NEW ZEALAND MARKET FOCUS

13 August 2018

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ENCORE?

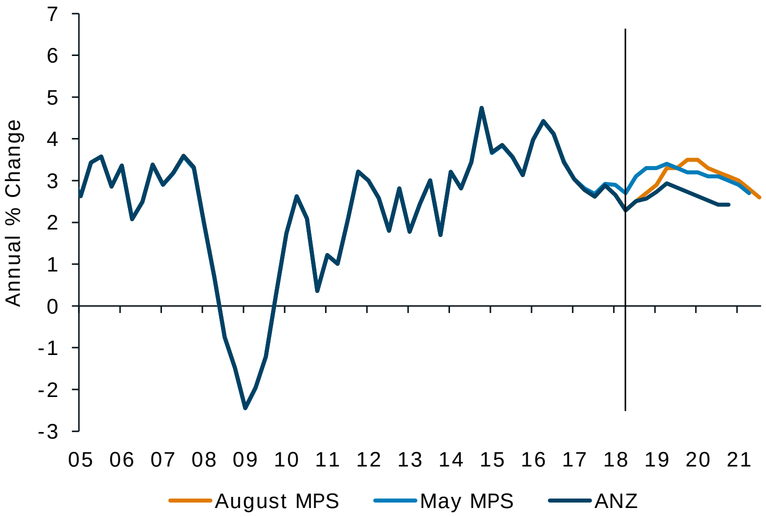
ECONOMIC OVERVIEW

The macroeconomic data flow has turned patchier around the edges of late; particularly some of the more forward-looking data, such as the activity indicators out of the ANZ Business Outlook survey. The RBNZ made it clear last week that it is concerned about downside risks to the growth outlook, and entirely unconcerned about the looming cost-push lift in inflation. The Government, meanwhile, argues that while the economy might be going through a bit of a bumpier patch, the fundamentals are strong and we'll soon bounce out. This week, we step back and take a look at the big picture: is it all over bar the shouting, or is the economy indeed just experiencing a few bumps as it transitions to a newer, more sustainable growth model that will see the good times roll for years yet?

CHART OF THE WEEK

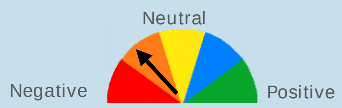
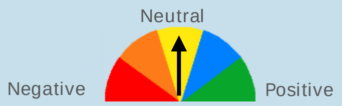
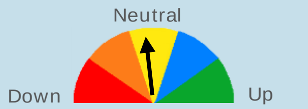
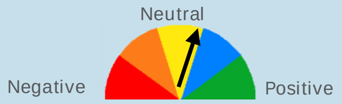
The RBNZ's August MPS was on the dovish side and their growth outlook was revised lower. The question is: is their growth outlook still a little optimistic?

GDP growth forecast: ANZ vs RBNZ



Source: RBNZ, ANZ Research, Stats NZ

THE ANZ HEATMAP

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

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SUMMARY

The macroeconomic data flow has turned patchier around the edges of late; particularly some of the more forward-looking data, such as the activity indicators out of the ANZ Business Outlook survey. The RBNZ made it clear last week that it is concerned about downside risks to the growth outlook, and entirely unconcerned about the looming bump in inflation as a result of cost-push pressures. The Government, meanwhile, argues that while the economy might be going through a bit of a bumpier patch, the fundamentals are strong and we'll soon bounce out. This week, we step back and take a look at the big picture: is it all over bar the shouting, or is the economy indeed just transitioning to a newer, more sustainable growth model that will see the good times roll for years yet?

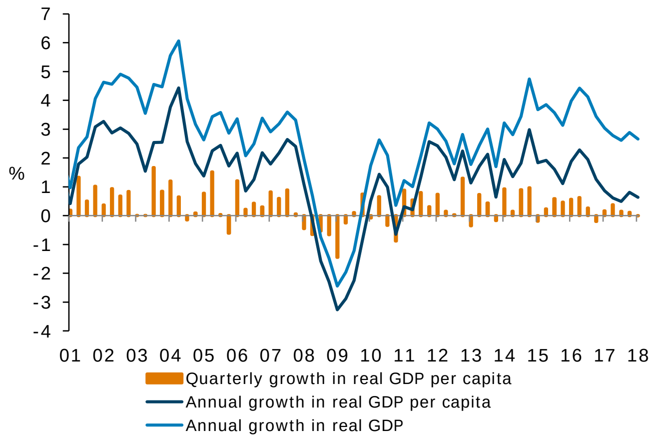
FORTHCOMING EVENTS

REINZ housing market statistics – July (Wednesday 15 August, 9:00am). We expect to see further price rises; regional markets remain tight.

WHAT'S THE VIEW?

It's fair to say that the New Zealand data flow has turned more mixed of late, and views around the economic outlook are beginning to diverge. Indeed, growth has already shed a fair amount of momentum over the past year or so – particularly on a per capita basis (figure 1).

Figure 1: GDP growth – headline and per capita



Source: Statistics NZ, RBNZ, ANZ Research

There are a number of factors behind this slowing, and some key tailwinds persist. But the fact remains: we are late in the cycle. As a result, activity, already at a high level, is pushing the limits of capacity, making every extra bit of growth increasingly difficult to achieve. So, after what has been a solid run (at least at the headline level), is it all over? Has the economic cycle finally run out of puff? And (stealing our own thunder), if the answer should prove to be "not yet", what would it take for the recent moderation in growth to evolve into a more marked deterioration?

To understand where we might be going, we must first look at where we've been over this cycle.

2009-11: "Grumpy growth" – typical of an early economic cycle, led by export recovery. Firms still lacked confidence to invest. Because the labour market lags the overall economic cycle, it wasn't feel-good consumption-led growth, and it didn't necessarily feel like the recession was over on the street.

