

30 July 2018

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AT A PUSH

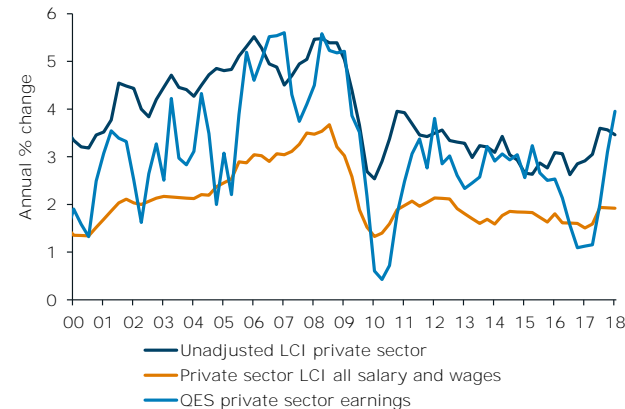
ECONOMIC OVERVIEW

The growth outlook has softened recently, but inflation looks set to lift, boosted by a range of cost-push factors. This makes the outlook for monetary policy a bit more complicated at present, and focusing primarily on CPI inflation in this environment runs the risk of missing important nuances about the policy response. We expect that the RBNZ will be concerned with the underlying trend in inflation and its persistence over the medium term. This means that the RBNZ will be willing to “look through” higher CPI inflation to the extent that it is not expected to be permanent. Our expectation is that core inflation will increase towards the 2% target midpoint only gradually and that we will see limited impacts on medium-term inflation expectations as inflation pressures broaden. If inflation evolves as we expect, the OCR will eventually need to rise – but not any time soon. We continue to pencil in late-2019 for a hike, but a lot could happen between now and then.

CHART OF THE WEEK

We expect that labour market data this week will confirm that wage inflation is on the rise, with the labour market broadly stable.

Wage inflation



Source: Statistics NZ, 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	4.2% for 2019 Q1	The unemployment rate should decline only gradually. 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	1.8% 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

The growth outlook has softened recently, but inflation looks set to lift, boosted by a range of cost-push factors. This makes the outlook for monetary policy a bit more complicated at present, and focusing primarily on CPI inflation in this environment runs the risk of missing important nuances about the policy response. We expect that the RBNZ will be concerned with the underlying trend in inflation and its persistence over the medium term. This means **that the RBNZ will be willing to “look through” higher CPI inflation to the extent that it is not expected to be permanent.** Our expectation is that core inflation will increase towards the 2% target midpoint only gradually and that we will see limited impacts on medium-term inflation expectations as inflation pressures broaden. If inflation evolves as we expect, the OCR will eventually need to rise – but not any time soon. We continue to pencil in late-2019 for a hike, but a lot could happen between now and then. We expect that labour market data this week will confirm that wage inflation is on the rise, with the labour market broadly stable, while a flurry of other activity data will provide further insights into the outlook.

FORTHCOMING EVENTS

Building Consents – June (10:45am, Tuesday 31 July). Residential activity is expected to remain at a high level; recent strength on the non-residential side may continue but there is a risk it could be a blip.

ANZ Business Outlook– July (1:00pm, Tuesday 31 July).

RBNZ Sector Lending – June (3:00pm, Tuesday 31 July). Credit growth is expected to continue gradually moderating.

Labour Market Statistics – Q2 (10:45am, Wednesday 1 August). We expect the unemployment rate to be fairly steady on the back of modest employment growth. Wage inflation is expected to increase, boosted by temporary factors.

ANZ Job Ads – July (10:00am, Friday 3 August).

WHAT’S THE VIEW?

We have written a lot recently about the fact that the economic landscape appears to be shifting. After a strong run this cycle, the growth outlook has softened. But at the same time, following persistent weakness over recent years, inflation looks set to lift – CPI inflation is expected to reach 2% y/y, the midpoint of the RBNZ target band, by mid-2019.

The lift in inflation is expected to be boosted by a range of transitory cost-push factors: oil price increases, recent exchange rate depreciation, increases in the minimum wage and public sector pay settlements. This makes monetary policy deliberations and the outlook for the OCR a bit more complicated at present, as we explore this week.

