ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

6 August 2018

INSIDE

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HOUSE OF CARDS

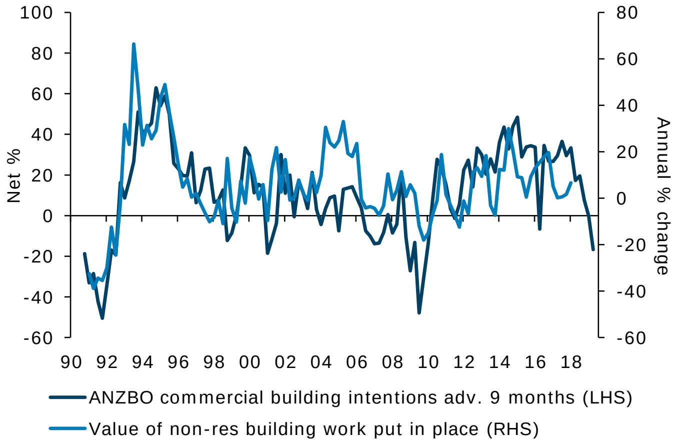
ECONOMIC OVERVIEW

The construction industry is dealing with significant challenges. Firms are experiencing financial strains and there are reports of unsustainably thin margins. At the same time, the industry is struggling to keep up with demand in the face of capacity pressures. Labour shortages are a much-cited problem, but problems run deeper; as well as issues with contracts and boom/bust dynamics, the productivity performance of the industry is poor and needs to be addressed. In light of these challenges, we believe it will be difficult to achieve further increases in construction activity from here, despite strong demand. Our central expectation is that the industry continues to muddle through at still-high activity levels, but recent events highlight that it is not an easy road ahead. This week brings the RBNZ's August Monetary Policy Statement. We expect the OCR track to be similar to last time, with continued neutral messaging given offsetting developments.

CHART OF THE WEEK

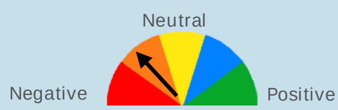
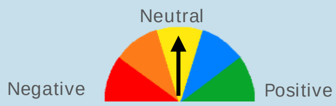
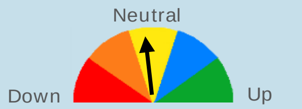
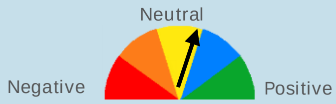
Amongst the construction sector, commercial building expectations have taken a dive, consistent with reports that the pipeline of work is softening.

ANZBO commercial building expectations (construction firms) and non-residential building work put in place



Source: ANZ Research, Stats NZ

THE ANZ HEATMAP

Variable	View	Comment	Risks around our view
GDP	2.7% y/y for 2019 Q1	The economy is losing momentum. We see growth holding around 2½-3% (trend).	
Unemployment rate	4.3% for 2019 Q1	Only modest further tightening expected. Wage pressures to increase only gradually.	
OCR	1.75% in March 2019	With plenty of question marks over the outlook for inflation, the RBNZ will be cautious.	
CPI	1.8% y/y for 2019 Q1	With cost pressures set to rise, we expect domestic and core inflation will lift – but only gradually.	

ECONOMIC OVERVIEW

SUMMARY

The construction industry is dealing with significant challenges. Firms are experiencing financial strains and there are reports of unsustainably thin margins. At the same time, the industry is struggling to keep up with demand in the face of capacity pressures. Labour shortages are a much-cited problem, but problems run deeper; as well as issues with contracts and boom/bust dynamics, the productivity performance of the industry is poor and needs to be addressed. In light of these challenges, we believe it will be difficult to achieve further increases in construction activity from here, despite strong demand. Our central expectation is that the industry continues to muddle through at still-high activity levels, but recent events highlight that it is not an easy road ahead. This week brings the RBNZ's August Monetary Policy Statement. We expect the OCR track to be similar to last time, with continued neutral messaging given offsetting developments.

FORTHCOMING EVENTS

ANZ Commodity Prices – July (1:00pm, Monday 6 August).

GlobalDairyTrade auction (early am, Wednesday 8 August). The average GDT price is expected to remain near recent levels.

ANZ Truckometer – July (10:00am, Wednesday 8 August).

ANZ Monthly Inflation Gauge – July (1:00pm, Wednesday 8 August).

RBNZ Inflation Expectations – Q3 (3:00pm, Wednesday 8 August). Expectations to remain anchored at close to 2% at medium-term horizons.

RBNZ Monetary Policy Statement (9:00am, Thursday 9 August). The RBNZ will retain its cautious and neutral stance until trend inflation increases in a sustainable way.

BNZ-BusinessNZ PMI – July (10:30am, Friday 10 August). We may see further softening, given more downbeat expectations in business surveys.

Electronic Card Transactions – July (10:45am, Friday 10 August). Spending growth has moderated, but we might see hints of fiscal stimulus flowing through on the back of the Families Package.

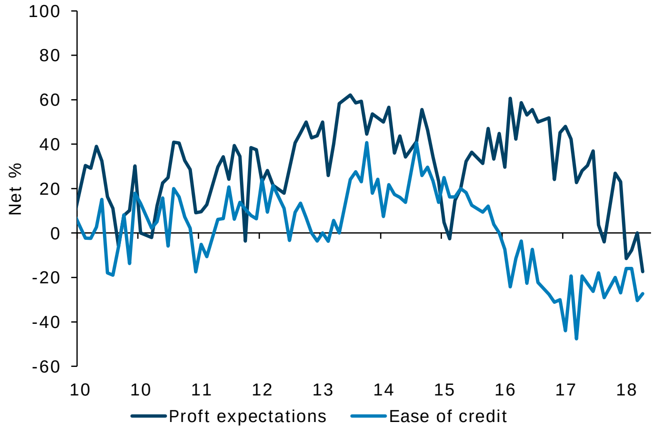
WHAT'S THE VIEW?

