

New Zealand Weekly Focus

10 June 2019



This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

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One cut won't cut it

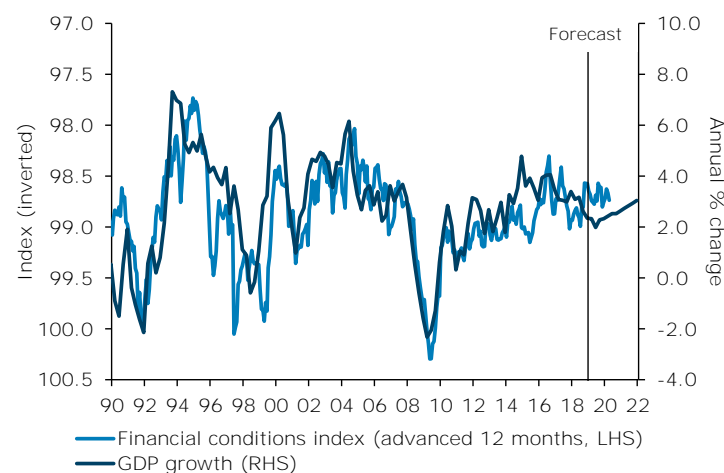
Economic overview

The OCR, at 1.5%, is now at a record low. The RBNZ's pre-emptive cut has been effective in easing financial conditions in New Zealand via both a lower NZD and a drop in lending rates. While this will provide a tailwind to growth, other headwinds are evident. Businesses are reluctant to spend and invest, the residential construction outlook is looking increasingly precarious, and global growth is faltering. There is also a risk that financial conditions could tighten sharply over the next year. We think that more OCR cuts will be needed to ease financial conditions further and ensure that monetary policy supports a gradual recovery in growth, inflation, and employment.

Chart of the week

Headwinds are dominating the New Zealand economic picture at present, but the tailwind from financial conditions suggests growth will gradually accelerate before too long.

ANZ Financial Conditions Index for New Zealand



Source: Statistics NZ, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.4% y/y for 2020 Q1	Growth has slowed, and we expect this process has a little further to run before OCR cuts support a gradual acceleration.	Neutral
Unemployment rate	4.4% for 2020 Q1	The labour market is "tight", but further improvement appears limited. Wage and employment growth to remain modest.	Neutral
OCR	1.00% in March 2020	The RBNZ cut the OCR in May. We expect further cuts in November 2019 and February 2020.	Neutral
CPI	2.1% y/y for 2020 Q1	Domestic inflation appears near its peak for now, but OCR cuts should support a gradual rise over the longer term.	Neutral



The RBNZ's rate cut has eased financial conditions...

...but we think more rate cuts are needed to support growth

Summary

The OCR, at 1.5%, is now at a record low. The RBNZ's pre-emptive cut has been effective in easing financial conditions in New Zealand via both a lower NZD and a drop in lending rates. While this will provide a tailwind to growth, other headwinds are evident. Businesses are reluctant to spend and invest, the residential construction outlook is looking increasingly precarious, and global growth is faltering. There is also a risk that financial conditions could tighten sharply over the next year. We think that more OCR cuts will be needed to ease financial conditions further and ensure that monetary policy supports a gradual recovery in growth, inflation and employment.

Forthcoming data

REINZ housing market data – May (10-15 June). These data have been volatile of late. We'll be looking to see where the trend is settling.

ANZ Truckometer – May (Tuesday 11 June, 10:00am).

Economic Survey of Manufacturing – Q1 (Tuesday 11 June, 10:45am). Broadly stable with primary manufacturing due to retrace some of Q4's strength.

Permanent and Long-Term Migration – April (Wednesday 12 June, 10:45am). Still not confident in the recent data. Let's see what April data brings.

Short-term Visitor Arrivals – April (Wednesday 12 June, 10:45am). Affected by recent data changes too. Holding up on an annual basis, but we see limited upside.

Electronic Card Transactions – May (Wednesday 12 June, 10:45am). Not giving a good read on the household sector at present. We'll look through the noisy signal.

BusinessNZ-BNZ Manufacturing PMI – May (Friday 14 June, 10:45am). We expect the PMI to stay range bound.

Food Price Index – May (Friday 14 June, 10:45am). A lift in food prices from fruit, vegetables and meats should support a rise in the food group for the quarter.

Rental Price Index – May (Friday 14 June, 10:45am). Rental prices should support a solid quarterly rise in CPI rents. We expect a rise of 0.3% for the month.

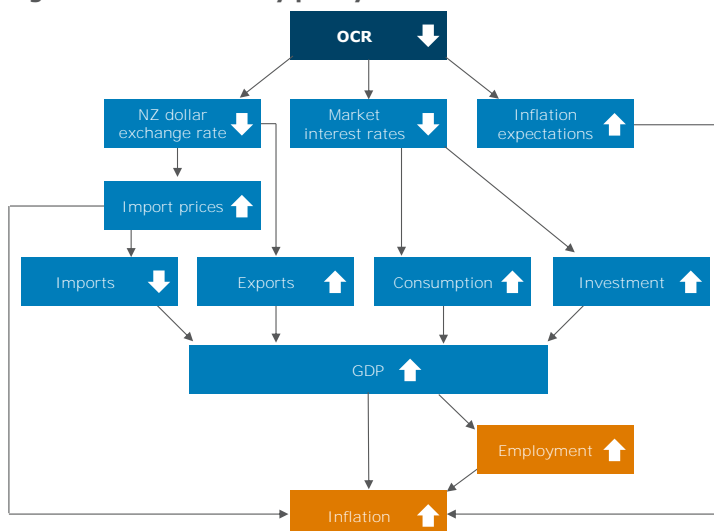
What's the view?

The RBNZ cut the OCR to 1.5% at the May Monetary Policy Statement, to support employment and get inflation back to 2% sustainably. There are a few channels (figure 1) through which the OCR cut have been effective in easing financial conditions, but we think more cuts are needed to support a pick-up in growth.