Monetary policy in the face of cost-push shocks

With growth slowing but inflation rising, the RBNZ faces a trade-off. At one end, tighter monetary policy would reduce the risk of inflation overshooting the midpoint, but would also be expected to slow growth, leading to deterioration in the labour market and potentially undershooting maximum sustainable employment. On the other hand, looser monetary policy would support the business cycle and the employment objective, but could lead to an overshoot in inflation. This tension does not occur in situations when inflation increases as a result of excess demand pressures (or vice versa); **that’s a “two birds, one stone” scenario.**

So what should a central bank do when inflation is increasing, but economic momentum is softening? The RBNZ has discussed this conundrum previously¹, saying *“tough decisions need to be made,”* and that, *“how a central bank reacts to such disturbances depends upon its approach to inflation targeting. A relatively flexible central bank may seek largely to accommodate cost-push disturbances.”* The RBNZ has been at pains to stress that they conduct inflation targeting in a flexible manner. This implies that they will likely be willing to accommodate cost-push disturbances, at least in the first instance.

But crucially, accommodating cost-push factors is only consistent with successful inflation targeting **if “the central bank is credible and inflation expectations are well anchored”**. For example, in the 1970s and 1980s inflation was rampant because oil price spikes were allowed to spill over into wages and prices more broadly. The current environment is very different – most notably because credible, flexible inflation targeting is now in place. This hard-won credibility means that the RBNZ **can “look through”** increases in CPI inflation to the extent that they are not expected to be permanent.

In light of this, focusing on CPI inflation in the current environment runs the risk of missing important nuances about the policy response. We expect the RBNZ will be concerned with the underlying trend in

¹ [Inflation targeting in principle and practice](#). While this work is not recent, the given principles continue to underpin the RBNZ’s flexible inflation targeting framework.

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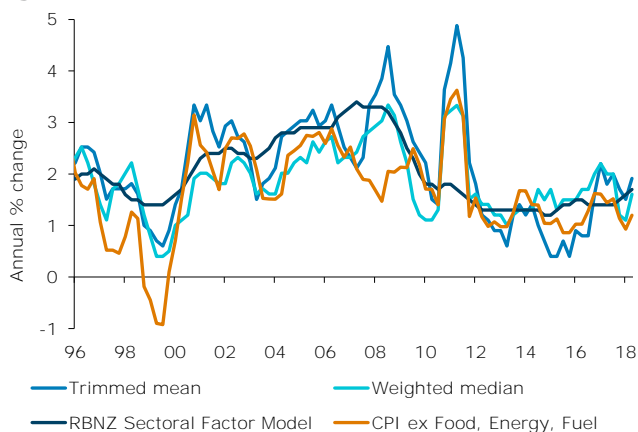
inflation. In particular, **the RBNZ will closely monitor core inflation and inflation expectations to gauge the degree of persistent inflationary pressure** in the economy and thus the durability of the lift in inflation, rather than simply reacting to headline inflation.

The outlook for core inflation

Measures of core inflation strip out the more volatile parts of inflation; **they measure the persistent element of inflation, and thus are a better gauge of the trend in inflation going forward.** On this score, the RBNZ's sectoral factor model of core inflation performs particularly well.²

Core inflation has been increasing of late, suggesting that inflation pressures are on the rise. This begs the question: **will core inflation increase further – and, if so, how quickly and by how much?**

Figure 1: Core inflation

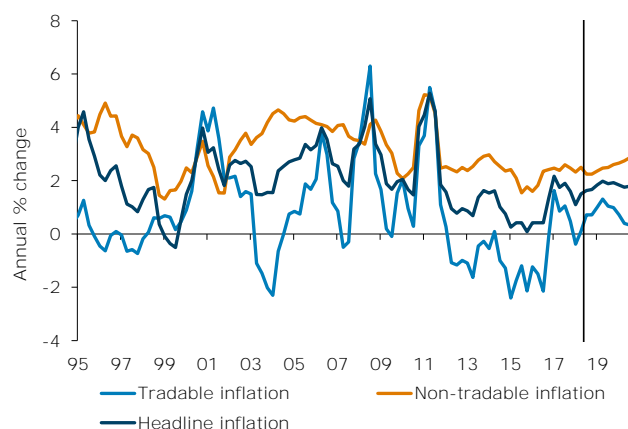


Source: Statistics NZ, RBNZ, ANZ Research

First, let's take a look at the outlook for CPI inflation.

Tradable inflation is expected to increase to 1.3% y/y in mid-2019 – that may not sound like much but it's quite a turnaround from falling 0.7% per year on average since 2012. This increase is driven predominantly by higher oil prices (with WTI prices up more than 17% in USD terms over the year to date) and the recent depreciation in the exchange rate, which will directly boost import prices.

