ANZ Research

New Zealand Weekly Focus

1 October 2018

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Contents

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What goes up…

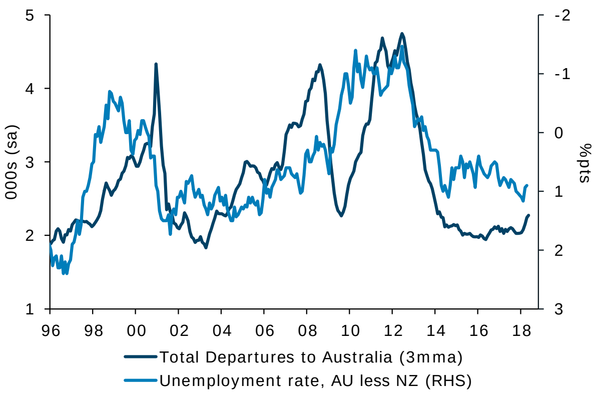
Economic overview

Net immigration has added more than 300,000 people to the population over the past five years, increasing demand (including for housing and infrastructure), but also adding to the pool of labour. The migration cycle is past its peak and trending lower, but is still expected to add almost 100,000 people over the next two years. Nevertheless, softening population growth implies a shrinking impetus to growth over the years ahead and if the migration downturn is sharper than expected, economic growth could slow markedly, given growth per capita is pretty lacklustre. With such a large pool of recent permanent residents who may have a higher propensity to leave should economic conditions change, the risk that net migration exacerbates the next downturn – whenever that may be – is quite real. The week ahead brings NZIER's Q3 Quarterly Survey of Business Opinion, ANZ's job ads and commodity price index, and the next GDT auction. We have revised down our farmgate milk price to $6.40kg /MS and bumped up our CPI forecasts for Q3 and Q4 on higher petrol prices.

Chart of the week

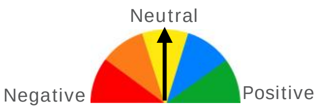
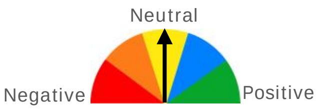
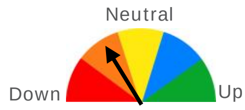
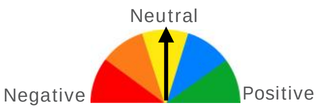
Departures to Australia are lifting. Is it the beginning of the next kiwi exodus?

Departures to Australia and unemployment rate differential



Source: Haver, Statistics NZ, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.8% y/y for 2019 Q1	The economy has lost some steam. We see growth of around 2½-3% over the next few years (at, or a bit below, trend).	
Unemployment rate	4.4% for 2019 Q1	Unemployment is expected to move broadly sideways. Underlying wage pressures are subdued.	
OCR	1.75% in March 2019	We are no longer predicting rate hikes. In terms of risks, a cut now looks more likely than a hike.	
CPI	2.2% y/y for 2019 Q1	We expect core inflation will lift, but only gradually, and the medium-term outlook is not assured.	

Economic overview

Summary

Migration-induced population growth is moderating

Might it decline more sharply than expected?

Net immigration has added more than 300,000 people to the population over the past five years, increasing demand (including for housing and infrastructure), but also adding to the pool of labour. The migration cycle is past its peak and trending lower, but is still expected to add almost 100,000 people over the next two years. Nevertheless, softening population growth implies a shrinking impetus to growth over the years ahead and if the migration downturn is sharper than expected, economic growth could slow markedly, given growth per capita is pretty lacklustre. With such a large pool of recent permanent residents who may have a higher propensity to leave should economic conditions change, the risk that net migration exacerbates the next downturn – whenever that may be – is quite real. The week ahead brings NZIER's Q3 Quarterly Survey of Business Opinion, ANZ's job ads and commodity price index, and the next GDT auction. We have revised down our farmgate milk price to $6.40kg /MS and bumped up our CPI forecasts for Q3 and Q4 on higher petrol prices.

Forthcoming events

Quarterly Survey of Business Opinion – Q3 (Tuesday 2 October 10am). If our own ANZ survey is anything to go by, the NZIER's QSBO is likely to slip further in Q3 or at least remain in pessimistic territory. We suspect this will be watched closely.

GlobalDairyTrade auction (Wednesday 3 October, early am). Dairy prices are expected to remain broadly stable, with some downside risks in the near term.

