ANZ Research

New Zealand Weekly Focus

20 August 2018

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Going flat

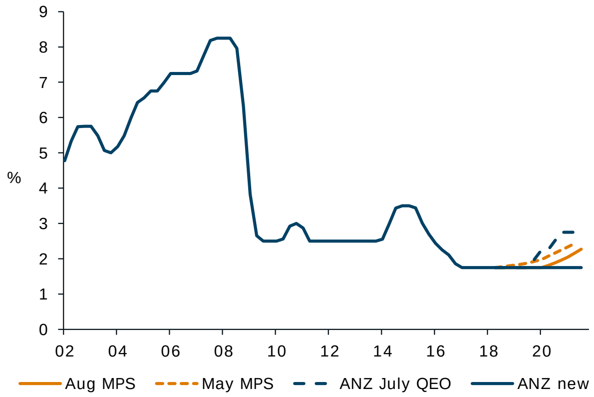
Economic overview

We are no longer forecasting that the next move in the OCR will be up. The Reserve Bank is reluctant to hike; they made that abundantly clear in the recent Monetary Policy Statement. And we see growth averaging 2½% over the next couple of years; hardly a stall, but considerably softer than the Reserve Bank's expectation. That combination is not consistent with forecasting rate hikes. We are now forecasting that the OCR will be flat for the foreseeable future. Of course it is not that we literally believe the OCR will never be moved ever again; rather, we no longer believe on balance that the next move will necessarily be upwards. Indeed, given how long it is until a hike could plausibly be on the cards, the balance of risks is, if anything, tilted towards the next move being a cut. But the economy is muddling through for now. We still expect core inflation to rise further in the near term, reflecting previous strength in the economy. But beyond that, the resilience of underlying inflation does not look assured.

Chart of the week

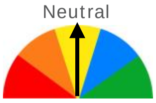
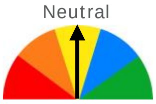
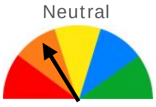
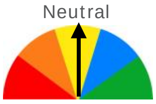
We have changed our call on the OCR; we now see the OCR on hold for the foreseeable future. In terms of the risks, the next move now looks more likely to be a cut than a hike.

Official Cash Rate forecast (ANZ vs. RBNZ)



Source: RBNZ, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.5% y/y for 2019 Q1	The economy has lost steam. We see growth of around 2½% over the next few years (at or a bit below trend).	Neutral Negative  Positive
Unemployment rate	4.4% for 2019 Q1	Unemployment is expected to move broadly sideways. Underlying wage pressures subdued.	Neutral Negative  Positive
OCR	1.75% in March 2019	We expect the OCR to remain firmly on hold. In terms of risks, a cut now looks more likely than a hike.	Neutral Down  Up
CPI	2.0% y/y for 2019 Q1	We expect core inflation will lift, but only gradually, and the medium-term outlook is not assured.	Neutral Negative  Positive

Economic overview

Summary

We are no longer forecasting that the next move in the OCR will be up.

We are no longer forecasting that the next move in the OCR will be up. The Reserve Bank is reluctant to hike; they made that abundantly clear in the recent Monetary Policy Statement. And we see growth averaging 2½% over the next couple of years; hardly a stall, but considerably softer than the Reserve Bank's expectation. That combination is not consistent with forecasting rate hikes. We are now forecasting that the OCR will be flat for the foreseeable future. Of course it is not that we literally believe the OCR will never be moved ever again; rather, we no longer believe on balance that the next move will necessarily be upwards. Indeed, given how long it is until a hike could plausibly be on the cards, the balance of risks is, if anything, tilted towards the next move being a cut. But the economy is muddling through for now. We still expect core inflation to rise further in the near term, reflecting previous strength in the economy. But beyond that, the resilience of underlying inflation does not look assured.

Forthcoming events

International Travel and Migration – July (Tuesday 21 August, 10:45am). July marks one year since the migration cycle peaked. We're expecting the gradual easing to continue.

GlobalDairyTrade auction (Wednesday 22 August, early am). The average GDT price is expected to remain in recent ranges.

Retail trade – Q2 (Wednesday 22 August, 10:45am). It may have been a weak quarter with the housing market cooler and spending data on the softer side.

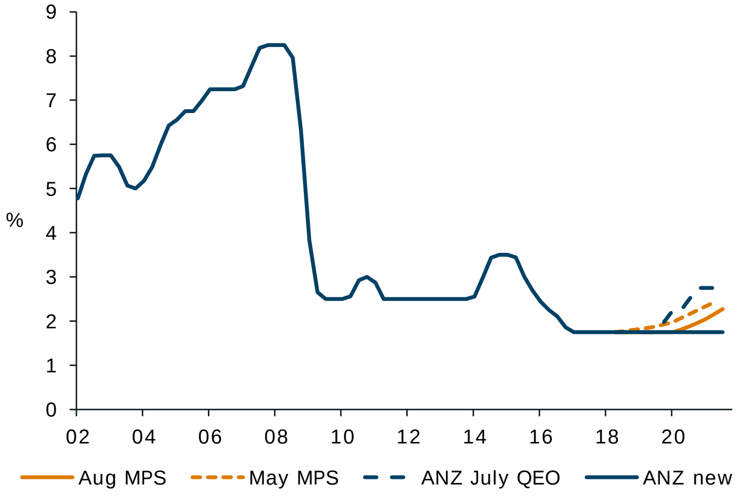
Overseas Merchandise Trade – July (Friday 24 August, 10:45am). July's goods trade deficit is expected to widen slightly from June, but recent NZD weakness means support is on the way.

What's the view?

