

15 January 2018

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### NZ ECONOMICS TEAM

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

**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

## TURN THE BEAT AROUND

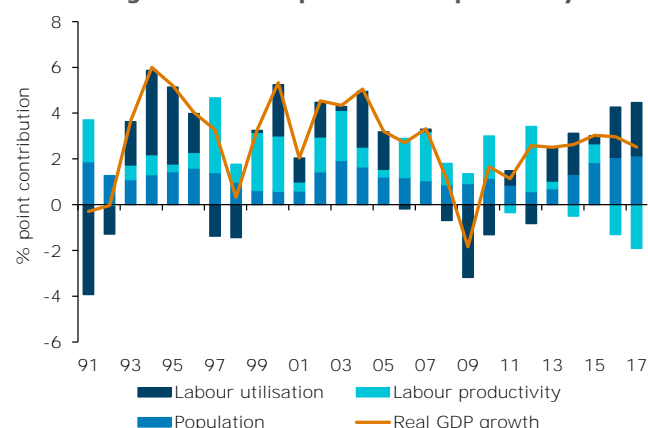
### ECONOMIC OVERVIEW

When we take a look at what has been driving GDP growth over recent years, we are left with the clear impression that the economy will require a reasonable lift in productivity performance if recent GDP growth rates are to be maintained. It is entirely possible that will occur, but it is hard to have strong conviction, given weak productivity trends both here and abroad. **It doesn't mean we are bearish** on the domestic growth outlook, but we do see a more modest pace of growth occurring going forward, lower than official projections. In data this week, the QSBO is likely to show a hit to sentiment, but perhaps not as much as our own Business Outlook. Housing market figures may show further stabilisation, while three of our proprietary indicators (Monthly Inflation Gauge, Truckometer and Commodity Prices) will help form views on how growth, inflation and local farm-gate returns finished 2017.

### CHART OF THE WEEK

The New Zealand economy has been growing on the back of strong population growth and labour utilisation. Productivity performance has been poor, and will need to lift if recent GDP growth rates are to be maintained.

#### Real GDP growth decomposition – September years



Source: Statistics NZ, ANZ Research

### THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.9% y/y for 2018 Q3	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 Q3	The unemployment rate should fall a touch more. Wage growth is benign, but conditions for change are emerging.	Neutral Negative Positive
OCR	1.75% by Sep 2018	With plenty of question marks over the outlook for inflation, it is still an backdrop where we believe the RBNZ will be cautious in tightening policy.	Neutral Down Up
CPI	1.7% y/y for 2018 Q3	Base effects will see headline inflation ease over the next 12 months, but domestic and core inflation should lift gradually.	Neutral Negative Positive

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### SUMMARY

When we take a look at what has broadly been driving GDP growth over recent years (accounting for the latest meaningful revisions), and what that implies for growth from here, we are left with the clear impression that the economy will require a reasonable lift in productivity performance if recent GDP growth rates are to be maintained. It is entirely possible that will occur, but it is hard to have strong conviction, given weak productivity trends both here and abroad. **It doesn't mean we are bearish on the domestic growth outlook, but we do see a more modest pace of growth occurring going forward, and certainly less than official projections.** In data this week, the QSBO is likely to show a hit to sentiment, but perhaps not as much as our own Business Outlook. Housing market figures may show further stabilisation, while three of our proprietary indicators (Monthly Inflation Gauge, Truckometer and Commodity Prices) will help shape views on how growth, inflation and local farm gate returns finished 2017.

### FORTHCOMING EVENTS

**ANZ Monthly Inflation Gauge – December**  
(1:00pm, Monday, 15 January).

**NZIER Quarterly Survey of Business Opinion – Q4** (10:00am, Tuesday, 16 January). Business sentiment is likely to take a hit, but perhaps not to the same extent as our Business Outlook survey. Even so, the survey will still paint a picture of an economy facing a few more headwinds.

**Electronic Card Transactions – December**  
(10:45am, Tuesday, 16 January). Favourable weather over the month could boost hospitality spending. However, we expect a modest rate of growth overall.

**GlobalDairyTrade Auction** (early am, Wednesday, 17 January). A further lift in prices is expected with auction supply further reduced.

**ANZ Truckometer – December** (10:00am, Wednesday, 17 January).

**ANZ Commodity Price Index – December**  
(1:00pm, Wednesday, 17 January).

**REINZ Housing Market Statistics – December**  
(9:00am, Thursday, 18 January). While overall market turnover is likely to remain low, recent signs of stabilisation (at low levels) are likely to have continued.

**BNZ-BusinessNZ PMI – December** (10:30am, Friday, 19 January). Manufacturing sentiment has remained firm and steady, in line with a generally positive global backdrop.

### WHAT'S THE VIEW?

**As 2018 gets underway, one key issue that New Zealand economy watchers will still be pondering is the significance of the recent large revisions to historical GDP growth.** The revisions paint a picture of an economy that has been performing far better than earlier estimated. The level of GDP is now almost 3% higher than previous figures, with quarterly growth since 2015 lifted by an average of 0.2%pts. The revisions go a little way towards answering the question of why per capita growth has been surprisingly poor over the past few years, and help square the circle of the data not marrying particularly well with anecdote, which at the time was generally of an economy that was performing exceptionally well and eating into spare capacity.