RBNZ cut the OCR to 1.5% in May

There are a few channels through which the rate cut has been effective

Figure 1. The monetary policy transmission mechanism



Source: RBNZ, ANZ Research



Economic overview

The NZD has fallen...

...boosting exporters' incomes and imported inflation

For a small open economy, the exchange rate is an important channel for monetary policy, and interest rate differentials versus other countries matter for the NZD. All else equal, lower interest rates here mean less foreign money coming here and hence a lower currency.

And that is indeed what we've seen. Most of the recent fall in the NZD in fact already occurred back at the March OCR Review, when the RBNZ signalled that a lower OCR would likely be needed (figure 2). The OCR cut in May helped to lock in this fall.

The lower NZD will boost exporters' incomes and their spending. But with the global outlook fragile, we suspect the pass-through to the rest of the economy will be a little more muted than otherwise – deleveraging seems more likely than a spend-up. The fall in the NZD will also increase imported prices, which will encourage domestic spending, rather than imported spending, and will give inflation a boost (figure 3). However, the recent sharp fall in global oil prices will offset this, and rising expectations for Federal Reserve rate cuts has started to put upward pressure on the NZD again.

Figure 2. NZD trade weighted index

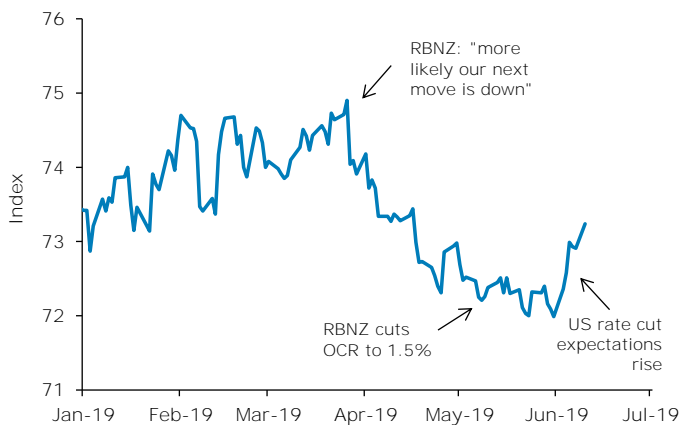
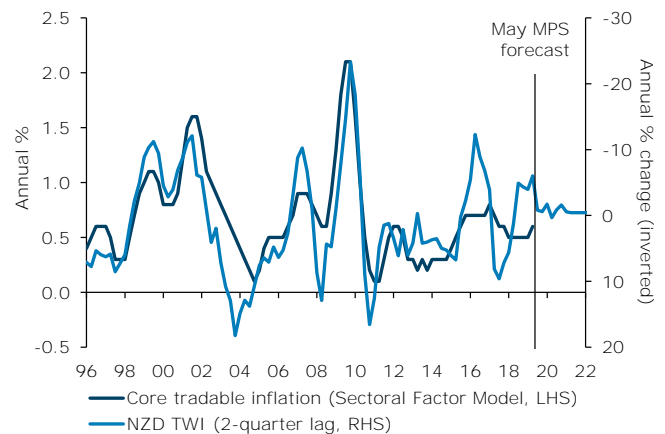


Figure 3. NZD and tradable inflation



Mortgage rates have dropped, particularly for fixed terms

Mortgage rates have fallen over the past year, particularly for fixed terms (figure 4), which about 80% of mortgages are on. Typically the focus is on the current OCR, but it is actually expectations about the future OCR and the future stance of the RBNZ that are most important for moving these longer-term interest rates. We expect the fall in mortgage rates to help stabilise the housing market, rather than see it accelerate. But as mortgage rate changes flow through, current mortgage holders will be left with more cash to spend elsewhere.

Figure 4. Mortgage rates



Source: RBNZ, interest.co.nz, ANZ Research

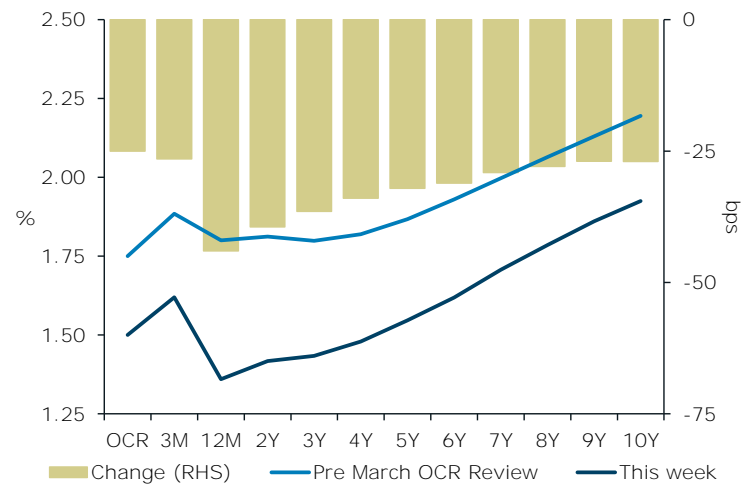


Economic overview

Pressure on business lending rates has reduced, with wholesale rates down

The drop in the OCR will, at the margin, relieve upward pressure on business lending rates. Interest rates in wholesale debt markets have also declined (figure 5), meaning that corporates can now issue debt more cheaply. With lower financing costs, investment projects are now a bit more attractive than they were. In addition, lower deposit rates increase the incentive for firms to spend and invest, rather than sit on cash.