Over the past week, issues in the construction industry have been in the spotlight: Ebert Construction (which operates in the commercial and industrial space) has gone into receivership on the back of some poor-performing projects in Auckland. This follows Orange H Group folding in May and Fletcher Building's woes earlier this year, again on the back of poor-performing projects, which have seen the industry giant exit from the high-rise construction space.

When firms are in difficulty, this has flow-on effects to workers, suppliers, sub-contractors and end customers. It is likely that high-profile strains experienced by some firms are contributing to uncertainty for the industry as a whole, with flow-on impacts to firms' decision-making and business interactions. According to the ANZ Business Outlook (ANZBO) survey, a net 57% of construction industry firms are pessimistic about general business conditions (compared with 45% for all firms).

Although there is plenty of construction work out there, **profitability is squeezed.** In May a survey by BDO of more than 100 construction firms and sub-contractors revealed that **many players in the industry are operating on unsustainable margins**.[1] This is consistent with broader business surveys; in the ANZBO, perceptions of profitability have deteriorated precipitously over the past two years, with 17% of construction firms pessimistic about the outlook (figure 1).

Figure 1: Profit expectations and ease of credit – construction firms



Source: ANZ Research

As figure 1 shows, **construction firms are also finding it difficult to get credit**, with 27% of firms reporting that they expect it will be more difficult to get credit in the ANZBO. This perceived tightening has occurred at a time when firms appear to be increasing their reliance on credit lines. According to the RBNZ, credit to firms in the construction industry increased almost 8% over the year to June. While partly reflecting necessary investment to meet the

[1] See BDO (2018).

ECONOMIC OVERVIEW

uplift in construction activity that's occurred over the year, we suspect this increase in credit to the industry also partly reflects increased reliance on credit lines on the back of financial constraints and cash flow issues. Indeed, the BDO survey found that many construction firms are operating with inadequate financial reserves, some are not complying with the law to hold retention money in trust, and 27% of respondents report difficulty juggling cash flow.

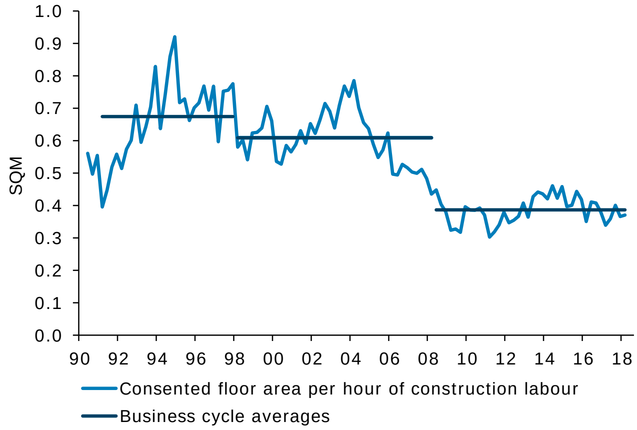
Squeezed profits and cash-flow pressure appear to reflect a confluence of factors. While demand is strong, productivity gains are lacking and competition is fierce. Margins are being squeezed by costs that continue to escalate more than anticipated, but many contracts are fixed price. Payment delays add to the pressure (41% of firms report having clients who pay late). Project delays are also common, in part reflecting capacity constraints, which add to financial strain. The BDO survey found that only 40% of companies in the commercial space are completing projects on time. There are reports that the industry is "overtrading", with issues of poor quality a concern (and the leaky homes saga still casting a shadow).

A concerning aspect is the rise in risk taking that appears to be occurring. There are reports that project tendering is often based on unsustainably thin margins in order to secure work, particularly in the commercial space. This means that there is little buffer should mistakes be made, prices increase or sub-contractors or materials be unavailable, causing delays.

Challenges are not just financial. **The sector is struggling to keep up.** Firms in the construction industry report facing capacity constraints and difficulties in sourcing skilled – or even reliable unskilled – labour. According to the QSBO, a net 48% of construction firms are finding it difficult to find skilled labour. This is significant because the construction industry is relatively labour intensive. **However, despite reported labour shortages, hiring intentions have eased**; in the July ANZBO survey a net 4% of firms in construction reported that they intend to reduce their hiring, compared with net 18% looking to expand their workforce a year ago.

Employment in construction-related jobs currently sits at 250,000 people – a hefty 9% of total employment in New Zealand. And MBIE estimates that there is a shortage of 30,000 people in the industry. Yet simply hiring more people is only half a solution when it comes to expanding capacity. **Productivity in the industry has been very poor over this entire business cycle** and this means that even though demand is strong, the industry is struggling to keep up and produce efficiently, with proportionately more labour hours required to get the job done (figure 2). It's not a question of a lack of productivity *growth*: productivity has *fallen*. A lot. Building activity levels are comparable to those seen at the height of the boom in the mid-2000s, but employment in the industry is 25% higher.

Figure 2: Floor area per hour of construction work (based on residential and non-residential consents)



Source: ANZ Research, Stats NZ

In previous periods of strong activity, the industry has typically relied on immigration to increase activity. And there is still a significant inflow of migration into construction-related occupations. However, sourcing more people is only part of the solution to push capacity higher when the marginal production of each new worker is low.

