ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

30 January 2017

INSIDE

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LABOURING ON

ECONOMIC OVERVIEW

A tightening labour market (which data this week should confirm) is natural given the maturing nature of the business cycle. However, when firms are telling us that finding staff is their biggest problem, despite record net migration and the highest participation rate ever, it speaks to the strength of the demand and a skills mismatch that is only likely to worsen given the interaction of huge secular factors (technological, climate and demographics to name but a few). This will present a significant challenge for policymakers and the education system / necessary re-training / evolution of the workforce. In other data this week, new lending and credit growth figures are expected to continue slowing, while migration figures will no doubt remain strong.

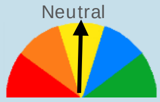
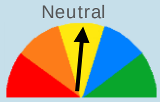
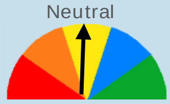
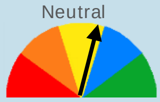
INTEREST RATE STRATEGY

Short end rates have moved higher on the back of last week's stronger CPI data, and while they are elevated vis-à-vis our OCR forecasts, we see little reason for a material correction lower given where the risk profile sits. On the way down, markets are happy to "take" the term premium that typically keeps forward rates elevated; on the way up, don't fight it. Long end yields have resumed their upward trend too, and look set to continue grinding higher, albeit gradually. This week's FOMC meeting is likely to be upbeat, acknowledging recent events, underscoring the resumption of the bond sell-off. While political uncertainty ordinarily portends of volatility, and we expect it ultimately will on this occasion too, Trump's brand of politics also poses risks for US bonds, should the policy program alienate the USD and investors. Higher rates and steeper curves beckon, driven by the back end.

CURRENCY STRATEGY

The NZD remains well bid and price action remains positive. While we can envisage scenarios where USD and AUD strength will prove to be challenging for the Kiwi, it is difficult to overlook political stability, fiscal flexibility, solid domestic fundamentals, and elevated interest rates. The end result is one that will likely see the NZD hold up fairly well even in the face of a USD comeback. Australian terms of trade surged in Q4, but NZD/AUD remains well supported and we expect it to remain that way for some time.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q3	The economy is recording decent momentum, and we expect that to generally continue at least over the first part of 2017. Downside risk mainly stems from offshore.	
Unemployment rate	4.5% for 2017 Q3	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth but expected to start lifting.	
OCR	1.75% by Sep 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	
CPI	1.9% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

A tightening labour market (which data this week should confirm) is natural given the maturing nature of the business cycle. However, when firms are telling us that finding staff is their biggest problem, despite record net migration and the highest participation rate ever, it speaks to the strength of the demand and a skills mismatch that is only likely to worsen given the interaction of huge secular factors (technological, climate and demographics to name but a few). This will present a significant challenge for policymakers and the education system / necessary re-training / evolution of the workforce. In other data this week, new lending and credit growth figures are expected to continue slowing, while migration figures will no doubt remain strong.

FORTHCOMING EVENTS

RBNZ New Mortgage Lending – December (3:00pm, Monday, 30 January). Compositional changes (away from investors towards first-home buyers) are notable, but new lending growth is expected to continue slowing.

International Travel & Migration – December (10:45am, Tuesday, 31 January). There are few signs that net migrant inflows are slowing and we doubt they will any time soon, given global themes and domestic economic strength.

RBNZ Credit Aggregates – December (3:00pm, Tuesday, 31 January). The peak in credit growth has passed as LVR restrictions and altered bank behaviour influence.

Labour Market Statistics – Q4 (10:45am, Wednesday, 1 February). We expect employment growth of 0.8% q/q. And while a higher participation rate (to 70.2%) helps to boost labour supply, we see the unemployment rate falling to 4.7%.

ANZ Job Ads – January (10:00am, Thursday, 2 February).

ANZ Commodity Price Index – January (1:00pm, Friday, 3 February).

WHAT'S THE VIEW?

The focus domestically turns to the labour market this week, with Q4 data due.

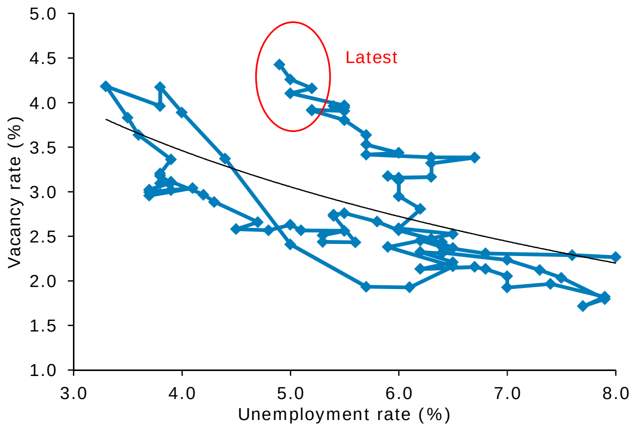
We expect the figures will show the unemployment rate dropping to 4.7% – the lowest since 2008 – and underutilisation measures falling too. In that regard, the data will be consistent with anecdotes and business surveys that suggest the labour market is not only tight, but is continuing to tighten further.

This tightening is logical and unsurprising. After a lengthy period of economic expansion, and the fact that growth is well above trend right now, spare resources are increasingly being used up. This is not just occurring in the labour market of course, but that is certainly where it is most pronounced right now. And it also follows that as something becomes more scarce (labour), its price (wages) should begin to rise too, which is something that we expect to occur gradually over the course of 2017, especially now that it is clear that consumer price inflation is rising off lows.