The Reserve Bank has sent an unambiguous signal that the hurdle for a rate hike is high. The next OCR move "could be up or down", and their latest projection shows rates on hold until mid-2020, a year later than previously.

Based on this and downward tweaks to our growth forecasts, we are no longer forecasting that the next move in the OCR will be up (previously we were picking a hike in November 2019). Growth looks respectable enough, but we don't believe that it will generate sufficiently strong demand-pull inflation pressures over the next few years to warrant an OCR hike to offset them.

Figure 1: Official Cash Rate forecast



Source: RBNZ, ANZ Research

Economic overview

The growth outlook

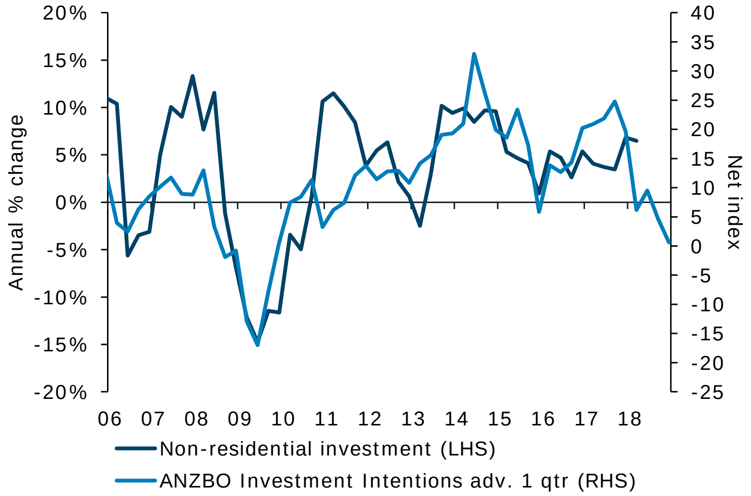
We are forecasting growth of 2.6% on average in the year to March 2020.

Near-term growth looks set to be decent, but is being flattered by a weather-related recovery in milk production, early livestock slaughter due to M.Bovis, and one-off boosts to consumption from the Families Package and the minimum wage increase.

Despite this near-term boost, we are forecasting growth of 2.6% on average in the year to March 2020, on a weaker consumption and investment outlook. This is down only slightly from our late-June forecast (2.8%), but is considerably lower than the RBNZ's forecast of 3.4%.

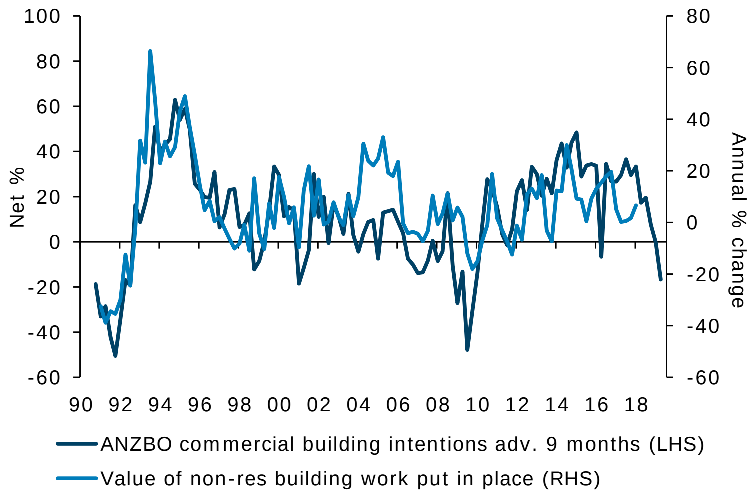
Investment intentions from the ANZ Business Outlook (ANZBO) suggest firms are warier about capital expenditure (figure 2), and commercial construction intentions suggest considerable downside to commercial building work (figure 3). This is consistent with anecdotes that suggest the commercial construction pipeline has more than a few air bubbles.

Figure 2: ANZ Business Outlook investment intentions and non-residential investment



Source: Statistics NZ, ANZ Research

Figure 3: ANZ Business Outlook commercial building intentions and work put in place

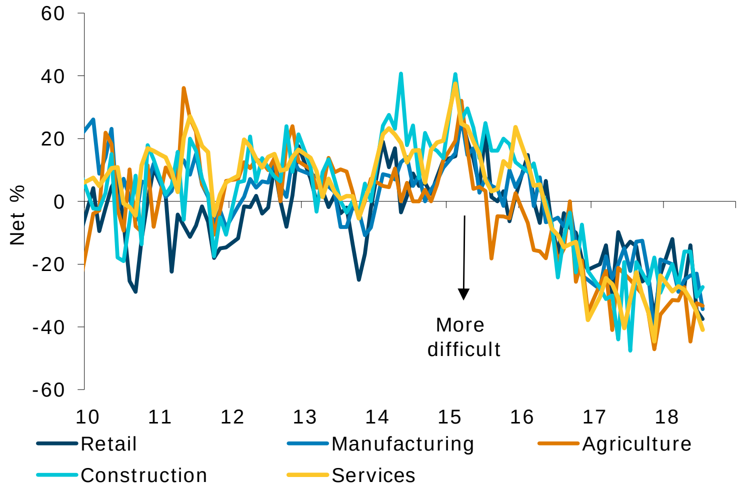


Source: Statistics NZ, ANZ Research

Our forecasts do not incorporate all of the weakness implied by the ANZBO – the extent of the fall represents further downside risk. But our expectation is that softer investment intentions will persist over the medium term, without a boost from monetary or fiscal policy. This is in light of cost increases that look set to continue pressuring profitability, the outlook for demand looking less assured with recent drivers of growth waning, and construction and retail facing industry-specific issues.