Figure 2: Headline, tradable and non-tradable inflation



Source: Statistics NZ, ANZ Research

Volatility in oil prices and the exchange rate is not unusual, and tradable inflation tends to be quite variable, buffeted by global forces. **Movements in tradable inflation don't tend to be very persistent, so it is quite typical for the RBNZ to "look through" them.** Also supporting such an approach is the fact that after increasing in 2019, tradable inflation is expected to subside over the following year (reaching 0.3% y/y by the end of 2020).

By contrast, non-tradable inflation tends to be quite slow-moving and persistent and therefore is the focus of monetary policy.

As well as the important tradable/non-tradable split, **inflation dynamics also differ depending on whether movements are being driven by demand pressure in the economy or by independent factors.** The increase in the minimum wage is a classic example of the latter.

It is proposed that the minimum wage will increase to \$20/hr by April 2021, including the lift that came into effect on the 1st of April this year. **Our estimate is that increases in the minimum wage will boost private sector LCI by 0.6-0.9% over the next few years** (implying around a 0.2%pt increase boost to annual wage inflation each year).³

We expect that this lift in wage inflation will have only a small impact on CPI inflation – to the tune of 0.1%pt per year, with an even smaller impact on core inflation. This reflects the fact that the increase in wages is not driven by the economic cycle. If the lift were driven by demand pressures,

² See [Kamber & Wong \(2016\)](#).

³ This includes a 1% direct effect (including some spill-overs to those not on the minimum wage), adjusted for productivity impacts (-0.2%), indirect effects as a result of modestly lower employment (-0.3%), and spill-overs to pay negotiations more broadly (+0.25%).

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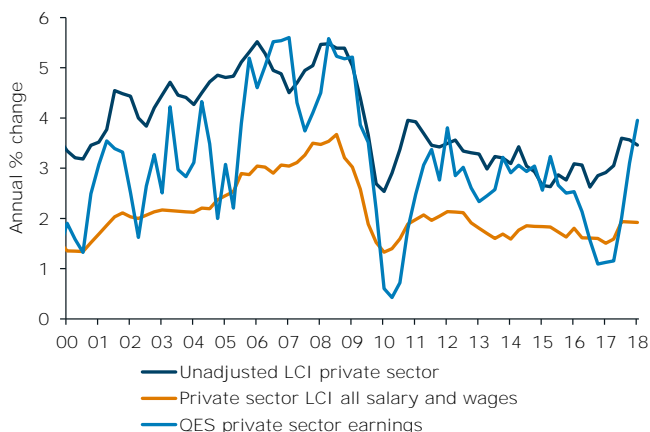
the implications would be very different. **As a general rule: if the market would not otherwise have delivered the increase, any increase in inflation is unlikely to be persistent** – as long as inflation expectations are well anchored, and there are currently no reasons to have concerns on that score.

Wages tend to be predominantly determined by labour market conditions and the underlying inflation environment; **wage inflation has tended to lag movements in non-tradable inflation over history, rather than the other way around.** Based on historical relationships, we find that independent wage shocks do not tend to be very persistent or have strong flow-on effects to broader inflation.⁴ It's possible that this time is different, but we would be wary of making that assumption without good reasons to do so.

We would also note that wage inflation has been weak until now. Looking through the settlement for care workers in Q3, LCI wage inflation is subdued at 1.6% y/y. In part, this weakness is a consequence of the subdued inflation environment: in real terms, wage inflation has been growing close to its average rate. **With core lifting gradually, we expect the underlying wage pulse will improve slowly too.**

We are also cognisant of dis-employment effects from the rising minimum wage. While we expect that any impact on employment will be small, we note that real unit labour costs faced by firms (the cost to produce an extra unit of output) have been growing well above average rates, owing to recent weakness in labour productivity growth. And these **rising real labour costs represent significant cost pressure for firms.**

Figure 3: Wage inflation



Source: Statistics NZ, ANZ Research

⁴ Based on a simple unrestricted VAR with CPI inflation, core inflation, wage inflation, the unemployment gap and inflation expectations.

While we expect that margin squeeze will see costs flow through into broader price pressures to some extent, businesses are cautious and any increases will be tentative and gradual. And with firms generally downbeat, it is possible that hiring is affected more than we anticipate. This is not our central expectation, but it does make us reluctant to call an end to low underlying wage inflation just yet.

