

25 June 2018

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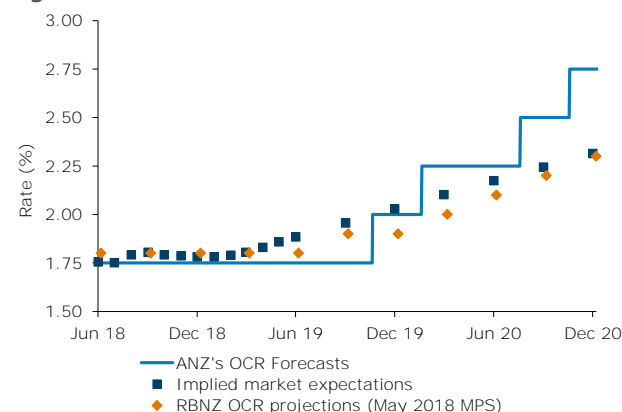
## WHEN WORDS BECOME ACTION

### ECONOMIC OVERVIEW

This week the key domestic event will be the RBNZ OCR decision. Although we expect no change in message from the RBNZ, we have updated our view on the outlook for the OCR. We now expect the OCR will lift in November 2019, rather than August, consistent with a softer outlook for GDP growth and a more gradual increase in inflation. The RBNZ will wait for inflation to rise in a consistent way, and this will take some time in this environment. There are risks on both sides of the ledger. But on balance, we think cost pressures – especially wage costs – will push inflation higher and that the OCR will eventually rise. That said, with forecast hikes sitting very late in the economic cycle, there are decent odds they may not happen at all. One of the key risks to up the ante of late is possible fall-out from trade war escalations. The implications for New Zealand are not yet clear. In the short term, New Zealand could benefit. But as a small open economy, we have benefited from the freeing up of global trade in recent years. We could be impacted significantly if this process were to go systematically into reverse or should the Chinese economy slow.

### CHART OF THE WEEK

Figure 1: Official Cash Rate



Source: RBNZ, Bloomberg, ANZ Research

### 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) on average.	Neutral Negative Positive
Unemployment rate	4.4% for 2019 Q1	The unemployment rate should remain near current levels. Conditions are in place for wage inflation to increase.	Neutral Negative Positive
OCR	1.75% in March 2019	With plenty of question marks over the outlook for inflation, the RBNZ will be cautious in tightening policy.	Neutral Down Up
CPI	1.7% y/y for 2019 Q1	With cost pressures set to rise, we expect domestic and core inflation will lift – but only gradually.	Neutral Negative Positive

## ECONOMIC OVERVIEW

### SUMMARY

This week the key domestic event will be the RBNZ OCR decision. Although we expect no change in message from the RBNZ, we have updated our view on the outlook for the OCR. We now expect the OCR will lift in November 2019, rather than August, consistent with a softer outlook for GDP growth and a more gradual increase in inflation. The RBNZ will wait for inflation to rise in a consistent way, and this will take some time in this environment. There are risks on both sides of the ledger. But on balance, we think cost pressures – especially wage costs – will push inflation higher and that the OCR will eventually rise. That said, with forecast hikes sitting very late in the economic cycle, there are decent odds they may not happen at all. One emerging risk that ups the ante is possible fall-out from trade war escalation. The implications for New Zealand are not yet clear. In the short term, we could benefit. But as a small open economy, we have done well from the freeing up of global trade in recent years. We could be impacted significantly if this process were to go systematically into reverse or should the Chinese economy slow.

### FORTHCOMING EVENTS

**Overseas Merchandise Trade – May (10:45am, Wednesday 27 June).** Export earnings are expected to remain solid, underpinned by broad-based strength in commodity prices. Higher oil prices and solid domestic demand should support imports and keep the trade balance in check.

**ANZ Business Outlook – June (1:00pm, Wednesday 27 June).**

**RBNZ OCR decision (9:00am, Thursday, 28 June).** No change in message, with rates on hold for some time yet. We will be interested in the RBNZ's take on economic momentum in light of the more mixed data pulse.

**ANZ Consumer Confidence – June (10:00am, Friday 29 June).**

**Building Consents – May (10:45am, Friday, 29 June).** Dwelling consents are likely to keep bobbing around at high levels; increases on the non-residential side may continue.

### WHAT'S THE VIEW?

**The economic landscape has shifted of late and we have updated our views on the outlook accordingly.** Our ANZ Quarterly Economic Outlook will be released later this week and will discuss our views in more detail.

**We have downgraded our forecast for GDP growth over the next few years, reflecting the recent lacklustre data flow, heightened downside risks, and the challenges the economy is facing.** Economic momentum continues to moderate, and we expect GDP growth will remain below trend through 2018. But while the economy is currently in a softer patch, we expect the cycle has further to run yet and that quarterly GDP growth will pick up later this year – boosted by income growth and fiscal stimulus. We are forecasting that annual GDP growth will average 2.5% in 2018, 2.8% in 2019 and 2.5% in 2020.

With GDP expected to grow around trend, we expect that resource pressures will not intensify – but **cost pressures nonetheless look set to push inflation higher. But with the underlying inflation pulse modest and resource pressures expected to be steady, we are now forecasting a more gradual increase.** CPI inflation is expected to reach 2% in the September quarter 2019, with non-tradable inflation expected to gradually increase toward historically average rates.

Given that developments since the last MPS have been negative on balance, **a flatter OCR track at the next MPS would not be surprising.** The RBNZ is being strategically cautious, and has clearly stated that the next move in interest rates could be either up or down.