But over and above this, an important (and often underappreciated) headwind is credit availability. Firms across all sectors report that it has become significantly more difficult to get credit, and it's hardly a temporary blip (figure 4). The OCR is certainly low, but the interest rates faced by businesses are not that low by historical standards. But more important than that: the price of credit is irrelevant if you can't obtain it.

Figure 4: ANZBO ease of credit



Source: ANZ Research

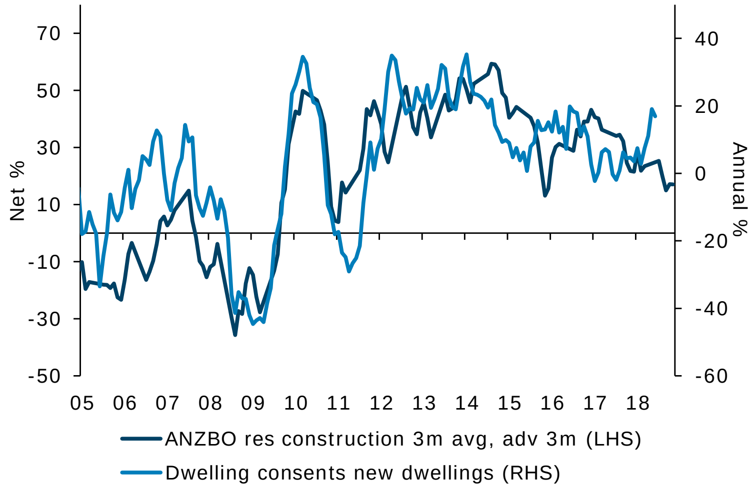
We have also revised down our consumption forecasts. Spending growth has moderated, household sentiment has waned, and the housing market is expected to remain steady-as-she-goes. In this environment, we think consumers are more likely to muddle through than go on a big spend-up. Household debt at 167% of household disposable incomes is already at a record high. It could go higher – Australia's is nearly 200% of GDP – but in our view this would require a very strong housing market to underpin it, and that is not our forecast.

The outlook for the housing market is a key uncertainty. On a national basis, housing affordability relative to incomes is already worse than Australia and this appears to be restraining the housing market. This, along with tax changes, the foreign buyer ban and a number of other headwinds suggest upside from here will be limited, despite low – and lower – mortgage rates, housing shortages and a still-growing population.

Income growth, another key driver of consumption, is set to be solid on the back of recent strength in the labour market and the still-high terms of trade, but the saving rate needs to continue improving from its current estimated negative rate. Moreover, the positive impacts of the higher minimum wage and the Families Package will be short-lived in growth terms. And if we are right that the exchange rate is set to keep falling, petrol (and other import) price increases will continue to dent effective disposable incomes. The impetus to aggregate consumption from population growth is also expected to wane over the medium term as net migration eases.

Residential investment is expected to remain strong, but no longer contribute to growth. We expect residential building work to flat-line after the recent pick-up in consents flows through. Levels of activity are being supported by KiwiBuild, but growth will be capped by capacity and credit constraints. Consistent with this, residential building intentions in our Business Outlook survey suggest that the recent strength in consents issuance is unlikely to be sustained (figure 5).

Figure 5: ANZBO residential construction intentions and building consents



Source: Statistics NZ, ANZ Research

Fiscal stimulus is expected to be expansionary after a decade of contraction, but the impetus from this is not expected to be large. And while the Government is likely to remain under pressure to address the infrastructure deficit, current spending plans are relatively modest. The Government is focused on prudence for the time being and infrastructure projects are generally a long time in the planning.

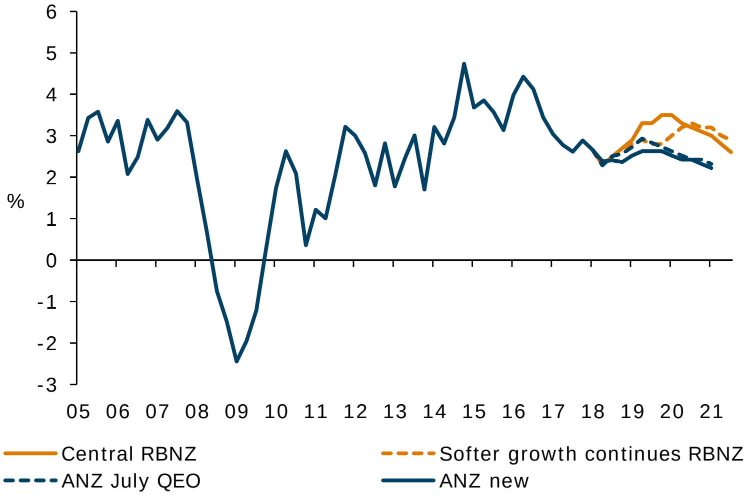
We expect that net exports will become less of a drag on growth, in light of the recent fall in the NZD and our forecast that this has further to run. But we struggle to see net exports stepping up to the plate to drive above-trend growth. Global growth and the terms of trade appear to be as good as they are going to get for now, and export volumes are already solid.

Growth around 2½% is not a "bad" outcome in itself, but it implies that resource pressures are unlikely to intensify.

We are not forecasting any kind of stall; rather our forecasts portray an economy that, a decade into an expansion, is already pretty busy, and facing both structural and cyclical headwinds that mean it will be difficult to deliver above-trend growth from here. Growth around 2½% is not a "bad" outcome in itself, but it implies that resource pressures are unlikely to intensify. This implies core inflation won't lift in a sustained fashion above target, and it is necessary to see – or at least credibly forecast – such a lift to justify raising the OCR.