Figure 1: New Zealand real GDP growth



Source: Statistics NZ, ANZ Research

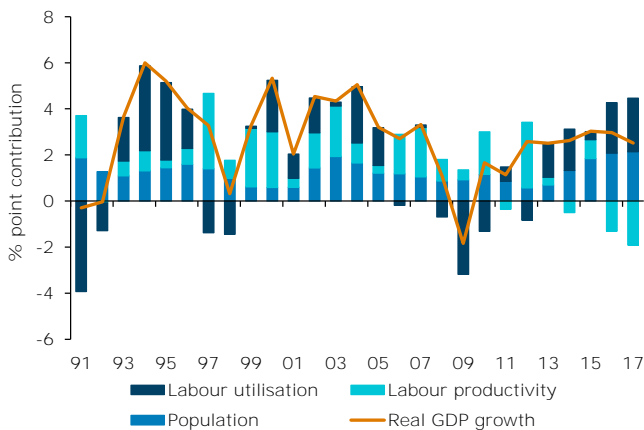
**But the revisions raise a number of other questions.** Namely, what do they imply for the economy's potential rate of growth? And do they alter our views on the outlook for growth from here? With regards to the first question, the lack of sustained domestic inflation pressures would, on the face of it, suggest one should simply assign the revisions to estimates of potential output, rather than revise up the historical output gap. But it is also entirely possible that we have in fact had a decent positive output gap in recent years but also offsetting deflationary forces. We will examine this question more deeply in time. It is the latter question we wish to look at here, and the short answer is no, the revisions are largely bygone, in that they do not have significant implications for our growth forecasts.

**When thinking about future growth, it is useful to first decompose historical growth into its most fundamental drivers,** namely growth in population, productivity and labour utilisation. Figures 2 and 3 below show this decomposition for September years. They highlight that over the past

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couple of years GDP growth has clearly been driven by strong rates of population growth and labour utilisation. These factors have offset a poor productivity growth performance (which, importantly, is still evident even after the upward GDP revisions). Specifically, in the year to September 2017, headline real GDP growth of 2.5% can be thought of being made up of population growth (+2.1%pts) and labour utilisation growth (+2.3%pts) offset by a large drag from a decline in labour productivity (-1.9%pts). Effectively, it signals that as an economy, we have been working harder, but not smarter.

**Figure 2: Annual real GDP growth decomposition – September years**



Source: Statistics NZ, ANZ Research

**Figure 3: Historical real GDP growth decomposition**

Avg annual % change	1998-2008	2009-2016	Year to Sep-2017
<b>Real GDP growth</b>	3.2	1.8	<b>2.5</b>
<i>equals</i>			
<b>Population</b>	1.1	1.2	<b>2.1</b>
<b>plus Labour productivity</b>	1.4	0.5	<b>-1.9</b>
<b>plus Labour utilisation</b>	0.6	0.1	<b>2.3</b>
<i>of which</i>			
Avg. hours worked per worker	-0.3	-0.1	-0.1
Employment rate	0.7	0.0	2.1
Working age ratio	0.2	0.2	0.3

Source: Statistics NZ, ANZ Research

**So what can we deduce from this decomposition about growth heading into 2018 and beyond?**

Ultimately it comes down to the question of whether you believe these strong contributions from population and labour utilisation growth can continue (we doubt it), and whether labour productivity growth is going to step up to the plate (the big unknown).

- **Population growth:** Even ahead of potential policy changes, net migrant inflows appear to have peaked, especially with the number of departures of non-New Zealand and Australian citizens picking up. That should see population growth slow from current strong rates.

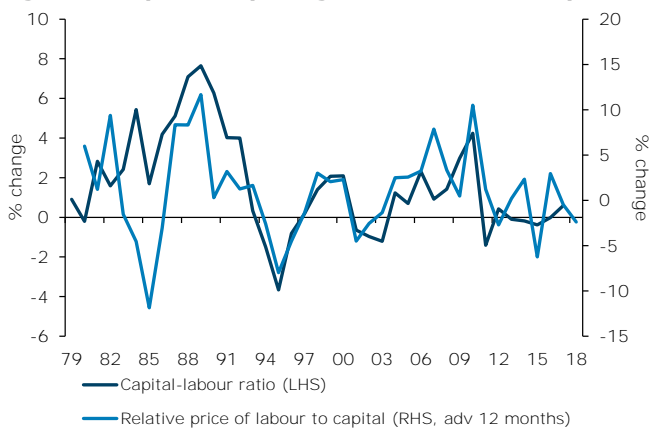
- **Labour utilisation:** Both the employment rate and the participation rate are already at all-time highs. They could rise further, but surely we are approaching some natural upper limit. And even a decline in the rate of increase would reduce their contribution to growth. Alternatively, a boost could come from a large lift in the number of hours worked per worker, but this seems unlikely considering that this has been relatively stable now for the past eight years, and potential changes to labour market policy would seem more likely on balance to work in the other direction, if anything.

**It effectively means that if recent GDP growth rates are to be maintained, then labour productivity growth will have to improve.** Could it? Of course. But it is hard to have strong conviction in this as a forecast, given the recent weak productivity trends both here and abroad. However, there are reasons for a degree of optimism.