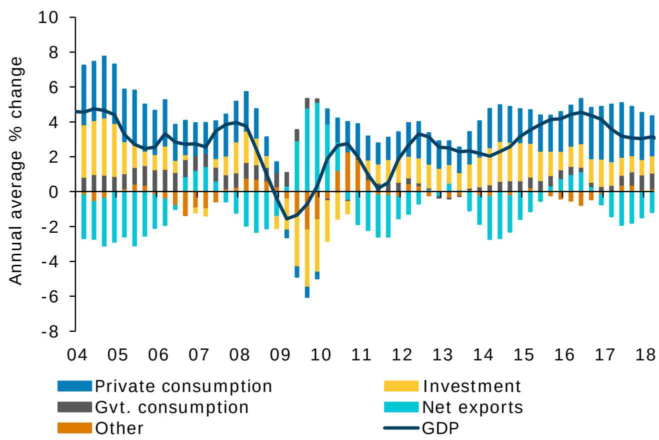
2012-14: "Rebuilding Christchurch" - Mid-cycle growth with Auckland (housing) outperforming and strong (re)construction in Christchurch providing a strong base. Strong residential investment.

2015-17: "Happy Days" – Consumption (fuelled by debt) hit its straps as the housing boom broadened nationwide – but eased in Auckland in 2017. The impact of the dairy downturn was trumped by other commodity prices and rapid population growth.

2018: "Grumpy Auckland". The Auckland housing market has stagnated. Population growth is easing gradually. Cost pressures and capacity constraints are increasingly evident, and survey-based business activity indicators have dived.

All up, despite the very strong terms of trade in recent years, this economic cycle has been driven largely by domestic demand. Apart from the initial years of export recovery following the GFC, and a small bump following the dairy downturn, net exports have made a pretty consistent negative contribution to growth. It's been much more about population growth, consumption, and residential investment.

Figure 2: GDP growth by expenditure component contribution



Source: Statistics NZ, ANZ Research

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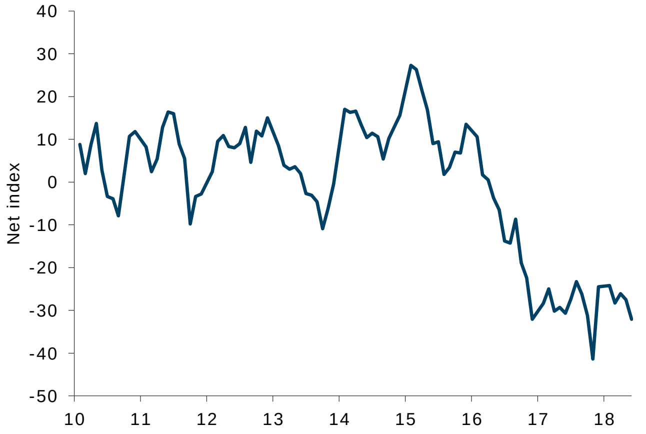
When we look at those domestic growth drivers, some are fading, while others are poised to pick up the slack.

What's faded?

- **Construction activity is hitting capacity constraints.** The construction industry is grappling with challenges. Both recent news headlines and surveys suggest unsustainably low margins. And while consent issuance has ticked up recently, the sustainability of these levels will be tested in coming months. The bottom line is that construction activity will struggle to deliver strong rates of growth.
- **The housing market has softened recently**, with house prices flat and sales down in the June quarter. Affordability constraints, uncertainty around new Government policies, prudence on the part of banks, and a softer pulse in the economy are providing headwinds, and there is a risk that recent softening could persist. However, we see the downside as being limited. Population growth, pent-up demand and low interest rates are still supportive of demand for housing, and the backstop is the RBNZ further loosening loan-to-value ratio restrictions. On balance, conditions are in place for modest house price inflation to continue. However, at the margin a softer housing market than expected would likely dampen consumption growth.
- **Business confidence.** We have written at length about the possible macroeconomic impacts of business pessimism. On the face of it, it doesn't bode well for investment and employment. However, as long as consumers continue to spend, businesses will have demand to meet, which would imply firms' investment and employment decisions may prove to be largely deferred, rather than cancelled. But it's a significant headwind.

Figure 3: ANZ Business Outlook: ease of finding credit



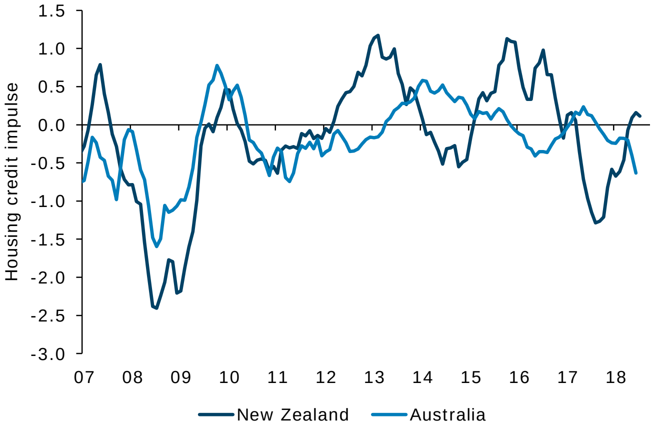
Source: Statistics NZ, ANZ Research

- **Credit conditions** have provided a headwind, the impact of which has been under-appreciated in our view. Firms across the economy report that credit is difficult to obtain (figure 3), and recent woes in the construction sector certainly won't inspire lender confidence.

What's left?