The RBNZ has made it very clear that they are concerned about the activity outlook and that they are ready to provide more monetary stimulus should the economy need it. There was a scenario to that effect in the *August Monetary Policy Statement,* which implied a 100bp lower OCR in response to what would be, in the grand scheme of things, a fairly modest growth shortfall.

Figure 6: GDP growth forecasts: ANZ June and now; RBNZ central and downside risk scenario



Source: ANZ Research, RBNZ, Stats NZ

Our growth profile is more consistent with the downside activity scenario in the *Monetary Policy Statement* than it is with the central track. Indeed it's considerably weaker than that. But to be fair, our previous projections were too (figure 6). Taking MPS risk scenarios at face value is a very risky strategy. They are a signalling device, not a promise or even a reliable rule of thumb; underlying them is a myriad of 'all else equal' assumptions that never hold in practice – and which differ from our own assumptions in some areas.

Accordingly, we are not yet over the line to call a cut. But the intended signal from the scenario was clear enough: that the RBNZ intends to act should growth disappoint – and in our view, it wouldn't take all that much.

The inflation outlook

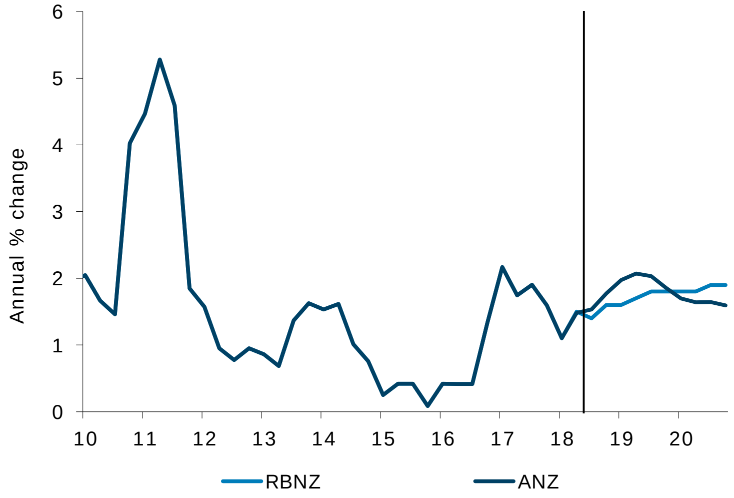
The outlook for core inflation is less certain

With core inflation below target and the activity outlook slightly wobbly, the RBNZ will want to see core inflation continue to gravitate to the target mid-point of 2%. And although CPI inflation does look set to increase from here, the outlook for core inflation is less certain.

It is important to note that we expect to see higher tradables and CPI inflation than the RBNZ is forecasting in the near term. The exchange rate has already fallen further than the RBNZ's assumption, and we are forecasting NZD/USD to fall to 0.62 by the end of this year. Headline inflation is also expected to be boosted by cost-push inflation from minimum wage increases and public sector pay settlements.

But the increase in headline inflation is made up of the kind of short-lived impulses that the Reserve Bank looks through – and in a weakening demand environment we do not think it will feed through into inflation expectations and core inflation. Indeed, cost increases in a weakening demand environment are not growth friendly. By the end of our forecasts, CPI inflation is flat to falling, and still slightly on the south side of the target mid-point (figure 7).

Figure 7: CPI inflation forecast: ANZ vs RBNZ

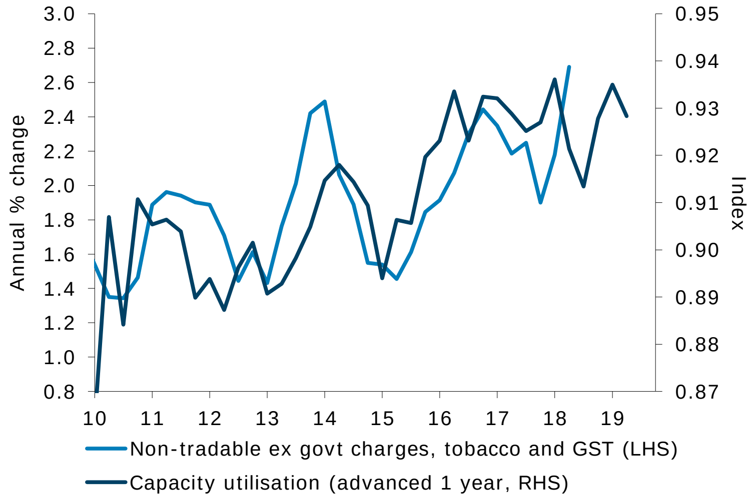


Source: RBNZ, Statistics NZ, ANZ Research

The RBNZ will continue to focus on the underlying trend in inflation and where it is likely to go. In particular, the RBNZ will want to achieve a solid lift in non-tradable inflation, given that tradable inflation is volatile and cannot be relied on to deliver a sustained lift in broader inflation pressures. Over history, non-tradable inflation has typically run at about 3% in order to offset lower tradable inflation and deliver overall CPI inflation at the 2% target midpoint.

In the near term, we continue to believe that non-tradable inflation will continue to trend up – or at least hold up – as a result of previous capacity pressures (figure 8).