- **The negative impact from natural disasters should start to wane.** It is logical to assume that the unfortunate string of natural disasters over recent years will have affected the efficient allocation of resources in the economy and thereby had a negative impact on productivity. How large? It is impossible to say. But with earthquake rebuild efforts maturing, the impact could fade.
- **Capacity and margin pressures could force an efficiency drive.** Firms continue to tell us that finding skilled staff is difficult, and we estimate that corporate profit margins have begun to tighten off decent levels. A cost reduction focus could intensify.
- **Relative factor prices look set to shift.** The capital-labour ratio (a key input into labour productivity growth – workers are more productive when they have better tools) has been disappointingly stable in recent years. However, this is hardly surprising when you consider the signal provided by the relative price of labour and capital, which has also been broadly flat. Throwing labour at a capacity problem has been a pretty cheap and easy option. Yet with signs now pointing to a lift in wage growth, we could see a shift in the balance back in favour of investment. This could result in capital deepening once again, eventually supporting an improved productivity performance.

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Figure 4: Capital deepening and relative factor prices



Source: Statistics NZ, ANZ Research

- Auckland house prices have calmed down.** Auckland's extreme house price relativities have tended to reduce labour mobility across the country, discouraging labour from moving to where it can be most productive. Auckland house prices are still extremely high relative to both incomes and to prices across the rest of the country. But at least the ratios have turned.

Figure 5: Auckland house price ratio to incomes and rest of country



Source: REINZ, Statistics NZ, ANZ Research

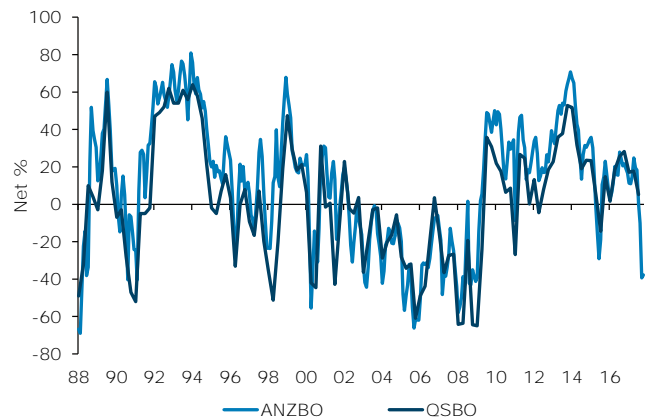
**So perhaps productivity growth is set to stage something of a come-back, at least in a cyclical sense.** But it will need to improve quite dramatically to offset the likelihood of smaller contributions from population and labour utilisation growth.

**Overall it leaves us comfortable with our view that the pace of GDP growth going forward is set to be more modest than recently experienced.** That doesn't make us bearish on the outlook, even though we do believe the economy has some challenges to navigate. And we hope that we are pleasantly surprised by the economy's productivity performance going forward. However, we are less optimistic than official (RBNZ and Treasury)

forecasts, and if we are right, this will have implications for both monetary and fiscal policy going forward.

**Turning to this week's data calendar, the NZIER Quarterly Survey of Business Opinion for Q4 is likely to show a hit to sentiment.** That would certainly be consistent with our own Business Outlook survey, which has reported a sharp fall in confidence. If historical correlations hold then headline confidence could shift from a net 7% of firms optimistic on the year ahead to perhaps more than a net 30% who are now pessimistic. That would be the weakest result since 2008. Firms' expected domestic trading conditions could potentially fall to between zero and a net +5% (from +27% in Q3), which would point to a stalling in economic growth momentum.

Figure 6: Headline business confidence



Source: NZIER, ANZ Research

**However, we see the risks as skewed towards results perhaps not being quite as bad as this.**

The QSBO does not directly survey the agricultural sector, which is the most pessimistic sector within our Business Outlook survey. And recent rains may have eased some drought fears, at least at the margin, for participants in this sector anyway. In addition, it is possible that the new Government's Half-year Economic and Fiscal Update, together with the Budget Policy Statement (which was released after the December Business Outlook survey was closed off), which showed that right now there is money in the kitty for the Government's operating and capital spending plans, may have also allayed some fears in the business community about a less steady hand on the fiscal tiller.

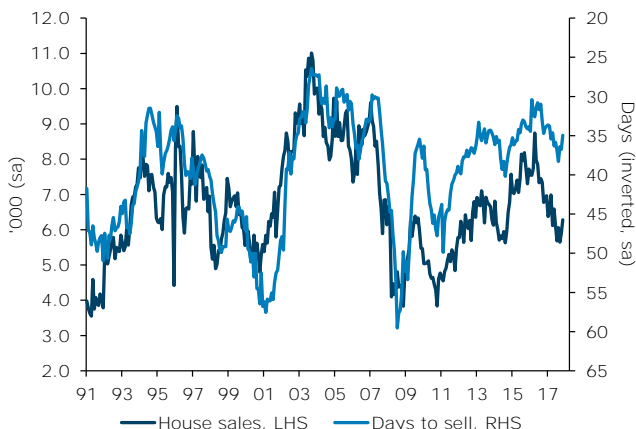
**That being said, we nonetheless expect the survey to paint a picture of an economy facing a few more headwinds.** We suspect capacity pressures, while perhaps not quite as intense as they were (or at least no longer the 'main' problem facing firms), will still feature. However, firms are likely to show more caution regarding investment and hiring

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plans. Forward-looking gauges are likely to be more modest, and growing margin pressure is likely to see profit expectations also take a further hit. A key question will be whether or not firms attempt to recoup this margin squeeze by attempting, or expecting, to push through price increases. There were some signs of this in recent Business Outlook surveys, although the issue will be how successful such attempts prove to be, with pricing intentions not flowing through into actual inflation in recent years as they had previously tended to do.