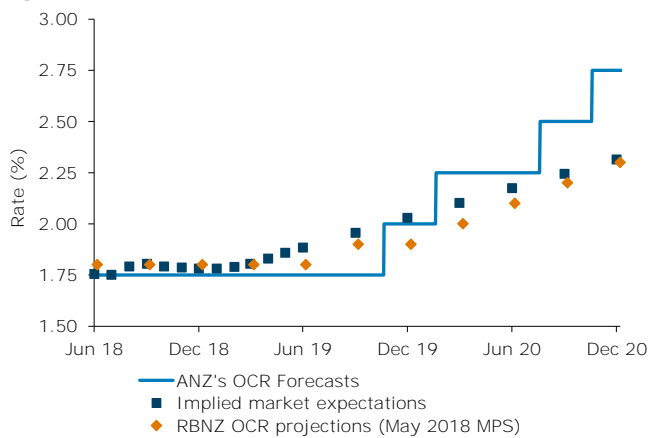
**The RBNZ will need to be assured that inflation has increased in a broad based, sustainable way (with headline inflation close to target) before interest rate increases will be on the table.** And given the lacklustre data flow, the fact that the economy has been losing steam, and the weak inflation pulse, we expect it will take a bit longer for the RBNZ to be convinced. **We now expect interest rates will increase in November 2019, rather than August.** We would note, however, that a lot could happen between now and then.

**Indeed, there are risks on either side of the outlook. Downside risks have increased.** A negative shock (to the terms of trade, for example) or a more disappointing domestic picture would clearly put a cut on the table. But on the other hand, cost pressures are increasing, and that could see inflation surprise on the upside.

In light of the shifting economic landscape, at the **RBNZ OCR decision this week** (on Thursday) the RBNZ will leave the OCR at 1.75% and **a clear, consistent message will be retained: expect no action until inflation shows consistent signs of life, and that will be some time away.**

## ECONOMIC OVERVIEW

Figure 1: Official Cash Rate



Source: RBNZ, Bloomberg, ANZ Research

Possible fall-out from global trade war escalation is an emerging economic risk. This week we consider the potential implications for New Zealand.

### UPPING THE ANTE

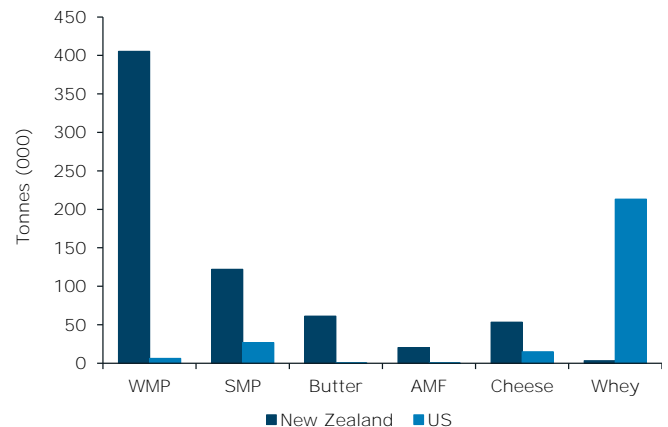
**While rhetoric between the US and a few countries has stepped up of late, it's with China where the most concrete action has taken place so far.** Each country has announced plans to implement tariffs on a range of products. The first phase is set to impose a 25% tariff on USD34bn of goods imported from the other (USD68bn in two-way trade) starting on July 6. An additional USD16bn of goods are slated to follow soon after. The US has focused tariffs on goods connected to China's Made in China 2025 plan for dominating high-tech industries: robotics, information technology, aerospace and vehicles. China has focused on a range of soft commodities and vehicles.

**The implications for New Zealand are not yet clear. On the one hand, pockets of near-term opportunity may open up as a result of the trade dispute,** particularly if it remains a case of 'US versus the rest' and New Zealand can fly under the radar. **But in a broader sense, New Zealand, as a small open economy, has benefited from the freeing up of global trade** and stands to be a significant loser should this process go systematically into reverse.

**At first blush, the most significant near-term opportunities would appear to be for beef, dairy and seafood exports to China.** On the dairy front, New Zealand already accounts for around 39% of China's imports; the US just 6%<sup>1</sup>. In that regard, one could argue we have already seized the bulk of the opportunity. Figure 2 shows China's imports from the US and NZ for the key dairy products affected by new

tariffs – the US is effectively a bit player in most categories outside whey and lactose products. There might be some small benefit for skim milk powder and foodservice cheese, **with New Zealand's out-of-quota tariffs (12% for cheese & 10% for SMP) below the 25% that will be imposed on US product.** On the whey and lactose front, there could be some small opportunities for food grade product, but given the cheap price of US products, it's only likely to affect the animal feed grade end of the spectrum, for which New Zealand has limited supply. European and South American exporters are probably better placed to benefit.

Figure 2: China imports of key dairy products from NZ and US



Source: ANZ, Agri HQ

**That's the direct effects. What is more difficult to judge is where the US product that would have normally been heading to China will find its new home.** With NAFTA negotiations not going so well either – as witnessed by Mexico also imposing tariffs on some US dairy imports recently – US dairy producers are facing pressure on multiple fronts. So some spill-over competition is likely into South-East Asian markets, but the medium-term outcome of a prolonged trade war is likely to be lower farm-gate margins for US farmers and less milk production.

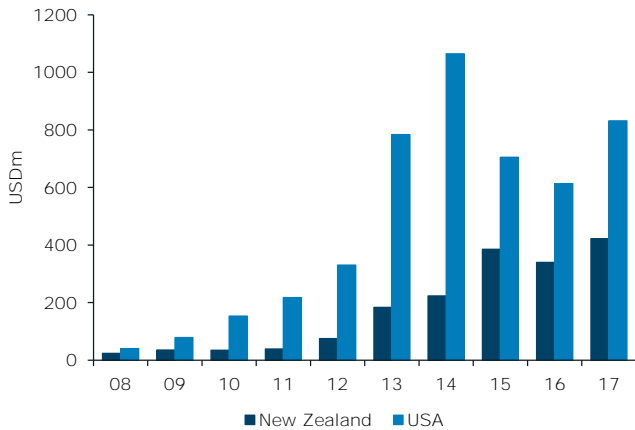
**Beef is another area of opportunity, but the nuances are different to dairy as both the US and China are important end markets** together accounting for some 70% of total New Zealand exports (US 44% and Greater China 26%). However, the net benefit in the short-term for New Zealand producers is likely to be minimal. While competitive pressure from US product is likely to be reduced in China, this product is just as likely to be sold into other Asian markets (i.e. Japan, Korea etc), or at home offsetting the advantage in China. US beef supply is also in an upswing and anything that disrupts export trade is likely to have an outsized negative impact on sentiment/pricing within the US

<sup>1</sup> UN Comtrade, 2016

# ECONOMIC OVERVIEW

market, which is still New Zealand’s largest market. Longer-term benefits could be created by New Zealand facing less competitive pressure when establishing/growing its chilled sales in secondary/prime cuts. Only select exporter plants have been approved to send chilled product to China, it’s a major area of opportunity to increase margins, or create greater ‘value-add’.