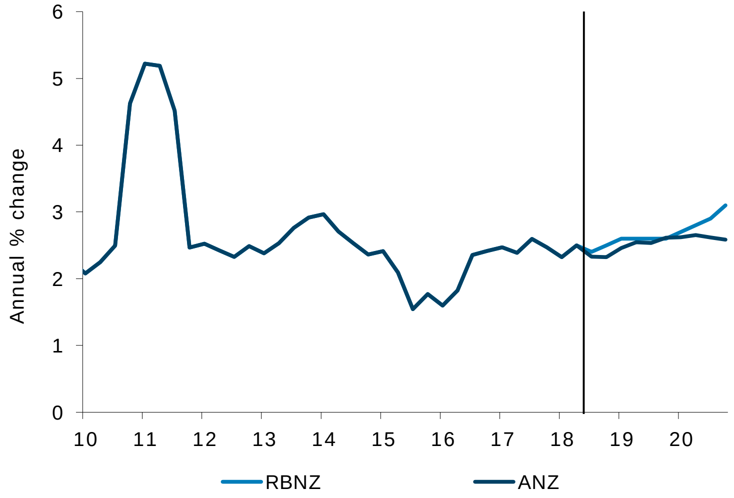
Figure 8: QSBO capacity utilisation and non-tradable inflation excluding government charges, tobacco and GST



Source: NZIER, Statistics NZ, ANZ Research

But the resilience of underlying inflation does not look assured over the medium term on account of a weaker activity environment. On our forecasts, non-tradable inflation struggles to get above 2½% and indeed, starts to run out of steam (figure 9). Hence, we expect that hikes will be off the agenda – and cuts may well be on.

Figure 9: Non-tradable inflation forecast: ANZ vs RBNZ



Source: RBNZ, Statistics NZ, ANZ Research

What will spur the RBNZ into action?

We now, on balance, don't think it is any more likely that the next move is a hike than a cut. Our previous growth forecasts were already less optimistic than the RBNZ and we've tweaked them lower; and the RBNZ made it crystal clear that the hurdle to hikes is extremely high. To our minds, that combination is sufficient to warrant removing hikes from our forecast entirely.

If anything, we see the risks as skewed towards the OCR heading lower from here.

If anything, we see the risks as skewed towards the OCR heading lower from here, but we will await further evidence before making that call. The key differences in our view versus the RBNZ's expectations relate to the medium term. But of course there is much that can change the picture between now and then, and the near-term picture for both growth and inflation is decent. In light of that, we are comfortable biding our time.

What developments would result in a hike?

- A renewed lift in net migration or a marked fall in mortgage rates give the housing market another leg up.
- Low surveyed activity indicators turn out to have very little impact.
- Wage pressures broaden and impact on inflation in a cost-push fashion.
- Inflation expectations lift on the back of higher CPI inflation.

On the other hand, there are a number of risks that, should they come to fruition, could see an OCR cut eventuate, potentially in short order:

- Global/China growth slows more sharply than expected; the terms of trade take a tumble.
- Bank funding costs increase due to a global risk aversion spike.
- The housing market is weaker than expected, perhaps due to a faster fall in net migration.
- Near-term consumption disappoints: the Families Package is trumped by higher petrol prices and a cooler housing market.
- Businesses cut back on investment to the extent indicated in surveys.
- Construction sector woes have negative flow-on impacts into the broader economy.
- Drought.

Economic overview

The new committee OCR decision-making structure adds another level of uncertainty for Reserve Bank watchers. Perhaps a Committee will prove more likely to backstop growth. Or maybe it will have a degree of inertia that isn't associated with a single decision maker. It is impossible to know, but it makes any forecast less certain. And making long-term forecasts of the OCR is a tricky business at the best of times.

The week ahead

Turning to the week ahead, **Q2's retail trade is expected to come in on the softer side.** While it's possible that we may see a boost to spending on account of the higher minimum wage or a bounce-back from last quarter's weak print (0.1% q/q), our central expectation is that the pulse from next week's release will be weak. Retailers reported softer experienced sales over the quarter in the QSBO, growth in electronic cards transactions was weak, consumer confidence eased, and the housing market was on the softer side in the quarter. Weakness in spending adds to a broader set of challenges being faced by the retail industry. Labour and imported costs are increasing, household spending appears constrained, and the environment is highly competitive – all of which impact on profitability. In the July ANZBO, a net 28% of retail businesses reported they expect profitability to deteriorate.

Overseas Merchandise Trade data for July is out Friday. Solid export volumes are expected alongside broadly stable prices, with a slightly weaker NZD providing a small boost (the real boost is yet to come). On the import side, stable domestic demand since June should keep imports in a holding pattern. Capital goods imports (which are highly volatile) will be watched closely for any signal around business investment as the offsetting impacts of pessimistic businesses and strong exporter incomes play out. Overall, we have pencilled in an unadjusted monthly trade deficit of $350m, which would see the annual deficit widen to $4.5bn.

There's also a **GlobalDairyTrade auction** this week. It's fair to say recent auction results have disappointed, with the previous event concluding with the index unchanged. In part, this reflects a solid supply outlook, with Q2 milk production up 4.6% y/y and weather conditions expected to remain favourable heading into the seasonal peak. This is being weighed against a backdrop of rising Northern Hemisphere production costs on the back of dry weather and an increasingly uncertain global outlook, which is muddying the waters a bit at present. Overall, futures are suggesting the average price will remain around current levels, but with higher volumes on offer risks are skewed towards a softer print.

July's migration data marks one year since the cycle peaked at an annual net inflow of 72,400. That's around the population of Rotorua. We're expecting to see the gradual easing continue, with departures picking up and arrivals remaining elevated, but easing a touch. A seasonally adjusted net inflow below 5,750 (July 2017's print) would see the annual inflow ease. This seems likely given the average net inflow over the past year has been a little over 5,400.

