initial Jobless Claims - 15-Feb		210k	205k	
US		Continuing Claims - 8-Feb	1717k	1698k	02:30	
US		Leading Index - Jan	0.4%	-0.3%	04:00	
EC		Consumer Confidence - Feb A	-8.2	-8.1	04:00	
AU		CBA PMI Composite - Feb P	--	50.2	11:00	
AU		CBA PMI Mfg - Feb P	--	49.6	11:00	
AU		CBA PMI Services - Feb P	--	50.6	11:00	
JN		Natl CPI YoY - Jan	0.7%	0.8%	12:30	
JN		Natl CPI Ex Fresh Food YoY - Jan	0.8%	0.7%	12:30	
JN		Jibun Bank PMI Composite - Feb P	--	50.1	13:30	
JN		Jibun Bank PMI Mfg - Feb P	--	48.8	13:30	
JN		Jibun Bank PMI Services - Feb P	--	51	13:30	
GE		Markit/BME Manufacturing PMI - Feb P	44.8	45.3	21:30	
GE		Markit Services PMI - Feb P	53.9	54.2	21:30	
GE		Markit/BME Composite PMI - Feb P	50.8	51.2	21:30	
EC		Markit Manufacturing PMI - Feb P	47.4	47.9	22:00	
EC		Markit Services PMI - Feb P	52.3	52.5	22:00	
EC		Markit Composite PMI - Feb P	51.0	51.3	22:00	
UK		Markit PMI Manufacturing SA - Feb P	49.7	50.0	22:30	
UK		Markit/CIPS Services PMI - Feb P	53.4	53.9	22:30	
UK		Markit/CIPS Composite PMI - Feb P	52.8	53.3	22:30	
UK		Public Finances (PSNCR) - Jan	--	£16.6B	22:30	
UK		Public Sector Net Borrowing - Jan	-£12.0B	£4.0B	22:30	
UK		PSNB ex Banking Groups - Jan	-£11.4B	£4.8B	22:30	
EC		CPI MoM - Jan F	-1.0%	-1.0%	23:00	
EC		CPI YoY - Jan	1.4%	1.4%	23:00	
EC		CPI Core YoY - Jan F	1.1%	1.1%	23:00	
22-Feb		US	Markit Manufacturing PMI - Feb P	51.5	51.9	03:45
		US	Markit Services PMI - Feb P	53.5	53.4	03:45
	US	Markit Composite PMI - Feb P	--	53.3	03:45	
	US	Existing Home Sales - Jan	5.45M	5.54M	04:00	
	US	Existing Home Sales MoM - Jan	-1.7%	3.6%	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 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 salient and could change this entirely.

Date	Data/event	Economic signal	Comment
Tue 18 Feb (9:00am)	REINZ housing data – January	Up	The market has tightened, and that is expected to translate to into lifting house price inflation.
Wed 19 Feb (early am)	GlobalDairyTrade auction	Easing	Dairy prices are expected to continue to ease due to market uncertainty relating to the coronavirus outbreak.
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 (early am)	GlobalDairyTrade auction	Easing	Reduced demand from China will weigh, potentially partially offset by reduced supply on the back of dry conditions.
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	--	--
Fri 6 Mar (10:45am)	Work Put In Place – Q4	Build me up	Another nudge up is expected, with building consents having pushed higher.
Tue 10 Mar (10:00am)	ANZ Truckometer – February	--	--
Tue 10 Mar (10:45am)	Economic Survey of Manufacturing– Q4	Line ball	The PMI suggests manufacturing activity lifted in Q4, but with the December month coming in below 50 it’s a line-ball call.
Fri 13 Mar (10:45am)	Food Price Index – February	Dip	Food prices are expected to slip slightly. Supply disruption into China presents some downside.
Fri 13 Feb (10:45am)	Rental Price Index – February	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Mon 16 Feb (10:45am)	Net Migration – January	Easing	These data are noisy, but we’ll be looking for confirmation that the cycle has been easing, albeit with a 3 quarter lag.
Mon 16 Mar (1:00pm)	ANZ Monthly Inflation Gauge – February	--	--
Wed 18 Mar (early am)	GlobalDairyTrade auction	Easing	Reduced demand from China may continue to weigh, dry conditions may provide an offset.
Wed 18 Mar (10:45am)	Balance of Payments – Q4	Stable	We expect the annual current account deficit to remain stable as a share of GDP at 3.3%.
Thu 19 Mar (10:45am)	GDP – Q4		Quarterly growth of 0.5% is expected to see annual growth slow to 1.7%. Coronavirus impacts mean annual growth is likely to slow further in Q1 2020.
Wed 25 Mar (10:45am)	Overseas Merchandise Trade – February	Disruption	We’ll be watching these data closely for a signal on how coronavirus disruption has weighed on both sides of trade balance.
Fri 27 Mar (10:00am)	ANZ Roy Morgan Consumer Confidence – March	--	--
Tue 31 Mar (10:45am)	Building Consents – February	High	Consents have been holding at a high level. While downside risks remain, recent resurgence in the housing market is expected to provide continued support.
Tue 31 Mar (1:00pm)	ANZ Business Outlook – March	--	--
On balance	Data watch	The vibe has improved and we now see the OCR flat for the foreseeable future. Global risks are salient.	