- **The labour market is strong** and expected to remain that way – and that should support household incomes and spending. Wage growth has been subdued this cycle but employment growth has more than accommodated strong net migrant inflows, supporting household incomes, and low CPI inflation has meant that real wage growth has been decent. Additional impetus from minimum wage rises and recent public sector wage negotiations will also provide a boost. However, these are not market-driven wage rises and may or may not broaden. Looking through that uncertainty, we think the labour market is sufficiently "tight" to see underlying wage growth gradually trend upwards from here.
- **Consumer confidence** has held up pretty well. While there has been a little slippage of late and spending growth has softened, confidence is currently around historical average levels – consistent with the strong labour market.
- **The banks' funding gap has closed**, suggesting credit headwinds should ease. Indeed, the mortgage credit impulse (the change in the change in credit volumes) is pointing up, in stark contrast to that in Australia (figure 4). However, there are broader credit supply risks related to both what's happening in the construction and retail sectors, and in the Australian housing market.

Figure 4: Housing credit impulse



Source: RBA, RBNZ, ANZ Research

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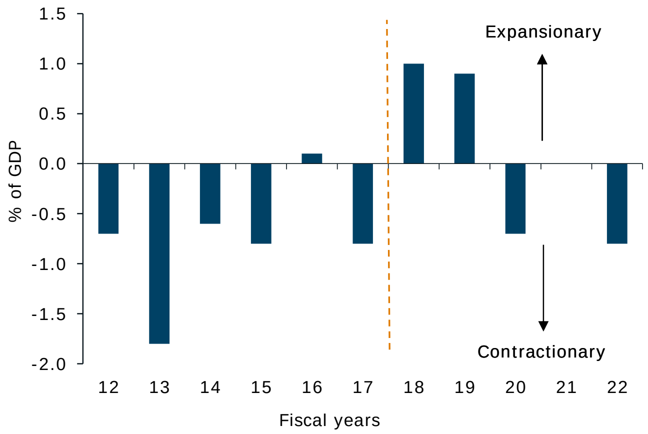
- **Fiscal policy** is currently around as stimulatory as it's expected to get:
  - The **Families Package** is now in effect and expected to cost Government more than $5bn over five years – that's extra money in the back pockets of those most likely to spend it. The disappointing July electronic cards data highlighted a risk that this stimulus may be offset by headwinds, but it's early days. Regardless, this is a one-off level shift in household incomes, so will come out of the wash in growth terms pretty quickly.
  - Given capacity constraints, **KiwiBuild** is unlikely to see construction activity ramp up significantly from current levels any time soon, but it does put a floor under activity in the sector should the cycle turn.
  - **Fiscal stimulus tends to fade quickly** and the Government still has its debt objective to meet. Doing so sees the expected impulse turn contractionary on balance from the year ended June 2020 as capital spending growth slows and tax receipts rise as a share of GDP.

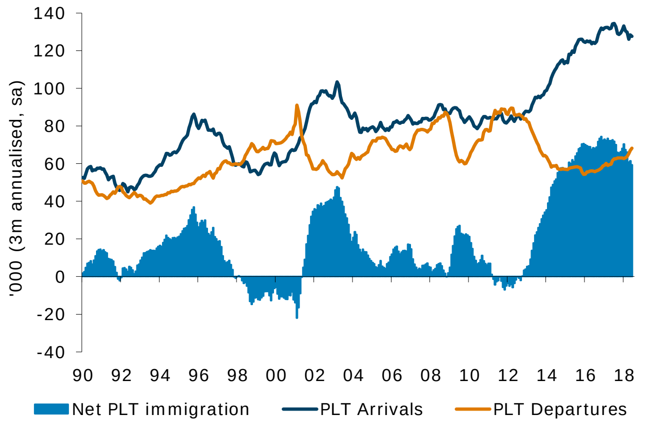
Figure 5: Core Crown plus Crown Entities Fiscal Impulse



Source: The Treasury, ANZ Research

- **Net migrant inflows** (figure 6) remain elevated but have eased substantially – annual inflows in June 2018 were down around 10% from their peak almost a year earlier. However, with further easing expected to be gradual, migration-led population growth should remain a key economic driver for some time, for better or worse. The outlook for migration is murky: departures may provide the next surprise, depending on how the Australian labour market evolves relative to our own. There are also policy uncertainties regarding the arrival numbers of both students and construction workers.

Figure 6: Permanent and long-term migration



Source: Stats NZ, ANZ Research

- **Accommodative monetary policy** has been a feature of this entire business cycle, with the OCR currently at a record low. The RBNZ's clear signal that the OCR will remain accommodative should bolster business and household confidence at the margin. But at these levels, the price of credit is arguably no longer as important for macroeconomic dynamics as its availability – banks will be looking very closely at lending decisions to the troubled construction and retail sectors. And on the household side, while lending appetite remains good, debt at 167% of disposable incomes means this ammo has been largely fired already. High debt means even at very low interest rates, debt servicing is taking up an about-average chunk of incomes – with a lot more upside risk than down. All else constant, a considerable period of solid income growth will be required to see this vulnerability recede.
- **A weaker NZD** – in world price terms, the prices of New Zealand's main export commodities are broadly flat on a year ago. But the depreciation in the kiwi means prices in NZD terms are up 6.5% y/y, and the recent fall means there may be more to come. With dairy farmers back in the black and strong prices across a wide range of exports, there is plenty of agriculture investment warranted. However, heightened nervousness around global trade and growth may stem that. In addition to making our export sector more competitive, a sustained depreciation can support import-competing firms, leading a transition towards higher domestic production. But it should also be remembered that the exchange rate is a two-sided coin: higher import prices will dent consumers' real spending power. All that said, one would have to say it's a little disappointing our trade balance is so deeply in the red given our terms of trade are at record highs – this