Overall, we expect that the transitory cost-push factors influencing headline inflation will have only modest impacts on core inflation. The suite of core measures is expected to increase gradually towards the target midpoint on the back of gradual pass through of cost pressures, modest tightening in the labour market and deflationary forces subsiding slowly.

We'd also emphasise that the starting point for core inflation matters. **Core inflation measures are still generally below the midpoint of the target band;** the sectoral factor model of core inflation is running at 1.7% y/y. A modest increase in core inflation from here in line with our expectations will be a welcome development. Slightly higher core inflation would be more consistent with achieving the inflation target over the medium term, provided that inflation expectations do not become unanchored.

Inflation expectations

As inflationary pressures broaden, we may see short-term inflation expectations increase. However, we expect that medium-term inflation expectations – which are more important from the perspective of achieving the inflation target – will increase modestly but remain broadly anchored near the target midpoint. Medium-term expectations tend to be much less affected by transient movements in inflation.

Figure 4: Inflation expectations and headline inflation



Source: Statistics NZ, RBNZ, ANZ Research

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We could see a more pronounced build-up in inflation pressures if inflation expectations were to increase significantly. Recent history says they won't (on the back of the wage shock at least), but the current episode is very different to recent history. As developments unfold, conventional wisdom may be tested. The evolution of inflation expectations and their impact on wage- and price-setting behaviour is a key uncertainty affecting the outlook.

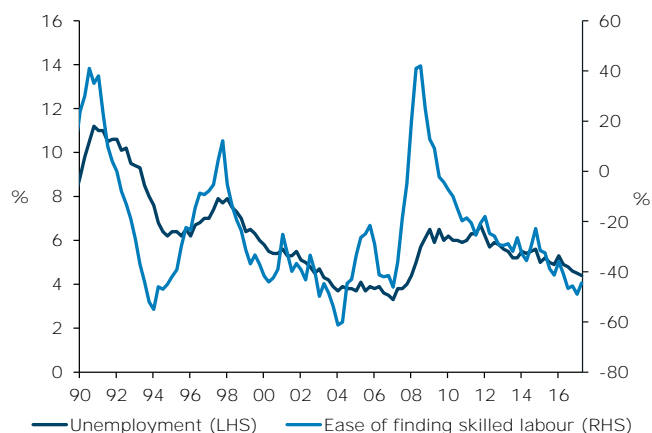
Monetary policy at the current juncture

In short, the recent increase in core inflation and the looming bump in cost-push inflation haven't changed our view on monetary policy. With core inflation – the **RBNZ's focus** – expected to lift only gradually and medium-term inflation expectations expected to remain anchored, **the RBNZ will remain cautious, even as CPI inflation lifts.** To be sure, an OCR cut now looks much less likely. But given the weaker growth environment we think the RBNZ will want to see core inflation much closer to the midpoint of the target band – if not overshooting – before a hike will become a realistic possibility. And we believe that is some time away yet. But we – along with the Reserve Bank – will be keeping a close eye on the evolution of core inflation and inflation expectations (more so than CPI inflation) to keep testing our view.

THE WEEK AHEAD

The key event on the domestic data calendar this week is labour market statistics on Wednesday. We expect that the labour market stabilised in the June quarter, with the **unemployment rate flat at 4.4% on the back of modest employment** growth (0.4% q/q) and continued growth in the working-age population, with the participation rate assumed to be flat (70.8%). Despite this expected pause, we estimate that the labour market is "tight", with some further modest tightening expected in coming years.

Figure 5: Unemployment and ease of finding skilled labour



Source: Statistics NZ, NZIER, ANZ Research

Wage inflation is expected to have strengthened, boosted by the higher minimum wage. Private sector LCI is expected to have risen 0.6% q/q (2.1% y/y). QES hourly earnings are expected to be up 1.1% q/q (4.2% y/y).

There's also a flurry of other data. Later in the week, **ANZ Job Ads** will give an indication of how the labour market kicked off Q3. **RBNZ sector lending data** is expected to show further gradual moderation in credit growth. The housing market has been a bit softer of late and this is expected to translate into cooler mortgage lending.