**REINZ housing market figures for December will be watched to see if recent signs of life have continued.** In November, seasonally adjusted sales volumes rose 6.4% m/m, which was the third increase in the past four months. In addition, the median number of days to sell fell to the shortest period since April, and national house prices (based on the REINZ House Price Index) rose for a fourth straight month. The Auckland market has been performing better too. While Auckland annual house price growth remains modest at 0.4% y/y, over the past three months, Auckland prices have lifted at a faster pace than the rest of the country (2.1% versus 1.6%). Ultimately, we view this as more of a stabilisation message than early signs of a market set to take off again, and are still of the view that affordability constraints, credit headwinds and the policies of the new Government will limit the potential for a strong resurgence.

**Figure 7: Nationwide house sales and days to sell**

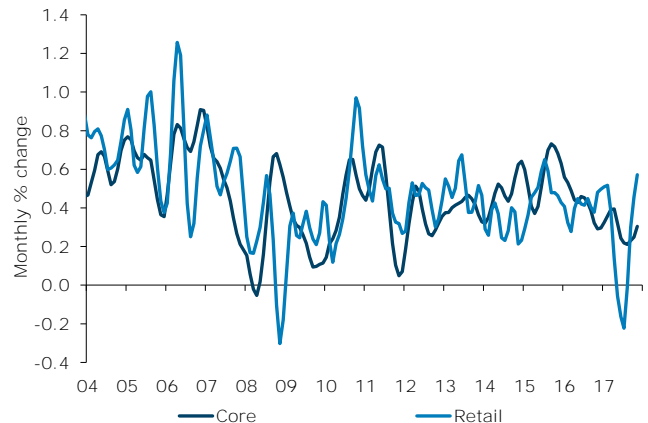


Source: REINZ, ANZ Research

**Electronic Card Transactions figures for December are likely to show a modest pace of spending growth.** We continue to believe that on an underlying trend basis, the softer housing market, together with moderating consumer confidence, will constrain spending growth. That said, favourable weather in December is likely to have provided a nice boost to hospitality spending, supporting the overall numbers. It is therefore likely that the ECT figures

will imply a stronger pace of overall retail sales growth in Q4 than in Q3 (where total retail sales volumes rose a measly 0.2% q/q). On a 3m/3m basis, total spending values were running at 0.8% in November, up from -0.6% in September. It would take a decent fall in December spending for this run-rate not to accelerate further.

**Figure 8: ECT retail spending – monthly trend**



Source: Statistics NZ, ANZ Research

**A further lift in dairy prices is expected at this week's GDT auction as supply is further reduced.** NZX futures are pointing to a 3% increase for whole milk powder (WMP) and 2% improvement in the GDT-TWI. While this looks reasonable, some caution is required as NZX futures have tended to overstate things this season: 14 of the last 16 GDT events have disappointed versus futures-implied expectations.

**The bounce in prices to start the new calendar year has been driven solely by reduced offer volumes. The local milk production pulse tapered off badly in December through to the recent period of rain.** Combined with a bare cupboard (low inventory levels) to start with, this has seen GDT offer volumes reduced by 27,300t, or a 4.4% reduction in annual supply. Of the total reduction, WMP has accounted for just over 20,000t, ie more than two thirds.

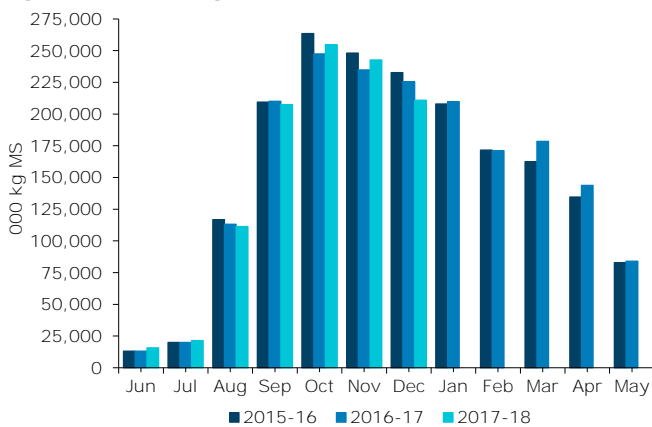
**This week's auction volumes have been lowered by a more aggressive 17,000t,** with most of the reduction front-loaded into the January-March period. This will no doubt prompt buyers who are currently short of WMP and milkfat into action, which could cause a spike in prices. NZX future prices, other sales channel pricing (i.e. outside of GDT) and the technical picture all indicate a lift towards USD3,000/t for WMP. However, a larger spike can't be ruled out if enough buyers hit the panic button.

**That said, what should temper any buyer panic is the recent rain since the New Year, and the**

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**fact more is forecast this week.** In what feels like somewhat of a repeat of last season, the rain appears to have arrived just in time. However, this year it is 6-7 weeks earlier, potentially meaning a much better summer period (higher production months) – just look what happened in March/April last year following decent rain (figure 9). This makes Fonterra's revised production forecast of a 3% y/y fall for 2017/18 look far too pessimistic. The forecast implies a 6.5% fall in milk supply over the December-May period. While December will not look so good, we expect January/February will now show a decent pick-up. Combined with record use of Palm Kernel Extract, we are still optimistic that a flat to slightly positive result for overall milk production can still be delivered. To be fair, it is unlikely that additional supply will be added back onto GDT, but it should still temper the extent of the bounce in prices.