Low productivity growth is a problem that has affected the industry for a number of decades; construction-industry productivity is poor compared to that of other industries and other countries. The Productivity Commission has written about this at length and **there are a number of issues at play: small scale** (in part due to lack of large land parcels); **not enough innovation** (to simplify supply chains and deal with backlogs, plus make tendering processes competitive and efficient); **and lack of skills** amongst those entering the industry or looking to progress their careers (eg into management).[2] Another factor is likely the widespread move to contracting out more and more of the work, requiring ever more complex coordination between operators on large building sites and yet a chronic lack of experienced and suitably qualified site managers.

But addressing productivity issues in construction is not just an industry problem; **the Government has an important role to play.** It can ensure that when

[2] See Productivity Commission (2012).

ECONOMIC OVERVIEW

it is the contractor, risk is shared appropriately. But more broadly it has a role in setting regulation, ensuring that sufficient usable land is available (helping to smooth boom-bust dynamics), that the industry is competitive, and that necessary infrastructure is in place. Transport infrastructure, for example, is an essential ingredient for supply chains to run efficiently. Likewise, regulation to ensure that the industry is competitive is important; lack of competition in the supply of building materials is reportedly an important contributor to elevated costs.

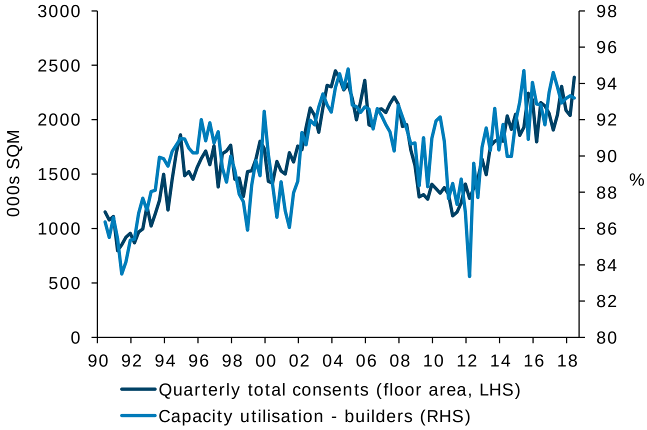
Challenges facing the construction industry are complicated and there are no easy fixes. But in our view, areas that need to be closely examined include:

- Competitiveness in building supplies;
- Risk sharing in contracts;
- Industry training – both its quality and relevance;
- The building code;
- Availability of land; and
- Legal frameworks around financial protections.

The difficulties that are being faced are in the context of what is currently solid demand. Despite these challenges, consent issuance in both the residential and non-residential space remains high. There is significant need for construction work in New Zealand and this will support demand: we have twin housing and infrastructure shortages, which will take many years to address. Resilience in consents bodes well for this outlook of continued elevated construction activity into the second half of the year. According to the ANZBO, a net 4% of firms expect activity to increase from here, with a net 0% in the construction sector expecting activity to increase.

Growth will be difficult for the industry to achieve in the face of capacity constraints (figure 3) and financial strains. In addition, demand is sensitive to price. In response to high-profile losses on fixed price contracts, the logical response by firms is to build a bigger buffer into their tender offers, at least for large projects. Some projects will simply become uneconomic as a result. Putting the supply and demand constraints together, **our central expectation is that building activity will remain elevated, but that it will struggle to go significantly higher from here.**

Figure 3: Capacity utilisation of builders and consented floor area (residential and non-residential)



Source: ANZ Research, NZIER, Stats NZ

The construction cycle has entered a new phase and firms will need to adjust to that. While previous decisions may have been made on the assumption that growth will increase strongly, as it certainly has in recent years, it will no longer be possible to rely on strong growth. MBIE are expecting building of new homes to increase more than 30% from 32,900 consents over the year to June to 43,000 per year in 2023; without changes in the industry, we think this will be difficult to achieve.

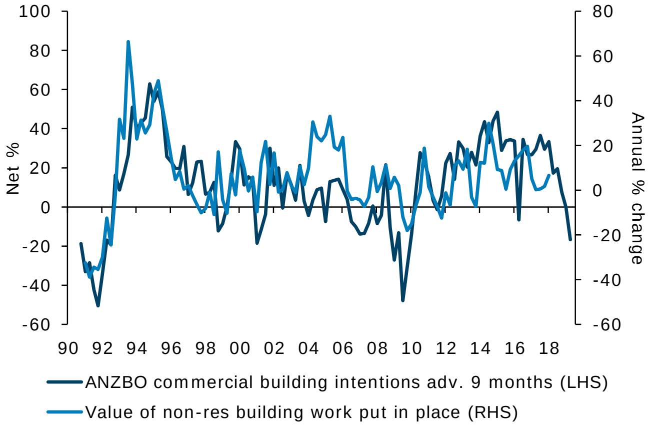
If anything, **there is a risk that activity slows from its current high level**; we are hearing reports from firms in the industry that the commercial pipeline is looking less assured, at a time when the general outlook for economic activity is looking a bit softer.

Softening in the outlook for construction activity is **consistent with moderation in investment intentions across businesses** in the ANZBO from net 27% expecting to increase investment in the middle of last year to 1% currently. A recent MBIE report forecast that non-residential construction work will increase 5% over the next year.[3] However, both investment intentions and commercial building expectations out of the ANZBO survey (figure 4) suggest this outlook may prove to be too optimistic.