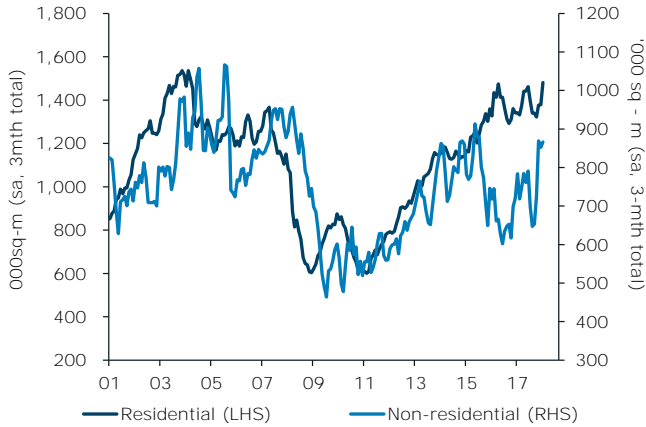
While there may be some bumps in the road, we see a floor under housing market activity, house price inflation and credit growth. A number of factors are supporting demand, including population growth, pent-up demand, and still-low interest rates. Moreover, significant slowing could be offset by a further loosening of LVR restrictions. On the whole, **we think the RBNZ will be pleased to see gradual moderation in credit growth continuing** on financial stability grounds.

While the market for existing houses has been cooling, home building continues at pace. **Building consents data are out this week. May was strong, and we think residential building activity will struggle to push higher**, given both capacity constraints and financing constraints related to profit squeeze from rising costs and reduced credit availability. The number of consents may push through recent highs on the back of continued declines in the size of homes consented. But the amount of residential building work is expected to be broadly flat. Indeed, there is some risk of softening in coming months, given recent housing market cooling, difficulties being faced by construction firms, and reports that the pipeline is looking less assured.

ECONOMIC OVERVIEW

Generally speaking, underlying demand appears to be in place to support construction going forward, but there could be some bumps in the road.

Figure 6: Building work consented (floor area)



Source: Statistics NZ, ANZ Research

On the non-residential side, consents may remain elevated as firms address capacity constraints. However, with businesses downbeat, recent strength may prove to be short lived. Our **ANZ Business Outlook will provide further colour on the outlook**, including sentiment, activity expectations, and investment and employment intentions.

LOCAL DATA

Overseas Merchandise Trade – June. The goods trade balance slipped into deficit (\$113m) on strong imports.

ANZ Consumer Confidence – July. Average; households feel good about current conditions but are wary about the future.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
30-Jul	JN	Retail Sales MoM - Jun	1.5%	-1.7%	11:50
	JN	Retail Trade YoY - Jun	1.7%	0.6%	11:50
	UK	Net Consumer Credit - Jun	£1.4B	£1.4B	20:30
	UK	Net Lending Sec. on Dwellings - Jun	£4.0B	£3.9B	20:30
	UK	Mortgage Approvals - Jun	65.5k	64.5k	20:30
	UK	Money Supply M4 MoM - Jun	--	0.4%	20:30
	UK	M4 Money Supply YoY - Jun	--	1.8%	20:30
	UK	M4 Ex IOFCs 3M Annualised - Jun	--	3.4%	20:30
	EC	Economic Confidence - Jul	112.0	112.3	21:00
	EC	Business Climate Indicator - Jul	1.35	1.39	21:00
	EC	Industrial Confidence - Jul	6.7	6.9	21:00
	EC	Services Confidence - Jul	14.2	14.4	21:00
	EC	Consumer Confidence - Jul F	-0.6	-0.6	21:00
31-Jul	GE	CPI MoM - Jul P	0.4%	0.1%	00:00
	GE	CPI YoY - Jul P	2.1%	2.1%	00:00
	GE	CPI EU Harmonized MoM - Jul P	0.4%	0.1%	00:00
	GE	CPI EU Harmonized YoY - Jul P	2.1%	2.1%	00:00
	US	Pending Home Sales MoM - Jun	0.2%	-0.5%	02:00
	US	Pending Home Sales NSA YoY - Jun	--	-2.8%	02:00
	US	Dallas Fed Manf. Activity - Jul	31.0	36.5	02:30
	NZ	Building Permits MoM - Jun	--	7.1%	10:45
	UK	GfK Consumer Confidence - Jul	-9	-9	11:01
	AU	ANZ-RM Consumer Confidence Index - 29-Jul	--	118.9	11:30
	JN	Industrial Production MoM - Jun P	-0.3%	-0.2%	11:50
	JN	Industrial Production YoY - Jun P	0.6%	4.2%	11:50
	NZ	ANZ Activity Outlook - Jul	--	9.4	13:00
	NZ	ANZ Business Confidence - Jul	--	-39.0	13:00
	CH	Non-manufacturing PMI - Jul	55.0	55.0	13:00
	CH	Manufacturing PMI - Jul	51.3	51.5	13:00
	CH	Composite PMI - Jul	--	54.4	13:00
	AU	Building Approvals MoM - Jun	1.0%	-3.2%	13:30
	AU	Building Approvals YoY - Jun	-6.0%	3.1%	13:30
	AU	Private Sector Credit MoM - Jun	0.3%	0.2%	13:30
	AU	Private Sector Credit YoY - Jun	4.5%	4.8%	13:30
	GE	Retail Sales MoM - Jun	1.0%	-1.6%	18:00
	GE	Retail Sales YoY - Jun	1.5%	-1.6%	18:00
	GE	Unemployment Change (000's) - Jul	-10k	-15k	19:55
	GE	Unemployment Claims Rate SA - Jul	5.2%	5.2%	19:55
	EC	Unemployment Rate - Jun	8.3%	8.4%	21:00
	EC	CPI Core YoY - Jul A	1.0%	0.9%	21:00
	EC	CPI Estimate YoY - Jul	2.0%	2.0%	21:00
	EC	GDP SA QoQ - Q2 A	0.4%	0.4%	21:00
	EC	GDP SA YoY - Q2 A	2.2%	2.5%	21:00
	JN	BoJ Policy Balance Rate - Jul	-0.10%	-0.10%	UNSPECIFIED
	JN	BoJ 10-Yr Yield Target - Jul	0.00%	0.00%	UNSPECIFIED
1-Aug	US	Personal Income - Jun	0.4%	0.4%	00:30
	US	Personal Spending - Jun	0.4%	0.2%	00:30
	US	PCE Deflator MoM - Jun	0.1%	0.2%	00:30