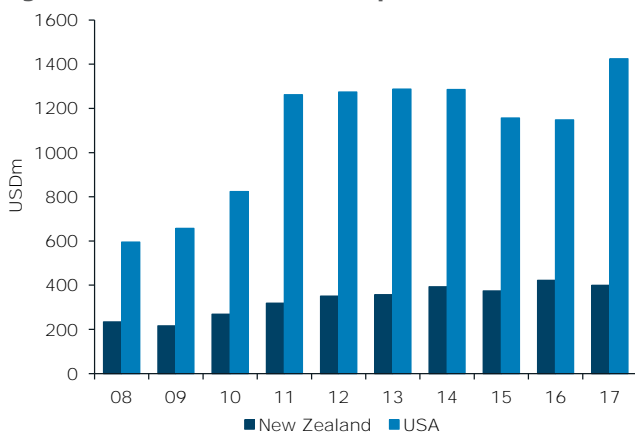
**Figure 3: NZ and US beef exports to China**



Source: UN Comtrade, ANZ Research

The US is a major exporter of seafood products to China also. This is mainly frozen fish, crustaceans and molluscs. For New Zealand, China accounts for around a third of total seafood exports. The main products are crustaceans (mainly rock lobster), fish (whole, frozen), and molluscs. So while not in direct competition, there is some overlap that might create opportunities, or reduce competitive pressure.

**Figure 4: NZ and US seafood exports to China**

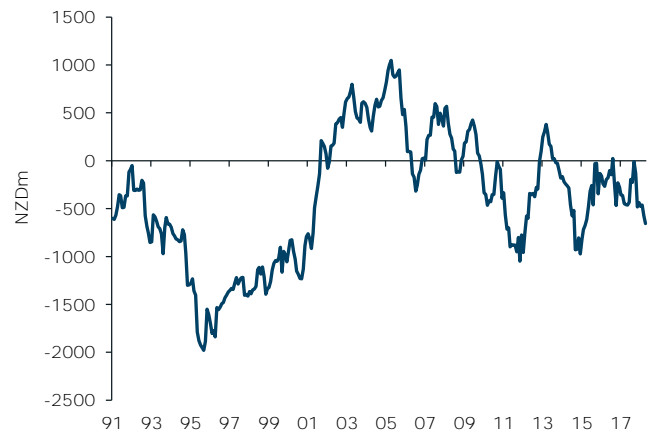


Source: UN Comtrade, ANZ Research

**On the US side, the tariffs have been aimed primarily at China’s ‘tech’ exports**, where US President Trump (not without cause) argues that Chinese firms have been enjoying unfair advantages, including policies that essentially bully foreign firms into handing over their intellectual property. New Zealand is not a particularly big player in this space,

though we have some very successful niche industries. Therefore direct impacts will be limited. In a broader sense, **New Zealand appears to be off the radar for the US at present.** Not only are we small; **trade between the two countries is roughly balanced**, as figure 2 below shows.

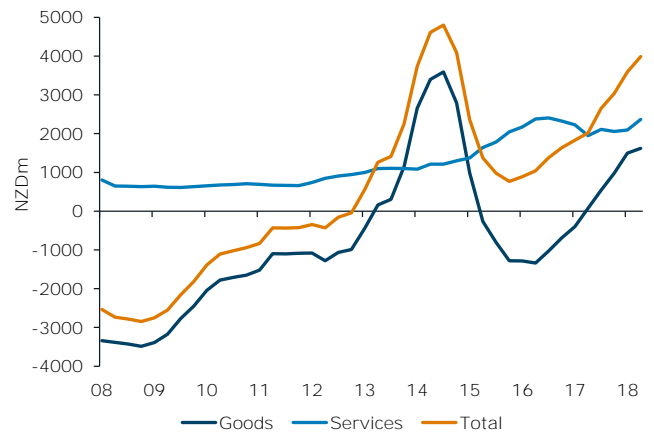
**Figure 5: New Zealand goods trade balance with the US**



Source: Statistics NZ, ANZ Research

**New Zealand’s trade balance with China, on the other hand, is a very strong surplus in New Zealand’s favour, and has been for a number of years** (figure 6). And once services are taken into account (essentially tourism and the foreign education sector), the surplus is even larger.

**Figure 6: New Zealand trade balance with China: goods and services**



Source: Statistics NZ, ANZ Research

**There has been no suggestion from China that they view this imbalance as any kind of problem.** That is perhaps the advantage of being a small country. Indeed, when Chinese President Xi Jinping visited New Zealand several years ago he remarked “New Zealand will have to worry about the fact that there is more Chinese demand than you can possibly supply”. This **suggests the Chinese market is effectively “infinite” compared with**

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**New Zealand's supply capacity.** Indeed from a food and beverage perspective it's estimated New Zealand can only feed 40-60 million people their (entire) daily dietary needs, or put another way, just **0.5 to 0.8% of the world's current population.**

**Obviously New Zealand specialises in certain products** and provides a much larger share of the globe's populace with their daily dairy, beef, sheepmeat, kiwifruit and wine requirements, for example. In fact New Zealand dairy products are estimated to reach over 1.2 billion people each day.