But the picture for wage growth, and the labour market more generally, is far more complicated than what is described above.

The labour market looks less efficient than it used to be at matching workers with jobs. That can be seen by looking at the relationship between vacancy and unemployment rates. Typically as the vacancy rate increases, the unemployment rate falls, and vice versa. However, what has been notable of late is that the curve has shifted outwards. In other words, for a given vacancy rate, the unemployment rate is higher. The higher participation rate will be part of the story, as will perhaps specific large demand shocks such as the Canterbury earthquakes that take time for labour resources to respond to.

FIGURE 1: NZ BEVERIDGE CURVE (1994-PRESENT)



Source: ANZ, Statistics NZ

The microeconomic policy program hasn't suddenly made the labour market less efficient (though it has in some areas; skills deficiencies in the construction sector can be partly linked to a lack of attention / incentives towards the trades), **so what is going on?** Some candidates / possibilities include:

1. **The current 'mix' of migrants is not matching the skills that the economy requires**. We wrote about this last year, finding it notable that of the 40-50k permanent residency approvals each year, around 35% are in the family stream, which exceeds the principal applicant (business/skilled migrant) stream by a material margin. Additionally, the majority of international student visas granted were to attend polytechnics or private training

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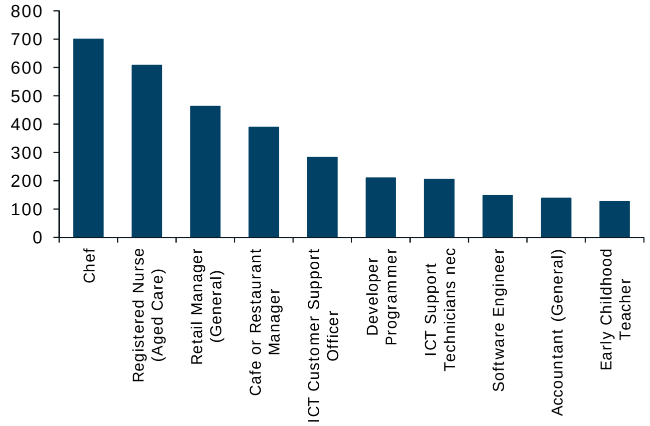
institutes, as opposed to universities, and three of the top four occupations of principal skilled migrants approved for residency are chefs, retail managers and café/restaurant manager. While we have nothing against this form of education and note that the hospitality sector has been performing well, we still find this mix surprising.

FIGURE 2: TOP 10 MAIN OCCUPATIONS FOR PRINCIPAL SKILLED MIGRANT APPLICANTS (2015)



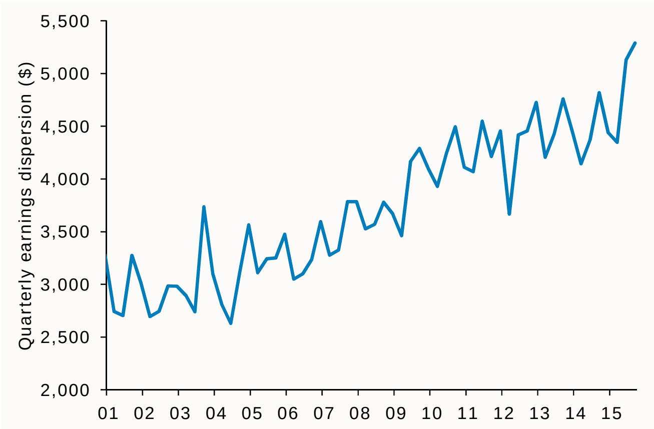
Source: ANZ, Statistics NZ

2. **Technology is becoming increasingly disruptive**. Whether it is the likes of Uber or Airbnb, artificial intelligence, blockchain, self-driving vehicles or the increased use of drones and robots, technology is advancing at an exponential pace and it's now the interaction of multiple technologies that is presenting tectonic shifts. That is a positive overall, as history has shown that technological advances contribute to higher living standards and stronger growth on average over time. However, that glosses over the fact that technological change can be incredibly disruptive for industries that are either themselves, or the labour they employ, becoming increasingly obsolete (but at the same time perhaps increasing the demand for highly skilled workers). It is looking like the pace of change has become too fast for education systems, skill development and society more generally to keep up.
3. **Economies and the labour market are being hit by a barrage of secular shifts.** There is technology noted above but throw on top demographic (aging and ethnicity) shifts, climate change, the globalisation of the labour pool, emerging markets competing more and more with developed markets to name but a few, and you have a cauldron of change which create frictions / inefficiencies.
4. **As people become unemployed for long periods they find it increasingly difficult to re-enter the workforce** whether that be because of a lack of skills, inappropriate skills, weak motivation or simply prejudice. For these people demand-side measures don't work; you need active intervention.

The above doesn't preclude wage growth from lifting off lows. We expect wage growth to accelerate as the year progresses.