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DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Aug	US	PCE Deflator YoY - Jun	2.3%	2.3%	00:30
	US	PCE Core MoM - Jun	0.1%	0.2%	00:30
	US	PCE Core YoY - Jun	2.0%	2.0%	00:30
	US	Employment Cost Index - Q2	0.7%	0.8%	00:30
	US	S&P CoreLogic CS 20-City MoM SA - May	0.2%	0.2%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - May	6.40%	6.56%	01:00
	US	Chicago Purchasing Manager - Jul	61.8	64.1	01:45
	US	Conf. Board Consumer Confidence - Jul	126.5	126.4	02:00
	NZ	QV House Prices YoY - Jul	--	5.7%	05:00
	AU	AI Group Perf of Mfg Index - Jul	--	57.4	10:30
	NZ	Unemployment Rate - Q2	4.4%	4.4%	10:45
	NZ	Employment Change QoQ - Q2	0.4%	0.6%	10:45
	NZ	Employment Change YoY - Q2	3.6%	3.1%	10:45
	NZ	Participation Rate - Q2	70.8%	70.8%	10:45
	NZ	Pvt Wages Inc Overtime QoQ - Q2	0.6%	0.3%	10:45
	NZ	Pvt Wages Ex Overtime QoQ - Q2	0.7%	0.3%	10:45
	NZ	Average Hourly Earnings QoQ - Q2	1.0%	1.1%	10:45
	AU	CBA Australia PMI Mfg - Jul	--	55.0	11:00
	AU	CoreLogic House Px MoM - Jul	--	-0.3%	12:00
	JN	Nikkei PMI Mfg - Jul F	--	51.6	12:30
	CH	Caixin PMI Mfg - Jul	50.9	51.0	13:45
	UK	Nationwide House PX MoM - Jul	0.1%	0.5%	18:00
	UK	Nationwide House Px NSA YoY - Jul	1.8%	2.0%	18:00
	AU	Commodity Index SDR YoY - Jul	--	6.6%	18:30
	AU	Commodity Index AUD - Jul	--	108.6	18:30
	GE	Markit/BME Manufacturing PMI - Jul F	57.3	57.3	19:55
	EC	Markit Manufacturing PMI - Jul F	55.1	55.1	20:00
	UK	Markit PMI Manufacturing SA - Jul	54.2	54.4	20:30
	US	MBA Mortgage Applications - 27-Jul	--	-0.20%	23:00
2-Aug	US	ADP Employment Change - Jul	185k	177k	00:15
	US	Markit Manufacturing PMI - Jul F	55.5	55.5	01:45
	US	Construction Spending MoM - Jun	0.30%	0.40%	02:00
	US	ISM Manufacturing - Jul	59.3	60.2	02:00
	US	FOMC Rate Decision - Aug	2.00%	2.00%	06:00
	JN	Monetary Base YoY - Jul	--	7.40%	11:50
	AU	Trade Balance - Jun	A\$900M	A\$827M	13:30
	UK	Markit/CIPS Construction PMI - Jul	52.8	53.1	20:30
	EC	PPI MoM - Jun	0.30%	0.80%	21:00
	EC	PPI YoY - Jun	3.50%	3.00%	21:00
	UK	Bank of England Bank Rate - Aug	0.75%	0.50%	23:00
	UK	BoE Asset Purchase Target - Aug	£435B	£435B	23:00
	UK	BoE Corporate Bond Target - Aug	£10B	£10B	23:00
	UK	Bank of England Inflation Report -	--	--	23:00
3-Aug	US	Initial Jobless Claims - 28-Jul	220k	217k	00:30
	US	Continuing Claims - 21-Jul	--	1745k	00:30
	US	Factory Orders - Jun	0.70%	0.40%	02:00
	US	Factory Orders Ex Trans - Jun	--	0.70%	02:00
	US	Durable Goods Orders - Jun F	--	1.00%	02:00