Nevertheless, the point remains: natural resource and industry capability constraints (i.e. infrastructure, skilled expertise, capital, scale, type of production systems, location, competitive realities etc) mean **New Zealand will only ever feed a very small proportion of the global population** – even if one factors in a significant production lift from new innovations or technology.

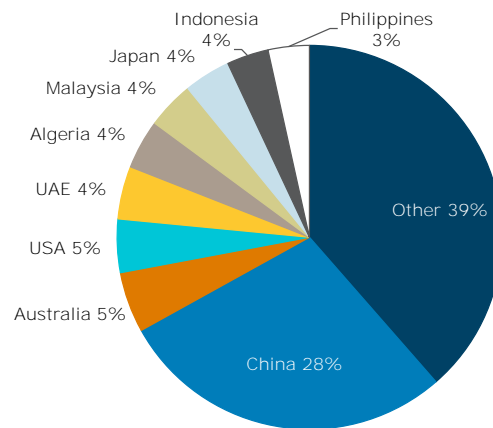
**The negative impact on New Zealand of the escalating situation would potentially be much larger if the dispute spread meaningfully beyond bilateral trade relationships involving the US.** For now, politicians in our main trading partners seem committed to continuing free trade efforts, including the CPTPP. But an occasionally mixed blessing of democracy is that in the medium term, politicians change, and if Trump's tough line on trade reaps him a strong political dividend at home, anti-free-trade rhetoric may become an increasing feature of democratic elections around the world in the years ahead, and the social mandate for politicians to pursue free trade agreements may become increasingly challenged. When it comes to politics, the problem with trade barriers, as with many distortionary government policies, is that the costs are typically dispersed and hence largely hidden (higher prices for beer cans), but the benefits are concentrated, visible, and politically bankable.

**Dairy is a particularly highly politicised industry.** New Zealand is responsible for only about 3% of global dairy production, but roughly a third of global dairy trade – and dairy products account for roughly a quarter of our exports. Dairy industries in many countries are heavily protected and subsidised, and it is an obvious place for trade disputes to hit upon. Indeed, dairy products feature in the new China-US tariffs, but have also been a part of the war of words between the US and Mexico/Canada too.

**One therefore can't rule out that in the longer run, New Zealand might be caught in the crossfire of indiscriminate, broad tariffs by product.** And it is also true that generally speaking, protectionism and tariffs increase the price of the

commodity for the final consumer, and therefore decrease demand. However, demand for **New Zealand's dairy products** is somewhat underpinned by supply constraints and quality factors in our largest dairy customer, China. It continues to face a number of structural supply impediments ranging from available natural resources, expertise, a fragmented supply chain, environmental constraints, and high costs of production. For many of the issues there are no quick fixes, and limiting imports from New Zealand would be something of an own goal in that regard.

**Figure 7: New Zealand's dairy exports by country**

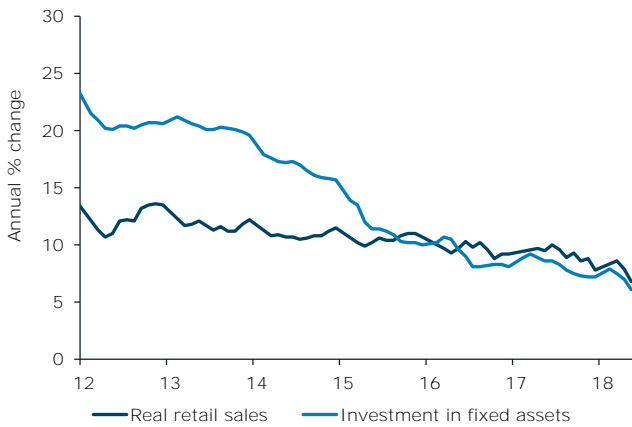


Source: Statistics NZ, ANZ Research

**A more pertinent threat at this point is perhaps that the US tariffs could cause a more marked slowdown in the Chinese economy, and hit demand for New Zealand exports via that channel.** China is attempting to rebalance its economy away from infrastructure investment and exports towards consumption and services, while at the same time weaning the economy off its addiction to debt. This is not an easy tightrope to walk, and it's a long one. It's been a case of 'so far so good', but recent cyclical indicators have taken a bit of a turn downwards – figure 8 below shows retail sales and investment.

# ECONOMIC OVERVIEW

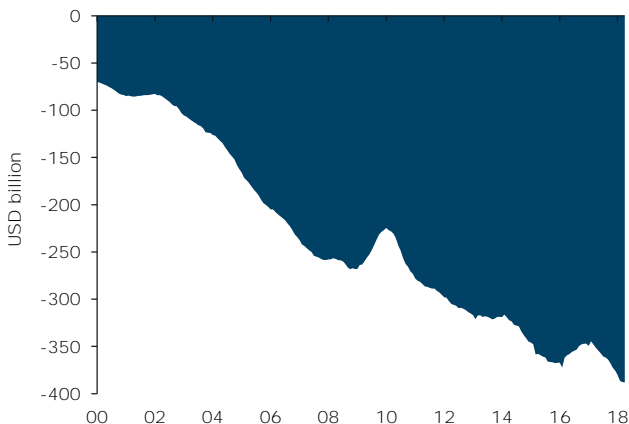
**Figure 8: China retail sales and investment growth**



Source: Haver Analytics, ANZ Research

ANZ China’s Research team’s view is that a rebound in property and strength in manufacturing will see the economy through this soft patch, but it is clearly not the best timing for a shock to exports or business sentiment. The US economy, on the other hand, is enjoying an upswing that led the Federal Reserve to describe growth as “solid”. Not too many economists would agree with US President Trump’s assessment that “trade wars are good, and easy to win”, but it is true that the US is in a less vulnerable position in terms of the cyclical state of their economy, and has more ammunition, in that the trade balance with China is currently deeply negative: by definition, China’s exporters have more to lose.