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	0.5	0.3	0.5	1.0	0.7	0.7	0.7	0.7
GDP (% yoy)	2.3	1.7	1.6	2.0	2.3	2.5	2.9	3.1	2.8
CPI (% qoq)	0.7	0.5	0.5	0.5	0.5	0.2	0.6	0.5	0.6
CPI (% yoy)	1.5	1.9	2.2	2.1	2.0	1.7	1.9	2.0	2.0
LCI Wages (% qoq)	0.6	0.6	0.4	0.8	0.5	0.6	0.4	0.9	0.5
LCI Wages (% yoy)	2.3	2.4	2.5	2.5	2.4	2.4	2.4	2.4	2.4
Employment (% qoq)	0.2	0.0	0.3	0.4	0.4	0.5	0.4	0.4	0.4
Employment (% yoy)	1.0	1.0	1.3	1.0	1.1	1.6	1.7	1.7	1.7
Unemployment Rate (% sa)	4.1	4.0	4.1	4.1	4.1	4.0	3.9	3.9	3.8
Current Account (% GDP)	-3.3	-3.3	-3.3	-3.5	-3.5	-3.5	-3.6	-3.6	-3.6
Terms of Trade (% qoq)	1.9	-0.1	1.7	-0.5	0.3	0.0	0.1	0.1	0.1
Terms of Trade (% yoy)	1.0	4.2	4.9	2.9	1.3	1.4	-0.1	0.5	0.3

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Retail ECT (% mom)	0.9	-0.6	0.3	0.0	1.2	0.2	-0.5	3.0	-0.9	-0.1
Retail ECT (% yoy)	5.0	3.4	1.5	2.0	3.1	0.6	1.6	5.1	3.9	4.2
Car Registrations (% mom)	1.9	-2.1	-2.7	5.2	0.0	6.5	-6.6	-1.4	2.2	-4.7
Car Registrations (% yoy)	-0.5	-12.6	-11.0	-5.4	-5.2	4.7	-6.6	3.0	5.6	-3.5
Building Consents (% mom)	-8.5	16.1	-4.2	-1.2	0.7	7.0	-1.2	-8.4	9.9	--
Building Consents (% yoy)	-3.2	8.2	9.5	18.7	12.4	23.5	18.5	8.0	15.8	--
REINZ House Price Index (% yoy)	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	0.6	0.5	0.5	0.6	0.6	--
Household Lending Growth (% yoy)	5.9	6.0	5.9	5.9	6.0	6.1	6.2	6.3	6.5	--
ANZ Roy Morgan Consumer Conf.	123.2	119.3	122.6	116.4	118.2	113.9	118.4	120.7	123.3	122.7
ANZ Business Confidence	-37.5	-32.0	-38.1	-44.3	-52.3	-53.5	-42.4	-26.4	-13.2	--
ANZ Own Activity Outlook	7.1	8.5	8.0	5.0	-0.5	-1.8	-3.5	12.9	17.2	--
Trade Balance (\$m)	361	175	330	-732	-1642	-1310	-1043	-791	547	--
Trade Bal (\$m ann)	-5578	-5602	-4987	-5516	-5591	-5321	-5060	-4847	-4309	--
ANZ World Comm. Price Index (% mom)	2.6	0.1	-3.9	-1.4	0.3	0.0	1.2	4.3	-2.8	-0.9
ANZ World Comm. Price Index (% yoy)	2.2	0.7	-2.4	-0.5	0.9	3.4	7.2	12.4	9.4	5.7
Net Migration (sa)	3310	3860	3370	4080	4270	3850	3770	2490	3930	--
Net Migration (ann)	47966	47661	47273	47285	47344	46790	46751	44966	43765	--
ANZ Heavy Traffic Index (% mom)	2.5	0.9	-2.3	2.2	-3.5	3.4	2.8	-1.3	-2.5	4.8
ANZ Light Traffic Index (% mom)	0.2	0.8	-2.0	1.4	0.3	-0.3	0.2	1.3	-2.2	2.0
ANZ Monthly Inflation Gauge (% mom)	-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