Figure 5. NZ wholesale swap interest rates since the 27 March OCR Review



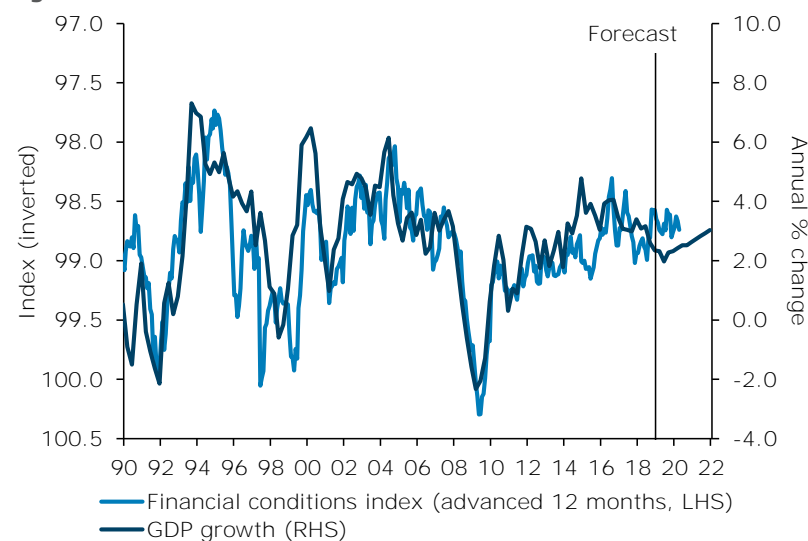
Source: Bloomberg, ANZ Research

Putting it all together, financial conditions are currently a tailwind for growth...

Putting it all together, ANZ's Financial Conditions Index (FCI) for New Zealand shows that financial conditions are currently a tailwind to growth. Our index includes indicators of lending rates, NZD movements that cannot be explained by terms of trade moves, equity market moves, housing market conditions, and credit conditions. The FCI tends to lead GDP growth by about 12 months.

Movements in our FCI over the past year suggest that financial conditions should provide a boost to growth over the next year (figure 6). The recent improvement in financial conditions has been driven primarily by a lower NZD trade-weighted index since 2017 – even as the terms of trade has stayed high – and lower mortgage rates, particularly fixed-term rates.

Figure 6. ANZ financial conditions index for New Zealand



Source: Statistics NZ, ANZ Research

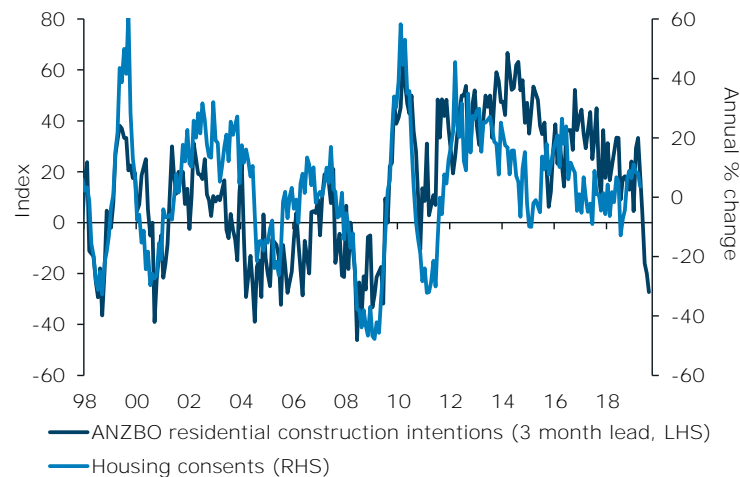


...but the economy is facing other headwinds

However, while financial conditions are providing a tailwind to growth, there are numerous other headwinds present that we expect to limit the acceleration. On the real economy side:

- Business surveys suggest that the investment and activity outlook remains gloomy, with declining profitability, labour shortages, regulatory concerns, and uncertainty holding back production. A degree of wariness about international developments is likely creeping in. We expect uncertainty to continue to temper the investment outlook for a while yet, and are **sceptical that we'll see business investment lift as strongly as the RBNZ forecasts**.
- The residential construction sector is looking particularly precarious, with residential construction intentions at their lowest since 2009. **It's a small sample** and it may be more noise than signal, but at face value it suggests that deceleration is more likely than acceleration from here (figure 7).
- Global growth has weakened, and downside risks have intensified. While exports and commodity prices have held up well so far, the risks are looking one-sided.

Figure 7. ANZBO residential construction intentions and housing consents



Source: Statistics NZ, ANZ Research

There is also a possibility that financial conditions could tighten sharply, removing a key support to growth. Three key risks around domestic financial conditions come to mind:

1. **Deterioration in global growth.** Weaker global growth, and an associated tightening in global financial conditions (via higher credit spreads and lower equity prices), would likely raise bank funding costs in New Zealand. This would contribute to higher lending rates, offsetting the tailwind from the lower OCR. Lower policy rates from overseas central banks would also put upward pressure on the NZD, all else equal, potentially unwinding some of the depreciation seen in recent years (though the NZD can also suffer when global risk aversion rises, so it is uncertain which factor would dominate).
2. **A large increase in bank capital requirements.** The impact of higher bank capital requirements is uncertain, but it is likely to lead to higher lending rates and a reduction in credit availability, particularly for the business and agricultural sectors. The RBNZ is expected to make an announcement on changes to bank capital requirements in November, with a target implementation date of April next year.
3. **The removal of an easing bias, and an OCR on hold at 1.5%.** Part of the reason that financial conditions are currently easy in New Zealand is that market participants expect further cuts in the OCR. A terminal rate of about 1.10% is

Three factors could drive a tightening in NZ financial conditions:

1) A global growth deterioration

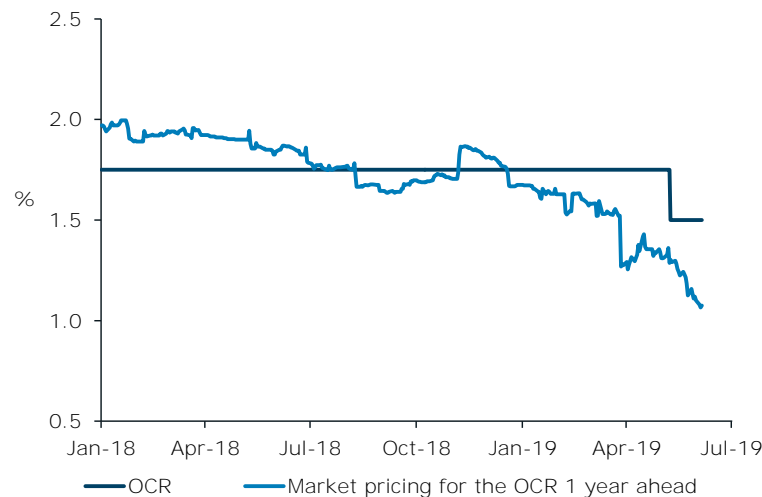
2) Bank capital proposals

3) An OCR on hold at 1.5%



currently priced into the New Zealand interest rate curve (figure 8). If the RBNZ does not deliver this in a timely fashion, then financial conditions will tighten from here. As OCR cuts are priced out of the curve, lending rates and the NZD would move higher. That said, **if the RBNZ isn't cutting later this year then it's because the economy is doing better than we expect. We'd take that as a positive.**