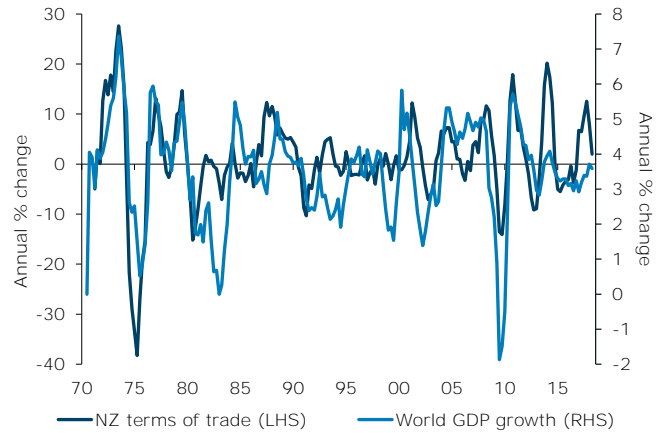
**Figure 9: US-China trade deficit (12 month total)**



Source: Thomson Reuters, ANZ Research

**New Zealand’s terms of trade have historically been highly correlated with global growth** (figure 10). A slowdown in China’s economy would clearly reduce global growth but the current strength in the US economy would offset to some extent.

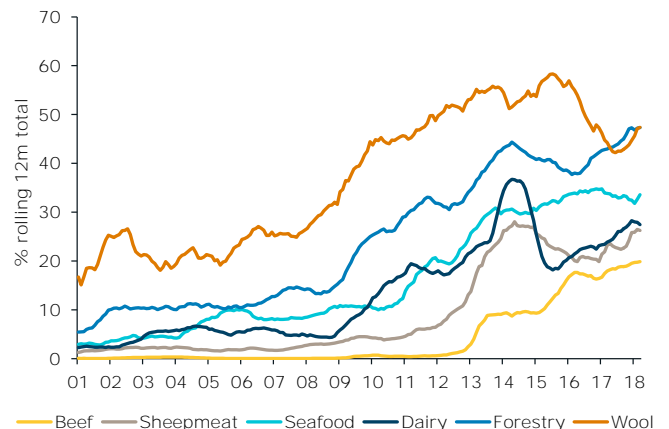
**Figure 10: Global growth and NZ terms of trade**



Source: Statistics NZ, IMF, ANZ Research

**But the impact of China on New Zealand is larger than its generic contribution to global growth: the importance of China as a trading partner has grown pretty much for all our main commodity exports** (figure 11).

**Figure 11: Proportion of NZ commodity exports that go to China**



Source: Statistics NZ, ANZ Research

**New Zealand exporters had therefore better hope that the current trade dispute does not escalate to the point where China’s growth is meaningfully impacted.** To put the current tariffs in context, China exports USD506bn worth of goods to the US, and USD50bn has just had tariffs slapped on. This comprises around 10% of China’s total exports to the US. With most of that consisting of parts and components imported from the rest of Asia, we estimate the value-add contribution by China to be just 20-30%, or USD13bn, equivalent to slightly less than 0.1% of China’s GDP. **We therefore see limited direct damage to the Chinese economy as things stand. However, it is unclear how things may escalate from here.**

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**Certainly as long as Trump is President, trade seems unlikely to stray far from the top of his agenda.** It plays to his manufacturing support base, though risks alienating his agricultural base. One reason to expect that the issue will not go away any time soon is that **Trump's large fiscal stimulus** will hit an already-stretched US economy. This means the trade deficit in broad terms is in fact likely to continue to deteriorate, because domestic producers will be unable to meet demand. The trade numbers will provide plenty of political ammunition. **Tariffs won't 'fix' the deficit, and are already causing collateral damage via markedly higher US domestic wholesale prices for aluminium and timber.**

In short, the nexus of politics, trade and economic impacts is a complicated one, and the environment is unpredictable. **At present, the main risk to New Zealand exporters would appear to be via the impact on China's economic growth, labour market and confidence, rather than the tariffs themselves; indeed in the short term some new trade opportunities may open up.** However, in the long run, New Zealand benefits from a global commitment to free trade, and in this context, it is important to keep up the focus on building strong bilateral and multilateral trading relationships independent of the current tensions between the US and its trading partners. **Free and fair trade benefits all countries, but New Zealand, as a small, open commodity-exporting economy, has more at stake than most.**

**On the topic of trade, the week ahead brings Overseas Merchandise Trade data for May on Wednesday.** Export earnings are expected to remain solid, underpinned by broad-based strength in commodity price. Higher oil prices and solid domestic demand should support imports and keep the trade balance in check.

We've mentioned that the RBNZ decision will be closely watched. We also have some of our proprietary indicators out this week. **ANZ Business Outlook for June will be out on Wednesday and ANZ Consumer Confidence on Friday. Also on Friday, building consents data for May will be out.** Dwelling consents to keep bobbing around at high levels, and we expect this will continue. It is also possible that recent increase on the non-residential side may continue.

### LOCAL DATA

**Global Dairy Trade auction.** Dairy prices fell 1.2%.

**Balance of Payments – Q1.** The unadjusted current account deficit was slightly larger than expected in Q1, which saw a widening of the annual balance to 2.8% of GDP.

**GDP – Q1.** GDP grew 0.5% q/q in Q1. Annual growth continues to moderate (2.7% y/y) and per capita GDP was flat (0.6% y/y).

**International Travel and Migration – May.** Net immigration ticked up in the month; annual flows continue their gradually slowing trend (currently 66,000).

