

NEW ZEALAND MARKET FOCUS

20 November 2017

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NZ ECONOMICS TEAM

**Philip Borkin**  
 Senior Economist  
 Telephone: +64 9 357 4065  
 Email: Philip.Borkin@anz.com

**Kyle Uerata**  
 Economist  
 Telephone: +64 4 802 2357  
 E-mail: Kyle.Uerata@anz.com

**Con Williams**  
 Rural Economist  
 Telephone: +64 4 802 2361  
 E-mail: Con.Williams@anz.com

**Sharon Zollner**  
 Senior Economist  
 Telephone: +64 9 357 4094  
 E-mail: Sharon.Zollner@anz.com

TIME TO DUAL

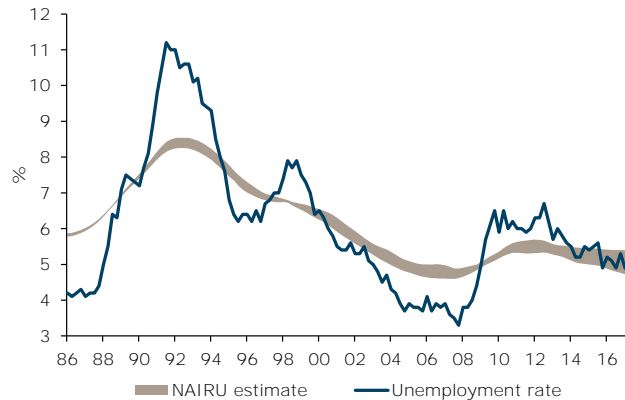
ECONOMIC OVERVIEW

At face value, we don't believe the proposed changes to the RBNZ's mandate and operating model will have a significant impact on the way monetary policy is conducted. But shifting the focus away from the specific 2% target midpoint is arguably a little more meaningful. It hints at inflation being allowed to run on average at a higher rate than it would otherwise. Other central banks seem to be having that debate too, and at a time of lower real neutral rates, higher inflation targets potentially provide policymakers with a little more policy wriggle room. **But just because a higher inflation rate is targeted, that doesn't mean that it can necessarily be achieved in a world of ongoing structural deflationary pressures.** And there are financial stability considerations too – systematically running policy looser is not without its risks. All up, it is another factor that could see the RBNZ continue to take a cautious approach to tightening policy this cycle. But ultimately we see this possible change as being about flexibility, which we fully support.

CHART OF THE WEEK

The unemployment rate, at 4.6%, is at the bottom end of our range of estimates for the NAIRU (non-accelerating inflation rate of unemployment).

ANZ estimates of the NAIRU



Source: Statistics NZ, ANZ Research

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.3% y/y for 2018 Q2	The economy is not quite firing on all cylinders and we have become more circumspect near-term. However, we see growth holding around 2½-3% on average.	Neutral Negative Positive
Unemployment rate	4.5% for 2018 Q2	The unemployment rate should continue to trend gradually lower. Wage growth is benign, but conditions for change are emerging.	Neutral Negative Positive
OCR	1.75% by Jun 2018	While we can't really make the case for a lower OCR, interest rate hikes would also be hard to justify, with inflation impacted by secular forces.	Neutral Down Up
CPI	1.8% y/y for 2018 Q2	Base effects will see headline inflation ease over the next 12 months, but domestic and core inflation should lift gradually.	Neutral Negative Positive

## ECONOMIC OVERVIEW

### SUMMARY

At face value, we don't believe the proposed changes to the RBNZ's mandate and operating model will have a significant impact on the way monetary policy is conducted. But shifting the focus away from the specific 2% target midpoint is arguably a little more meaningful. It hints at inflation being allowed to run on average at a higher rate than it would otherwise. Other central banks seem to be having that debate too, and at a time of lower real neutral rates, higher inflation targets potentially provide policymakers with a little more policy wriggle room. But just because a higher inflation rate is targeted, that **doesn't mean** that it can necessarily be achieved in a world of ongoing structural deflationary pressures. And there are financial stability considerations too – systematically running policy looser is not without its risks. All up, it is another factor that could see the RBNZ continue to take a cautious approach to tightening policy this cycle. But ultimately we see this possible change as being about flexibility, which we fully support. This week, dairy prices should show signs of stability, while we expect a small contraction in retail sales volumes.

### FORTHCOMING EVENTS

**Global Dairy Trade Auction** (early am, Wednesday, 22 November). There are some jitters over rising global supply, but we expect whole milk powder prices to be supported close to US\$2,800/tonne.

**International Travel and Migration – October** (10:45am, Wednesday, 22 November). Even before potential policy changes, it appears net inflows have started to cool.

**Retail Trade Survey – Q3** (10:45am, Thursday, 23 November). After a string of solid growth, in part due to tourist activity, a softer result is likely. We expect total retail sales volumes to fall a modest 0.2% q/q.

**Overseas Merchandise Trade – October** (10:45am, Friday, 24 November). We expect a monthly deficit of \$760m.

**RBNZ New Mortgage Lending – October** (3:00pm, Friday, 24 November). New lending is likely to be broadly steady at a low level.