Local data

REINZ housing market statistics – July. House sales have taken a step down but prices benefited from a bump in regions outside Auckland.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
20-Aug	UK	Rightmove House Prices MoM - Aug	--	-0.1%	11:01
	UK	Rightmove House Prices YoY - Aug	--	1.4%	11:01
	GE	PPI MoM - Jul	0.2%	0.3%	18:00
	GE	PPI YoY - Jul	3.0%	3.0%	18:00
	EC	Construction Output MoM - Jun	--	0.3%	21:00
	EC	Construction Output YoY - Jun	--	1.8%	21:00
21-Aug	NZ	Net Migration SA - Jul	--	4840	10:45
	AU	ANZ-RM Consumer Confidence Index - 19-Aug	--	118.2	11:30
	AU	RBA August Meeting Minutes -	--	--	13:30
	NZ	Credit Card Spending MoM - Jul	--	2.1%	15:00
	NZ	Credit Card Spending YoY - Jul	--	5.7%	15:00
	UK	Public Finances (PSNCR) - Jul	--	13.3B	20:30
	UK	Central Government NCR - Jul	--	13.6B	20:30
	UK	Public Sector Net Borrowing - Jul	-2.2B	4.5B	20:30
	UK	PSNB ex Banking Groups - Jul	-1.1B	5.4B	20:30
	UK	CBI Trends Total Orders - Aug	9	11	22:00
	UK	CBI Trends Selling Prices - Aug	15	13	22:00
22-Aug	NZ	Retail Sales Ex Inflation QoQ - Q2	0.4%	0.1%	10:45
	AU	Westpac Leading Index MoM - Jul	--	0.01%	12:30
	AU	Skilled Vacancies MoM - Jul	--	-1.0%	13:00
	AU	Construction Work Done - Q2	0.8%	0.2%	13:30
	US	MBA Mortgage Applications - 17-Aug	--	-2.0%	23:00
23-Aug	US	Existing Home Sales - Jul	5.41M	5.38M	02:00
	US	Existing Home Sales MoM - Jul	0.6%	-0.6%	02:00
	US	FOMC Meeting Minutes - 1-Aug	--	--	06:00
	JN	Nikkei PMI Mfg - Aug P	--	52.3	12:30
	GE	Markit/BME Manufacturing PMI - Aug P	56.5	56.9	19:30
	GE	Markit Services PMI - Aug P	54.3	54.1	19:30
	GE	Markit/BME Composite PMI - Aug P	55.1	55.0	19:30
	EC	Markit Manufacturing PMI - Aug P	55.2	55.1	20:00
	EC	Markit Services PMI - Aug P	54.4	54.2	20:00
	EC	Markit Composite PMI - Aug P	54.4	54.3	20:00
	UK	CBI Retailing Reported Sales - Aug	12	20	22:00
	UK	CBI Total Dist. Reported Sales - Aug	--	25	22:00
24-Aug	US	Initial Jobless Claims - 18-Aug	215k	212k	00:30
	US	Continuing Claims - 11-Aug	1735k	1721k	00:30
	US	FHFA House Price Index MoM - Jun	0.3%	0.2%	01:00
	US	House Price Purchase Index QoQ - Q2	--	1.7%	01:00
	US	Markit Manufacturing PMI - Aug P	55.0	55.3	01:45
	US	Markit Services PMI - Aug P	56.0	56.0	01:45
	US	Markit Composite PMI - Aug P	--	55.7	01:45
	US	New Home Sales - Jul	648k	631k	02:00
	US	New Home Sales MoM - Jul	2.7%	-5.3%	02:00
	EC	Consumer Confidence - Aug A	-0.7	-0.6	02:00
	US	Kansas City Fed Manf. Activity - Aug	22	23	03:00
	NZ	Trade Balance NZD - Jul	-400M	-113M	10:45
	NZ	Exports NZD - Jul	4.76B	4.91B	10:45
	NZ	Imports NZD - Jul	5.20B	5.02B	10:45

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
24-Aug	NZ	Trade Balance 12 Mth YTD NZD - Jul	-4520M	-4031M	10:45
	JN	Natl CPI YoY - Jul	1.0%	0.7%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Jul	0.9%	0.8%	11:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - Jul	0.3%	0.2%	11:30
	JN	PPI Services YoY - Jul	1.2%	1.2%	12:50
	GE	GDP SA QoQ - Q2 F	0.5%	0.5%	18:00
	GE	GDP NSA YoY - Q2 F	2.3%	2.3%	18:00
	GE	GDP WDA YoY - Q2 F	2.0%	2.0%	18:00
	GE	Exports QoQ - Q2	1.1%	-1.0%	18:00
	GE	Imports QoQ - Q2	1.5%	-1.1%	18:00
	UK	Finance Loans for Housing - Jul	40500	40541	20:30
25-Aug	US	Durable Goods Orders - Jul P	-0.5%	0.8%	00:30
	US	Durables Ex Transportation - Jul P	0.5%	0.2%	00:30
	US	Cap Goods Orders Nondef Ex Air - Jul P	0.5%	0.2%	00:30
	US	Cap Goods Ship Nondef Ex Air - Jul P	0.3%	0.7%	00:30

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency.
Note: All surveys are preliminary and subject to change

Local data watch

The economy has lost steam. We don't expect that the economy will roll over, but it will struggle to grow above trend. Inflation is expected to increase gradually, but the medium-term outlook is not assured. The OCR is expected to be on hold for the foreseeable future. We see the balance of risks tilted towards the next move being a cut.