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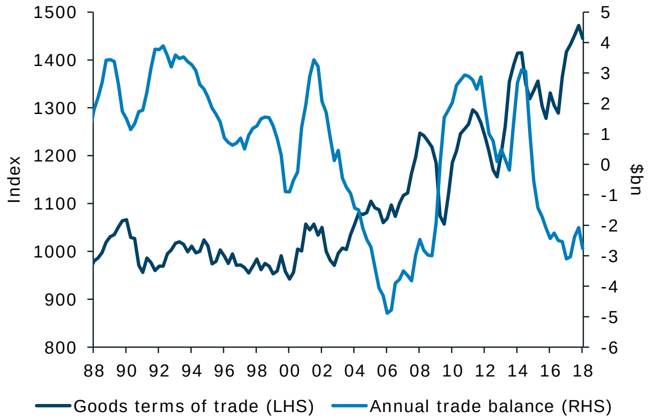
reflects both the strength of domestic demand and a disappointing productivity performance over the cycle.

Figure 7: Terms of trade and trade balance



Source: Statistics NZ, ANZ Research

What comes next?

Typically when the economic cycle enters what turns out to be, with hindsight, its twilight years, macro-imbalances build:

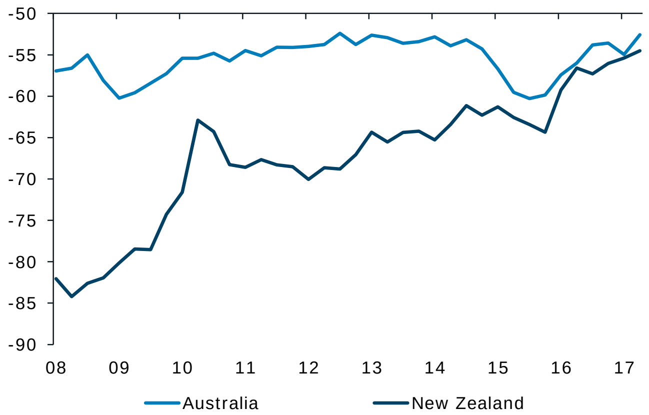
- Strong domestic demand pulls in imports as domestic production fails to keep pace.
- Foreign borrowing grows strongly, and if global growth is in sync, rising global interest rates leads to higher debt payments, causing the primary income deficit to widen.
- The current account widens and New Zealand's net external liabilities rise.
- Debt levels rise across consumers and, sometimes, firms.

So how are the imbalances looking currently?

As noted, a trade deficit has been a feature of much of this cycle. But New Zealand's broader external position remains in decent shape by historical standards. Relative to previous economic cycles, there has not been a marked deterioration in the current account deficit – at 2.8% of GDP it will not be on anyone's worry list.

Related to this, at 54.5% of GDP, New Zealand's net international liability position is well down from its 2008 peak of 84.2% and has converged with that of Australia (figure 8). However, it remains large compared to many other advanced economies and the improvement over the past decade is not overly significant compared to what some economies have managed.

Figure 8: Net international liability position



Source: Haver Analytics, ANZ Research

There are a number of reasons behind the improvement:

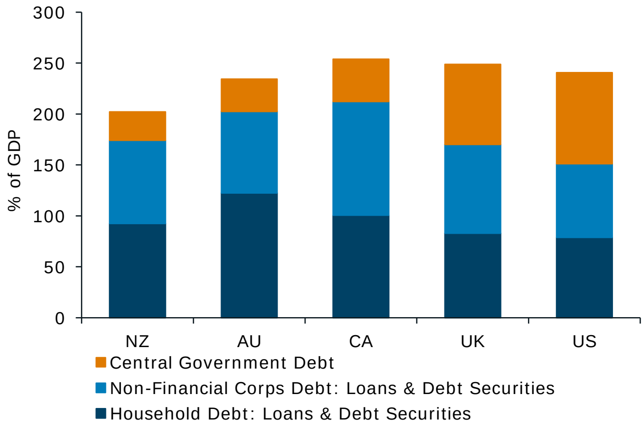
- Since funding rules were changed in 2010, New Zealand banks have relied less on foreign borrowing and more on domestic deposits to fund credit growth. While the stock of external debt has grown over the past decade, it has not kept pace with GDP growth.
- Global shares have outperformed this cycle, and they make up a larger proportion of our foreign assets than our liabilities.
- Debt repayments to offshore providers have been lower due to subdued growth in the stock of debt, and low global interest rates.

While we still have a large stock of debt, this is largely denominated in NZD, meaning the exchange rate risk is hedged (unlike Turkey's, to take a topical example). Further, compared with pre-GFC times, New Zealand's external debt has a longer maturity, making the country less susceptible to short-term changes in global funding costs or availability.

Household debt levels, at almost 170% of disposable incomes, are more problematic. Just as a large mortgage ups the ante for an individual if they should lose their job or interest rates rise, the same is true in aggregate for a heavily indebted household sector. Household income shocks could come via a decline in the terms of trade (eg higher oil prices or lower farmer incomes) or a weaker labour market. And interest rates can rise due either to tightening monetary policy or, more rarely, increases in bank funding costs.

But New Zealand's overall position (and risk rating) is strengthened by the fact that the levels of both fiscal and corporate debt are not at all worrying. As at 2016, the economy's overall debt level was below that for many of the countries to whom we tend to compare ourselves. But at more than 200% of GDP, it is still high in the context of a small, open economy that is vulnerable to international developments.[1]

Figure 9: Government, firm and household debt



Source: Haver Analytics, ANZ Research

What are the potential catalysts for trouble?

On balance, then, the New Zealand economy has its share of structural imbalances, and could certainly not be considered bulletproof. What, then, are the potential catalysts that could bring about a painful unwind?