### WHAT'S THE VIEW?

**Potential changes to the RBNZ's mandate and operating model have been on the cards for a little while now.** Much of the recent attention has been on the announcement of a formal review of the Reserve Bank Act as part of the coalition agreement between Labour and NZ First, and the subsequent release of the terms of reference of that review. However, **it shouldn't be forgotten that earlier this**

year, the previous Government had engaged Treasury to conduct a review of its own – **the so called 'Rennie Review'**. Details of that review (or even the terms of reference) have not been released, but it is quite possible that we would be talking about changes to the RBNZ's operating model irrespective of the election outcome.

**The new Government has been quite clear in its preference for change.** Right now, that ultimately rests on two main issues: 1) the introduction of a "full employment" mandate alongside the current price stability one; and 2) the formal creation of a committee (potentially including external members) for monetary policy decisions. There are other potential changes too of course, perhaps with regards to how macro-prudential policy decisions are conducted, but that looks to be a lower priority right now.

**Through subsequent comments from the Minister of Finance Grant Robertson we have also learned that:**

- There will be no numerical employment/unemployment target **as part of the RBNZ's** mandate change. The Government has its own target for the unemployment rate (below 4% in its first term), which should be viewed separately to the RBNZ changes in many ways. However, Grant Robertson has stated **that "We want every part of the economic architecture to be playing its role [to achieve that]... That includes the central bank. I'm not naive to think they have some magical ability to do that, but we want them to be putting employment, employment outcomes and the overall well-being of New Zealanders right up there."**
- The Government is committed to maintaining the RBNZ's 1-3% inflation target band. However, there is the potential for the specific focus on the 2% midpoint (which was wording introduced into the Policy Targets Agreement at the start of **Graeme Wheeler's term**) to be removed or softened. Grant Robertson **stated that "I'm happy to take some advice on whether or not, within that range, there needs to be greater flexibility on the grounds of having changed the objectives and having a slightly different approach."**

**In itself, we don't see the introduction of an employment mandate as likely to dramatically change the way monetary policy is conducted.**

Given its importance in terms of assessing broader capacity pressures within the economy, and hence the direction for inflation over the medium term, the RBNZ already constantly monitors the state of the labour market. Indeed, the unemployment rate is an input

## ECONOMIC OVERVIEW

into its estimate of the output gap, which itself is a key driver of the Bank's forecasts of inflation. The Bank may have to direct more resources into determining and communicating where it believes 'full employment' actually is. But specifically formalising an employment mandate is unlikely to have much impact on how the RBNZ actually looks at labour market developments, insofar as 'full employment' is interpreted as equivalent to a 'zero output gap'. Both are about smoothing the economic cycle as an intermediate step or ancillary benefit of ultimately targeting inflation.

**Much the same can be said for the shift to a formal committee structure.** The RBNZ currently runs an informal model, where the Governor and Deputy Governors form a consensus on the appropriate policy action. So in and of itself, formalising this process does not seem like a large additional step. Now much will depend of course on the structure of that committee: the number of members, the share of internal versus external members; and who those external members actually are and how they are appointed. However, the same inputs that the RBNZ currently use to decide on where the OCR should go (how well the economy is performing, current and future inflation expectations, how much spare capacity exists etc) will still be the same inputs that a formal committee will be discussing too.

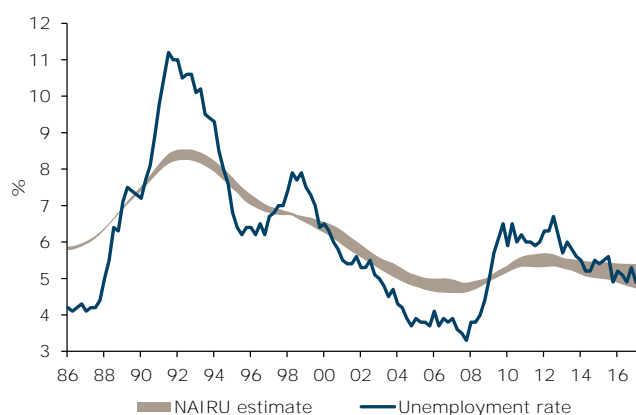
**Perhaps if there were to be any noticeable impact, it might be around the timing of policy moves.** Introducing an employment mandate obviously means there are a few more boxes to tick. Having a formal (and one suspects larger) committee structure means a consensus would need to be formed with a greater number of opinions. If there was a finely balanced decision, where perhaps the employment and inflationary signals were not giving a clear message, or there was vigorous debate around the outlook for some key monetary policy inputs, a committee structure might mean that contentious decisions to move the OCR would be deferred slightly (perhaps by a meeting or two). **But we don't see that having much impact on where the OCR will ultimately end up.**

**Right now, we believe the labour market is close to full employment.** Our estimates of the NAIRU (non-accelerating inflation rate of unemployment) fall somewhere between 4.6% and 5.4% (depending largely on which measure of inflation or wage growth is used), so the current unemployment rate of 4.6% is obviously at the bottom end of that. Now the story is probably not quite as simple as that, as there are alternative 'unemployment' measures like the underutilisation rate (which at 11.8%, is currently down only modestly from post-recession highs) that

still suggest that labour market spare capacity remains. Nevertheless, 'all else being equal' (ie no change in the NAIRU), an unemployment rate below 4% such as the Government is aiming for is something that we would view as inflationary.