However, a rising tide is unlikely to lift all boats equally in an era of huge secular shifts. We are seeing increased dispersion in wage settlements already. While the most granular data available (the Linked Employer-Employee Data from Statistics NZ) is quite lagging, at least in Q3 2015 it showed the greatest dispersion ever in mean wage settlements (measured by the inter-quartile range) for new hires across the 175 industries. It is certainly consistent with research from the IMF showing that technological change has the potential to exacerbate income inequality.[1]

FIGURE 3: INTERQUARTILE RANGE OF EARNINGS OF NEW HIRES FROM LEED



Source: ANZ, Statistics NZ

This will present some important challenges for policymakers. The education system needs to be more nimble and adaptive to deal with fast-paced change. New Zealand needs a ruthless obsession with driving adaptability and flexibility and this needs to start early on in primary schools. Forget about waiting until University. The tax system needs to ensure that the benefits of technological change are shared fairly. A failure to evolve will put pressure on social metrics, which will eventually weigh on growth performance itself. Whether it is right or not, it is no doubt a contributing factor to the populist backlash seen in many corners of the world right now.

In other data this week, RBNZ figures on new and overall credit figures for December should show a continuation of recent softening trends. While there does appear to be a modest compositional

[1] See for example Berg et al (2016), "Robots, Growth and Inequality", IMF, Finance & Development, September 2016.

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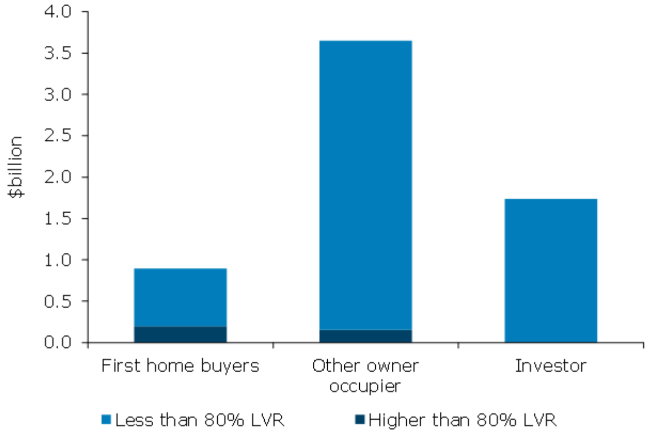
shift occurring as weaker investor lending (on the back of LVR restrictions and altered bank behaviour) is being partly replaced by increased first home buyer participation, we expect new lending growth to continue to slow overall. In November, total new lending was down 1.0% on the 12 months prior, with the share of lending with deposits of at least 20% rising to over 94%. That slowing in new lending is also now feeding through into slower growth in the overall stock of housing credit, which rose just 0.6% m/m in both October and November, seeing the 3-month annualised pace of growth (8.6%) slow to a six month low.

FIGURE 4: NEW MORTGAGE LENDING BY BORROWER TYPE

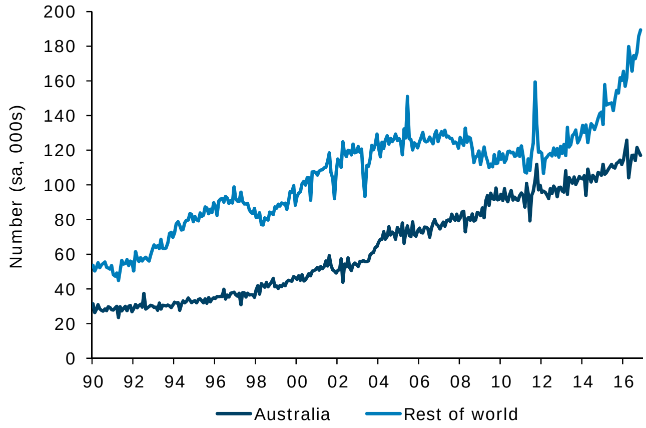


Source: ANZ, RBNZ

Migration figures will no doubt remain strong. It had appeared over the middle part of last year that net migrant inflows had peaked. While they were certainly not weak, at an average of around 5.5k per month between March and July, that was a step-down from the rate experienced over the latter part of 2015. However, recent months suggest that that is not the case. Between September and November, net inflows averaged an annualised 75.1K, which is an all-time high. A similarly large net inflow is entirely possible in December. And when we look towards 2017, we find it difficult to see inflows slowing dramatically given the strength of the domestic economy and global themes.

Visitor arrivals figures should also remain strong, although the rate of growth may begin to moderate. Impressively, despite sitting at all-time highs, arrivals are still growing at an 11% annual pace. And that growth now appears more broad-based than it was, with arrivals from China running at *just* 6% y/y but strong growth from many other Asian countries and 'traditional' markets like the US. While we retain a positive view overall and the announcements of additional airline routes to the country this year will no doubt provide additional growth, there are clearly supply and capacity factors to consider, which we do believe will cap the upside (or at least slow the ascent) eventually.