[3] See MBIE (2018).

ECONOMIC OVERVIEW

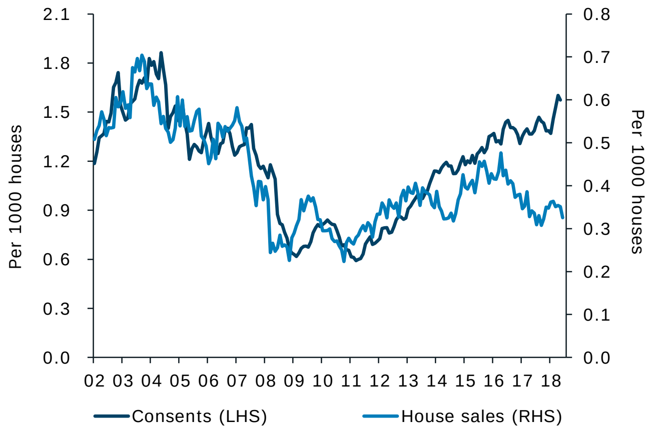
Figure 4: ANZ commercial construction expectations and non-residential investment



Source: ANZ Research, Stats NZ

On the residential side, the outlook is a bit more assured but risks remain. Turnover in the established housing market has held up and generally correlates well with new home building, leaving aside the divergence created by the Canterbury rebuild and loan-to-value ratio restrictions (figure 5).

Figure 5: House sales and residential consents



Source: ANZ Research, Stats NZ

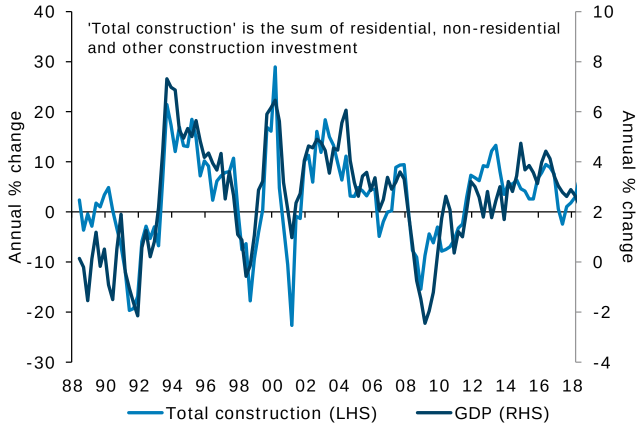
We expect that supportive factors like strong population growth, pent-up demand and still-low interest rates will contribute to continued demand for residential building, but the housing market does face some headwinds, and softening in turnover could see building activity moderate from its current high level.

In all, it is fair to say **that there is a lot of construction work that needs to be done, but it relies on the industry being able to cope in the face of current strains.** Our central expectation is that the industry continues to muddle through, but it may not be an easy road ahead. And should demand wane, firms may come under further financial pressure.

It is possible that recent woes in the construction industry will prove to have isolated effects. But we are watching carefully. **Where construction goes, the broader economy often follows.** Expenditure on construction (which comprises 12% of GDP) is very cyclical and tends to have a strong correlation with aggregate economic activity. Of course, historically this correlation partly reflects movements in interest rates, which impact both construction activity and GDP more broadly. And that is not a factor this cycle, so the usual relationship is unlikely to hold – a classic example of correlation not implying causation. But there are other reasons that these may move together, not least the degree of confidence in the economy more broadly.

We continue to see the economy growing at 2½-3% in coming years, with fiscal stimulus and income growth (in part related to the elevated terms of trade) providing impetus and the RBNZ willing to step in if necessary. **But there are downside risks to this outlook, and difficulties facing construction firms highlight that it is not all smooth sailing for the industry – or the broader economy – at present**, and the activity outlook is looking a little less assured.

Figure 6: GDP and expenditure on construction



Source: ANZ Research, Stats NZ

THE WEEK AHEAD

It's another busy week on the domestic data front. **The key event this week is the RBNZ August Monetary Policy Statement this Thursday.** The outlook for monetary policy is a bit more complicated at present. **With growth slowing but inflation rising, the RBNZ faces a** trade off**.** We think that policy deliberations for the August Statement will – and should – be focused on the policy tension that the RBNZ faces and how it sees the balance of risks. At the current juncture, focusing too much on headline CPI inflation or, alternatively, simply tallying up economic developments runs the risk of missing

ECONOMIC OVERVIEW

important nuances about the policy response.

Rising inflation is being driven in large part by transitory cost-push factors. Credible, flexible inflation-targeting central banks like the RBNZ can accommodate such cost-push disturbances, provided medium-term inflation expectations are well anchored. We think the RBNZ can – and will – "look through" the lift in CPI inflation, waiting to see underlying inflation increase in a broad-based way.