Domestically, the fall in business confidence and associated activity indicators is getting a great deal of attention at present. The longer these measures stay low, the greater the risk we talk ourselves into a hole. If the pessimism proves to be unfounded, investment and employment plans will be dusted off again. But business pessimism means we're probably facing a lower threshold in terms of what could trigger a more marked slowdown in growth.

Our forecasts assume that rising household incomes should be enough to get things back on track. However, the picture would be looking dire indeed if households en masse reassessed their balance sheets and decided to reduce consumption. Consumer confidence is not suggesting any widespread concern – jobs are easy to get, and household incomes are growing at a faster pace than they have done for some time. But high household debt means households are likely to pull their heads in more abruptly than has typically been the case, should they suddenly become concerned about the future. A sharp increase in household saving sounds like a very prudent and sensible thing to do. A sharp decrease in household spending sounds like a very painful economic adjustment. But they are two sides of the same coin.

Why might households get spooked? The labour market lags the overall economic cycle, so is not typically a catalyst for turns in the cycle, but rather reinforces momentum (up or down) down the track. But two inter-related potential catalysts are migration and the housing market. If house prices should take an ugly turn south, either because net migration falls unexpectedly quickly (and it is harder to forecast than you might think) or because of a sharp decline in credit availability, the balance sheets of some households could start to look iffy in fairly short order.

Turning offshore, where traditionally the coup de grâce for our economic expansions has tended to stem from, there is certainly no shortage of things to worry about: trade wars and its impact on China, the implosion of Turkey's financial markets and potential contagion into European banks and other emerging markets, and Brexit, to name but a few. More broadly, it's been almost a decade of very low interest rates abundant liquidity. As the Fed continues on its normalisation path and global liquidity gradually tightens there is a real risk of some kind of broad asset price correction, with flow-on impacts on global consumption and hence New Zealand's commodity prices.

What we're watching

While we always keep a close eye on economic developments, a few indicators are of particularly close interest at present as we watch for signs that the current economic hiccup could turn into something more painful.

- **Business confidence and activity indicators.** How low can you go?
- **Consumer confidence.** Our confidence composite tracks GDP growth closely and is being held up entirely by consumers.
- **Near-term spending indicators.** Growth in the back half of this year is underpinned by a fiscal boost to household incomes from the Families Package. But rising fuel prices are a significant offset.
- **Net migration, including departures.** Population growth provided two thirds of New Zealand's economic growth in the past year, and migration is actually extremely difficult to forecast. 'Nuff said.
- **The construction sector.** As discussed in our Market Focus last week, this sector is struggling. The KiwiBuild impetus and capacity constraints in the economy should in theory lead to strong

[1] Central government debt is used in place of general government debt for comparability reasons. This will underestimate total debt.

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investment going forward but it simply may not eventuate.

- **Global growth and New Zealand's commodity prices.** The current mess in Turkey is just the latest threat to global growth. The US economy powers on, but on a global basis it appears growth has peaked, and the outlook for China is uncertain.

Should things worsen, what can be done?

In response to a sharp deterioration in the growth outlook, the RBNZ would cut interest rates. Indeed, this was a risk scenario clearly outlined in the Monetary Policy Statement last week. With the OCR at just 175bp, there is nowhere near as much interest rate ammunition as has typically been the case this far into the business cycle. The RBNZ has signalled possible measures it could take if the zero lower bound is reached, but the efficacy of such measures is at best unproven.

However, the freely floating NZD would be the economy's first line of defence if economic conditions were to deteriorate, with the hope being that it would rapidly sink. While policy makers have in the past liked to complain about the behaviour of the currency over time, it has in fact proven a pretty good buffer against terms of trade shocks in particular, tracking our commodity prices over history. In a global environment of tighter liquidity, lower commodity prices, weaker growth or rising risk aversion, or any combination thereof, it would seem likely that the NZD would fall and buffer exporters' incomes – while admittedly making life a bit tougher for consumers via higher prices for imported goods. It's always a double-edged sword.

Unlike in many countries, fiscal policy fortunately has plenty of ammo to help out the domestic economy. In the case of a significant negative economic shock, it is both likely and desirable that fiscal targets would be loosened. Automatic stabilisers (eg unemployment benefits) would kick in, but the Government could also support the economy in a downturn by having spade-ready capital investment projects to address New Zealand's infrastructure deficit. That would go some way to enhancing New Zealand's productive capacity, supporting a more sustainable growth outlook. For a more immediate fiscal kick, the Government could also directly boost household incomes.

All up

The New Zealand economy is at a delicate juncture. Overall structural imbalances are not too bad, but households have eaten tomorrow's lunch, and house price-to-income ratios are well above sustainable levels. Firms are uncertain about some aspects of policy direction and are experiencing limited pricing power and constrained profitability. Capacity constraints are increasing costs – including real wages – but whether it will spur investment is unclear. On the other hand the fiscal stimulus is the largest in years, the labour market is tight, consumers are still saying it's a great time to buy a major household item, and the outlook for real income growth is good. Our terms of trade are around record highs, but higher petrol prices due to both a weaker currency and higher taxes are making a dent in consumers' wallets. Interest rates remain very low and the NZD is easing, boosting exporter incomes.

It's a confusing picture, and also regionally dispersed, with some areas reporting boom times, and others, Auckland in particular, having quite a negative feel on the ground. Weighing it up, in our view, this economy can muddle through, albeit at lower growth rates than in recent years as it necessarily recalibrates away from rapid population growth and unsustainable increases in house prices. However, the economy is vulnerable, and it's hard to shake the feeling that the external environment is as good as it gets. When businesses are feeling worried, the reaction to any bad news, in terms of shelving investment and hiring plans, could be swift. Fortunately, should the worst happen, policymakers have options – and the NZD is sliding by the day.