FX rates	Actual			Forecast (end month)					
	Dec-19	Jan-20	Today	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
NZD/USD	0.674	0.646	0.644	0.67	0.66	0.66	0.65	0.65	0.65
NZD/AUD	0.961	0.966	0.958	0.97	0.97	0.97	0.97	0.97	0.97
NZD/EUR	0.600	0.583	0.594	0.62	0.60	0.60	0.58	0.58	0.57
NZD/JPY	73.10	70.04	70.78	74.4	73.9	73.9	72.8	72.8	72.8
NZD/GBP	0.511	0.489	0.494	0.51	0.50	0.49	0.48	0.47	0.47
NZ\$ TWI	73.70	71.63	71.74	74.6	73.4	73.3	72.0	71.8	71.6
Interest rates	Dec-19	Jan-20	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	1.29	1.26	1.21	1.28	1.28	1.28	1.28	1.28	1.28
NZ 10-yr bond	1.65	1.30	1.37	1.25	1.20	1.35	1.50	1.40	1.40
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	1.75	1.69	1.90	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	0.92	0.88	0.92	0.95	0.70	0.45	0.45	0.45	0.45

	14-Jan	10-Feb	11-Feb	12-Feb	13-Feb	14-Feb
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.27	1.24	1.23	1.22	1.22	1.21
NZGB 05/21	1.03	1.01	0.99	1.02	1.02	1.02
NZGB 04/23	1.08	0.99	0.99	1.08	1.09	1.05
NZGB 04/27	1.39	1.19	1.19	1.29	1.31	1.27
NZGB 04/33	1.74	1.48	1.48	1.60	1.62	1.59
2 year swap	1.20	1.11	1.09	1.18	1.17	1.14
5 year swap	1.34	1.15	1.14	1.26	1.26	1.23
RBNZ TWI	72.67	71.40	71.08	71.61	71.69	71.67
NZD/USD	0.6616	0.6405	0.6395	0.6474	0.6453	0.6438
NZD/AUD	0.9592	0.9568	0.9532	0.9600	0.9594	0.9587
NZD/JPY	72.81	70.31	70.26	71.19	70.79	70.68
NZD/GBP	0.5095	0.4956	0.4947	0.4987	0.4969	0.4934
NZD/EUR	0.5943	0.5850	0.5857	0.5929	0.5935	0.5943
AUD/USD	0.6898	0.6694	0.6709	0.6744	0.6727	0.6714
EUR/USD	1.1134	1.0949	1.0918	1.0918	1.0874	1.0831
USD/JPY	110.05	109.77	109.88	109.97	109.70	109.78
GBP/USD	1.2985	1.2923	1.2927	1.2981	1.2988	1.3047
Oil (US\$/bbl)	58.23	49.57	49.94	51.17	51.42	52.05
Gold (US\$/oz)	1545.16	1573.19	1567.76	1566.57	1574.49	1584.06
NZX 50	11625	11703	11835	11898	11881	11835
Baltic Dry Freight Index	763	411	418	421	421	425
NZX WMP Futures (US\$/t)	3140	2980	2980	2980	2970	2960



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