Date	Data/event	Economic signal	Comment
Tue 21 Aug (10:45am)	International Travel and Migration – July	Easing	The cycle is expected to continue easing, albeit gradually.
Wed 22 Aug (early am)	GlobalDairyTrade auction	Sideways	The average GDT price is expected to remain in recent ranges.
Wed 22 Aug (10:45am)	Retail Trade – Q2	Weak?	It may have been a weak quarter with the housing market cooler and spending data on the softer side.
Fri 24 Aug (10:45am)	Overseas Merchandise Trade – July	Pre-NZD boost	July's goods trade deficit is expected to widen slightly from June, but NZD weakness means support is on the way.
Thu 30 Aug (10:45am)	Building Consents – July	Strains	With construction grappling with capacity constraints and financial strains, activity will struggle to push higher.
Thu 30 Aug (1:00pm)	ANZ Business Outlook – August	--	--
Fri 31 Aug (10:00am)	ANZ Consumer Confidence – August	--	--
Mon 3 Sep (10:45am)	Terms of Trade – Q2	Stable	Growth in export prices is expected to slightly outpace that of import prices in Q2, with the terms of trade lifting a touch.
Wed 5 Sep (early am)	GlobalDairyTrade auction	Sideways	The average GDT price is expected to remain in recent ranges.
Wed 5 Sep (05:00am)	QV House Prices	Softer	The housing market has softened of late, but we expect to see further price rises, with regional markets remaining tight.
Wed 5 Sep (10:00am)	ANZ Job Ads - August	--	--
Wed 5 Sep (1:00pm)	ANZ Commodity Price Index - August	--	--
Mon 10 Sep (10:45am)	Manufacturing Activity –Q2	Meaty	Q1's meat-induced strength looks likely to continue with Mycoplasma Bovis lending support.
10-14 Sep	REINZ Housing Market Statistics	Fizzer	House price inflation was little stronger in July. We will see if it proves to be a fizzer.
Tue 11 Sep (10:00am)	ANZ Truckometer – August	--	--
Tue 11 Sep (10:45am)	Electronic Card Transactions - August	Looking	July cards spending contained little evidence of a Families Package boost. Maybe August is the month.
Tue 11 Sep (1:00pm)	ANZ Monthly Inflation Gauge – August	--	--
Thu 13 Sep (10:45am)	Food Prices – August	Tick up	Higher winter prices for fruit and vegetables should see food prices lift in August.
Fri 14 Sep (10:30am)	BNZ-BusinessNZ PMI -- August		
Mon 17 Sep (10:30am)	BNZ-BusinessNZ PSI -- August		
Wed 19 Sep (early am)	GlobalDairyTrade auction	Sideways	The average GDT price is expected to remain in recent ranges.
Wed 19 Sep (10:45am)	Balance of Payments – Q2	All about that base	The annual current account looks set to widen, but largely as a result of base effects.
Thu 20 Sep (10:45am)	Gross Domestic Product – Q2	Temporary	We are currently picking a 0.6% q/q (2.4% y/y) lift in GDP, with some temporary factors providing a boost.
Fri 21 Sep (10:45am)	International Travel and Migration – August	Easing	The cycle is expected to continue easing, albeit gradually.
On balance		**Data watch**	**The short-term data pulse may improve, but the medium-term picture is looking less assured.**

Key forecasts and rates

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
GDP (% qoq)	0.5	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.7	**2.4**	**2.4**	**2.4**	**2.5**	**2.6**	**2.6**	**2.6**	**2.5**	**2.4**
CPI (% qoq)	0.5	0.4	**0.5**	**0.3**	**0.7**	**0.5**	**0.5**	**0.2**	**0.5**	**0.4**
CPI (% yoy)	1.1	1.5	**1.5**	**1.8**	**2.0**	**2.1**	**2.0**	**1.9**	**1.7**	**1.6**
LCI Wages (% qoq)	0.3	0.6	**0.6**	**0.5**	**0.4**	**0.7**	**0.6**	**0.5**	**0.5**	**0.7**
LCI Wages (% yoy)	1.9	2.1	**1.9**	**2.0**	**2.0**	**2.1**	**2.1**	**2.2**	**2.3**	**2.4**
Employment (% qoq)	0.6	0.5	**0.4**	**0.4**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	3.1	3.7	**1.9**	**1.9**	**1.8**	**1.7**	**1.7**	**1.7**	**1.6**	**1.5**
Unemployment Rate (% sa)	4.4	4.5	**4.4**	**4.4**	**4.4**	**4.4**	**4.3**	**4.3**	**4.3**	**4.3**
Current Account (% GDP)	-2.8	**-3.1**	**-3.4**	**-3.6**	**-3.4**	**-3.5**	**-3.6**	**-3.7**	**-3.7**	**-3.7**
Terms of Trade (% qoq)	-1.9	**1.2**	**-1.2**	**0.3**	**0.3**	**0.3**	**0.1**	**0.3**	**0.1**	**0.3**
Terms of Trade (% yoy)	2.0	**2.1**	**-0.4**	**-1.5**	**0.6**	**-0.3**	**1.0**	**1.0**	**0.8**	**0.8**