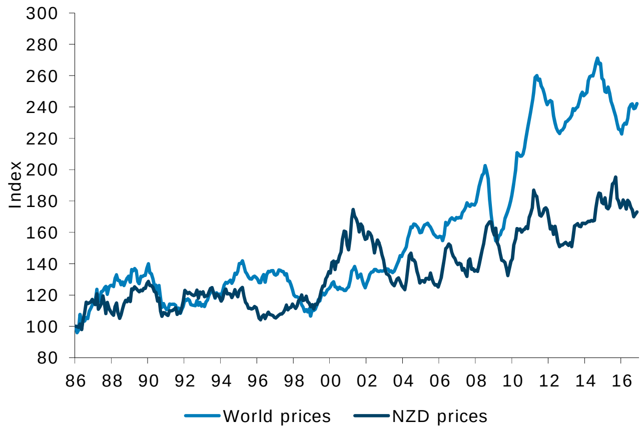
FIGURE 5: OVERSEAS VISITOR ARRIVALS



Source: ANZ, Statistics NZ

Our commodity price data for January rounds out the week, and again the focus is on the broadness of price moves. Notwithstanding the consolidation that appears to be occurring of late, global dairy prices obviously ended the year on a better footing than a few months prior. But the story hasn't been quite so promising for non-dairy prices, which fell 1.9% in world terms in December, to a seven month low. Price gains are necessary to avoid downward pressure on farm-gate prices in an environment where the NZD continues to perform well.

FIGURE 6: NON-DAIRY COMMODITY EXPORT PRICES



Source: ANZ

LOCAL DATA

Government Financial Statements – Nov. An OBEGAL deficit of $768m was recorded, which was close to $1bn smaller than forecast.

CPI – Q4. Headline inflation rose 0.4% q/q (1.3% y/y), underscoring the reflation thematic.

Overseas Merchandise Trade – Dec. A trade deficit of $41m was recorded.

INTEREST RATE STRATEGY

SUMMARY

Short end rates have moved higher on the back of last week's stronger CPI data, and while they are elevated vis-à-vis our OCR forecasts, we see little reason for a material correction lower given where the risk profile sits. On the way down, markets are happy to "take" the term premium that typically keeps forward rates elevated; on the way up, don't fight it. Long end yields have resumed their upward trend too, and look set to continue grinding higher, albeit gradually. This week's FOMC meeting is likely to be upbeat, acknowledging recent events, underscoring the resumption of the bond sell-off. While political uncertainty ordinarily portends of volatility, and we expect it ultimately will on this occasion too, Trump's brand of politics also poses risks for US bonds, should the policy program alienate the USD and investors. Higher rates and steeper curves beckon, driven by the back end.

THEMES

- The bellwether 2 year swap rate remains inside its 2.30/2.50% range, but the risk of a break higher can't be dismissed following last week's CPI data, and ahead of this week's HLFS figures.
- The forward curve is known to overestimate future interest rates – but with the market "scared" of potential earlier OCR hikes and positioned poorly for flow, term premiums will remain elevated.
- Central bank meetings this week are a key focus. Fresh FOMC dot plots won't get published till the next meeting, but it is incumbent on the Fed to acknowledge recent events, to some degree.
- Against a backdrop of gradually rising global bond yields and the slow demise of negative sovereign bond yields, New Zealand rates are biased higher and the curve is biased to steepen, fuelled by corporate hedging.

MONETARY POLICY AND SHORT END

Although CPI data last week gave the market a mild fright, the short end remains contained within a 2.3%/2.5% range. However, we question how long will this last amid ongoing solid domestic data (we expect HLFS data to be strong this week), gradually rising US interest rates, and the potential for increased mortgage-related paying interest, which tends to create "digestion" issues in the market.

Technically, market pricing sits well above our projections, implying that the short end is "cheap" and has the potential to gravitate lower – particularly given how positive roll+carry (R+C) is for investors. **However, against a backdrop of a market that is nervous, and data confirming that the risk profile leans toward an earlier, rather than later start to the tightening cycle, it's difficult to envisage yields falling in any material way.** In short, the risk premium that normally biases forward yields higher is likely to remain elevated for some time, and it's something we're not inclined to fight.

GLOBAL MARKETS AND LONG END

Global bond yields continue to grind higher too; albeit in a moderately volatile way. Negative yields remain the norm at the short end in Europe and Japan, but last week saw **5 year yields in yet another G10 market (Sweden) go back above zero again**, while Italian yields have risen on financial stability concerns. **All of this has added fuel to the NZ long end yield sell-off.**

Looking ahead, **more upward pressure is likely** as the market adjusts to the shifting risk profile for the OCR; US bond yields grind higher as the US Federal Reserve (FOMC) acknowledges recent events, we get another payrolls print (+175k expected) and as global investors question their commitment to the US bond market, mindful of Trump's brand of politics. **All of this is a major challenge to the bond market, and portends of higher yields and steeper curves.**

STRATEGY

Investors: We prefer to remain short duration. With inflation picking up, consider **replacing duration in nominals with linkers**. We remain coy on the short end, but expect higher long end yields to steepen the curve.

Borrowers: BKBM is at a record low, but that's cold comfort with term interest rates biased higher. **We believe it makes sense to add to hedges**. But with volatility expected, we prefer to hedge on dips at pre-specified targets. **Rates remain low in the context of the past quarter century** of controlled inflation**.**

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/ bearish	Risk of a break higher. While the short end is elevated vs our forecasts, R+C and the TWI are elevated, and retail rates take pressure off the OCR, nervousness and potential for mortgage paying leaves us cautious.
Long end	Neutral/ bearish	Slow grind higher on Trump trade, Fed/RBNZ tightening expectation, and on improving US data flow and lifting inflation risks in NZ. But politics and other risks suggest a muddle through gradual trend up.
Yield Curve	Biased steeper	Bear steepener driven by the long end ahead of RBNZ hikes in 2018; more upbeat FOMC statement.
Geographic spreads	Neutral/ wider	Ample RBNZ hike risk priced in but Fed hikes conversely under-priced. Local data pulse, corporate hedging and weaker offshore demand suggest that the narrowing trend is close to completion. Narrowing mature.
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	TWI to remain elevated with NZD particularly strong vs. AUD/EUR/Asia. Will help keep a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