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DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
3-Aug	US	Durables Ex Transportation - Jun F	--	0.40%	02:00
	US	Cap Goods Orders Nondef Ex Air - Jun F	--	0.60%	02:00
	US	Cap Goods Ship Nondef Ex Air - Jun F	--	1.00%	02:00
	NZ	ANZ Job Advertisements MoM - Jul	--	-1.60%	10:00
	AU	AI Group Perf of Services Index - Jul	--	63.0	10:30
	AU	CBA Australia PMI Services - Jul	--	52.7	11:00
	AU	CBA Australia PMI Composite - Jul	--	52.9	11:00
	JN	Nikkei PMI Services - Jul	--	51.4	12:30
	JN	Nikkei PMI Composite - Jul	--	52.1	12:30
	AU	Retail Sales MoM - Jun	0.3%	0.4%	13:30
	AU	Retail Sales Ex Inflation QoQ - Q2	0.8%	0.2%	13:30
	CH	Caixin PMI Composite - Jul	--	53.0	13:45
	CH	Caixin PMI Services - Jul	--	53.9	13:45
	GE	Markit Services PMI - Jul F	54.4	54.4	19:55
	GE	Markit/BME Composite PMI - Jul F	55.2	55.2	19:55
	EC	Markit Services PMI - Jul F	54.4	54.4	20:00
	EC	Markit Composite PMI - Jul F	54.3	54.3	20:00
	UK	Markit/CIPS Services PMI - Jul	54.7	55.1	20:30
	UK	Markit/CIPS Composite PMI - Jul	54.9	55.2	20:30
	EC	Retail Sales MoM - Jun	0.4%	0.0%	21:00
	EC	Retail Sales YoY - Jun	1.4%	1.4%	21:00
4-Aug	US	Trade Balance - Jun	-\$46.1B	-\$43.1B	00:30
	US	Change in Nonfarm Payrolls - Jul	193k	213k	00:30
	US	Unemployment Rate - Jul	3.9%	4.0%	00:30
	US	Average Hourly Earnings MoM - Jul	0.3%	0.2%	00:30
	US	Average Hourly Earnings YoY - Jul	2.7%	2.7%	00:30
	US	Average Weekly Hours All Employees - Jul	34.5	34.5	00:30
	US	Labor Force Participation Rate - Jul	--	62.9%	00:30
	US	Markit Services PMI - Jul F	56.2	56.2	01:45
	US	Markit Composite PMI - Jul F	--	55.9	01:45
	US	ISM Non-Manf. Composite - Jul	58.6	59.1	02:00