LOCAL DATA

ANZ Commodity Price Index – July. The world price index fell 3.2% m/m driven largely by lower dairy prices.

ANZ Truckometer – July. The ANZ Truckometer indexes were fairly steady in July.

ANZ Monthly Inflation Gauge – July. At 0.6% m/m, the Gauge posted its biggest monthly rise since January.

RBNZ MPS – August. The RBNZ held the OCR at 1.75% as expected and reaffirmed that "the direction of our next move could be up or down".

Electronic card transactions – July. There was little evidence of a Families-Package-induced blip in cards spending in July, with growth in core retail spending up just 0.3% m/m.

Food price indices – July. Food prices rose 0.7% m/m in July, led by seasonal strength in vegetable prices. In annual terms, food prices rose 1.1%, led by a 3.2% rise in restaurant meals and ready-to-eat food, with the higher minimum wage likely contributing.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
	CH	Money Supply M1 YoY - Jul	6.6%	6.6%	13-15 Aug
	CH	Money Supply M2 YoY - Jul	8.2%	8.0%	13-15 Aug
	CH	Money Supply M0 YoY - Jul	4.3%	3.9%	13-15 Aug
	CH	New Yuan Loans CNY - Jul	1275.0B	1840.0B	13-15 Aug
14-Aug	AU	ANZ-RM Consumer Confidence Index - 12-Aug	--	118.9	11:30
	AU	NAB Business Conditions - Jul	--	15	13:30
	AU	NAB Business Confidence - Jul	--	6	13:30
	CH	Retail Sales YoY - Jul	9.1%	9.0%	14:00
	CH	Retail Sales YTD YoY - Jul	9.4%	9.4%	14:00
	CH	Industrial Production YoY - Jul	6.3%	6.0%	14:00
	CH	Industrial Production YTD YoY - Jul	6.6%	6.7%	14:00
	CH	Fixed Assets Ex Rural YTD YoY - Jul	6.0%	6.0%	14:00
	GE	GDP SA QoQ - Q2 P	0.4%	0.3%	18:00
	GE	GDP WDA YoY - Q2 P	2.1%	2.3%	18:00
	GE	GDP NSA YoY - Q2 P	2.5%	1.6%	18:00
	GE	CPI MoM - Jul F	0.3%	0.3%	18:00
	GE	CPI YoY - Jul F	2.0%	2.0%	18:00
	GE	CPI EU Harmonized MoM - Jul F	0.4%	0.4%	18:00
	GE	CPI EU Harmonized YoY - Jul F	2.1%	2.1%	18:00
	UK	Claimant Count Rate - Jul	--	2.5%	20:30
	UK	Jobless Claims Change - Jul	--	7.8k	20:30
	UK	Average Weekly Earnings 3M/YoY - Jun	2.5%	2.5%	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Jun	2.7%	2.7%	20:30
	UK	ILO Unemployment Rate 3Mths - Jun	4.2%	4.2%	20:30
	UK	Employment Change 3M/3M - Jun	93k	137k	20:30
	EC	Industrial Production SA MoM - Jun	-0.4%	1.3%	21:00
	EC	Industrial Production WDA YoY - Jun	2.4%	2.4%	21:00
	EC	GDP SA QoQ - Q2 P	0.3%	0.3%	21:00
	EC	GDP SA YoY - Q2 P	2.1%	2.1%	21:00
	GE	ZEW Survey Current Situation - Aug	72.1	72.4	21:00
	GE	ZEW Survey Expectations - Aug	-21.3	-24.7	21:00
	EC	ZEW Survey Expectations - Aug	--	-18.7	21:00
	US	NFIB Small Business Optimism - Jul	106.8	107.2	22:00
15-Aug	US	Import Price Index MoM - Jul	0.0%	-0.4%	00:30
	US	Import Price Index YoY - Jul	4.5%	4.3%	00:30
	US	Export Price Index MoM - Jul	0.2%	0.3%	00:30
	US	Export Price Index YoY - Jul	--	5.3%	00:30
	NZ	REINZ House Sales YoY - Jul	--	-1.6%	09:00
	AU	Westpac Consumer Conf Index - Aug	--	106.1	12:30
	AU	Westpac Consumer Conf SA MoM - Aug	--	3.9%	12:30
	AU	Wage Price Index QoQ - Q2	0.6%	0.5%	13:30
	AU	Wage Price Index YoY - Q2	2.1%	2.1%	13:30
	UK	CPI MoM - Jul	0.0%	0.0%	20:30
	UK	CPI YoY - Jul	2.5%	2.4%	20:30
	UK	CPI Core YoY - Jul	1.9%	1.9%	20:30
	UK	RPI MoM - Jul	0.2%	0.3%	20:30
	UK	RPI YoY - Jul	3.4%	3.4%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Jul	3.5%	3.4%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
15-Aug	UK	PPI Input NSA MoM - Jul	0.1%	0.2%	20:30
	UK	PPI Input NSA YoY - Jul	10.3%	10.2%	20:30
	UK	PPI Output NSA MoM - Jul	0.2%	0.1%	20:30
	UK	PPI Output NSA YoY - Jul	3.0%	3.1%	20:30
	UK	PPI Output Core NSA MoM - Jul	0.2%	0.2%	20:30
	UK	PPI Output Core NSA YoY - Jul	2.1%	2.1%	20:30
	UK	House Price Index YoY - Jun	2.6%	3.0%	20:30
	US	MBA Mortgage Applications - 10-Aug	--	-3.0%	23:00
16-Aug	US	Empire Manufacturing - Aug	20.0	22.6	00:30
	US	Nonfarm Productivity - Q2 P	2.4%	0.4%	00:30
	US	Retail Sales Advance MoM - Jul	0.1%	0.5%	00:30
	US	Retail Sales Ex Auto MoM - Jul	0.3%	0.4%	00:30
	US	Retail Sales Ex Auto and Gas - Jul	0.4%	0.3%	00:30