The NZD remains well bid and price action remains positive. While we can envisage scenarios where USD and AUD strength will prove to be challenging for the Kiwi, it is difficult to overlook political stability, fiscal flexibility, solid domestic fundamentals, and elevated interest rates. The end result is one that will likely see the NZD hold up fairly well even in the face of a USD comeback. Australian terms of trade surged in Q4, but NZD/AUD remains well supported and we expect it to remain that way for some time.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Local and global data pulse supports	Firmer USD bias ultimately wins
NZD/AUD	↔	Well bid on dips	Push to parity
NZD/EUR	↔/↑	Politics not euro supportive	Divided outlooks
NZD/GBP	↔/↑	Near term Brexit risks elevated	Brexit execution woes weighing
NZD/JPY	↔	Neutral	USD dictating USD/JPY higher

THEMES AND RISKS

- Although the global reflation thematic remains key; local data (CPI) and pending employment figures (HLFS) underscore sound domestic credentials.
- At face value, the USD should get a boost from a more upbeat FOMC this week. Markets are also looking for a solid nonfarm payrolls print (+175k expected).
- Volatility markets are saying all is fine and America First might work, but Trump's brand of politics does pose risks for the USD.

ASSESSMENT

The NZD looks extended at current levels. The TWI sits just below 80. The rates market has a rate hike 70% priced by September. The growth cycle has peaked.

It's hard to disagree with the spirit of firmness though – even if the USD looks due for some strength too:

- New Zealand's inflation cycle has turned up.
- The balance of risks is firmly skewed towards the RBNZ hiking in 2017, although a hike by September faces some key strategic considerations, namely a pending election.
- Firmness in the labour market is a bellwether signal of a strong economic expansion.

Signals permeating across various markets (volatility, equities) **depict a low volatility and benign economic climate**. We certainly find it odd that **the USD has struggled of late despite Trump's ambitious growth and job creation plans**, which will need to be acknowledged by the Fed to some degree. We can harp on all we want about political shenanigans, the durability of the global growth cycle, European fractures et al, the first clear "wall" put up in the form of US immigration bans, **but the "price" doesn't lie**.

Of course the "price" is not always correct and we continue to back the economics which is anything but low risk. However, the challenge is identifying the trigger for a potential turning point.

In the meantime we hold a neutral bias towards the NZD around current levels as it gets jostled between reflation thematics, liquidity uncertainty amidst higher global yields, USD and political twists and turns, and a local picture that, while looking fully factored, remains differentiated compared to most OECD peers.