Figure 8. OCR and market pricing for the OCR one year ahead



Source: Bloomberg, ANZ Research

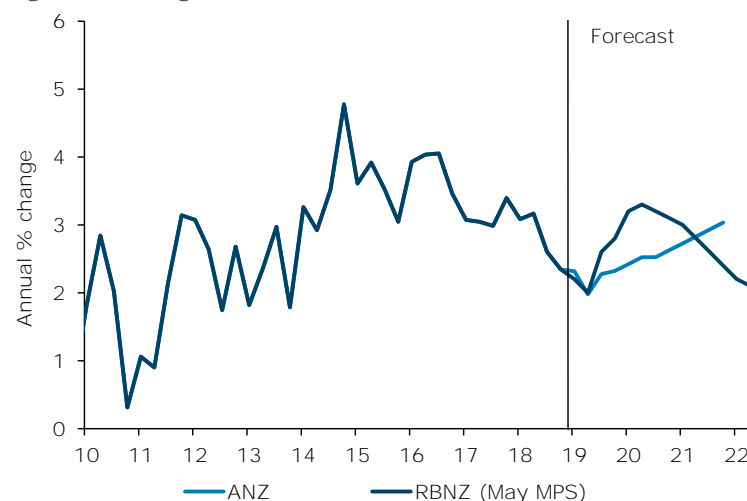
Developments in financial conditions are very important for the New Zealand economy and therefore for the RBNZ. The RBNZ also relies on its credibility with financial market participants to influence financial conditions and the real economy.

The RBNZ have limited growth drivers remaining...

Over the past year, the RBNZ has lost confidence in their expected drivers of growth. As recently as the November 2018 MPS, the RBNZ expected growth to pick up due to **“fiscal and monetary stimulus, and higher net exports”**. But then the global outlook deteriorated and fiscal spending undershot expectations. At the most recent May 2019 MPS, the RBNZ expected that growth would accelerate due to **“increased monetary stimulus and an improvement in the terms of trade”**.

The RBNZ expects that growth will accelerate to over 3% by early next year. In contrast, we expect growth to recover only gradually, picking up from 2-2.5% in 2019 to 3% by 2021 (figure 9).

Figure 9. GDP growth



Source: Statistics NZ, RBNZ, ANZ Research



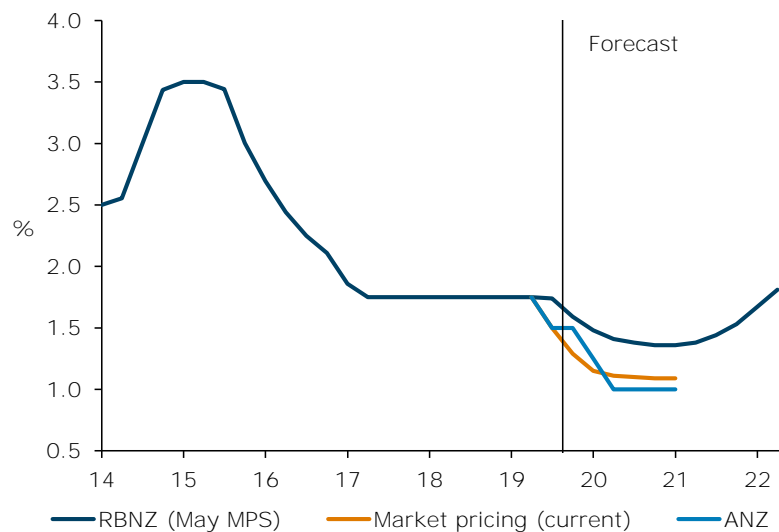
Economic overview

...and more cuts are needed to ensure growth picks up

Monetary stimulus has become an increasingly important driver of the RBNZ's growth acceleration narrative, but we think that more OCR cuts will be needed. And although the terms of trade have remained strong, commodity prices remain fragile as global growth momentum wanes. **If New Zealand's commodity prices falter, even more monetary stimulus will be needed.**

As it becomes clear later this year that growth is unlikely to accelerate sharply, we expect additional rate cuts in November and February to take the OCR to 1% (figure 10). However, the risks are that cuts come earlier, based on the newly revealed pre-emptive characteristics of the decision-making committee, highly asymmetric global risks, and the cuts now expected from both the Reserve Bank of Australia and the US Federal Reserve before November.

Figure 10. OCR projections and market pricing



Source: Bloomberg, RBNZ, ANZ Research

We don't think that the RBNZ should "save its bullets" for a global crisis or plummeting commodity prices. The last thing the RBNZ would want is for the economy to take a blow around the ears with growth already weak and inflation expectations falling. If cuts are needed, best to stimulate the economy now and get the economy in a position to weather the next storm.

Waiting for a crisis will only make matters worse

Also, OCR cuts don't need to stop at zero. As we have seen from international experience, the OCR could go negative (in theory as low as -0.75%) and there are other options such as the purchase of assets (i.e. quantitative easing) that the RBNZ has been exploring. These measures would help lower longer-term borrowing rates and free up lending in a crisis.

Nonetheless, the options rapidly become pretty limited as the OCR moves lower, meaning fiscal policy will need to be prepared to step up. And in a crisis, the freely floating exchange rate is the economy's safety valve – depreciation will provide some support to the export sector and inflation.