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Retail ECT (% mom)	0.4	1.3	0.3	1.4	-0.3	1.6	-2.2	0.7	0.8	0.7
Retail ECT (% yoy)	1.9	5.0	3.8	4.1	4.0	6.7	1.4	4.2	4.9	4.5
Credit Card Billings (% mom)	1.0	0.9	0.6	-0.6	0.7	1.0	0.6	-1.6	2.1	--
Credit Card Billings (% yoy)	3.0	9.1	6.3	4.6	7.0	7.3	6.9	3.7	5.7	--
Car Registrations (% mom)	0.5	0.9	-4.9	3.4	-9.2	-3.5	-0.8	12.9	-6.4	-0.2
Car Registrations (% yoy)	7.3	7.3	4.7	6.2	-4.2	-11.9	-9.0	-0.6	-4.9	-0.7
Building Consents (% mom)	-9.5	9.8	-8.7	0.3	6.3	13.0	-3.8	6.9	-7.6	--
Building Consents (% yoy)	-7.2	13.3	4.6	4.6	-0.6	18.3	15.5	23.3	12.0	--
REINZ House Price Index (% yoy)	3.4	3.6	3.7	3.5	4.0	4.1	3.7	3.6	3.8	4.8
Household Lending Growth (% mom)	0.4	0.5	0.6	0.4	0.5	0.5	0.5	0.4	0.5	--
Household Lending Growth (% yoy)	6.3	6.2	5.9	5.8	5.7	5.7	5.8	5.8	5.8	--
ANZ Roy Morgan Consumer Conf.	126.3	123.7	121.8	126.9	127.7	128.0	120.5	121.0	120.0	118.4
ANZ Business Confidence	-10.6	-39.3	-37.8	..	-19.0	-20.0	-23.4	-27.2	-39.0	-44.9
ANZ Own Activity Outlook	22.0	6.5	15.6	..	20.4	21.8	17.8	13.6	9.4	3.8
Trade Balance ($m)	-840	-1222	614	-662	188	-151	195	208	-113	--
Trade Bal ($m ann)	54759	55999	56476	57252	57451	58071	58677	58979	59553	--
ANZ World Comm. Price Index (% mom)	-0.3	-0.9	-1.9	0.7	2.8	1.2	1.0	1.5	-0.9	-3.2
ANZ World Comm. Price Index (% yoy)	10.4	6.0	3.2	4.1	5.0	5.8	7.1	5.4	2.3	-0.2
Net Migration (sa)	5650	5660	5680	6240	4910	5370	4910	5080	4840	--
Net Migration (ann)	70694	70354	70016	70147	68943	67984	67038	66243	64995	--
ANZ Heavy Traffic Index (% mom)	2.9	1.1	-4.2	4.1	-2.5	-0.3	1.4	3.0	-1.5	-0.4
ANZ Light Traffic Index (% mom)	-0.6	1.5	-1.7	-0.5	-0.2	2.2	-0.5	1.1	0.7	0.4
ANZ Job Ads (% mom)	0.8	-0.2	-0.1	3.0	-1.3	0.7	-1.9	2.4	-1.3	3.1

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

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jun-18	Jul-18	Today	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
NZD/USD	0.677	0.681	0.66	0.65	0.62	0.61	0.61	0.61	0.61	0.62
NZD/AUD	0.914	0.919	0.91	0.90	0.89	0.87	0.87	0.87	0.87	0.88
NZD/EUR	0.579	0.581	0.58	0.57	0.53	0.50	0.49	0.48	0.48	0.48
NZD/JPY	74.96	76.00	73.39	69.6	65.1	62.2	60.4	59.2	58.6	59.5
NZD/GBP	0.512	0.518	0.52	0.48	0.45	0.44	0.43	0.43	0.43	0.43
NZ$ TWI	70.8	71.3	72.2	68.5	65.0	62.9	62.1	61.7	61.4	62.2
Interest rates	Jun-18	Jul-18	Today	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.00	1.91	1.90	1.95	1.98	2.00	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.85	2.76	2.58	2.60	2.70	2.75	2.80	2.85	2.90	2.95
US Fed funds	2.00	2.00	2.00	2.25	2.50	2.50	2.75	2.75	2.75	2.75
US 3-mth	2.34	2.35	2.31	2.75	2.95	2.95	3.20	3.20	3.20	3.20
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00
AU 3-mth	2.11	1.96	1.95	2.05	2.05	2.05	2.00	2.30	2.50	2.50

	17 Jul	13 Aug	14 Aug	15 Aug	16 Aug	17 Aug
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.93	1.91	1.90	1.91	1.90	1.90
NZGB 05/21	1.96	1.75	1.76	1.75	1.75	1.75
NZGB 04/23	2.18	1.94	1.95	1.95	1.95	1.96
NZGB 04/27	2.68	2.41	2.41	2.41	2.41	2.41
NZGB 04/33	3.05	2.75	2.75	2.74	2.74	2.74
2 year swap	2.16	2.02	2.05	2.04	2.06	2.05
5 year swap	2.56	2.35	2.39	2.38	2.41	2.40
RBNZ TWI	72.74	71.75	71.86	71.72	71.83	71.93
NZD/USD	0.6817	0.6576	0.6597	0.6552	0.6579	0.6637
NZD/AUD	0.9202	0.9043	0.9088	0.9075	0.9053	0.9073
NZD/JPY	76.71	72.59	73.20	72.83	72.96	73.34
NZD/GBP	0.5149	0.5158	0.5165	0.5155	0.5182	0.5206
NZD/EUR	0.5818	0.5779	0.5784	0.5789	0.5789	0.5801
AUD/USD	0.7408	0.7272	0.7260	0.7221	0.7266	0.7313
EUR/USD	1.1717	1.1379	1.1406	1.1319	1.1364	1.1438
USD/JPY	112.52	110.38	110.96	111.16	110.90	110.50
GBP/USD	1.3241	1.2751	1.2772	1.2711	1.2696	1.2749
Oil (US$/bbl)	68.08	67.20	67.04	65.01	65.46	65.91
Gold (US$/oz)	1241.95	1201.28	1194.96	1185.05	1178.71	1184.25
NZX 50	8979	8945	8972	8987	8999	9053
Baltic Dry Freight Index	1721	1709	1725	1727	1720	1723
NZX WMP Futures (US$/t)	2870	2910	2915	2930	2920	2925

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