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-Jun	GE	IFO Business Climate - Jun	101.8	102.2	20:00
	GE	IFO Expectations - Jun	98.0	98.5	20:00
	GE	IFO Current Assessment - Jun	105.6	106.0	20:00
26-Jun	US	Chicago Fed Nat Activity Index - May	0.30	0.34	00:30
	US	New Home Sales - May	667k	662k	02:00
	US	New Home Sales MoM - May	0.8%	-1.5%	02:00
	US	Dallas Fed Manf. Activity - Jun	23.0	26.8	02:30
	AU	ANZ-RM Consumer Confidence Index - 24-Jun	--	122.1	11:30
	UK	Finance Loans for Housing - May	38250	38049	20:30
27-Jun	US	S&P CoreLogic CS 20-City MoM SA - Apr	0.40%	0.53%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - Apr	6.80%	6.79%	01:00
	US	Richmond Fed Manufact. Index - Jun	15.0	16.0	02:00
	US	Conf. Board Consumer Confidence - Jun	128.0	128.0	02:00
	NZ	Trade Balance NZD - May	100M	263M	10:45
	NZ	Exports NZD - May	5.25B	5.05B	10:45
	NZ	Imports NZD - May	5.10B	4.79B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - May	-3743M	-3762M	10:45
	NZ	ANZ Activity Outlook - Jun	--	13.6	13:00
	NZ	ANZ Business Confidence - Jun	--	-27.2	13:00
	EC	M3 Money Supply YoY - May	3.8%	3.9%	20:00
	US	MBA Mortgage Applications - 22-Jun	--	5.1%	23:00
28-Jun	US	Wholesale Inventories MoM - May P	0.2%	0.1%	00:30
	US	Advance Goods Trade Balance - May	-\$69.0B	-\$67.3B	00:30
	US	Durable Goods Orders - May P	-0.9%	-1.6%	00:30
	US	Durables Ex Transportation - May P	0.5%	0.9%	00:30
	US	Cap Goods Orders Nondef Ex Air - May P	0.4%	1.0%	00:30
	US	Cap Goods Ship Nondef Ex Air - May P	0.3%	0.9%	00:30
	US	Pending Home Sales MoM - May	0.7%	-1.3%	02:00
	US	Pending Home Sales NSA YoY - May	--	0.4%	02:00
	NZ	RBNZ Official Cash Rate - Jun	1.75%	1.75%	09:00
	JN	Retail Sales MoM - May P	-0.9%	1.3%	11:50
	JN	Retail Trade YoY - May	1.2%	1.5%	11:50
	AU	Job vacancies - May	--	4.4%	13:30
	GE	GfK Consumer Confidence - Jul	10.6	10.7	18:00
	EC	Economic Confidence - Jun	112.0	112.5	21:00
	EC	Business Climate Indicator - Jun	1.4	1.45	21:00
	EC	Industrial Confidence - Jun	6.4	6.8	21:00
	EC	Services Confidence - Jun	14.2	14.3	21:00
	EC	Consumer Confidence - Jun F	-0.5	-0.5	21:00
	UK	Nationwide House PX MoM - Jun	0.3%	-0.2%	28 Jun - 4 Jul
	UK	Nationwide House Px NSA YoY - Jun	1.7%	2.4%	28 Jun - 4 Jul
29-Jun	GE	CPI MoM - Jun P	0.2%	0.5%	00:00
	GE	CPI YoY - Jun P	2.2%	2.2%	00:00
	GE	CPI EU Harmonized MoM - Jun P	0.2%	0.6%	00:00
	GE	CPI EU Harmonized YoY - Jun P	2.1%	2.2%	00:00
	US	Initial Jobless Claims - 23-Jun	220k	218k	00:30
	US	Continuing Claims - 16-Jun	1718k	1723k	00:30
	US	GDP Annualized QoQ - Q1 T	2.2%	2.2%	00:30

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## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
29-Jun	US	Personal Consumption - Q1 T	1.0%	1.0%	00:30
	US	GDP Price Index - Q1 T	1.9%	1.9%	00:30
	US	Core PCE QoQ - Q1 T	--	2.3%	00:30
	US	Kansas City Fed Manf. Activity - Jun	26.0	29.0	03:00
	NZ	ANZ Consumer Confidence Index - Jun	--	121	10:00
	NZ	ANZ Consumer Confidence MoM - Jun	--	0.4%	10:00
	NZ	Building Permits MoM - May	--	-3.7%	10:45
	UK	GfK Consumer Confidence - Jun	-7	-7	11:01
	JN	Tokyo CPI YoY - Jun	0.4%	0.4%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Jun	0.6%	0.5%	11:30
	JN	Industrial Production MoM - May P	-1.0%	0.5%	11:50
	JN	Industrial Production YoY - May P	3.4%	2.6%	11:50
	AU	Private Sector Credit MoM - May	0.4%	0.4%	13:30
	AU	Private Sector Credit YoY - May	5.0%	5.1%	13:30
	GE	Retail Sales MoM - May	-0.5%	1.6%	18:00
	GE	Retail Sales YoY - May	1.8%	1.2%	18:00
	GE	Import Price Index MoM - May	1.0%	0.6%	18:00
	GE	Import Price Index YoY - May	2.6%	0.6%	18:00
	GE	Unemployment Change (000's) - Jun	-8k	-12k	19:55
	GE	Unemployment Claims Rate SA - Jun	5.2%	5.2%	19:55
	UK	Net Consumer Credit - May	£1.5B	£1.8B	20:30
	UK	Net Lending Sec. on Dwellings - May	£3.8B	£3.9B	20:30
	UK	Mortgage Approvals - May	62.2k	62.5k	20:30
	UK	Money Supply M4 MoM - May	--	0.2%	20:30
	UK	M4 Money Supply YoY - May	--	1.1%	20:30
	UK	M4 Ex IOFCs 3M Annualised - May	--	-0.7%	20:30
	UK	Current Account Balance - Q1	-£18.0B	-£18.4B	20:30
	UK	Index of Services MoM - Apr	0.3%	0.1%	20:30
	UK	Index of Services 3M/3M - Apr	0.0%	0.3%	20:30
	UK	GDP QoQ - Q1 F	0.1%	0.1%	20:30
	UK	GDP YoY - Q1 F	1.2%	1.2%	20:30
	UK	Total Business Investment QoQ - Q1 F	-0.2%	-0.2%	20:30
	UK	Total Business Investment YoY - Q1 F	2.0%	2.0%	20:30
	EC	CPI Core YoY - Jun A	1.0%	1.1%	21:00
	EC	CPI Estimate YoY - Jun	2.0%	1.9%	21:00
	CH	BoP Current Account Balance - Q1 F	--	-\$28.2B	UNSPECIFIED
30-Jun	US	Personal Income - May	0.4%	0.3%	00:30
	US	Personal Spending - May	0.4%	0.6%	00:30
	US	PCE Deflator MoM - May	0.2%	0.2%	00:30
	US	PCE Deflator YoY - May	2.2%	2.0%	00:30
	US	PCE Core MoM - May	0.2%	0.2%	00:30
	US	PCE Core YoY - May	1.9%	1.8%	00:30
	US	Chicago Purchasing Manager - Jun	60.0	62.7	01:45
	US	U. of Mich. Sentiment - Jun F	99.2	99.3	02:00
	CH	Non-manufacturing PMI - Jun	--	54.9	13:00
	CH	Manufacturing PMI - Jun	51.8	51.9	13:00
	CH	Composite PMI - Jun	--	54.6	13:00