Looking ahead, lots of data are due this week.

In the meantime, there's a lot of data ahead this week. REINZ housing market data, the ANZ Truckometer, and the BusinessNZ-BNZ Manufacturing PMI will give us reads on activity in the economy for May. The Economic Survey of Manufacturing for Q1 is expected to be broadly stable with primary manufacturing due to retrace some of Q4's strength. This is the last partial GDP data point ahead of our Q1 GDP pick – we have 0.5% pencilled in. Migration data for April is likely to continue to show large revisions; we'll treat the data with caution. We also get a read on the price side of the economy, with the Food Price Index and Rental Price Index due on Friday. Both of these are inputs into Q2 CPI, and we expect small rises in each.



Economic overview

Local data

Terms of trade – Q1. New Zealand's goods terms of trade lifted 1.0% q/q in Q1 2019, as the fall in import prices exceeded the fall in export prices. Seasonally adjusted trade volumes lifted with exports up 5.0% q/q, while imports rose 1.2% q/q.

GlobalDairyTrade auction. The GDT event overnight delivered another disappointing but not unexpected result. The GDT Price Index fell 3.4% with WMP down 1.5%. Prices are generally trending down at the moment as buyers are relatively well stocked following strong sales out of NZ in recent months, and also extra product available from Europe due to milk supply there rising seasonally (which peaks in May).

ANZ Commodity Price Index – May. The ANZ World Commodity Price Index was stable in May, following a revised 2.6% rise in April. The index is now 0.7% stronger than a year ago. The NZD index lifted 2.3% m/m in May, as commodity returns in local currency terms were bolstered by the softer New Zealand dollar.

Volume of Work Put in Place – Q1. The volume of building work put in place rose a solid 6.2% in Q1, above our (and market) expectations. Strength was particularly evident in Auckland non-residential building work.



Summary

Dove is in the air

Weaker data out of the US kept the pressure on global yield curves. Markets continue to raise the odds of a cut in the US given the recent softening in data, while recent central bank speakers have also indicated that the future direction for global interest rates remains skewed to the downside. Meanwhile, the easing in US-Mexico trade tensions will create some optimism for other trade negotiations.

Key events this week

Heavy hitters in focus

US CPI (Thursday 13 June, 12:30am). A weaker print is likely to further soften the Fed's stance on policy.

China's industrial production (Friday 14 June, 2:00pm). Markets will look to gauge the impacts of recent trade tensions and response to domestic stimulus.

Rates

Eking out gains, awaiting direction

Ongoing trade tensions, a weaker global data pulse and central bank speak hinting at lower global policy rates saw global yields continue to outperform. NZ yields broadly followed global moves, while the RBA delivered the much-anticipated rate cut at its meeting last week. That said, the Statement failed to strike the dovish tone markets were looking for, but a follow-up speech by Governor Lowe indicating future easing was likely softened the market's response. In New Zealand, markets are still pricing little chance of a cut to the OCR at the RBNZ's June OCR Review, but are pricing a 40% chance of a cut at the RBNZ's August MPS.

FX

Down for the count

A disappointing US non-farm payrolls release capped off a dismal week for the USD. G10 currencies were led higher by the CAD and NZD, with both currencies soaring as the odds of cuts to US interest rates crept higher during the week, knee-capping the USD.

NZD/USD: The NZD's rise wasn't easy. It required the NZD to endure a weak GDT result, softer house sales and dwindling global risk sentiment. But all of these paled in comparison to a soft US data pulse and increasing odds of Fed rate cuts.

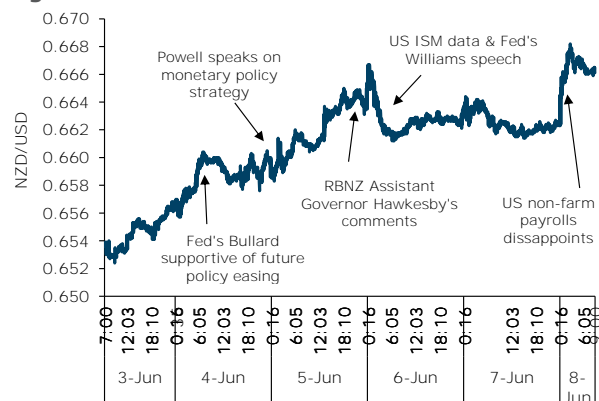
NZD/AUD: Weaker Australian data created some headwinds for the AUD, giving the NZD a chance to push higher while markets continued to seek out more RBA cuts this year.

NZD/EUR: The ECB vowed at its meeting last week to do whatever they could to support euro area growth. Despite the ECB's pledge the EUR rallied, shrugging off weak German and wider EU data along the way.

NZD/GBP: The GBP struggled as the contest for PM May's recently vacated seat began to heat up. While Boris Johnson remains the early favourite, the shifting tide that is Brexit politics has kept the market on edge.

NZD/JPY: The NZD's rise outweighed recent safe-haven flow which has buoyed the JPY. This cross returns to familiar territory after threatening to revisit the lows of this year's flash crash.