**Figure 9: NZ milk production**

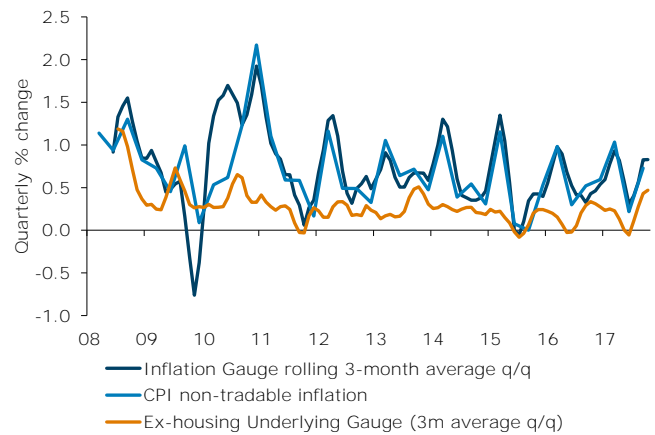


Source: DCANZ, ANZ Research

**This week also sees the release of three of our key proprietary indicators for December.** These will help shape our views on how growth, inflation and farm gate returns finished 2017. Looking at what happened in their last readings:

- Monthly Inflation Gauge:** Prices rose 0.2% m/m in November, lifting annual growth to 2.8%. The Underlying Ex-housing Gauge rose 0.1% m/m to be up 1.1% y/y. **That's still low, but it** was the first time it had broken out of the 0-1% range since late 2014. Over the past three years, the December increase in the headline gauge has averaged 0.2% m/m. An increase of that magnitude would imply a roughly 0.7% q/q lift in non-tradable CPI inflation for the December quarter, which would be stronger than the RBNZ's implied forecasts (0.4% q/q).

**Figure 10: ANZ Monthly Inflation Gauge**



Source: Statistics NZ, ANZ Research

- Truckometer:** The Heavy and Light Traffic indexes rose by 1.1% m/m and 1.5% m/m in November, and after implying a soft Q3 for economic momentum, suggest a much firmer performance in Q4. The December figures will complete the quarter and confirm whether or not that was the case.
- Commodity Price Index:** In November, the world price index slipped 0.9% m/m, the fourth fall in five months. While dairy was the main drag, nine of the 17 subcomponents fell, so there was some broad-based weakness. The saving grace was the fact that the lower NZD helped boost NZD prices by 1.5% m/m. They are up 12% y/y. As we look toward 2018, with the NZD strengthening again, global prices will need to bounce in order for local farm-gate returns to be sustained.

### LOCAL DATA

**ANZ Job Ads – December.** Total advertising fell 0.3% m/m, with annual growth easing to 6.1%.

**Building Consents – November.** Total dwelling consents rebounded 10.8% m/m after falling 10.8% m/m the previous month.

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
15-Jan	NZ	ANZ Monthly Inflation Gauge - Dec	--	0.2%	13:00
	AU	Melbourne Institute Inflation MoM - Dec	--	0.2%	13:00
	AU	Melbourne Institute Inflation YoY - Dec	--	2.7%	13:00
	UK	Rightmove House Prices MoM - Jan	--	-2.6%	13:01
	UK	Rightmove House Prices YoY - Jan	--	1.2%	13:01
	EC	Trade Balance SA - Nov	€22.3B	€19.0B	23:00
	EC	Trade Balance NSA - Nov	--	€18.9B	23:00
	CH	Foreign Direct Investment YoY CNY - Dec	--	90.7%	12-18 Jan
	NZ	REINZ House Sales YoY - Dec	--	-8.9%	12-19 Jan
16-Jan	NZ	NZIER QSBO - Q4	--	5.21	10:00
	NZ	Card Spending Retail MoM - Dec	0.5%	1.2%	10:45
	NZ	Card Spending Total MoM - Dec	--	1.4%	10:45
	AU	ANZ-RM Consumer Confidence Index - 14-Jan	--	122.0	11:30
	AU	New Motor Vehicle Sales MoM - Dec	--	0.1%	13:30
	AU	New Motor Vehicle Sales YoY - Dec	--	2.1%	13:30
	NZ	Non Resident Bond Holdings - Dec	--	60.4%	15:00
	GE	Wholesale Price Index MoM - Dec	--	0.5%	20:00
	GE	Wholesale Price Index YoY - Dec	--	3.3%	20:00
	GE	CPI MoM - Dec F	0.6%	0.6%	20:00
	GE	CPI YoY - Dec F	1.7%	1.7%	20:00
	GE	CPI EU Harmonized MoM - Dec F	0.8%	0.8%	20:00
	GE	CPI EU Harmonized YoY - Dec F	1.6%	1.6%	20:00
	UK	CPI MoM - Dec	0.4%	0.3%	22:30
	UK	CPI YoY - Dec	3.0%	3.1%	22:30
	UK	CPI Core YoY - Dec	2.6%	2.7%	22:30
	UK	Retail Price Index - Dec	277.6	275.8	22:30
	UK	RPI MoM - Dec	0.6%	0.2%	22:30
	UK	RPI YoY - Dec	3.9%	3.9%	22:30
	UK	RPI Ex Mort Int.Payments (YoY) - Dec	3.9%	4.0%	22:30
	UK	PPI Input NSA MoM - Dec	0.4%	1.8%	22:30
	UK	PPI Input NSA YoY - Dec	5.3%	7.3%	22:30
	UK	PPI Output NSA MoM - Dec	0.2%	0.3%	22:30
	UK	PPI Output NSA YoY - Dec	2.9%	3.0%	22:30
	UK	PPI Output Core NSA MoM - Dec	0.2%	0.2%	22:30
	UK	PPI Output Core NSA YoY - Dec	2.3%	2.2%	22:30
	UK	House Price Index YoY - Nov	4.2%	4.5%	22:30
17-Jan	US	Empire Manufacturing - Jan	19.0	18.0	02:30
	NZ	ANZ Truckometer Heavy MoM - Dec	--	1.1%	10:00
	AU	Westpac Consumer Conf Index - Jan	--	103.3	12:30
	AU	Westpac Consumer Conf SA MoM - Jan	--	3.6%	12:30
	NZ	ANZ Commodity Price - Dec	--	-0.9%	13:00
	AU	Home Loans MoM - Nov	0.0%	-0.6%	13:30
	AU	Investment Lending - Nov	--	1.6%	13:30
	AU	Owner-Occupier Loan Value MoM - Nov	--	0.0%	13:30
	EC	Construction Output MoM - Nov	--	-0.4%	23:00
	EC	Construction Output YoY - Nov	--	2.0%	23:00
	EC	CPI MoM - Dec	0.4%	0.1%	23:00
	EC	CPI YoY - Dec F	1.4%	1.5%	23:00