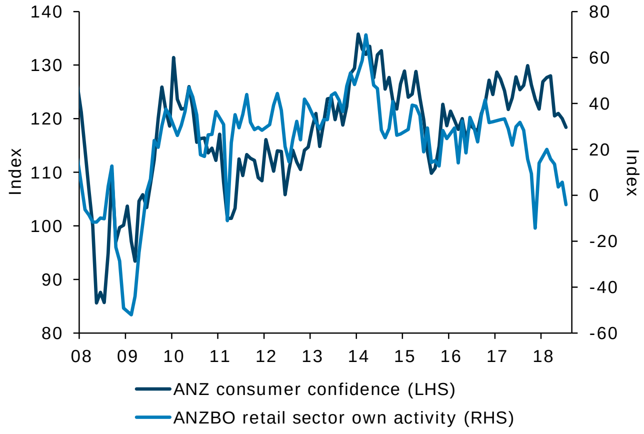
We think the outlook for the OCR will be similar to that projected in the May MPS, with an increase at the end of 2019 – far enough ahead that the RBNZ can alter their strategy as the policy trade-offs and economic conditions change. **We expect to see the RBNZ reiterate its recent neutral messaging.** Core inflation has increased but downside risks have not gone away, and should these materialise a cut would be firmly on the table. As a result, we expect that the RBNZ will be comfortable with a continued wait-and-see strategy, even as inflation lifts. If inflation increases in line with our expectations, the OCR will eventually need to rise – but not any time soon. **We continue to pencil in late-2019 for an eventual hike, but a lot could – and probably will – happen between now and then.**

Data out this week will help in assessing the inflation pulse: **ANZ Monthly Inflation Gauge** for July and **RBNZ Inflation Expectations** for Q3. While short-term inflation expectations may move higher on the back of the recent lift in headline inflation, **we expect that medium-term expectations will remain anchored.**

We will get a steer on how the economy is trucking along on the activity front, with the **ANZ Truckometer** out for July. The **BNZ-BusinessNZ PMI** is also out. It is possible that there is some further softening in the PMI, consistent with recent downbeat sentiment in business surveys.

Electronic card transactions for July will provide a steer on the strength of household spending growth. We may see a bit of a boost from fiscal policy with the Families Package having come into effect on the 1st of July. **Card spending has been a bit softer of late**, with the trend pace of growth having moderated from 0.7% m/m per month late last year to 0.1% through the second quarter this year. The buoyancy of the household sector will have important implications for activity going forward, particularly for the retail industry. The retail industry is the most downbeat in our ANZBO survey. Generally, retail sector confidence correlates well with consumer confidence, but there has been a divergence more recently suggesting profitability concerns are not solely about the state of demand. Spending and consumer confidence data in coming months will indicate the degree to which downbeat retailer sentiment is a consequence of a pull-back in household spending.

Figure 7: ANZ consumer confidence and expectations of activity amongst retailers



Source: ANZ Research

The shine has come off our commodity prices recently, although they remain high and global developments will have important bearing going forward. **ANZ Commodity Prices** for July and the **GlobalDairyTrade** auction are both out this week and will both provide a steer on how these prices are tracking into the second half of the year, with flow-on implications for national income and activity. We expect the average GDT price will remain near recent levels.

LOCAL DATA

Building Consents – June. Residential consents fell 7.6% m/m in June; residential and non-residential consents posted a solid June quarter overall.

ANZ Business Outlook– July. Dipped again, with net 45% of firms pessimistic about business conditions.

RBNZ Sector Lending – June. Private sector credit grew 1% m/m – the strongest monthly pace since September 2016.

Labour Market Statistics – Q2. The labour market is broadly stable; the unemployment rate ticked up to 4.5%. Underlying wage pressures are weak.

ANZ Job Ads – July. Ads increased 3.1% m/m; aside from monthly volatility, they are stable.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
6-Aug	NZ	ANZ Commodity Price - Jul	--	-1.0%	13:00
	AU	Melbourne Institute Inflation MoM - Jul	--	0.0%	13:00
	AU	Melbourne Institute Inflation YoY - Jul	--	2.0%	13:00
	AU	ANZ Job Advertisements MoM - Jul	--	-1.7%	13:30
	GE	Factory Orders MoM - Jun	-0.5%	2.6%	18:00
	GE	Factory Orders WDA YoY - Jun	3.4%	4.4%	18:00
	GE	Markit Construction PMI - Jul	--	53.0	19:30
	EC	Sentix Investor Confidence - Aug	13.4	12.1	20:30
	CH	BoP Current Account Balance - Q2 P	--	-$34.1B	UNSPECIFIED
7-Aug	AU	Ai Group Perf of Construction Index - Jul	--	50.6	10:30
	AU	ANZ-RM Consumer Confidence Index - 5-Aug	--	119.8	11:30
	AU	RBA Cash Rate Target - Aug	1.50%	1.50%	16:30
	GE	Trade Balance - Jun	€20.8B	€19.6B	18:00
	GE	Current Account Balance - Jun	€21.2B	€12.6B	18:00
	GE	Exports SA MoM - Jun	-0.4%	1.8%	18:00
	GE	Imports SA MoM - Jun	0.2%	0.7%	18:00
	GE	Industrial Production SA MoM - Jun	-0.5%	2.6%	18:00
	GE	Industrial Production WDA YoY - Jun	3.0%	3.1%	18:00
	AU	Foreign Reserves - Jul	--	A$75.8B	18:30
	UK	Halifax House Prices MoM - Jul	0.2%	0.3%	19:30
	UK	Halifax House Price 3Mths/Year - Jul	2.6%	1.8%	19:30
	CH	Foreign Reserves - Jul	$3107.0B	$3112.1B	UNSPECIFIED
8-Aug	US	JOLTS Job Openings - Jun	6625	6638	02:00
	US	Consumer Credit - Jun	$15.000B	$24.559B	07:00
	NZ	ANZ Truckometer Heavy MoM - Jul	--	-1.5%	10:00
	JN	BoP Current Account Balance - Jun	¥1222.2B	¥1938.3B	11:50
	JN	BoP Current Account Adjusted - Jun	¥1836.6B	¥1850.0B	12:50
	JN	Trade Balance BoP Basis - Jun	¥822.0B	-¥303.8B	11:50
	NZ	ANZ Monthly Inflation Gauge MoM - Jul	--	0.3%	13:00
	AU	Home Loans MoM - Jun	0.0%	1.1%	13:30
	AU	Investment Lending - Jun	--	-0.1%	13:30
	AU	Owner-Occupier Loan Value MoM - Jun	--	0.7%	13:30
	NZ	2Yr Inflation Expectation - Q3	--	2.01%	15:00
	US	MBA Mortgage Applications - 3-Aug	--	-2.6%	23:00
	CH	Trade Balance - Jul	$39.05B	$41.47B	UNSPECIFIED
	CH	Imports YoY - Jul	17.0%	14.1%	UNSPECIFIED
	CH	Exports YoY - Jul	10.0%	11.2%	UNSPECIFIED
9-Aug	NZ	RBNZ Official Cash Rate -Aug	1.75%	1.75%	09:00
	UK	RICS House Price Balance - Jul	3%	2%	11:01
	CH	PPI YoY - Jul	4.5%	4.7%	13:30
	CH	CPI YoY - Jul	2.0%	1.9%	13:30
10-Aug	US	Initial Jobless Claims - 4-Aug	220k	218k	00:30
	US	Continuing Claims - 28-Jul	1735k	1724k	00:30
	US	PPI Final Demand MoM - Jul	0.2%	0.3%	00:30
	US	PPI Final Demand YoY - Jul	3.4%	3.4%	00:30
	US	PPI Ex Food and Energy MoM - Jul	0.3%	0.3%	00:30
	US	PPI Ex Food and Energy YoY - Jul	2.8%	2.8%	00:30
	US	Wholesale Inventories MoM - Jun F	0.0%	0.0%	02:00