Divergent inflation trajectories are expected to maintain the NZD/AUD bias higher which remains a buy on dips. A push to parity – while not justified by the economic fundamentals – remains in prospect.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Fair value is 0.93
Yield	↔	Risk of early OCR hikes already priced
Commodities	↔	Good for both
Data	↔	NZ CPI, AU Terms of Trade both strong
Techs	↔/↑	Upward trend channel
Sentiment	↔/↑	More in NZD's favour
Other	↔/↑	Market embracing NZ data
On balance	↔/↑	**To remain elevated in 2017**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair value estimate of ~0.75
Yield	↔/↓	Enough tightening priced in here, arguably not enough in the US
Commodities	↔/↑	ToT have based, a key leg of support
Risk aversion	↔	Has potential to add to volatility
Data	↔/↑	Data flow solid in both countries. Key test this week is how FOMC sees it
Techs	↔/↑	Solid price action, but 0.73 resistance
Sentiment	↔/↑	Dips have been very well supported
Other	↔	HLFS data and FOMC crucial this week
On balance	↔/↑	**No reason to call material decline**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
30-Jan	EC	Economic Confidence - Jan	107.8	107.8	23:00
	EC	Business Climate Indicator - Jan	0.80	0.79	23:00
	EC	Industrial Confidence - Jan	0.2	0.1	23:00
	EC	Services Confidence - Jan	12.7	12.9	23:00
	EC	Consumer Confidence - Jan F	-4.9	-4.9	23:00
31-Jan	GE	CPI YoY - Jan P	2.0%	1.7%	02:00
	GE	CPI MoM - Jan P	-0.5%	0.7%	02:00
	GE	CPI EU Harmonized MoM - Jan P	-0.7%	1.0%	02:00
	GE	CPI EU Harmonized YoY - Jan P	2.0%	1.7%	02:00
	US	Personal Income - Dec	0.4%	0.0%	02:30
	US	Personal Spending - Dec	0.5%	0.2%	02:30
	US	PCE Deflator MoM - Dec	0.2%	0.0%	02:30
	US	PCE Deflator YoY - Dec	1.7%	1.4%	02:30
	US	PCE Core MoM - Dec	0.1%	0.0%	02:30
	US	PCE Core YoY - Dec	1.7%	1.6%	02:30
	US	Pending Home Sales MoM - Dec	1.1%	-2.5%	04:00
	US	Pending Home Sales NSA YoY - Dec	--	1.4%	04:00
	US	Dallas Fed Manf. Activity - Jan	15.0	15.5	04:30
	NZ	Net Migration SA - Dec	--	6220	10:45
	AU	ANZ RM Consumer Confidence Index - 29-Jan	--	117.0	11:30
	UK	GfK Consumer Confidence - Jan	-8	-7	13:01
	AU	NAB Business Conditions - Dec	--	5	13:30
	AU	NAB Business Confidence - Dec	--	5	13:30
	AU	Private Sector Credit MoM - Dec	0.5%	0.5%	13:30
	AU	Private Sector Credit YoY - Dec	5.4%	5.4%	13:30
	NZ	Money Supply M3 YoY - Dec	--	5.9%	15:00
	GE	Retail Sales MoM - Dec	0.6%	-1.7%	20:00
	GE	Retail Sales YoY - Dec	0.5%	3.2%	20:00
	GE	Unemployment Change (000's) - Jan	-5k	-17k	21:55
	GE	Unemployment Claims Rate SA - Jan	6.0%	6.0%	21:55
	UK	Net Consumer Credit - Dec	£1.7B	£1.9B	22:30
	UK	Net Lending Sec. on Dwellings - Dec	£3.2B	£3.2B	22:30
	UK	Mortgage Approvals - Dec	68.9k	67.5k	22:30
	UK	Money Supply M4 MoM - Dec	--	0.4%	22:30
	UK	M4 Money Supply YoY - Dec	--	6.4%	22:30
	EC	Unemployment Rate - Dec	9.8%	9.8%	23:00
	EC	GDP SA QoQ - 4Q A	0.4%	0.3%	23:00
	EC	GDP SA YoY - 4Q A	1.7%	1.7%	23:00
	EC	CPI Estimate YoY - Jan	1.5%	1.1%	23:00
	EC	CPI Core YoY - Jan A	0.9%	0.9%	23:00
1-Feb	US	Employment Cost Index - Q4	0.6%	0.6%	02:30
	US	S&P CoreLogic CS 20-City MoM SA - Nov	0.60%	0.63%	03:00
	US	S&P CoreLogic CS 20-City YoY NSA - Nov	5.04%	5.10%	03:00
	US	Chicago Purchasing Manager - Jan	55.0	53.9	03:45
	NZ	QV House Prices YoY - Jan	--	12.5%	05:30
	NZ	Unemployment Rate - Q4	4.8%	4.9%	10:45
	NZ	Employment Change QoQ - Q4	0.8%	1.4%	10:45
	NZ	Employment Change YoY - Q4	6.1%	6.1%	10:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Feb	NZ	Participation Rate - Q4	70.2%	70.1%	10:45
	NZ	Average Hourly Earnings QoQ - Q4	0.6%	0.3%	10:45
	NZ	Pvt Wages Ex Overtime QoQ - Q4	0.5%	0.4%	10:45
	NZ	Pvt Wages Inc Overtime QoQ - Q4	0.5%	0.4%	10:45
	AU	AiG Perf of Mfg Index - Jan	--	55.4	11:30
	CH	Non-manufacturing PMI - Jan	--	54.5	14:00
	CH	Manufacturing PMI - Jan	51.2	51.4	14:00
	AU	Commodity Index AUD - Jan	--	116.8	18:30
	UK	Nationwide House PX MoM - Jan	0.0%	0.8%	20:00
	UK	Nationwide House Px NSA YoY - Jan	4.3%	4.5%	20:00
	GE	Markit/BME Manufacturing PMI - Jan F	56.5	56.5	21:55
	EC	Markit Manufacturing PMI - Jan F	55.1	55.1	22:00
	UK	Markit PMI Manufacturing SA - Jan	55.9	56.1	22:30
2-Feb	US	MBA Mortgage Applications - 27-Jan	--	4.00%	01:00
	US	ADP Employment Change - Jan	167k	153k	02:15
	US	Markit Manufacturing PMI - Jan F	55.1	55.1	03:45
	US	ISM Manufacturing - Jan	55	54.5	04:00
	US	ISM Prices Paid - Jan	66	65.5	04:00
	US	Construction Spending MoM - Dec	0.30%	0.90%	04:00
	US	FOMC Rate Decision - Feb	0.75%	0.75%	08:00
	NZ	ANZ Job Advertisements MoM - Jan	--	1.60%	10:00
	AU	Trade Balance - Dec	A$2000m	A$1243m	13:30
	AU	Building Approvals MoM - Dec	-1.80%	7.00%	13:30
	AU	Building Approvals YoY - Dec	-11.10%	-4.80%	13:30
	UK	Markit/CIPS Construction PMI - Jan	53.8	54.2	22:30
	EC	PPI MoM - Dec	0.50%	0.30%	23:00
	EC	PPI YoY - Dec	1.20%	0.10%	23:00
3-Feb	UK	Bank of England Bank Rate - Feb	0.25%	0.25%	01:00
	US	Nonfarm Productivity - Q4 P	0.9%	3.1%	02:30
	US	Initial Jobless Claims - 28-Jan	250k	259k	02:30
	US	Continuing Claims - 21-Jan	--	2100k	02:30
	AU	AiG Perf of Services Index - Jan	--	57.7	11:30
	NZ	ANZ Commodity Price - Jan	--	0.7%	13:00
	CH	Caixin PMI Mfg - Jan	51.8	51.9	14:45
	GE	Markit Services PMI - Jan F	53.2	53.2	21:55
	GE	Markit/BME Composite PMI - Jan F	54.7	54.7	21:55
	EC	Markit Services PMI - Jan F	53.6	53.6	22:00
	EC	Markit Composite PMI - Jan F	54.3	54.3	22:00
	UK	Markit/CIPS Services PMI - Jan	55.8	56.2	22:30
	UK	Markit/CIPS Composite PMI - Jan	56.0	56.7	22:30
	EC	Retail Sales MoM - Dec	0.3%	-0.4%	23:00
	EC	Retail Sales YoY - Dec	1.8%	2.3%	23:00
	US	Change in Nonfarm Payrolls - Jan	175k	156k	02:30
	US	Unemployment Rate - Jan	4.7%	4.7%	02:30
	US	Markit Services PMI - Jan F	--	55.1	03:45
	US	Markit Composite PMI - Jan F	--	55.4	03:45
	US	ISM Non-Manf. Composite - Jan	57.0	56.6	04:00