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## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-Jan	EC	CPI Core YoY - Dec F	0.9%	0.9%	23:00
18-Jan	US	MBA Mortgage Applications - 12-Jan	--	8.3%	01:00
	US	Industrial Production MoM - Dec	0.4%	0.2%	03:15
	US	Capacity Utilization - Dec	77.3%	77.1%	03:15
	US	Manufacturing (SIC) Production - Dec	0.3%	0.2%	03:15
	US	NAHB Housing Market Index - Jan	72.0	74.0	04:00
	US	US Federal Reserve Releases Beige Book	--	--	08:00
	US	Total Net TIC Flows - Nov	--	\$151.2B	10:00
	US	Net Long-term TIC Flows - Nov	--	\$23.2B	10:00
	AU	Consumer Inflation Expectation - Jan	--	3.7%	13:00
	UK	RICS House Price Balance - Dec	-1%	0%	13:01
	AU	Employment Change - Dec	15.0k	61.6k	13:30
	AU	Unemployment Rate - Dec	5.4%	5.4%	13:30
	AU	Full Time Employment Change - Dec	--	41.9k	13:30
	AU	Part Time Employment Change - Dec	--	19.7k	13:30
	AU	Participation Rate - Dec	65.5%	65.5%	13:30
	AU	RBA FX Transactions Market - Dec	--	A\$343M	13:30
	AU	RBA FX Transactions Government - Dec	--	-A\$457M	13:30
	AU	RBA FX Transactions Other - Dec	--	A\$43M	13:30
	CH	GDP SA QoQ - Q4	1.7%	1.7%	20:00
	CH	GDP YoY - Q4	6.7%	6.8%	20:00
	CH	GDP YTD YoY - Q4	6.8%	6.9%	20:00
	CH	Retail Sales YoY - Dec	10.2%	10.2%	20:00
	CH	Retail Sales YTD YoY - Dec	10.3%	10.3%	20:00
	CH	Industrial Production YoY - Dec	6.1%	6.1%	20:00
	CH	Industrial Production YTD YoY - Dec	6.6%	6.6%	20:00
	CH	Fixed Assets Ex Rural YTD YoY - Dec	7.1%	7.2%	20:00
19-Jan	US	Housing Starts - Dec	1275k	1297k	02:30
	US	Housing Starts MoM - Dec	-1.7%	3.3%	02:30
	US	Building Permits - Dec	1290k	1303k	02:30
	US	Building Permits MoM - Dec	-1.0%	-1.0%	02:30
	US	Philadelphia Fed Business Outlook - Jan	24.0	27.9	02:30
	US	Initial Jobless Claims - 13-Jan	250k	261k	02:30
	US	Continuing Claims - 6-Jan	1895k	1867k	02:30
	NZ	BusinessNZ Manufacturing PMI - Dec	--	57.7	10:30
	GE	PPI MoM - Dec	0.2%	0.1%	20:00
	GE	PPI YoY - Dec	2.3%	2.5%	20:00
	EC	ECB Current Account SA - Nov	--	€30.8B	22:00
	EC	Current Account NSA - Nov	--	€35.9B	22:00
	UK	Retail Sales Ex Auto Fuel MoM - Dec	-1.0%	1.2%	22:30
	UK	Retail Sales Ex Auto Fuel YoY - Dec	2.6%	1.5%	22:30
	UK	Retail Sales Inc Auto Fuel MoM - Dec	-0.9%	1.1%	22:30
	UK	Retail Sales Inc Auto Fuel YoY - Dec	2.6%	1.6%	22:30
20-Jan	US	U. of Mich. Sentiment - Jan P	97.0	95.9	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