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DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Aug	US	Wholesale Trade Sales MoM - Jun	--	2.5%	02:00
	NZ	BusinessNZ Manufacturing PMI - Jul	--	52.8	10:30
	NZ	Card Spending Retail MoM - Jul	0.5%	0.8%	10:45
	NZ	Card Spending Total MoM - Jul	--	0.4%	10:45
	JN	PPI MoM - Jul	0.2%	0.2%	11:50
	JN	PPI YoY - Jul	2.9%	2.8%	11:50
	JN	GDP SA QoQ - Q2 P	0.3%	-0.2%	11:50
	JN	GDP Annualized SA QoQ - Q2 P	1.4%	-0.6%	11:50
	JN	GDP Nominal SA QoQ - Q2 P	0.2%	-0.4%	11:50
	JN	GDP Deflator YoY - Q2 P	-0.2%	0.5%	11:50
	AU	RBA Statement on Monetary Policy	--	--	13:30
	UK	Visible Trade Balance GBP/Mn - Jun	-£11900	-£12362	20:30
	UK	Trade Balance Non EU GBP/Mn - Jun	-£3550	-£3491	20:30
	UK	Trade Balance - Jun	-£2500	-£2790	20:30
	UK	Industrial Production MoM - Jun	0.4%	-0.4%	20:30
	UK	Industrial Production YoY - Jun	0.7%	0.8%	20:30
	UK	Manufacturing Production MoM - Jun	0.3%	0.4%	20:30
	UK	Manufacturing Production YoY - Jun	1.0%	1.1%	20:30
	UK	Construction Output SA MoM - Jun	-0.3%	2.9%	20:30
	UK	Construction Output SA YoY - Jun	0.7%	1.6%	20:30
	UK	Index of Services MoM - Jun	0.2%	0.3%	20:30
	UK	Index of Services 3M/3M - Jun	0.6%	0.4%	20:30
	UK	GDP QoQ - Q2 P	0.4%	0.2%	20:30
	UK	GDP YoY - Q2 P	1.3%	1.2%	20:30
	UK	Exports QoQ - Q2 P	0.7%	0.0%	20:30
	UK	Imports QoQ - Q2 P	0.8%	-0.2%	20:30
	UK	Total Business Investment QoQ - Q2 P	0.2%	-0.4%	20:30
	UK	Total Business Investment YoY - Q2 P	--	2.0%	20:30
	NZ	REINZ House Sales YoY - Jul	--	-1.6%	10-14 Aug
	CH	Money Supply M1 YoY - Jul	--	6.6%	10-15 Aug
	CH	Money Supply M2 YoY - Jul	8.2%	8.0%	10-15 Aug
	CH	Money Supply M0 YoY - Jul	--	3.9%	10-15 Aug
	CH	Aggregate Financing CNY - Jul	1100.0B	1180.0B	10-15 Aug
	CH	New Yuan Loans CNY - Jul	1200.0B	1840.0B	10-15 Aug
11-Aug	US	CPI MoM - Jul	0.2%	0.1%	00:30
	US	CPI YoY - Jul	2.9%	2.9%	00:30
	US	CPI Ex Food and Energy MoM - Jul	0.2%	0.2%	00:30
	US	CPI Ex Food and Energy YoY - Jul	2.3%	2.3%	00:30
	US	Monthly Budget Statement - Jul	-$81.0B	-$74.9B	06:00