**We suspect the RBNZ has a broadly similar assessment.** While we have not seen formal Bank estimates of the NAIRU, when you consider that within its November Monetary Policy Statement projections the midpoint of its output gap estimates was zero, it is effectively a similar message.

**Figure 1: ANZ estimates of NAIRU**

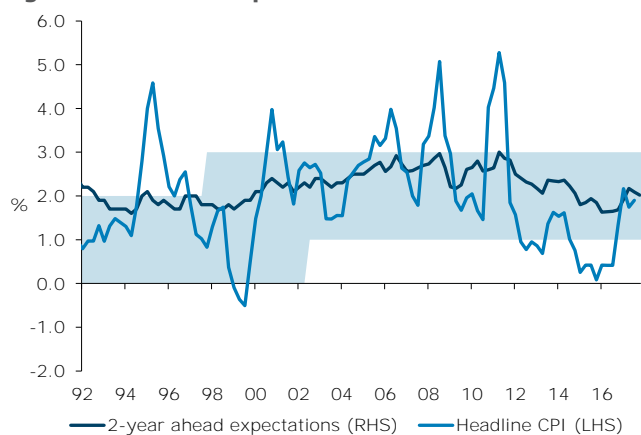


Source: Statistics NZ, ANZ Research

**Shifting tack, the possible softening of focus on the 2% target midpoint does have potential broader implications. We offer the following thoughts:**

- **It seems like a logical step, assuming the new employment mandate.** For a small and somewhat volatile economy like New Zealand, a focus on a specific rate of inflation would likely increase the chances of scenarios when the two elements of a dual mandate contradict one another. **Although we don't view the inclusion of an employment mandate as likely to change the course of policy much, more flexibility on price stability to ensure those scenarios can be managed and communicated would be useful.**
- **History suggests that inflation would be allowed to run higher.** Correlation isn't causation and there are multiple factors at play, but since the specific focus on the 2% midpoint was introduced into the Policy Targets Agreement in 2012, the CPI actually averaged just 1.0%, while 2-year ahead inflation expectations averaged right on 2%. Over the prior 10 years (when that specific focus wasn't there), headline inflation averaged 2.7% and 2-year ahead inflation expectations averaged 2.6%.

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**Figure 2: Inflation expectations and headline inflation**

Source: Statistics NZ, RBNZ, ANZ Research

- **Because of that, the market has taken the view that this possible shift is dovish.** This may be one of the reasons the NZD has underperformed of late.
- **That dovish slant is arguably emphasised when viewed in conjunction with the likely impact of the new Government's policy direction.** As mentioned, without any associated changes to the labour market or workforce that would structurally lower the NAIRU, we'd view the Government's desire for a much lower unemployment rate as inflationary. Other policies proposed, such as minimum wage hikes, work place relations reform, migration restrictions, and regional fuel taxes, together with the size of the fiscal impulse itself, all lean towards risks of more inflation. Tweaks in the specific policy target theoretically could allow policy to take a more relaxed view and not immediately react to those risks.
- **Other countries appear to be taking a closer look at inflation targets too.** A number of key Fed officials have reportedly commented that it may be an appropriate time to review how US monetary policy works (perhaps given upcoming changes in leadership). Questions have centred on whether 2% is still an appropriate inflation target in a world where real neutral interest rates have fallen. They have asked whether allowing inflation to run a little higher (i.e. lifting nominal neutral interest rates) would provide officials with more policy wriggle room in the future should momentum in the economy start to turn negative.
- **But an upward tweak in the target shouldn't automatically be assumed to translate into higher inflation.** Despite their best efforts (in fact unprecedented efforts), central banks globally have struggled to get inflation up to (lower) targets over the recent times. It is not clear how

lifting inflation targets will help with that, especially at a time when it is arguably structural – not cyclical – factors that have been acting as the key deflationary influence on prices, and those structural factors don't appear to have waned.

- **And attempting to lift inflation by running monetary policy looser than would be the case otherwise is not without its risks.** Allowing an economy to run hot risks creating imbalances that could sow the seeds for a nasty correction – just look at the New Zealand economy's performance in the lead-up and aftermath to 2007. Moreover, a number of central banks (including the RBNZ) are increasingly focused on the financial stability considerations of their actions and so that doesn't automatically marry up with allowing inflation to run higher.
- **For us, rather than any specific level, the change proposed is ultimately more about being as flexible as possible.** We have learned over recent years with the structural and cyclical dynamics affecting inflation, together with growing financial stability considerations, that now is not the time to be a strict inflation targeter. Softening the 2% focus is consistent with that, and ensures that flexibility is paramount. That said, the Reserve Bank already views itself as a flexible inflation targeter. But a little lither yet seems to be the Government's preference.

**Ultimately, we don't see any of the above changing what looks to still be a convoluted outlook for monetary policy.** We are less optimistic on the outlook for growth than the RBNZ, and see housing market softness persisting. But we also acknowledge rising risks of more cost-push inflation from the labour market. Overall we are happy to retain OCR hikes within our forecasts, although the timing of those hikes is far from clear cut. Perhaps if anything, allowing the RBNZ a little more flexibility on its inflation target means that it can be even more cautious in its approach to tightening this cycle than it would have been otherwise.