ANZ Job Ads – September (Wednesday 3 October, 10am).

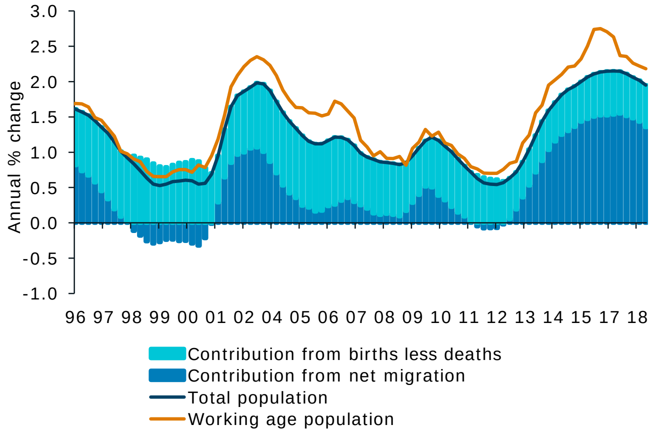
ANZ Commodity Price Index – September (Wednesday 3 October, 1pm).

What's the view?

New Zealand is in the midst of a record-breaking migration cycle, which has been boosting GDP growth

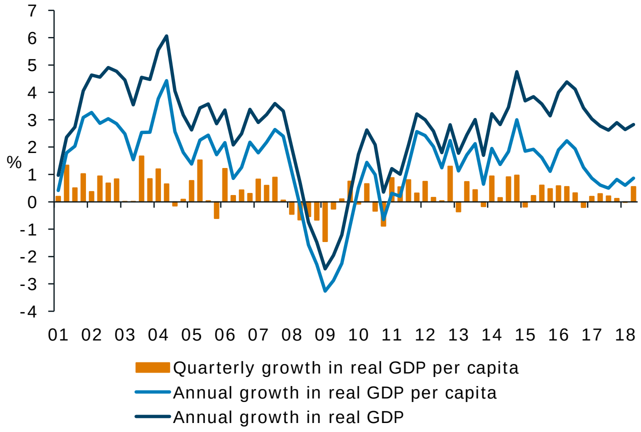
Since mid-2013, net migration inflows have added more than 300,000 people to the New Zealand population (figure 1) – equivalent to over 6% of the current population. This has had substantial impacts on both the demand and supply sides of the economy. It's no secret that population growth has been boosting GDP growth these past few years, with migrants adding to labour supply (lifting the economy's potential growth rate) while consuming goods and services (including housing). In the meantime, per capita GDP growth has been nothing to write home about (figure 2).

Figure 1. Contribution to population growth



Source: Statistics NZ, ANZ Research

Figure 2. GDP per capita



Source: Statistics NZ

The impetus to growth is expected to shrink from here…

Now, a year on from the migration cycle peak, easing net inflows imply a shrinking impetus to growth – despite remaining very high by historical standards. In the past year alone, net migration has added 63,300 people to the resident population – 12.6% lower than the cycle peak of 72,400 in July 2017.

Economic overview

Even with further declines baked into our forecast, we're expecting migration to add a bit under 100,000 people to the population by Q4 2020. So while migration's impetus to growth is expected to shrink, it's not expected to be a drag on the economy any time soon. But there is always the risk that the downturn is sharper than we expect. And if that risk materialises, economic growth could slow markedly.

To a large degree, strong migration inflows reflect favourable economic conditions

To understand where we might be going, we need to look at where we've been. Policy changes and New Zealand's solid growth in recent years have seen arrivals pick up to record levels (peaking at 132,200 in the year to August 2017). Strong employment growth was accompanied by skilled labour shortages and demand for migrant labour. At the same time, departures slowed to low levels, with the same favourable conditions that make New Zealand attractive to foreigners keeping kiwis at home.

But now we are past the cycle peak and well into the next phase. Departures are lifting as those who arrived on temporary work and student visas begin to head home (although some are going on to permanent residency). In addition, the New Zealand economic expansion has slowed, closing the economic-conditions gap with the rest of the world. This is driving moderating arrivals and encouraging higher departures.