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

Economic momentum has softened and downside risks have increased. We believe the cycle has legs yet, but the economy will struggle to grow above trend. Inflation is expected to increase gradually, with OCR hikes expected eventually. But we think the RBNZ's cautious tone will continue for some time yet.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 6 Aug (1:00pm)	ANZ Commodity Prices - July	--	--
Wed 8 Aug (early am)	GlobalDairyTrade auction	Sideways	The average GDT price is expected to continue to range around recent levels.
Wed 8 Aug (10:00am)	ANZ Truckometer - July	--	--
Wed 8 Aug (1:00pm)	ANZ Monthly Inflation Gauge - July	--	--
Wed 8 Aug (3:00pm)	RBNZ Inflation Expectations – Q3	Anchored	We expect inflation expectations will remain anchored, particularly at longer horizons. Increases in tradable prices might provide a boost at short-term horizons.
Thu 9 Aug (9:00am)	RBNZ Monetary Policy Statement	Cautious	The RBNZ will retain its cautious and neutral stance until inflation increases in a sustainable way. Despite the recent pick-up in core inflation the outlook is not clear cut and OCR increases remain a long way off.
Fri 10 Aug (10:30am)	BNZ-BusinessNZ PMI – July	Moderated	The PMI has moderated a bit recently and we may see some further softening, with more downbeat expectations evident in business surveys.
Fri 10 Aug (10:45am)	Electronic Card Transactions – July	Flowing through	Spending growth has moderated recently, but we might see the first hints of fiscal stimulus flowing through on the back of the Families Package.
10-14 Aug	REINZ Housing Market Statistics	Softer lately	The housing market has softened of late, but we expect to see further price rises, with regional markets remaining tight.
Mon 13 Aug (10:30am)	BNZ-BusinessNZ PSI – July	Bounce?	After falling last month, a recovery is possible; the resilience of the services sector will be tested.
Mon 13 Aug (10:45am)	Food Prices – July	It's chilly	With food and vegetable prices having bounced higher for winter, food prices are likely to be broadly flat.
Tue 21 Aug (10:45am)	International Travel and Migration – July	Easing	The cycle is expected to continue easing, albeit gradually.
Wed 22 Aug (early am)	GlobalDairyTrade auction	Sideways	The average GDT price is expected to remain in recent ranges.
Wed 22 Aug (10:45am)	Retail Trade – Q2	Weak?	It may have been a weak quarter with the housing market cooler and spending data on the softer side.
Fri 24 Aug (10:45am)	Overseas Merchandise Trade – July	Back in the black	A strong import print last month pushed the trade balance into deficit; a bounce would bring us back into surplus.
Thu 30 Aug (10:45am)	Building Consents – July	Strains	With construction grappling with capacity constraints and financial strains, activity will struggle to push higher.
Thu 30 Aug (1:00pm)	ANZ Business Outlook – August	--	--
Fri 31 Aug (10:00am)	ANZ Consumer Confidence – August	--	--
On balance		**Data watch**	**The data pulse has been lacklustre and downside risks have increased. Inflation should lift gradually.**

KEY FORECASTS AND RATES

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
GDP (% qoq)	0.5	**0.5**	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.7	**2.3**	**2.5**	**2.6**	**2.7**	**2.9**	**2.8**	**2.7**	**2.6**	**2.5**
CPI (% qoq)	0.5	0.4	**0.6**	**0.2**	**0.7**	**0.5**	**0.5**	**0.2**	**0.6**	**0.5**
CPI (% yoy)	1.1	1.5	**1.6**	**1.7**	**1.8**	**2.0**	**1.9**	**1.9**	**1.8**	**1.8**
LCI Wages (% qoq)	0.3	0.6	**0.6**	**0.5**	**0.4**	**0.7**	**0.6**	**0.5**	**0.5**	**0.8**
LCI Wages (% yoy)	1.9	2.1	**1.9**	**2.0**	**2.0**	**2.1**	**2.2**	**2.2**	**2.3**	**2.4**
Employment (% qoq)	0.6	0.5	**0.4**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	3.1	3.7	**1.9**	**2.0**	**1.9**	**1.9**	**1.8**	**1.7**	**1.6**	**1.5**
Unemployment Rate (% sa)	4.4	4.5	**4.4**	**4.3**	**4.3**	**4.3**	**4.2**	**4.1**	**4.1**	**4.2**
Current Account (% GDP)	-2.8	**-3.1**	**-3.2**	**-3.2**	**-2.9**	**-2.8**	**-2.8**	**-2.9**	**-3.0**	**-3.0**
Terms of Trade (% qoq)	-1.9	**1.6**	**0.2**	**0.3**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**	**0.2**
Terms of Trade (% yoy)	2.0	**2.5**	**1.4**	**0.3**	**2.4**	**1.0**	**0.8**	**0.5**	**0.5**	**0.5**