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

The data flow has been lacklustre recently. We expect the cycle has legs yet, but the economy will struggle to grow above trend. Inflation is subdued and expected to increase gradually as cost pressures rise. Interest rate rises are expected eventually, **but we expect the RBNZ's cautious tone will continue for some time yet.**

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 27 June (10:45am)	Overseas Merchandise Trade – May	Steady	Export earnings are expected to remain solid, underpinned by broad-based strength in commodity price. Higher oil prices and solid domestic demand should support imports and keep the trade balance in check.
Wed 27 June (1:00pm)	ANZ Business Outlook – June	--	--
Thu 28 June (9:00am)	RBNZ OCR decision	Feeling the pulse	No change in message, with rates on hold for some time yet. <b>We will be looking for the RBNZ's take on economic momentum in light of the more mixed data pulse.</b>
Fri 29 June (10:00am)	ANZ Consumer Confidence – June	--	--
Fri 29 June (10:45am)	Building Consents - May	Bobbing	Dwelling consents expected to keep bobbing around at high levels; increases on the non-residential side may continue.
Tue 3 July (10:00am)	NZIER QSBO – Q2	Downbeat	We will be looking to see whether downbeat business <b>sentiment continued in NZIER's Q1 survey, consistent with the ANZ Business Outlook.</b>
Wed 4 July (10:00am)	ANZ Job Ads – June	--	--
Wed 4 July (1:00pm)	ANZ Commodity Price Index – June	--	--
Tue 10 July (10:00am)	ANZ Truckometer – June	--	--
Tue 10 July (10:45am)	Electronic Card Transactions - June	Questions	With a couple more months of data, we will let the dust settle and assess the underlying strength of card spending.
Tue 10 July (1:00pm)	ANZ Monthly Inflation Gauge – June	--	--
10 – 14 July	REINZ Housing Market Statistics – June	Holding pattern	With a number of opposing forces operating on the market, we expect continued stability, for now at least.
Thu 12 July (10:45am)	Food Prices – June	Sideways	Seasonal price movements are expected to do their thing, but annual FPI inflation should remain soft.
Fri 13 July (10:30am)	BNZ-BusinessNZ PMI – June	Back to earth	We expect a continued steady manufacturing outlook (consistent with expansion), after a recent strong run.
Mon 16 July (10:30am)	BNZ-BusinessNZ PSI – June	Healthy	The service sector is expected to continue to outperform.
Tue 17 July (10:45am)	Consumer Price Index – Q2	Anaemic	Non-tradables inflation appears to be running soft, but higher oil prices and a lower NZD will support tradables. A small quarterly rise for headline inflation is on the cards, but core inflation to remain in a low gear.
Fri 20 July (10:45am)	Net migration – June	Grinding lower	Annual net inflows are expected to continue their gradual trend lower.
Wed 25 July (10:45am)	Overseas Merchandise Trade – June	Steady	Export earnings are expected to remain solid, underpinned by broad-based strength in commodity price. Higher oil prices and solid domestic demand should support imports and keep the trade balance in check.
Fri 27 July (10:00am)	ANZ Consumer Confidence – July	--	--
Tue 31 July (10:45am)	Building Consents – June	Bobbing	Dwelling consents expected to keep bobbing around at high levels; increases on the non-residential side may continue.
Tue 31 July (1:00pm)	ANZ Business Outlook – July	--	--
<b>On balance</b>		<b>Data watch</b>	<b>The data pulse has been lacklustre, but still positive. Domestic inflation is low and should lift gradually.</b>

## 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	<b>0.5</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>
GDP (% yoy)	2.7	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>
CPI (% qoq)	0.5	<b>0.4</b>	<b>0.5</b>	<b>0.2</b>	<b>0.7</b>	<b>0.5</b>	<b>0.6</b>	<b>0.2</b>	<b>0.7</b>	<b>0.5</b>
CPI (% yoy)	1.1	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Employment (% qoq)	0.6	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	3.1	<b>3.7</b>	<b>2.0</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>
Unemployment Rate (% sa)	4.4	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>	<b>4.4</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>	<b>4.4</b>	<b>4.3</b>
Current Account (% GDP)	-2.8	<b>-2.8</b>	<b>-2.9</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>
Terms of Trade (% qoq)	-1.9	<b>1.5</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.1</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>
Terms of Trade (% yoy)	2.0	<b>2.4</b>	<b>1.3</b>	<b>0.2</b>	<b>2.5</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.3</b>	<b>0.3</b>