	US	Retail Sales Control Group - Jul	0.4%	0.0%	00:30
	US	Industrial Production MoM - Jul	0.3%	0.6%	01:15
	US	Capacity Utilization - Jul	78.2%	78.0%	01:15
	US	Business Inventories - Jun	0.1%	0.4%	02:00
	US	NAHB Housing Market Index - Aug	67.0	68.0	02:00
	US	Total Net TIC Flows - Jun	--	$69.9B	08:00
	US	Net Long-term TIC Flows - Jun	--	$45.6B	08:00
	AU	Employment Change - Jul	15.0k	50.9k	13:30
	AU	Unemployment Rate - Jul	5.4%	5.4%	13:30
	AU	Participation Rate - Jul	65.7%	65.7%	13:30
	GE	Wholesale Price Index MoM - Jul	--	0.5%	18:00
	GE	Wholesale Price Index YoY - Jul	--	3.4%	18:00
	UK	Retail Sales Ex Auto Fuel MoM - Jul	0.0%	-0.6%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Jul	2.7%	3.0%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Jul	0.2%	-0.5%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Jul	2.9%	2.9%	20:30
	EC	Trade Balance SA - Jun	€16.5B	€16.9B	21:00
	EC	Trade Balance NSA - Jun	--	€16.5B	21:00
17-Aug	US	Initial Jobless Claims - 11-Aug	215k	213k	00:30
	US	Continuing Claims - 4-Aug	1741k	1755k	00:30
	US	Philadelphia Fed Business Outlook - Aug	22	25.7	00:30
	US	Housing Starts - Jul	1260k	1173k	00:30
	US	Housing Starts MoM - Jul	7.4%	-12.3%	00:30
	US	Building Permits - Jul	1310k	1292k	00:30
	US	Building Permits MoM - Jul	1.4%	-0.7%	00:30
	NZ	PPI Output QoQ - Q2	--	0.2%	10:45
	NZ	PPI Input QoQ - Q2	--	0.6%	10:45
	EC	ECB Current Account SA - Jun	--	€22.4B	20:00
	EC	CPI MoM - Jul	-0.3%	0.1%	21:00
	EC	CPI YoY - Jul F	2.1%	2.0%	21:00
	EC	CPI Core YoY - Jul F	1.1%	1.1%	21:00
18-Aug	US	Leading Index - Jul	0.4%	0.5%	02:00
	US	U. of Mich. Sentiment - Aug P	98.0	97.9	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
Wed 15 Aug (09:00am)	REINZ Housing Market Statistics - July	Softer lately	The housing market has softened of late, but we expect to see further price rises, with regional markets remaining tight.
Tue 21 Aug (10:45am)	International Travel and Migration – July	Easing	The cycle is expected to continue easing, albeit gradually.
Wed 22 Aug (early am)	GlobalDairyTrade auction	Sideways	The average GDT price is expected to remain in recent ranges.
Wed 22 Aug (10:45am)	Retail Trade – Q2	Weak?	It may have been a weak quarter with the housing market cooler and spending data on the softer side.
Fri 24 Aug (10:45am)	Overseas Merchandise Trade – July	Back in the black	A strong import print last month pushed the trade balance into deficit; a bounce would bring us back into surplus.
Thu 30 Aug (10:45am)	Building Consents – July	Strains	With construction grappling with capacity constraints and financial strains, activity will struggle to push higher.
Thu 30 Aug (1:00pm)	ANZ Business Outlook – August	--	--
Fri 31 Aug (10:00am)	ANZ Consumer Confidence – August	--	--
Mon 3 Sep (10:45am)	Terms of Trade – Q2	Flat	Broadly offsetting rises in both import and export prices are expected to keep the goods terms of trade stable in Q2
Wed 5 Sep (early am)	GlobalDairyTrade auction	Sideways	The average GDT price is expected to remain in recent ranges.
Wed 5 Sep (05:00am)	QV House Prices	Softer	The housing market has softened of late, but we expect to see further price rises, with regional markets remaining tight.
Wed 5 Sep (10:00am)	ANZ Job Ads - August	--	--
Wed 5 Sep (1:00pm)	ANZ Commodity Price Index - August	--	--
Mon 10 Sep (10:45am)	Manufacturing Activity –Q2	Meaty	Q1's meat-induced strength looks likely to continue with Mycoplasma Bovis lending support.
10-14 Sep	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.
Tue 11 Sep (10:00am)	ANZ Truckometer – August	--	--
Tue 11 Sep (10:45am)	Electronic cards transactions - August	Looking	July cards spending contained little evidence of a Families package boost. Maybe August is the month.
Thu 13 Sep (10:45am)	Food Prices – August	Tick up	Higher winter prices for fruit and vegetables should see food prices lift in August.
On balance		**Data watch**	**The data pulse has been lacklustre and downside risks have increased. Inflation should lift gradually.**