We expect the near-term data flow to be a little more mixed, reflecting headwinds the economy is currently facing. That said, 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
Mon 15 Jan (1:00pm)	ANZ Monthly Inflation Gauge – Dec	--	--
Tue 16 Jan (10:00am)	NZIER Quarterly Survey of Business Opinion – Q4	Sentiment hit	Business confidence is likely to take a hit. However, we <b>suspect it won't be quite</b> as weak as implied by our Business Outlook survey.
Tue 16 Jan (10:45am)	Electronic Card Transactions – Dec	Modest	Hospitality spending could receive a boost from favourable weather, but the underlying trend will remain modest.
Wed 17 Jan (10:00am)	ANZ Truckometer – Dec	--	--
Wed 17 Jan (1:00pm)	ANZ Commodity Price Index – Dec	--	--
Thu 18 Jan (9:00am)	REINZ Housing Market Statistics – Dec	Stabilising	While overall market turnover is likely to remain low, recent signs of stabilisation (at this low level) are likely to have continued.
Fri 19 Jan (10:30am)	BNZ-BusinessNZ PMI – Dec	Holding up	Manufacturing sentiment has remained firm and steady – in line with a generally positive global backdrop.
Tue 23 Jan (10:30am)	BNZ-BusinessNZ PSI – Dec	Likewise	Despite political uncertainty and the softer housing market, services sector activity has continue to perform well.
Thu 25 Jan (10:45am)	CPI – Q4	0.4% q/q	We will finalise our pick after our Monthly Inflation Gauge, but annual inflation should hold near 1.9%.
Mon 29 Jan (3:00pm)	RBNZ New Mortgage Lending – Dec	Stabilising	With housing market turnover stabilising at a lower level, new mortgage lending should do the same.
Tue 30 Jan (10:45am)	Overseas Merchandise Trade – Dec	Import strength	<b>Import growth has been strong of late, but we suspect we'll</b> see more modest growth over the coming months.
Wed 31 Jan (3:00pm)	RBNZ Sectoral Lending – Dec	Modest	A more modest rate of overall credit growth should continue, with the ratio of private sector credit to GDP easing further.
Thu 1 Feb (10:00am)	ANZ Job Ads – Jan	--	--
Fri 2 Feb (10:00am)	ANZ-Roy Morgan Consumer Confidence – Jan	--	--
Fri 2 Feb (10:45am)	Building Consent Issuance – Dec	Capped	There has been plenty of volatility of late, but we still see annual issuance capped around 30k.
Fri 2 Feb (10:45am)	International Travel and Migration – Dec	Peaked	<b>We don't see net inflows falling quickly, but we</b> do believe that a peak has been seen.
Mon 5 Feb (1:00pm)	ANZ Commodity Price Index – Jan	--	--
Wed 7 Feb (10:45am)	Labour Market Statistics – Q4	Unwind	After the almost unbelievable strength in the Q3 figures, we expect some unwind in Q4.
Thu 8 Feb (9:00am)	RBNZ Monetary Policy Statement	On hold	Recent GDP revisions will be pondered, but we suspect a neutral stance will be maintained overall.
Fri 9 Feb (10:00am)	ANZ Truckometer – Jan	--	--
<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

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
GDP (% qoq)	0.6	<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>	<b>0.6</b>
GDP (% yoy)	2.7	<b>2.9</b>	<b>2.7</b>	<b>2.6</b>	<b>2.9</b>	<b>3.2</b>	<b>3.3</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>
CPI (% qoq)	0.5	<b>0.4</b>	<b>0.5</b>	<b>0.2</b>	<b>0.6</b>	<b>0.3</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>0.1</b>
CPI (% yoy)	1.9	<b>1.9</b>	<b>1.4</b>	<b>1.6</b>	<b>1.7</b>	<b>1.5</b>	<b>1.7</b>	<b>2.1</b>	<b>2.3</b>	<b>2.1</b>
Employment (% qoq)	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>	<b>0.3</b>
Employment (% yoy)	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>	<b>1.2</b>
Unemployment Rate (% sa)	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>	<b>4.4</b>
Current Account (% GDP)	-2.5	<b>-2.6</b>	<b>-2.3</b>	<b>-2.5</b>	<b>-2.8</b>	<b>-2.9</b>	<b>-2.9</b>	<b>-2.9</b>	<b>-2.9</b>	<b>-2.8</b>
Terms of Trade (% qoq)	0.8	<b>-1.6</b>	<b>-1.5</b>	<b>-0.8</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
Terms of Trade (% yoy)	12.4	<b>4.5</b>	<b>-1.0</b>	<b>-3.1</b>	<b>-3.9</b>	<b>-2.2</b>	<b>-0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Retail ECT (% mom)	-0.4	1.0	-0.4	0.0	-0.6	0.2	0.2	0.5	1.2	--
Retail ECT (% yoy)	5.6	4.5	5.2	4.5	2.0	4.4	2.9	1.3	4.3	--
Credit Card Billings (% mom)	1.0	1.1	1.0	0.3	0.7	-0.6	0.8	1.0	0.8	--
Credit Card Billings (% yoy)	7.2	6.6	7.5	8.4	7.0	6.5	5.0	3.0	9.1	--
Car Registrations (% mom)	3.5	-2.7	3.8	-2.6	-4.6	9.4	-1.3	2.2	1.5	-4.8
Car Registrations (% yoy)	16.5	3.0	13.7	11.1	6.2	13.5	15.6	7.3	7.3	4.7
Building Consents (% mom)	-2.5	-1.9	1.5	0.7	3.2	6.2	-2.2	-10.4	10.7	--
Building Consents (% yoy)	11.3	3.9	4.8	-7.9	-1.6	13.8	7.3	-7.3	13.6	--
REINZ House Price Index (% yoy)	10.6	9.1	6.7	5.3	3.2	2.7	3.7	3.4	3.5	--
Household Lending Growth (% mom)	0.5	0.5	0.4	0.5	0.3	0.4	0.5	0.4	0.4	--
Household Lending Growth (% yoy)	8.7	8.3	7.9	7.6	7.1	6.7	6.5	6.3	6.1	--
ANZ Roy Morgan Consumer Conf.	125.2	121.7	123.9	127.8	125.4	126.2	129.9	126.3	123.7	121.8
ANZ Business Confidence	11.3	11.0	14.9	24.8	19.4	18.3	0.0	-10.1	-39.3	-37.8
ANZ Own Activity Outlook	38.8	37.7	38.3	42.8	40.3	38.2	29.6	22.2	6.5	15.6
Trade Balance (\$m)	262	547	62	243	92	-1174	-1165	-843	-1193	--
Trade Bal (\$m ann)	52404	52588	53218	53530	53742	53982	54084	54759	55987	--
ANZ World Comm. Price Index (% mom)	0.4	-0.2	3.2	2.1	-0.8	-0.8	0.8	-0.3	-0.9	--
ANZ World Comm. Price Index (% yoy)	23.0	23.7	26.3	24.6	21.1	16.3	11.5	10.4	6.0	--
Net Migration (sa)	6180	5840	5960	6320	5740	5450	5240	5610	5610	--
Net Migration (ann)	71932	71885	71964	72305	72402	72072	70986	70694	70354	--
ANZ Heavy Traffic Index (% mom)	1.5	-2.2	4.0	-0.5	-6.0	6.5	-1.5	2.9	1.1	--
ANZ Light Traffic Index (% mom)	1.3	-1.4	1.2	1.2	-2.2	2.7	-0.1	-0.6	1.5	--