**Turning to the week ahead, we expect the next Global Dairy Trade auction will show whole milk powder prices closer to forming a base.** There have been some market jitters regarding rising supply of late. European supply has been increasing on the back of higher farm-gate prices and favourable seasonal conditions, and New Zealand supply conditions have improved too, highlighted by local production increasing 3% y/y in October. But while the jump in the latter may have come as a surprise to some, the improvement was off a low base last year, and is required if production is to lift as forecast in

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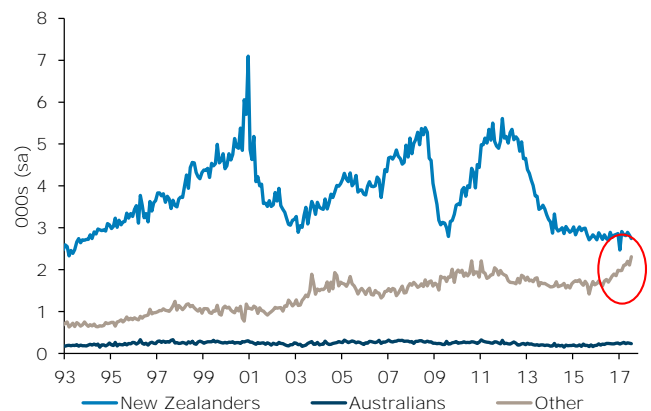
2017/18 (the consensus view seems to be a 1-3% y/y increase overall). Not only that, but this higher local production hasn't affected GDT supply given the slow start to the season and low carryover inventory from 2016/17. So despite these near-term supply jitters, we think WMP should base around US\$2,800/tonne (which is close to last auction's average winning price of US\$2,852/tonne). The fact that WMP looks cheap compared with SMP/milkfat (which on the same compositional base traded at US\$3,100/tonne at the last auction), and oil prices have risen, that should also provide some support for WMP.

**Fonterra is likely to provide an update to its milk price in early December.** Our own forecast for the season is \$6.25-\$6.50/kg MS, and we expect Fonterra to trim its expectations to close to that, with current indicators sitting around the middle of that band. But it is really just about some cream being taken off the top. It will also largely affect farm cash flow for the 2018/19 season as opposed to this financial year.

**October migration figures could possibly show a further slowing in net inflows.** In September, the seasonally adjusted net inflow, at 5,190, was the lowest monthly number since June 2015, although the pace of net inflows had been slowing over the prior four months. This slowing reflects both a lower number of long-term arrivals, but also a lift in departures. In fact, in three-month annualised terms, the latter has increased to its highest level since January 2014. That has predominantly reflected a lift in departures of non-New Zealand and Australian citizens, and in our view highlights a natural cycling effect of those who had earlier arrived on work or student visas now choosing or needing to leave. It suggests that even ahead of possible changes to migration settings by the new Government that net migrant inflows have probably peaked.

**We wouldn't be surprised to see the moderating trend in visitor arrivals numbers continue also.** It was never realistic to think that annual visitor arrivals growth would continue at the double-digit pace seen between 2015 and early 2017. While the recent picture has been clouded by the boost (and subsequent unwind) in arrivals for key sporting events, the underlying trend had begun to slow ahead of that.

**Figure 3: Long-term migrant departures by citizenship**

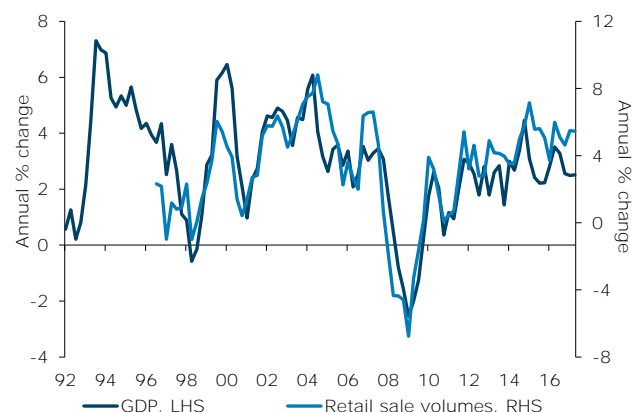


Source: Statistics NZ, ANZ Research

**After a strong run, the September quarter Retail Trade Survey looks set to provide a softer signal.**

We have pencilled in a 0.2% q/q fall in total sales volumes. In many ways, a softer result just reflects a natural pull-back after Q2's figures were boosted by tourist spending associated with the World Masters Games and British and Irish Lions rugby tour. In Q2, food and beverage services was the largest contributor to the increase (+4.2% q/q), with accommodation (+6.1% q/q) and liquor retailing (+7.8% q/q) also up strongly. However, we suspect there will also be some underlying softness as well. While the labour market is clearly still performing well, which should continue to support spending growth overall, the weaker housing market is likely to have had some impact. Certainly, the underlying trend in recent ECT figures has been on the soft side. **How the consumer fares against a cross current of reasonable income growth but soft housing market is arguably going to be one of the most important factors determining the strength of the broader economy over the next couple of years.**