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Retail ECT (% mom)	0.2	0.5	0.5	1.2	0.4	1.4	-0.5	1.5	-2.2	0.4
Retail ECT (% yoy)	5.0	3.5	1.9	5.0	3.8	4.1	4.0	6.7	1.4	4.2
Credit Card Billings (% mom)	-0.6	0.8	1.0	0.9	0.6	-0.6	0.7	1.0	0.6	-1.6
Credit Card Billings (% yoy)	6.5	5.0	3.0	9.1	6.3	4.6	7.0	7.3	6.9	3.7
Car Registrations (% mom)	9.5	-0.3	0.7	0.8	-4.8	3.5	-9.4	-3.7	-0.4	12.4
Car Registrations (% yoy)	13.5	15.6	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0	-0.6
Building Consents (% mom)	6.2	-1.6	-9.4	9.7	-9.1	0.3	6.3	13.0	-3.7	--
Building Consents (% yoy)	12.9	7.8	-7.2	13.1	4.4	4.4	-0.7	18.3	15.3	--
REINZ House Price Index (% yoy)	2.9	3.8	3.4	3.6	3.7	3.5	4.0	4.1	3.7	3.7
Household Lending Growth (% mom)	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	6.7	6.5	6.3	6.2	5.9	5.8	5.7	5.7	5.8	--
ANZ Roy Morgan Consumer Conf.	126.2	129.9	126.3	123.7	121.8	126.9	127.7	128.0	120.5	121.0
ANZ Business Confidence	18.3	0.0	-10.6	-39.3	-37.8	..	-19.0	-20.0	-23.4	-27.2
ANZ Own Activity Outlook	38.2	29.6	22.0	6.5	15.6	..	20.4	21.8	17.8	13.6
Trade Balance (\$m)	-1174	-1165	-840	-1222	614	-662	184	-156	263	--
Trade Bal (\$m ann)	53982	54085	54759	55999	56476	57252	57452	58074	58703	--
ANZ World Comm. Price Index (% mom)	-0.8	0.8	-0.3	-0.9	-1.9	0.7	2.8	1.2	1.0	1.5
ANZ World Comm. Price Index (% yoy)	16.3	11.5	10.4	6.0	3.2	4.1	5.0	5.8	7.1	5.4
Net Migration (sa)	5470	5270	5650	5670	5690	6210	4910	5380	4930	--
Net Migration (ann)	72072	70986	70694	70354	70016	70147	68943	67984	67038	--
ANZ Heavy Traffic Index (% mom)	6.5	-1.5	2.9	1.1	-4.2	4.1	-2.5	-0.3	1.4	3.0
ANZ Light Traffic Index (% mom)	2.7	-0.1	-0.6	1.5	-1.7	-0.5	-0.2	2.2	-0.5	1.1

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)						
	Apr-18	May-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
NZD/USD	0.705	0.702	0.69	0.70	0.69	0.67	0.66	0.65	0.65	0.65
NZD/AUD	0.934	0.925	0.93	0.92	0.93	0.93	0.94	0.93	0.93	0.93
NZD/EUR	0.583	0.601	0.59	0.61	0.61	0.57	0.54	0.52	0.51	0.51
NZD/JPY	77.05	76.44	75.74	74.2	71.8	69.0	66.0	64.4	63.1	62.4
NZD/GBP	0.514	0.526	0.52	0.53	0.51	0.49	0.47	0.46	0.46	0.45
NZ\$ TWI	72.5	72.9	73.6	72.9	71.9	69.6	67.9	66.2	65.7	65.4
INTEREST RATES	Apr-18	May-18	Today	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
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	2.02	2.02	2.03	2.01	2.01	2.00	1.99	2.07	2.32	2.48
NZ 10-yr bond	2.84	2.73	2.94	3.05	3.30	3.40	3.35	3.60	3.65	3.65
US Fed funds	1.75	1.75	2.00	2.00	2.00	2.25	2.25	2.50	2.50	2.50
US 3-mth	2.36	2.30	2.34	2.25	2.50	2.70	2.70	2.95	2.95	2.95
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	2.04	1.98	2.11	1.90	1.80	1.80	1.80	2.05	2.30	2.30

	22 May	18 Jun	19 Jun	20 Jun	21 Jun	22 Jun
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.99	2.02	2.02	2.01	2.02	2.03
NZGB 05/21	2.01	2.02	2.00	2.02	2.04	2.03
NZGB 04/23	2.33	2.28	2.25	2.27	2.29	2.27
NZGB 04/27	2.82	2.73	2.69	2.71	2.75	2.74
NZGB 04/33	3.21	3.08	3.04	3.07	3.13	3.12
2 year swap	2.21	2.23	2.24	2.25	2.25	2.25
5 year swap	2.71	2.66	2.65	2.66	2.67	2.66
RBNZ TWI	73.05	73.44	73.64	73.62	73.01	73.36
NZD/USD	0.6948	0.6954	0.6899	0.6884	0.6861	0.6908
NZD/AUD	0.9151	0.9337	0.9367	0.9313	0.9307	0.9289
NZD/JPY	77.12	76.83	75.79	75.79	75.85	75.98
NZD/GBP	0.5164	0.5246	0.5237	0.5231	0.5225	0.5208
NZD/EUR	0.5884	0.5986	0.5972	0.5954	0.5946	0.5929
AUD/USD	0.7593	0.7448	0.7366	0.7392	0.7372	0.7440
EUR/USD	1.1810	1.1619	1.1553	1.1561	1.1538	1.1651
USD/JPY	110.99	110.48	109.85	110.09	110.55	109.97
GBP/USD	1.3455	1.3258	1.3174	1.3158	1.3133	1.3261
Oil (US\$/bbl)	72.13	65.85	65.07	66.22	65.54	68.58
Gold (US\$/oz)	1293.88	1280.98	1279.33	1272.92	1263.29	1270.56
NZX 50	8613	8974	8863	8906	8999	8999
Baltic Dry Freight Index	1199	1442	1419	1373	1347	1341
NZX WMP Futures (US\$/t)	3205	3170	3170	3125	3115	3130

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