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)						
	Nov-17	Dec-17	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZD/USD	0.683	0.710	0.725	0.71	0.72	0.69	0.67	0.66	0.65	0.65
NZD/AUD	0.903	0.909	0.916	0.89	0.88	0.90	0.91	0.92	0.93	0.93
NZD/EUR	0.578	0.591	0.594	0.62	0.65	0.62	0.58	0.56	0.54	0.52
NZD/JPY	76.79	79.99	80.53	83.8	83.5	77.3	69.7	68.6	65.0	65.0
NZD/GBP	0.508	0.525	0.528	0.53	0.53	0.50	0.49	0.48	0.47	0.47
NZ\$ TWI	71.0	73.0	75.1	74.0	75.2	72.4	69.7	68.5	67.2	66.4
INTEREST RATES	Nov-17	Dec-17	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25	2.25
NZ 90 day bill	1.91	1.88	1.88	1.95	1.97	2.07	2.34	2.50	2.50	2.59
NZ 10-yr bond	2.72	2.72	2.87	2.85	3.05	3.25	3.40	3.45	3.50	3.50
US Fed funds	1.25	1.50	1.50	1.50	1.75	2.00	2.25	2.25	2.50	2.50
US 3-mth	1.49	1.69	1.72	1.75	2.05	2.20	2.45	2.45	2.45	2.45
AU Cash Rate	1.50	1.50	1.50	1.50	1.75	2.00	2.00	2.00	2.00	2.00
AU 3-mth	1.74	1.80	1.80	1.80	2.00	2.30	2.40	2.40	2.40	2.40

	12 Dec	8 Jan	9 Jan	10 Jan	11 Jan	12 Jan
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.88	1.88	1.87	1.87	1.87	1.87
NZGB 03/19	1.81	1.78	1.78	1.78	1.78	1.78
NZGB 05/21	2.11	2.11	2.13	2.15	2.15	2.13
NZGB 04/23	2.41	2.37	2.39	2.42	2.42	2.40
NZGB 04/27	2.84	2.80	2.81	2.85	2.87	2.85
2 year swap	2.17	2.18	2.19	2.20	2.21	2.21
5 year swap	2.65	2.66	2.67	2.71	2.72	2.71
RBNZ TWI	73.41	74.60	74.84	74.71	75.03	75.55
NZD/USD	0.6949	0.7175	0.7173	0.7213	0.7230	0.7242
NZD/AUD	0.9176	0.9153	0.9172	0.9181	0.9181	0.9159
NZD/JPY	78.85	81.17	80.92	80.34	80.72	80.45
NZD/GBP	0.5210	0.5297	0.5301	0.5327	0.5358	0.5281
NZD/EUR	0.5901	0.5977	0.6014	0.6014	0.6052	0.5943
AUD/USD	0.7573	0.7838	0.7820	0.7857	0.7875	0.7917
EUR/USD	1.1776	1.2004	1.1928	1.1995	1.1947	1.2202
USD/JPY	113.45	113.13	112.82	111.38	111.64	111.06
GBP/USD	1.3339	1.3546	1.3532	1.3541	1.3494	1.3728
Oil (US\$/bbl)	57.14	61.73	62.96	63.57	63.80	64.30
Gold (US\$/oz)	1244.01	1320.18	1314.96	1321.29	1319.51	1337.64
Electricity (Haywards)	16.15	7.19	8.85	9.85	11.24	10.01
Baltic Dry Freight Index	1743	1385	1395	1366	1303	1279
NZX WMP Futures (US\$/t)	2845	2875	2885	2885	2885	2885

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