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
Tue 31 Jul (10:45am)	Building Consents – June	Bobbing	Residential activity is expected to remain at a high level; recent strength on the non-residential side may continue but there is a risk that it may be a blip.
Tue 31 Jul (1:00pm)	ANZ Business Outlook – July	--	--
Tue 31 Jul (3:00pm)	RBNZ Sector Lending – June	Moderating	Credit growth is expected to continue gradually moderating.
Wed 1 Aug (10:45am)	Labour market statistics – Q2	Hold strong	We expect the unemployment rate to be fairly steady on modest employment growth. Wage inflation is expected to increase, boosted by temporary factors.
Fri 3 Aug (10:00am)	ANZ Job Ads - July	--	--
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.
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
Employment (% qoq)	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Employment (% yoy)	3.1	3.6	1.9	2.0	1.9	2.0	1.9	1.8	1.7	1.6
Unemployment Rate (% sa)	4.4	4.4	4.3	4.2	4.2	4.2	4.1	4.1	4.1	4.1
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)	0.6	0.8	-4.8	3.5	-9.3	-3.5	-0.2	12.4	-6.8	--
Car Registrations (% yoy)	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0	-0.6	-4.9	--
Building Consents (% mom)	-9.4	9.8	-8.8	0.3	6.4	13.0	-3.6	7.1	--	--
Building Consents (% yoy)	-7.2	13.3	4.6	4.6	-0.6	18.3	15.6	23.5	--	--
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)	0.5	0.4	0.6	0.4	0.5	0.5	0.5	0.4	--	--
Household Lending Growth (% yoy)	6.3	6.2	5.9	5.8	5.7	5.7	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	--
ANZ Own Activity Outlook	22.0	6.5	15.6	..	20.4	21.8	17.8	13.6	9.4	--
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	--

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)						
	May-18	Jun-18	Today	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
NZD/USD	0.702	0.677	0.68	0.69	0.67	0.66	0.65	0.65	0.65	0.65
NZD/AUD	0.925	0.914	0.92	0.93	0.93	0.94	0.93	0.93	0.93	0.92
NZD/EUR	0.601	0.579	0.58	0.61	0.57	0.54	0.52	0.51	0.51	0.50
NZD/JPY	76.44	74.96	75.43	71.8	69.0	66.0	64.4	63.1	62.4	62.4
NZD/GBP	0.526	0.512	0.52	0.51	0.49	0.47	0.46	0.46	0.45	0.45
NZ\$ TWI	72.9	70.8	73.3	71.9	69.6	67.9	66.2	65.7	65.4	65.2
INTEREST RATES	May-18	Jun-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	2.02	2.00	1.91	2.02	2.02	2.02	2.02	2.11	2.35	2.52
NZ 10-yr bond	2.73	2.85	2.73	3.00	3.10	3.15	3.30	3.40	3.40	3.40
US Fed funds	1.75	2.00	2.00	2.25	2.50	2.50	2.75	2.75	2.75	2.75
US 3-mth	2.32	2.34	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	1.75	2.00	2.00	2.00
AU 3-mth	1.98	2.11	1.97	2.05	2.05	2.05	2.00	2.30	2.50	2.50

	27 Jun	23 Jul	24 Jul	25 Jul	26 Jul	27 Jul
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.02	1.92	1.92	1.92	1.91	1.91
NZGB 05/21	1.98	1.93	1.93	1.92	1.91	1.89
NZGB 04/23	2.21	2.14	2.16	2.14	2.14	2.12
NZGB 04/27	2.69	2.62	2.64	2.62	2.61	2.58
NZGB 04/33	3.07	2.97	2.98	2.95	2.94	2.90
2 year swap	2.18	2.14	2.14	2.13	2.13	2.13
5 year swap	2.58	2.54	2.56	2.56	2.56	2.54
RBNZ TWI	73.02	73.26	73.36	73.30	73.41	73.18
NZD/USD	0.6819	0.6811	0.6803	0.6811	0.6824	0.6790
NZD/AUD	0.9234	0.9193	0.9184	0.9187	0.9187	0.9174
NZD/JPY	74.91	75.66	75.54	75.67	75.63	75.40
NZD/GBP	0.5163	0.5183	0.5179	0.5175	0.5179	0.5180
NZD/EUR	0.5861	0.5814	0.5808	0.5825	0.5827	0.5826
AUD/USD	0.7383	0.7409	0.7407	0.7414	0.7428	0.7400
EUR/USD	1.1634	1.1714	1.1713	1.1693	1.1711	1.1657
USD/JPY	109.86	111.10	111.04	111.10	110.83	111.05
GBP/USD	1.3208	1.3141	1.3135	1.3162	1.3177	1.3105
Oil (US\$/bbl)	72.76	67.89	68.52	69.30	69.61	68.69
Gold (US\$/oz)	1258.27	1230.79	1227.06	1230.53	1228.45	1224.22
NZX 50	8997	8873	8901	8934	8932	8996
Baltic Dry Freight Index	1309	1718	1774	1772	1708	1676
NZX WMP Futures (US\$/t)	3120	2915	2945	2930	2945	2945

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