KEY FORECASTS AND RATES

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

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Retail ECT (% mom)	0.4	1.3	0.3	1.4	-0.3	1.6	-2.2	0.7	0.8	0.7
Retail ECT (% yoy)	1.9	5.0	3.8	4.1	4.0	6.7	1.4	4.2	4.9	4.5
Credit Card Billings (% mom)	1.0	0.9	0.6	-0.6	0.7	1.0	0.6	-1.6	2.1	--
Credit Card Billings (% yoy)	3.0	9.1	6.3	4.6	7.0	7.3	6.9	3.7	5.7	--
Car Registrations (% mom)	0.5	0.9	-4.9	3.4	-9.2	-3.5	-0.8	12.9	-6.4	-0.2
Car Registrations (% yoy)	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0	-0.6	-4.9	-0.7
Building Consents (% mom)	-9.5	9.8	-8.7	0.3	6.3	13.0	-3.8	6.9	-7.6	--
Building Consents (% yoy)	-7.2	13.3	4.6	4.6	-0.6	18.3	15.5	23.3	12.0	--
REINZ House Price Index (% yoy)	3.4	3.6	3.7	3.5	4.0	4.1	3.7	3.6	3.8	--
Household Lending Growth (% mom)	0.4	0.5	0.6	0.4	0.5	0.5	0.5	0.4	0.5	--
Household Lending Growth (% yoy)	6.3	6.2	5.9	5.8	5.7	5.7	5.8	5.8	5.8	--
ANZ Roy Morgan Consumer Conf.	126.3	123.7	121.8	126.9	127.7	128.0	120.5	121.0	120.0	118.4
ANZ Business Confidence	-10.6	-39.3	-37.8	..	-19.0	-20.0	-23.4	-27.2	-39.0	-44.9
ANZ Own Activity Outlook	22.0	6.5	15.6	..	20.4	21.8	17.8	13.6	9.4	3.8
Trade Balance ($m)	-840	-1222	614	-662	188	-151	195	208	-113	--
Trade Bal ($m ann)	54759	55999	56476	57252	57451	58071	58677	58979	59553	--
ANZ World Comm. Price Index (% mom)	-0.3	-0.9	-1.9	0.7	2.8	1.2	1.0	1.5	-1.0	-3.2
ANZ World Comm. Price Index (% yoy)	10.4	6.0	3.2	4.1	5.0	5.8	7.1	5.4	2.2	-0.2
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	-0.4
ANZ Light Traffic Index (% mom)	-0.6	1.5	-1.7	-0.5	-0.2	2.2	-0.5	1.1	0.7	0.4
ANZ Job Ads (% mom)	0.8	-0.2	-0.1	3.0	-1.3	0.7	-1.9	2.4	-1.3	3.1

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Jun-18	Jul-18	Today	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
NZD/USD	0.677	0.681	0.66	0.65	0.62	0.61	0.61	0.61	0.61	0.62
NZD/AUD	0.914	0.919	0.90	0.90	0.89	0.87	0.87	0.87	0.87	0.88
NZD/EUR	0.579	0.581	0.58	0.57	0.53	0.50	0.49	0.48	0.48	0.48
NZD/JPY	74.96	76.00	72.78	69.6	65.1	62.2	60.4	59.2	58.6	59.5
NZD/GBP	0.512	0.518	0.52	0.48	0.45	0.44	0.43	0.43	0.43	0.43
NZ$ TWI	70.8	71.3	71.6	68.5	65.0	62.9	62.1	61.7	61.4	62.2
INTEREST RATES	Jun-18	Jul-18	Today	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	2.00	1.91	1.91	1.95	1.98	1.98	1.98	2.07	2.32	2.49
NZ 10-yr bond	2.85	2.76	2.58	3.00	3.10	3.15	3.30	3.40	3.40	3.40
US Fed funds	2.00	2.00	2.00	2.25	2.50	2.50	2.75	2.75	2.75	2.75
US 3-mth	2.34	2.35	2.32	2.75	2.95	2.95	3.20	3.20	3.20	3.20
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00
AU 3-mth	2.11	1.96	1.96	2.05	2.05	2.05	2.00	2.30	2.50	2.50

	10 Jul	6 Aug	7 Aug	8 Aug	9 Aug	10 Aug
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.90	1.89	1.90	1.91	1.91
NZGB 05/21	1.96	1.89	1.88	1.89	1.81	1.74
NZGB 04/23	2.18	2.14	2.11	2.12	2.02	1.94
NZGB 04/27	2.66	2.61	2.58	2.59	2.51	2.42
NZGB 04/33	3.03	2.94	2.92	2.93	2.86	2.77
2 year swap	2.20	2.11	2.11	2.12	2.02	2.01
5 year swap	2.58	2.52	2.51	2.52	2.38	2.35
RBNZ TWI	73.10	72.91	72.88	72.67	71.99	71.46
NZD/USD	0.6808	0.6734	0.6752	0.6740	0.6649	0.6590
NZD/AUD	0.9160	0.9115	0.9080	0.9092	0.8956	0.9012
NZD/JPY	75.78	75.07	75.07	74.84	73.88	73.01
NZD/GBP	0.5145	0.5207	0.5208	0.5240	0.5159	0.5153
NZD/EUR	0.5817	0.5837	0.5823	0.5812	0.5735	0.5765
AUD/USD	0.7432	0.7388	0.7437	0.7412	0.7424	0.7302
EUR/USD	1.1704	1.1538	1.1597	1.1595	1.1594	1.1413
USD/JPY	111.32	111.46	111.18	111.05	111.12	110.83
GBP/USD	1.3232	1.2935	1.2965	1.2863	1.2888	1.2758
Oil (US$/bbl)	74.11	69.01	69.17	66.94	66.81	67.63
Gold (US$/oz)	1250.11	1210.01	1215.03	1210.05	1214.81	1210.57
NZX 50	9023	8903	8876	8872	8940	9011
Baltic Dry Freight Index	1555	1773	1732	1704	1694	1691
NZX WMP Futures (US$/t)	2885	2970	2970	2930	2910	2910

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