Figure 1. The NZD's rise last week



Source: Bloomberg, ANZ Research



Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
10-Jun	JN	BoP Current Account Balance - Apr P	¥1514.5B	¥2847.9B	11:50
	JN	Trade Balance BoP Basis - Apr P	¥5.0B	¥700.1B	11:50
	JN	GDP SA QoQ - Q1 F	0.6%	0.5%	11:50
	JN	GDP Annualized SA QoQ - Q1 F	2.2%	2.1%	11:50
	JN	GDP Deflator YoY - Q1 F	0.2%	0.2%	11:50
	UK	Monthly GDP 3M/3M Change - Apr	0.4%	0.5%	20:30
	UK	GDP (MoM) - Apr	-0.1%	-0.1%	20:30
	UK	Industrial Production MoM - Apr	-1.0%	0.7%	20:30
	UK	Industrial Production YoY - Apr	0.9%	1.3%	20:30
	UK	Manufacturing Production MoM - Apr	-1.4%	0.9%	20:30
	UK	Manufacturing Production YoY - Apr	2.0%	2.6%	20:30
	UK	Visible Trade Balance GBP/Mn - Apr	-£13000M	-£13650M	20:30
	UK	Trade Balance Non EU GBP/Mn - Apr	-£4476M	-£4361M	20:30
	UK	Trade Balance - Apr	-£4700M	-£5408M	20:30
	UK	Index of Services MoM - Apr	0.1%	-0.1%	20:30
	UK	Index of Services 3M/3M - Apr	0.2%	0.3%	20:30
	CH	Trade Balance - May	\$23.20B	\$13.84B	UNSPECIFIED
	CH	Exports YoY - May	-3.8%	-2.7%	UNSPECIFIED
	CH	Imports YoY - May	-3.3%	4.0%	UNSPECIFIED
11-Jun	US	JOLTS Job Openings - Apr	7496	7488	02:00
	NZ	ANZ Truckometer Heavy MoM - May	--	3.6%	10:00
	NZ	Mfg Activity Volume QoQ - Q1	--	2.0%	10:45
	NZ	Mfg Activity SA QoQ - Q1	--	-0.5%	10:45
	AU	NAB Business Conditions - May	--	3	13:30
	AU	NAB Business Confidence - May	--	0	13:30
	UK	Claimant Count Rate - May	--	3.0%	20:30
	UK	Jobless Claims Change - May	--	24.7k	20:30
	UK	Average Weekly Earnings 3M/YoY - Apr	3.0%	3.2%	20:30
	UK	ILO Unemployment Rate 3Mths - Apr	3.8%	3.8%	20:30
	UK	Employment Change 3M/3M - Apr	-1k	99k	20:30
	EC	Sentix Investor Confidence - Jun	2.5	5.3	20:30
	US	NFIB Small Business Optimism - May	101.8	103.5	22:00
	NZ	REINZ House Sales YoY - May	--	-11.5%	11-15 Jun
12-Jun	US	PPI Final Demand MoM - May	0.1%	0.2%	00:30
	US	PPI Final Demand YoY - May	2.0%	2.2%	00:30
	US	PPI Ex Food and Energy MoM - May	0.2%	0.1%	00:30
	US	PPI Ex Food and Energy YoY - May	2.3%	2.4%	00:30
	NZ	Net Migration SA - Apr	--	5020	10:45
	NZ	Card Spending Retail MoM - May	0.5%	0.6%	10:45
	NZ	Card Spending Total MoM - May	--	0.4%	10:45
	AU	ANZ-RM Consumer Confidence Index - 9-Jun	--	116.9	11:30
	JN	PPI MoM - May	0.0%	0.3%	11:50
	JN	PPI YoY - May	0.7%	1.2%	11:50
	AU	Westpac Consumer Conf Index - Jun	--	101.3	12:30
	AU	Westpac Consumer Conf SA MoM - Jun	--	0.6%	12:30
	CH	CPI YoY - May	2.7%	2.5%	13:30
	CH	PPI YoY - May	0.6%	0.9%	13:30
	US	MBA Mortgage Applications - 7-Jun	--	1.5%	23:00

Continued on following page



Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
13-Jun	US	CPI MoM - May	0.1%	0.3%	00:30
	US	CPI YoY - May	1.9%	2.0%	00:30
	US	CPI Ex Food and Energy MoM - May	0.2%	0.1%	00:30
	US	CPI Ex Food and Energy YoY - May	2.1%	2.1%	00:30
	US	Monthly Budget Statement - May	-\$202.0B	\$160.3B	06:00
	UK	RICS House Price Balance - May	-21%	-23%	11:01
	AU	Consumer Inflation Expectation - Jun	--	3.3%	13:00
	AU	Employment Change - May	16.0k	28.4k	13:30
	AU	Unemployment Rate - May	5.1%	5.2%	13:30
	AU	Full Time Employment Change - May	--	-6.3k	13:30
	AU	Part Time Employment Change - May	--	34.7k	13:30
	AU	Participation Rate - May	65.8%	65.8%	13:30
	GE	CPI MoM - May F	0.2%	0.2%	18:00
	GE	CPI YoY - May F	1.4%	1.4%	18:00
	GE	CPI EU Harmonized MoM - May F	0.3%	0.3%	18:00
	GE	CPI EU Harmonized YoY - May F	1.3%	1.3%	18:00
	EC	Industrial Production SA MoM - Apr	-0.5%	-0.3%	21:00
EC	Industrial Production WDA YoY - Apr	-0.5%	-0.6%	21:00	
14-Jun	US	Import Price Index MoM - May	-0.3%	0.2%	00:30
	US	Import Price Index YoY - May	-1.3%	-0.2%	00:30
	US	Export Price Index MoM - May	-0.2%	0.2%	00:30
	US	Export Price Index YoY - May	--	0.3%	00:30
	US	Initial Jobless Claims - 8-Jun	215k	218k	00:30
	US	Continuing Claims - 1-Jun	1675k	1682k	00:30
	NZ	BusinessNZ Manufacturing PMI - May	--	53.0	10:30
	NZ	Food Prices MoM - May	--	-0.1%	10:45
	CH	Industrial Production YoY - May	5.4%	5.4%	14:00
	CH	Industrial Production YTD YoY - May	6.2%	6.2%	14:00
	CH	Retail Sales YoY - May	8.0%	7.2%	14:00
	CH	Retail Sales YTD YoY - May	8.0%	8.0%	14:00
	JN	Industrial Production MoM - Apr F	--	0.6%	16:30
	JN	Industrial Production YoY - Apr F	--	-1.1%	16:30
	GE	Wholesale Price Index YoY - May	--	2.1%	18:00
	GE	Wholesale Price Index MoM - May	--	0.6%	18:00
	15-Jun	US	Retail Sales Advance MoM - May	0.6%	-0.2%
US		Retail Sales Ex Auto MoM - May	0.4%	0.1%	00:30
US		Retail Sales Ex Auto and Gas - May	0.4%	-0.2%	00:30
US		Retail Sales Control Group - May	0.4%	0.0%	00:30
US		Industrial Production MoM - May	0.2%	-0.5%	01:15
US		Capacity Utilization - May	78.0%	77.9%	01:15
US		U. of Mich. Sentiment - Jun P	98	100	02:00
US		Business Inventories - Apr	0.5%	0.0%	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

Domestic growth momentum has decelerated and global risks are heightened. With domestic growth unlikely to pick up anytime soon, and we expect an even lower OCR will be needed later in the yeagip30r. The resilience of domestic data, the trend in inflation and global developments will all bear watching closely.