**Figure 4: GDP and retail sales volumes growth**

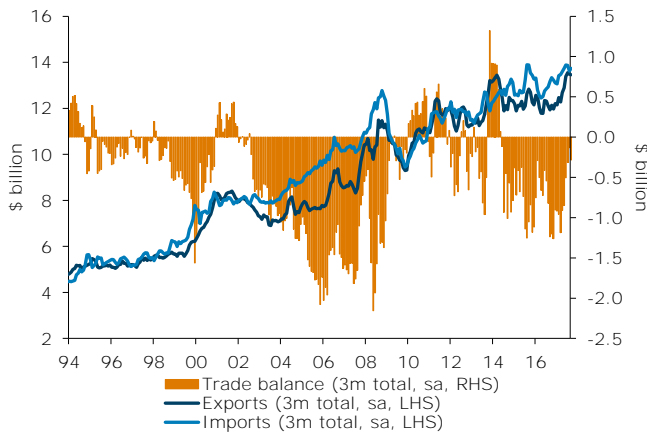


Source: Statistics NZ, ANZ Research

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**Overseas Merchandise Trade figures for October are expected to show a monthly deficit of around \$760m.**

There are a number of moving parts this month, such as the lower NZD, elevated commodity prices (although dairy prices started to slip during the month) and the impact of the wet weather delaying the start of early-season volumes for the likes of livestock and horticulture sectors. It makes for a bit of a confused picture. On the imports side, it is the same in many ways. The recent trend has been decent, although we wonder whether with uncertainty around the election, together with the potential for housing weakness to spill into bigger-ticket consumer goods (cars especially) that the trend might begin to soften.

**Figure 5: Overseas merchandise trade**

Source: Statistics NZ, ANZ Research

**Finally, RBNZ new mortgage lending figures for October will likely be broadly steady at a subdued level.** Last week's REINZ figures showed the total value of housing market turnover steady at around \$3.7bn, reflecting flat prices and a small bounce in the volume of sales. It would be unusual if new mortgage lending was also not broadly steady in the month.

**The other element of this data relates to the composition of lending, and we'd expect few changes on that front.** In short, new lending to investors is likely to remain subdued. In September, investor lending was down 32% y/y, making up 23% of the total. That compares with close to a 35% share in mid-2016.

**Figure 6: Housing market turnover and new mortgage lending**

Source: REINZ, RBNZ, ANZ Research

**LOCAL DATA**

**REINZ Housing Market Statistics – October.** In seasonally adjusted terms, house sales rose 2.0% m/m, while the REINZ House Price Index lifted 0.1% m/m (+1.6% y/y)

**ANZ-Roy Morgan Consumer Confidence – November.** Headline confidence fell 3 points to 123.7.

**BNZ-BusinessNZ Manufacturing PMI – October.** The headline index fell 0.4 points to 57.2.

**PPI – Q3.** Both input and output prices rose 1.0% q/q, led by increases in wholesale electricity prices.

**BNZ-BusinessNZ Services PSI – October.** The index dipped 0.3 points to 55.6.

**Food Price Index – October.** Prices fell 1.1% m/m, but were down only 0.1% m/m after adjusting for seasonality.

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
20-Nov	JN	Trade Balance - Oct	¥330.0B	¥667.7B	12:50
	JN	Trade Balance Adjusted - Oct	¥206.7B	¥240.3B	12:50
	JN	Exports YoY - Oct	15.7%	14.1%	12:50
	JN	Imports YoY - Oct	20.2%	12.1%	12:50
	GE	PPI MoM - Oct	0.3%	0.3%	20:00
	GE	PPI YoY - Oct	2.7%	3.1%	20:00
21-Nov	US	Leading Index - Oct	0.7%	-0.2%	04:00
	AU	ANZ-RM Consumer Confidence Index - 19-Nov	--	114.8	11:30
	NZ	Credit Card Spending MoM - Oct	--	0.7%	15:00
	NZ	Credit Card Spending YoY - Oct	--	4.9%	15:00
	UK	Public Finances (PSNCR) - Oct	--	£11.2B	22:30
	UK	Public Sector Net Borrowing - Oct	£6.5B	£5.3B	22:30
	UK	PSNB ex Banking Groups - Oct	£7.1B	£5.9B	22:30
22-Nov	UK	CBI Trends Total Orders - Nov	3	-2	00:00
	UK	CBI Trends Selling Prices - Nov	--	18	00:00
	US	Chicago Fed Nat Activity Index - Oct	0.2	0.17	02:30
	US	Existing Home Sales - Oct	5.40M	5.39M	04:00
	US	Existing Home Sales MoM - Oct	0.2%	0.7%	04:00
	NZ	Net Migration SA - Oct	--	5190	10:45
	AU	Westpac Leading Index MoM - Oct	--	0.08%	12:30
	AU	Skilled Vacancies MoM - Oct	--	0.0%	13:00
	AU	Construction Work Done - Q3	-2.3%	9.3%	13:30
23-Nov	US	MBA Mortgage Applications - 17-Nov	--	3.1%	01:00
	US	Initial Jobless Claims - 18-Nov	240k	249k	02:30
	US	Continuing Claims - 11-Nov	1879k	1860k	02:30
	US	Durable Goods Orders - Oct P	0.4%	2.0%	02:30
	US	Durables Ex Transportation - Oct P	0.5%	0.7%	02:30
	US	Cap Goods Orders Nondef Ex Air - Oct P	0.6%	1.7%	02:30
	US	Cap Goods Ship Nondef Ex Air - Oct P	0.3%	0.9%	02:30
	EC	Consumer Confidence - Nov A	-0.9	-1.0	04:00
	US	U. of Mich. Sentiment - Nov F	98.0	97.8	04:00
	US	FOMC Meeting Minutes - 1-Nov	--	--	08:00
	NZ	Retail Sales Ex Inflation QoQ - Q3	0.1%	1.9%	10:45
	GE	GDP SA QoQ - Q3 F	0.8%	0.8%	20:00
	GE	GDP WDA YoY - Q3 F	2.8%	2.8%	20:00
	GE	GDP NSA YoY - Q3 F	2.3%	2.3%	20:00
	GE	Private Consumption QoQ - Q3	0.2%	0.8%	20:00
	GE	Government Spending QoQ - Q3	0.2%	0.6%	20:00
	GE	Capital Investment QoQ - Q3	1.4%	1.0%	20:00
	GE	Construction Investment QoQ - Q3	-0.2%	0.9%	20:00
	GE	Domestic Demand QoQ - Q3	0.6%	1.0%	20:00
	GE	Exports QoQ - Q3	1.1%	0.7%	20:00
	GE	Imports QoQ - Q3	0.8%	1.7%	20:00
	GE	Markit/BME Manufacturing PMI - Nov P	60.4	60.6	21:30
	GE	Markit Services PMI - Nov P	55.0	54.7	21:30
	GE	Markit/BME Composite PMI - Nov P	56.7	56.6	21:30
	EC	Markit Manufacturing PMI - Nov P	58.2	58.5	22:00
	EC	Markit Services PMI - Nov P	55.2	55.0	22:00