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Retail ECT (% mom)	0.4	1.3	0.4	1.4	-0.4	1.5	-2.2	0.6	0.8	--
Retail ECT (% yoy)	1.9	5.0	3.8	4.1	4.0	6.7	1.4	4.2	4.9	--
Credit Card Billings (% mom)	1.0	0.9	0.6	-0.6	0.7	1.0	0.6	-1.6	2.1	--
Credit Card Billings (% yoy)	3.0	9.1	6.3	4.6	7.0	7.3	6.9	3.7	5.7	--
Car Registrations (% mom)	0.5	0.9	-4.9	3.4	-9.2	-3.5	-0.8	12.9	-6.4	-0.2
Car Registrations (% yoy)	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0	-0.6	-4.9	-0.7
Building Consents (% mom)	-9.5	9.8	-8.7	0.3	6.3	13.0	-3.8	6.9	-7.6	--
Building Consents (% yoy)	-7.2	13.3	4.6	4.6	-0.6	18.3	15.5	23.3	12.0	--
REINZ House Price Index (% yoy)	3.4	3.6	3.7	3.5	4.0	4.1	3.7	3.6	3.8	--
Household Lending Growth (% mom)	0.4	0.5	0.6	0.4	0.5	0.5	0.5	0.4	0.5	--
Household Lending Growth (% yoy)	6.3	6.2	5.9	5.8	5.7	5.7	5.8	5.8	5.8	--
ANZ Roy Morgan Consumer Conf.	126.3	123.7	121.8	126.9	127.7	128.0	120.5	121.0	120.0	118.4
ANZ Business Confidence	-10.6	-39.3	-37.8	..	-19.0	-20.0	-23.4	-27.2	-39.0	-44.9
ANZ Own Activity Outlook	22.0	6.5	15.6	..	20.4	21.8	17.8	13.6	9.4	3.8
Trade Balance ($m)	-840	-1222	614	-662	188	-151	195	208	-113	--
Trade Bal ($m ann)	54759	55999	56476	57252	57451	58071	58677	58979	59553	--
ANZ World Comm. Price Index (% mom)	-0.3	-0.9	-1.9	0.7	2.8	1.2	1.0	1.5	-1.0	--
ANZ World Comm. Price Index (% yoy)	10.4	6.0	3.2	4.1	5.0	5.8	7.1	5.4	2.2	--
Net Migration (sa)	5650	5660	5680	6240	4910	5370	4910	5080	4840	--
Net Migration (ann)	70694	70354	70016	70147	68943	67984	67038	66243	64995	--
ANZ Heavy Traffic Index (% mom)	2.9	1.1	-4.2	4.1	-2.5	-0.3	1.4	3.0	-1.5	--
ANZ Light Traffic Index (% mom)	-0.6	1.5	-1.7	-0.5	-0.2	2.2	-0.5	1.1	0.7	--
ANZ Job Ads (% mom)	0.8	-0.2	-0.1	3.0	-1.3	0.7	-1.9	2.4	-1.3	3.1

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	Jun-18	Jul-18	Today	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
NZD/USD	0.677	0.681	0.67	0.69	0.67	0.66	0.65	0.65	0.65	0.65
NZD/AUD	0.914	0.919	0.91	0.96	0.96	0.94	0.93	0.93	0.93	0.92
NZD/EUR	0.579	0.581	0.58	0.61	0.57	0.54	0.52	0.51	0.51	0.50
NZD/JPY	74.96	76.00	75.02	73.8	70.4	67.3	64.4	63.1	62.4	62.4
NZD/GBP	0.512	0.518	0.52	0.51	0.49	0.47	0.46	0.46	0.45	0.45
NZ$ TWI	70.8	71.3	72.9	72.7	70.2	68.0	66.2	65.7	65.4	65.2
INTEREST RATES	Jun-18	Jul-18	Today	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	2.00	1.91	1.90	1.95	1.98	1.98	1.98	2.07	2.32	2.49
NZ 10-yr bond	2.85	2.76	2.78	3.00	3.10	3.15	3.30	3.40	3.40	3.40
US Fed funds	2.00	2.00	2.00	2.25	2.50	2.50	2.75	2.75	2.75	2.75
US 3-mth	2.34	2.35	2.34	2.75	2.95	2.95	3.20	3.20	3.20	3.20
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00
AU 3-mth	2.11	1.96	1.97	2.05	2.05	2.05	2.00	2.30	2.50	2.50

	3 Jul	30 Jul	31 Jul	1 Aug	2 Aug	3 Aug
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.98	1.91	1.91	1.91	1.91	1.90
NZGB 05/21	1.90	1.89	1.91	1.92	1.93	1.92
NZGB 04/23	2.12	2.12	2.14	2.16	2.17	2.16
NZGB 04/27	2.59	2.58	2.60	2.63	2.64	2.64
NZGB 04/33	2.95	2.90	2.93	2.95	2.98	2.97
2 year swap	2.15	2.14	2.14	2.14	2.14	2.12
5 year swap	2.53	2.55	2.56	2.56	2.57	2.55
RBNZ TWI	72.21	73.37	73.51	73.30	73.23	72.93
NZD/USD	0.6733	0.6806	0.6813	0.6808	0.6756	0.6744
NZD/AUD	0.9110	0.9201	0.9184	0.9176	0.9177	0.9112
NZD/JPY	74.64	75.62	76.00	76.18	75.31	75.02
NZD/GBP	0.5106	0.5192	0.5176	0.5186	0.5164	0.5188
NZD/EUR	0.5781	0.5827	0.5807	0.5826	0.5813	0.5830
AUD/USD	0.7390	0.7397	0.7417	0.7419	0.7362	0.7404
EUR/USD	1.1647	1.1681	1.1732	1.1687	1.1623	1.1568
USD/JPY	110.86	111.10	111.55	111.89	111.48	111.25
GBP/USD	1.3186	1.3108	1.3162	1.3129	1.3083	1.3001
Oil (US$/bbl)	74.14	70.13	68.76	67.66	68.96	68.49
Gold (US$/oz)	1246.63	1221.56	1218.63	1223.74	1216.32	1214.90
NZX 50	9054	8921	8922	8860	8849	8865
Baltic Dry Freight Index	1476	1703	1747	1760	1756	1773
NZX WMP Futures (US$/t)	3120	2960	2960	2975	2970	2970

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