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

Domestic economic momentum is solid, with downside risks mainly stemming from offshore. With inflation showing signs of tentatively lifting, the OCR is on hold, although risks of hikes later this year are non-trivial.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 30 Jan (3:00pm)	RBNZ New Residential Mortgage Lending – Dec	Softer	Compositional changes (away from investors towards first-home buyers) are notable, but new lending growth is expected to continue slowing.
Tue 31 Jan (10:45am)	International Travel & Migration – Dec	Strong	There are few signs that net migrant inflows are slowing and we doubt they will any time soon, given global themes.
Tue 31 Jan (3:00pm)	RBNZ Credit Aggregates – Dec	Easing	The peak in credit growth has passed as LVR restrictions and altered bank behaviour influence.
Wed 1 Feb (10:45am)	Labour Market Statistics – Q4	Tightening	Decent employment growth (0.8% q/q) should see the unemployment rate fall further (to 4.7%). The key is whether stronger wage growth starts to show up.
Thu 2 Feb (10:00am)	ANZ Job Ads – Jan	--	--
Fri 3 Feb (1:00pm)	ANZ Commodity Price Index – Jan	--	--
Tue 7 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Ticking up	With headline inflation lifting off lows, we suspect inflation expectations will tick higher also.
Wed 8 Feb (early am)	GlobalDairyTrade Auction	Consolidating	After some strong price gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
Wed 8 Feb (10:00am)	ANZ Truckometer – Jan	--	--
Wed 8 Feb (1:00pm)	ANZ Monthly Inflation Gauge – Jan	--	--
Thu 9 Feb (9:00am)	RBNZ Monetary Policy Statement	On hold	The conditions justifying an easing bias are no longer as pronounced. While the RBNZ will emphasise that uncertainty is high, we suspect it will shift more towards a neutral stance.
Thu 9 Feb (10:45am)	Building Consents Issued – Dec	Flattening	Positive tailwinds remain, but we do believe that capital and capacity constraints will increasingly cap the upside.
13-17 Feb	REINZ Housing Market Statistics – Jan	Stabilised	The housing market has cooled from its strong mid-2016 pace. We expect it to stabilise around this cooler level.
Mon 13 Feb (10:45am)	Electronic Card Transactions – Jan	Bounce	Spending was surprisingly soft to end the year. We wouldn't be surprised to see a bounce.
Tue 14 Feb (10:45am)	Food Price Index – Jan	Still low	While some indicators point to higher future food price inflation, price growth looks set to stay low in the near term.
Thu 16 Feb (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Feb	--	--
Fri 17 Feb (10:30am)	BNZ-BusinessNZ PMI – Jan	Holding up	The sector continues to perform relatively well, riding on the coat-tails of a strong domestic economy.
Fri 17 Feb (10:45am)	Retail Trade Survey – Q4	Step down	After a decent pace of spending growth in Q2 and Q3, we expect a more modest rate to end the year.
Mon 20 Feb (10:00am)	BNZ-BusinessNZ PSI – Jan	Decent	The index remains at a strong level, and while some pull-back is possible, we see the services sector's outperformance continuing for a while yet.
Mon 20 Feb (10:45am)	PPI – Q4	Off lows	With commodity and consumer prices lifting, producing prices shouldn't be too far behind.
Wed 22 Feb (early am)	GlobalDairyTrade Auction	Consolidating	After some strong price gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (% qoq)	1.1	**0.7**	**0.9**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
GDP (% yoy)	3.5	**3.2**	**3.4**	**3.5**	**3.2**	**3.1**	**2.8**	**2.5**	**2.2**	**2.1**
CPI (% qoq)	0.3	0.4	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**	**0.1**
CPI (% yoy)	0.4	1.3	**1.7**	**1.7**	**1.9**	**1.7**	**2.1**	**2.2**	**2.2**	**2.0**
Employment (% qoq)	1.4	**0.8**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	6.1	**6.1**	**5.3**	**3.4**	**2.3**	**1.9**	**1.7**	**1.6**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.9	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**	**4.3**	**4.2**	**4.2**	**4.1**
Current Account (% GDP)	-2.9	**-2.9**	**-3.0**	**-3.1**	**-3.2**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-1.9	**0.6**	**0.8**	**1.0**	**0.8**	**0.6**	**0.3**	**0.5**	**0.0**	**0.0**
Terms of Trade (% yoy)	-2.3	**0.3**	**-2.9**	**0.5**	**3.2**	**3.2**	**2.7**	**2.1**	**1.4**	**0.8**