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
23-Nov	EC	Markit Composite PMI - Nov P	56.0	56.0	22:00
	UK	GDP QoQ - Q3 P	0.4%	0.4%	22:30
	UK	GDP YoY - Q3 P	1.5%	1.5%	22:30
	UK	Private Consumption QoQ - Q3 P	0.4%	0.2%	22:30
	UK	Government Spending QoQ - Q3 P	0.3%	0.1%	22:30
	UK	Gross Fixed Capital Formation QoQ - Q3 P	0.4%	0.6%	22:30
	UK	Exports QoQ - Q3 P	-0.8%	1.7%	22:30
	UK	Imports QoQ - Q3 P	0.9%	0.2%	22:30
	UK	Index of Services MoM - Sep	0.2%	0.2%	22:30
	UK	Index of Services 3M/3M - Sep	0.4%	0.4%	22:30
	UK	Total Business Investment QoQ - Q3 P	0.3%	0.5%	22:30
	UK	Total Business Investment YoY - Q3 P	1.4%	2.5%	22:30
24-Nov	UK	CBI Retailing Reported Sales - Nov	3	-36	00:00
	UK	CBI Total Dist. Reported Sales - Nov	--	1	00:00
	NZ	Trade Balance NZD - Oct	-760M	-1143M	10:45
	NZ	Exports NZD - Oct	4.20B	3.78B	10:45
	NZ	Imports NZD - Oct	4.95B	4.92B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Oct	-2705M	-2908M	10:45
	JN	Nikkei Japan PMI Mfg - Nov P	--	52.8	13:30
	GE	Ifo Business Climate - Nov	116.6	116.7	22:00
	GE	Ifo Expectations - Nov	108.8	109.1	22:00
	GE	Ifo Current Assessment - Nov	125.0	124.8	22:00
	UK	UK Finance Loans for Housing - Oct	40850	41584	22:30
	GE	Import Price Index MoM - Oct	0.5%	0.9%	24-29 Nov
	GE	Import Price Index YoY - Oct	2.6%	3.0%	24-29 Nov
	US	Markit Manufacturing PMI - Nov P	55.0	54.6	03:45
25-Nov	US	Markit Services PMI - Nov P	55.3	55.3	03:45
	US	Markit Composite PMI - Nov P	--	55.2	03:45

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All \$ values in local currency.