Date	Data/event	Economic signal	Comment
10-15 June	REINZ housing market data – May	Looking	These data have been volatile of late. We'll be looking to see where the trend is settling.
Tue 11 June (10:00am)	ANZ Truckometer - May	--	--
Tue 11 June (10:45am)	Economic Survey of Manufacturing – Q1	Stable	Broadly stable with primary manufacturing due to retrace some of Q4's strength.
Wed 12 June (10:45am)	Permanent and Long-Term Migration – April	Waiting	Still not confident in the recent data. Let's see what April data brings.
Wed 12 June (10:45am)	Short-term Visitor Arrivals – April	High	Affected by recent data changes too. Holding up on an annual basis, but we see limited upside.
Wed 12 June (10:45am)	Electronic Card Transactions – May	Looking through	Not giving a good read on the household sector. We'll look through the noisy signal; consumption remains robust.
Fri 14 June (10:30am)	BusinessNZ-BNZ Manufacturing PMI – May	Sideways	We expect the PMI to stay range bound.
Fri 14 June (10:45am)	Food Price Index – May	Small lift	A lift in food prices from fruit, vegetables and meats should support a rise in the food group for the quarter.
Fri 14 June (10:45am)	Rental Price Index – May	Small rise	Continued increases in rental prices should support a solid quarterly rise in CPI rents.
Mon 17 June (10:30am)	BusinessNZ-BNZ Services PSI – May	Healthy	Services have generally been performing well, but the PSI has softened recently.
Mon 17 June (1:00pm)	ANZ Monthly Inflation Gauge - May	--	--
Wed 19 June (early am)	GlobalDairyTrade auction	Resilient	Dairy prices remain supported by softer global supply. Slowing global demand remains a risk.
Wed 19 June (10:45am)	Balance of Payments – Q1	Stable	The annual current account looks set to remain broadly stable as a share of GDP.
Thu 20 June (10:45am)	Gross Domestic Product – Q1	Steady	We're picking modest growth of 0.5% in the quarter, keeping annual growth steady at 2.3%.
Tue 25 June (10:45am)	Overseas Merchandise Trade – May	Steady	Exports to stabilise as we move into winter months with the unadjusted surplus maintained.
Wed 26 June (2:00pm)	RBNZ OCR Review	Steady	The RBNZ is back on watch, worry, and wait mode for now. But we expect more OCR cuts will be needed in time.
Thu 27 June (1:00pm)	ANZ Business Outlook – June	--	--
Fri 28 June (10:00am)	ANZ Roy Morgan Consumer Confidence – June	--	--
Tue 2 July (10:45am)	Building Consents – May	Wary	Consents have held at a high level recently, but we see downside risk looming.
Wed 3 July (early am)	GlobalDairyTrade auction	Resilient	Dairy prices remain supported by softer global supply. Slowing global demand remains a risk.
Wed 3 July (1:00pm)	ANZ Commodity Price Index – June	--	--
Tue 9 July (10:00am)	ANZ Truckometer - June	--	--
Wed 10 July (10:45am)	Food Price Index – June	Small lift	A lift in food prices from fruit, vegetables and meats should support a rise in the food group for the quarter.
Wed 10 July (10:45am)	Rental Price Index – June	Small rise	Continued increases in rental prices should support a solid quarterly rise in CPI rents.
On balance		Data watch	Domestic and global data has softened and we see a case for more OCR cuts from later this year with inflation pressure fading.



Key forecasts and rates

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
GDP (% qoq)	0.6	0.5	0.6	0.6	0.6	0.6	0.7	0.6	0.7	0.7
GDP (% yoy)	2.3	2.3	2.0	2.3	2.3	2.4	2.5	2.5	2.6	2.7
CPI (% qoq)	0.1	0.1	0.7	0.5	0.2	0.7	0.5	0.5	0.2	0.7
CPI (% yoy)	1.9	1.5	1.8	1.4	1.5	2.1	1.9	1.9	1.9	1.9
LCI Wages (% qoq)	0.5	0.3	0.6	0.6	0.4	0.3	0.7	0.6	0.5	0.3
LCI Wages (% yoy)	2.0	2.0	2.0	2.1	2.0	2.0	2.0	2.1	2.1	2.1
Employment (% qoq)	0.0	-0.2	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Employment (% yoy)	2.3	1.5	1.4	0.7	1.1	1.6	1.5	1.5	1.5	1.5
Unemployment Rate (% sa)	4.3	4.2	4.3	4.3	4.4	4.4	4.3	4.3	4.3	4.3
Current Account (% GDP)	-3.7	-3.6	-3.6	-3.7	-3.8	-3.8	-3.9	-4.0	-4.0	-4.0
Terms of Trade (% qoq)	-3.2	1.0	1.6	0.1	0.3	0.1	0.2	0.2	0.2	0.1
Terms of Trade (% yoy)	-4.8	-2.0	-1.2	-0.9	2.5	2.1	0.8	0.8	0.8	0.8