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Retail ECT (% mom)	0.8	-0.3	1.2	0.2	-1.2	1.9	0.5	-0.1	-0.1	--
Retail ECT (% yoy)	7.8	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8	--
Credit Card Billings (% mom)	2.1	0.1	-0.8	2.4	-0.9	2.9	3.0	-4.2	3.1	--
Credit Card Billings (% yoy)	9.0	6.1	4.1	5.6	2.2	8.3	10.1	4.1	8.5	--
Car Registrations (% mom)	6.8	-4.1	-0.8	-0.1	2.6	-3.9	12.7	3.4	-6.1	--
Car Registrations (% yoy)	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	--
Building Consents (% mom)	7.8	-0.3	15.8	-4.4	-3.0	-0.8	2.0	-9.2	--	--
Building Consents (% yoy)	13.7	10.2	39.4	7.9	11.9	14.0	14.0	1.5	--	--
REINZ House Price Index (% yoy)	14.5	14.7	14.2	16.3	11.7	9.7	14.4	14.9	13.5	--
Household Lending Growth (% mom)	0.8	0.7	0.8	0.8	0.8	0.8	0.6	0.6	--	--
Household Lending Growth (% yoy)	7.9	8.1	8.3	8.6	8.7	8.8	8.7	8.6	--	--
ANZ Roy Morgan Consumer Conf.	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7
ANZ Business Confidence	6.2	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7	--
ANZ Own Activity Outlook	32.1	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6	--
Trade Balance ($m)	350	343	107	-351	-1240	-1388	-799	-746	-41	--
Trade Bal ($m ann)	52626	52854	52660	52078	51900	51938	51944	51669	51627	--
ANZ World Commodity Price Index (% mom)	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7	--
ANZ World Comm. Price Index (% yoy)	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	--
Net Migration (sa)	5500	5590	5740	5670	5670	6330	6230	6220	--	--
Net Migration (ann)	68110	68432	69090	69015	69119	69954	70282	70354	--	--
ANZ Heavy Traffic Index (% mom)	-2.4	-2.5	5.2	-6.3	7.2	-2.3	-0.4	3.8	-0.1	--
ANZ Light Traffic Index (% mom)	0.2	-1.4	2.7	-0.6	1.0	-1.6	-2.1	1.7	0.1	--

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	Nov-16	Dec-16	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.714	0.693	0.727	0.69	0.67	0.65	0.64	0.64	0.65	0.65
NZD/AUD	0.957	0.962	0.962	0.93	0.93	0.93	0.94	0.97	0.98	0.94
NZD/EUR	0.671	0.659	0.678	0.67	0.66	0.64	0.64	0.64	0.62	0.62
NZD/JPY	80.72	81.10	83.38	79.4	77.1	74.8	73.6	73.6	74.8	74.8
NZD/GBP	0.574	0.562	0.577	0.57	0.55	0.54	0.54	0.52	0.52	0.52
NZ$ TWI	77.1	76.1	79.8	75.6	74.1	72.5	72.1	72.4	72.5	71.8
INTEREST RATES	Oct-16	Nov-16	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
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	2.04	2.00	1.98	2.00	2.00	2.00	2.00	2.10	2.30	2.50
NZ 10-yr bond	3.13	3.33	3.41	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.50	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	0.93	1.00	1.04	1.13	1.20	1.33	1.45	1.60	1.75	2.00
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.77	1.82	1.77	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	27 Dec	23 Jan	24 Jan	25 Jan	26 Jan	27 Jan
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.01	1.98	1.97	1.97	1.97	1.97
NZGB 03/19	2.36	2.27	2.26	2.27	2.33	2.34
NZGB 05/21	2.78	2.65	2.62	2.66	2.72	2.75
NZGB 04/23	3.07	2.92	2.88	2.93	3.00	3.04
NZGB 04/27	3.47	3.25	3.23	3.27	3.36	3.41
2 year swap	2.46	2.42	2.42	2.43	2.46	2.47
5 year swap	3.11	3.00	2.99	3.01	3.02	3.09
RBNZ TWI	77.26	78.77	79.13	79.39	79.71	79.71
NZD/USD	0.6891	0.7187	0.7214	0.7257	0.7258	0.7259
NZD/AUD	0.9583	0.9508	0.9546	0.9612	0.9613	0.9613
NZD/JPY	80.82	81.61	81.84	82.42	82.95	83.55
NZD/GBP	0.5618	0.5767	0.5791	0.5770	0.5754	0.5782
NZD/EUR	0.6593	0.6693	0.6723	0.6748	0.6770	0.6785
AUD/USD	0.7191	0.7559	0.7557	0.7550	0.7550	0.7551
EUR/USD	1.0452	1.0738	1.0730	1.0754	1.0721	1.0699
USD/JPY	117.29	113.55	113.44	113.57	114.29	115.10
GBP/USD	1.2266	1.2463	1.2457	1.2578	1.2613	1.2555
Oil (US$/bbl)	52.01	52.33	52.77	52.38	52.38	52.38
Gold (US$/oz)	1136.75	1215.53	1217.30	1205.39	1204.49	1204.49
Electricity (Haywards)	2.57	3.49	4.13	4.60	3.92	4.14
Baltic Dry Freight Index	--	914	886	862	840	827
NZX WMP Futures (US$/t)	--	3310	3320	3320	3320	3320

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