Note: All surveys are preliminary and subject to change



## LOCAL DATA WATCH

The risk profile for the near-term growth picture is looking more skewed to the downside. Housing, capacity and credit headwinds exist. However, we still see growth holding in a 2½-3% range over the next couple of years. While medium-term inflation risks look to be shifting, we doubt that will be enough to alter the outlook for the OCR much; it looks set to be on hold for some time yet.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 22 Nov (early am)	GlobalDairyTrade Auction	Cautious	The market is getting nervous around local supply, which is <b>off to a slow start. However, Chinese demand hasn't been as strong as anticipated.</b>
Wed 22 Nov (10:45am)	International Travel & Migration – Oct	Passed the peak	Even before potential policy changes, it appears net inflows have started to cool.
Thu 23 Nov (10:45am)	Retail Trade Survey – Q3	Small fall	After a string of solid growth, in part due to tourist activity, a softer result is likely. We expect total retail sales volumes to fall a modest 0.2% q/q.
Fri 24 Nov (10:45am)	Overseas Merchandise Trade – Oct	Mixed	Strong commodity prices should continue to support, but thrown around by numerous other forces.
Fri 24 Nov (3:00pm)	RBNZ New Mortgage Lending – Oct	Soft	It is hard to see these figures doing anything other than showing a soft pace of new lending, especially for investors.
Wed 29 Nov (9:00am)	RBNZ Financial Stability Report	Sound, with risks	The financial system will be judged to be sound, but risks will remain. Any commentary on potential LVR removal will be jumped on.
Thu 30 Nov (10:45am)	Building Consent Issuance – Oct	Steady	We still see annual dwelling consent issuance struggling to push much above 30k.
Thu 30 Nov (1:00pm)	ANZ Business Outlook – Nov	--	--
Thu 30 Nov (3:00pm)	RBNZ Sectoral Lending – Oct	Steady	Private sector credit growth has slowed. We expect this slow pace to have been maintained.
Fri 1 Dec (10:45am)	Overseas Trade Indexes – Q3	Flat	We see the terms of trade holding broadly steady near historic highs.
Tue 5 Dec (10:45am)	Building Work Put in Place – Q3	Mixed	There is the potential for a bounce, but we believe the upside is capped by capacity pressures.
Tue 5 Dec (1:00pm)	ANZ Commodity Price Index – Nov	--	--
Wed 6 Dec (early am)	GlobalDairyTrade Auction	Cautious	The market is nervous around local supply. However, <b>Chinese demand hasn't been as strong as anticipated.</b>
Wed 6 Dec (10:00am)	ANZ Job Ads – Nov	--	--
Fri 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Mixed	Primary-related manufacturing is likely to have been weak. The question is whether core industries have been able to offset this.
11-15 Dec	REINZ Housing Market Statistics – Nov	Subdued	Anecdotes point to an increase in new listings, which should keep price growth subdued.
Mon 11 Dec (10:45am)	Electronic Card Transactions – Nov	Modest	The underlying trend in spending has been soft, perhaps indicating broader spill-overs from the housing market.
Mon 11 Dec (1:00pm)	ANZ Monthly Inflation Gauge – Nov	--	--
Tue 12 Dec (10:00am)	ANZ Truckometer – Nov	--	--
Wed 13 Dec (10:45am)	Food Price Index – Nov	Down	Fruit and vegetable prices typically fall as new season produce hits the shelves.
Thu 14 Dec (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Dec	--	--
Fri 15 Dec (10:30am)	BNZ-BusinessNZ PMI – Nov	Shaky?	This month will be the first to fully incorporate the announcement of the new coalition government.
<b>On balance</b>		<b>Data watch</b>	<b>The data pulse has turned a little more mixed. Domestic inflation is low, but should lift gradually.</b>

## KEY FORECASTS AND RATES

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
GDP (% qoq)	0.8	<b>0.3</b>	<b>0.5</b>	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
GDP (% yoy)	2.5	<b>2.0</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.9</b>	<b>3.2</b>	<b>3.3</b>	<b>3.1</b>	<b>2.8</b>
CPI (% qoq)	0.0	0.5	<b>0.3</b>	<b>0.6</b>	<b>0.3</b>	<b>0.7</b>	<b>0.3</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>
CPI (% yoy)	1.7	1.9	<b>1.8</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>	<b>2.3</b>	<b>2.4</b>
Employment (% qoq)	-0.1	2.2	<b>-0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	3.1	4.1	<b>2.8</b>	<b>2.1</b>	<b>2.6</b>	<b>0.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>
Unemployment Rate (% sa)	4.8	4.6	<b>4.7</b>	<b>4.6</b>	<b>4.5</b>	<b>4.5</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>
Current Account (% GDP)	-2.9	<b>-2.7</b>	<b>-2.7</b>	<b>-2.4</b>	<b>-2.6</b>	<b>-2.7</b>	<b>-2.8</b>	<b>-2.8</b>	<b>-2.7</b>	<b>-2.7</b>
Terms of Trade (% qoq)	1.6	<b>1.0</b>	<b>-1.7</b>	<b>-1.4</b>	<b>-0.7</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Terms of Trade (% yoy)	10.3	<b>12.8</b>	<b>4.8</b>	<b>-0.5</b>	<b>-2.7</b>	<b>-3.7</b>	<b>-2.0</b>	<b>-0.4</b>	<b>0.4</b>	<b>0.4</b>