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Retail ECT (% mom)	1.2	0.8	0.0	-0.5	-2.2	2.1	0.7	-0.2	0.6	--
Retail ECT (% yoy)	6.3	5.7	6.2	4.6	0.6	3.5	3.4	0.7	4.5	--
Car Registrations (% mom)	2.4	-4.5	4.9	-11.1	-0.6	4.4	1.4	-2.4	2.0	-1.4
Car Registrations (% yoy)	-4.7	-10.8	-5.4	-17.9	-15.8	-12.1	-3.9	-2.9	-0.5	-12.6
Building Consents (% mom)	6.9	-1.2	1.9	-1.7	4.8	13.0	1.5	-7.4	-8.0	--
Building Consents (% yoy)	-2.5	-3.0	8.7	-3.0	12.5	32.0	28.2	3.0	-3.6	--
REINZ House Price Index (% yoy)	4.0	4.0	3.8	3.1	3.1	2.8	3.0	2.3	1.3	--
Household Lending Growth (% mom)	0.5	0.4	0.4	0.6	0.4	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	6.0	5.9	5.8	6.0	5.9	5.9	5.9	5.9	5.9	--
ANZ Roy Morgan Consumer Conf.	117.6	117.6	115.4	118.6	121.9	121.7	120.8	121.8	123.2	119.3
ANZ Business Confidence	-50.3	-38.3	-37.1	-37.1	-24.1	..	-30.9	-38.0	-37.5	-32.0
ANZ Own Activity Outlook	3.8	7.8	7.4	7.6	13.6	..	10.5	6.3	7.1	8.5
Trade Balance (\$m)	-1567	-1580	-1305	-1004	9	-935	-66	824	433	--
Trade Bal (\$m ann)	-4894	-5309	-5774	-5556	-6161	-6433	-6687	-5713	-5479	--
ANZ World Comm. Price Index (% mom)	-1.1	-2.4	-2.4	-0.5	-0.2	2.0	2.8	4.1	2.6	0.0
ANZ World Comm. Price Index (% yoy)	-0.5	-3.5	-5.6	-5.1	-3.4	-2.2	-2.2	0.6	2.2	0.7
Net Migration (sa)	4210	4330	4620	4980	5400	4830	5750	5020	--	--
Net Migration (ann)	49766	50301	51169	52093	52586	52935	55065	56137	--	--
ANZ Heavy Traffic Index (% mom)	0.3	-1.2	4.4	-2.3	-4.3	4.8	0.3	-1.9	3.6	--
ANZ Light Traffic Index (% mom)	1.3	-1.2	0.4	0.1	-1.7	2.0	-0.8	0.7	0.2	--
ANZ Monthly Inflation Gauge (% mom)	0.2	0.3	0.4	0.2	-0.1	1.1	0.0	-0.1	0.0	--

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)						
	Apr-19	May-19	Today	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZD/USD	0.668	0.653	0.67	0.65	0.64	0.64	0.63	0.63	0.63	0.63
NZD/AUD	0.947	0.941	0.95	0.93	0.96	0.98	0.94	0.91	0.89	0.86
NZD/EUR	0.595	0.585	0.59	0.59	0.59	0.58	0.55	0.53	0.50	0.50
NZD/JPY	74.37	70.72	72.22	71.5	69.1	69.1	66.2	66.2	66.2	66.2
NZD/GBP	0.512	0.517	0.52	0.52	0.52	0.50	0.48	0.46	0.46	0.46
NZ\$ TWI	71.5	70.2	73.1	70.2	70.0	69.9	67.1	65.8	64.6	64.2
Interest rates	Apr-19	May-19	Today	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZ OCR	1.75	1.50	1.50	1.50	1.50	1.25	1.00	1.00	1.00	1.00
NZ 90 day bill	1.81	1.67	1.62	1.70	1.62	1.37	1.20	1.20	1.20	1.20
NZ 10-yr bond	1.90	1.71	1.69	1.80	1.85	1.85	1.80	1.85	1.80	1.80
US Fed funds	2.50	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00
US 3-mth	2.58	2.50	2.45	2.65	2.65	2.40	2.15	2.15	2.15	2.15
AU Cash Rate	1.50	1.50	1.25	1.25	1.00	0.75	0.75	0.75	0.75	0.75
AU 3-mth	1.56	1.42	1.37	1.45	1.20	0.95	0.95	0.95	0.95	0.95

	7-May	3-Jun	4-Jun	5-Jun	6-Jun	7-Jun
Official Cash Rate	1.75	1.50	1.50	1.50	1.50	1.50
90 day bank bill	1.79	1.67	1.64	1.64	1.63	1.62
NZGB 05/21	1.42	1.25	1.24	1.22	1.21	1.23
NZGB 04/23	1.48	1.29	1.28	1.27	1.26	1.28
NZGB 04/27	1.73	1.55	1.53	1.53	1.51	1.53
NZGB 04/33	2.06	1.92	1.89	1.88	1.87	1.89
2 year swap	1.66	1.45	1.43	1.41	1.41	1.42
5 year swap	1.78	1.56	1.53	1.54	1.54	1.55
RBNZ TWI	72.36	72.03	72.44	72.82	72.92	72.78
NZD/USD	0.6597	0.6563	0.6601	0.6638	0.6623	0.6665
NZD/AUD	0.9403	0.9434	0.9444	0.9488	0.9497	0.9519
NZD/JPY	72.95	71.08	71.26	71.90	71.66	72.10
NZD/GBP	0.5040	0.5189	0.5202	0.5224	0.5220	0.5233
NZD/EUR	0.5891	0.5868	0.5863	0.5895	0.5896	0.5881
AUD/USD	0.7016	0.6956	0.6990	0.6996	0.6975	0.7001
EUR/USD	1.1197	1.1184	1.1259	1.1261	1.1235	1.1334
USD/JPY	110.58	108.29	107.95	108.31	108.19	108.19
GBP/USD	1.3087	1.2648	1.2690	1.2709	1.2689	1.2737
Oil (US\$/bbl)	61.40	53.25	53.48	51.68	52.59	53.99
Gold (US\$/oz)	1281.32	1316.58	1326.97	1338.75	1336.96	1340.86
NZX 50	10027	10118	9952	9956	9987	10048
Baltic Dry Freight Index	936	1103	1122	1141	1138	1138
NZX WMP Futures (US\$/t)	3250	3155	3150	3125	3125	3125



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