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Retail ECT (% mom)	-0.6	-0.3	1.0	-0.4	-0.1	-0.5	-0.1	0.3	0.2	--
Retail ECT (% yoy)	2.6	5.6	4.5	5.2	4.5	2.0	4.4	2.9	1.2	--
Credit Card Billings (% mom)	-1.3	1.0	1.0	0.9	0.2	0.7	-0.7	0.7	--	--
Credit Card Billings (% yoy)	5.4	7.2	6.6	7.6	8.3	7.0	6.4	4.9	--	--
Car Registrations (% mom)	0.5	3.4	-2.7	3.7	-2.7	-4.6	9.3	-1.4	2.5	--
Car Registrations (% yoy)	7.3	16.5	3.0	13.7	11.1	6.2	13.5	15.6	7.3	--
Building Consents (% mom)	14.4	-1.7	-1.9	1.8	0.9	3.2	5.9	-2.3	--	--
Building Consents (% yoy)	6.8	11.3	4.0	5.3	-8.0	-1.4	13.9	7.5	--	--
REINZ House Price Index (% yoy)	12.0	9.9	8.0	5.1	3.0	1.1	0.5	2.3	1.6	--
Household Lending Growth (% mom)	0.5	0.5	0.5	0.4	0.5	0.3	0.4	0.5	--	--
Household Lending Growth (% yoy)	8.7	8.7	8.3	7.9	7.6	7.1	6.7	6.5	--	--
ANZ Roy Morgan Consumer Conf.	127.4	125.2	121.7	123.9	127.8	125.4	126.2	129.9	126.3	123.7
ANZ Business Confidence	16.6	11.3	11.0	14.9	24.8	19.4	18.3	0.0	-10.1	--
ANZ Own Activity Outlook	37.2	38.8	37.7	38.3	42.8	40.3	38.2	29.6	22.2	--
Trade Balance (\$m)	-42	262	547	62	243	91	-1179	-1143	--	--
Trade Bal (\$m ann)	52087	52404	52588	53218	53530	53742	53982	54049	--	--
ANZ World Comm. Price Index (% mom)	2.0	0.4	-0.2	3.2	2.1	-0.8	-0.8	0.8	-0.3	--
ANZ World Comm. Price Index (% yoy)	20.9	23.0	23.7	26.3	24.6	21.1	16.3	11.5	10.4	--
Net Migration (sa)	5920	6150	5810	5930	6300	5710	5420	5200	--	--
Net Migration (ann)	71333	71932	71885	71964	72305	72402	72072	70986	--	--
ANZ Heavy Traffic Index (% mom)	2.0	1.5	-2.2	4.0	-0.5	-6.0	6.5	-1.5	2.9	--
ANZ Light Traffic Index (% mom)	0.8	1.3	-1.4	1.2	1.2	-2.2	2.7	-0.1	-0.6	--

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)						
	Sep-17	Oct-17	Today	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
NZD/USD	0.721	0.684	0.681	0.73	0.73	0.73	0.70	0.68	0.67	0.65
NZD/AUD	0.920	0.893	0.901	0.89	0.89	0.88	0.91	0.92	0.93	0.93
NZD/EUR	0.610	0.588	0.577	0.63	0.63	0.66	0.63	0.59	0.57	0.52
NZD/JPY	81.11	77.56	76.36	86.1	87.6	81.8	75.6	71.4	67.0	65.0
NZD/GBP	0.538	0.518	0.515	0.55	0.54	0.54	0.52	0.52	0.52	0.48
NZ\$ TWI	74.4	71.4	72.4	75.6	75.9	75.7	73.2	71.0	69.4	66.5
INTEREST RATES	Sep-17	Oct-17	Today	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	1.96	1.94	1.92	1.96	1.97	1.98	2.08	2.34	2.50	2.50
NZ 10-yr bond	2.97	2.92	2.85	2.80	2.85	2.95	3.15	3.30	3.30	3.30
US Fed funds	1.25	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.25	2.25
US 3-mth	1.33	1.38	1.44	1.65	1.75	2.05	2.20	2.45	2.45	2.45
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00	2.00	2.00
AU 3-mth	1.71	1.69	1.72	1.70	1.80	2.00	2.30	2.40	2.40	2.40

	17 Oct	13 Nov	14 Nov	15 Nov	16 Nov	17 Nov
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.93	1.92	1.92	1.92	1.92	1.91
NZGB 03/19	1.90	1.89	1.89	1.86	1.85	1.85
NZGB 05/21	2.22	2.19	2.19	2.16	2.14	2.15
NZGB 04/23	2.51	2.48	2.49	2.45	2.42	2.44
NZGB 04/27	2.94	2.93	2.94	2.89	2.84	2.86
2 year swap	2.20	2.21	2.20	2.17	2.17	2.16
5 year swap	2.70	2.71	2.72	2.68	2.66	2.65
RBNZ TWI	75.76	73.69	73.36	73.22	72.90	72.90
NZD/USD	0.7175	0.6912	0.6865	0.6911	0.6849	0.6809
NZD/AUD	0.9146	0.9040	0.8999	0.9099	0.9021	0.9010
NZD/JPY	80.49	78.33	78.06	77.89	77.56	76.34
NZD/GBP	0.5432	0.5283	0.5245	0.5249	0.5190	0.5158
NZD/EUR	0.6101	0.5935	0.5859	0.5834	0.5819	0.5782
AUD/USD	0.7845	0.7646	0.7628	0.7596	0.7592	0.7564
EUR/USD	1.1760	1.1646	1.1717	1.1846	1.1770	1.1790
USD/JPY	112.18	113.31	113.72	112.70	113.24	112.10
GBP/USD	1.3209	1.3085	1.3087	1.3166	1.3196	1.3215
Oil (US\$/bbl)	51.88	56.76	55.70	55.33	55.14	56.55
Gold (US\$/oz)	1288.95	1278.85	1272.18	1286.00	1278.18	1292.42
Electricity (Haywards)	6.03	8.51	10.46	9.81	8.36	7.89
Baltic Dry Freight Index	1552	1445	1405	1374	1361	1371
NZX WMP Futures (US\$/t)	3060	2800	2800	2820	2820	2820

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