The lack of trans-Tasman flows has been a big contributor…

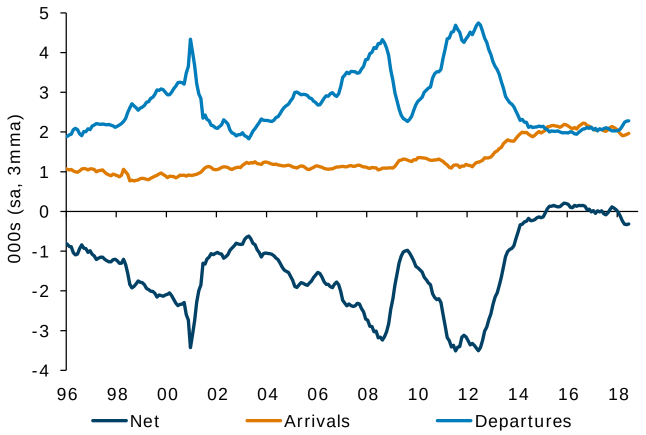
There is no better place to look for evidence of the "relative economic conditions" story than trans-Tasman flows (figure 3), where net flows – or the lack thereof – have contributed significantly to the current migration cycle. Departures to Australia softened from a peak of 54,200 in the year to August 2012 to just below 24,000 by April 2016, as the unemployment rate gap closed. Arrivals increased from 16,800 in the year to June 2013 to a peak of 25,900 in November 2016, driven largely by New Zealand citizens coming home. It's a marked contrast to the 20 years leading up to the current cycle, wherein trans-Tasman flows averaged around -20,000 per annum. Indeed, the unusual near-zero net trans-Tasman flows have accounted for almost a third of the strong net migration story.

…but that appears to be turning

Policy changes in Australia making life a bit more difficult for kiwis may represent a structural change that mean historical averages are not a good guide to the likely future. Nonetheless, in the past few months, rising New Zealand citizen departures (and moderating arrivals) have pushed net trans-Tasman flows back into (the more typical) negative territory. While Australia's mining investment boom is well and truly spent, solid Australian jobs growth (up 44k in August) and the real wage differential suggests this tick-up in departures across the ditch is likely to continue.

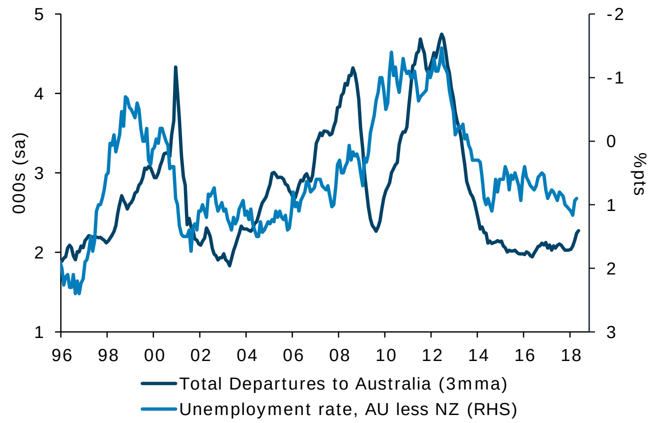
However, on our growth forecasts, this net Aussie-pull dynamic should be muted relative to previous cycles. The Australian economy is facing headwinds of its own, and New Zealand's labour market remains tight.

Figure 3. Trans-Tasman migration flows



Source: Statistics NZ,

Figure 4: Departures to Australia and unemployment rate differential



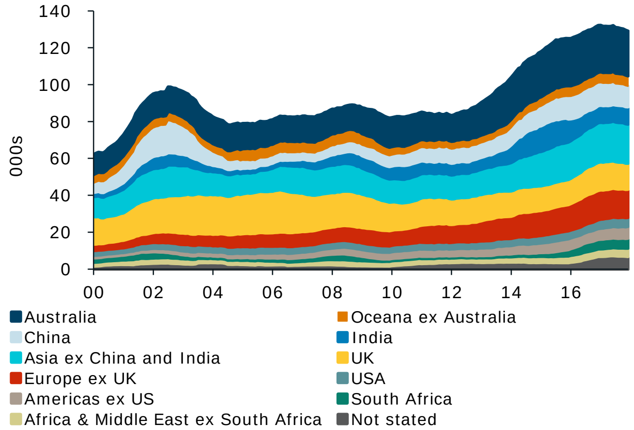
Source: Haver, Statistics NZ, ANZ Research

Economic overview

Arrivals from Asia have been particularly strong…

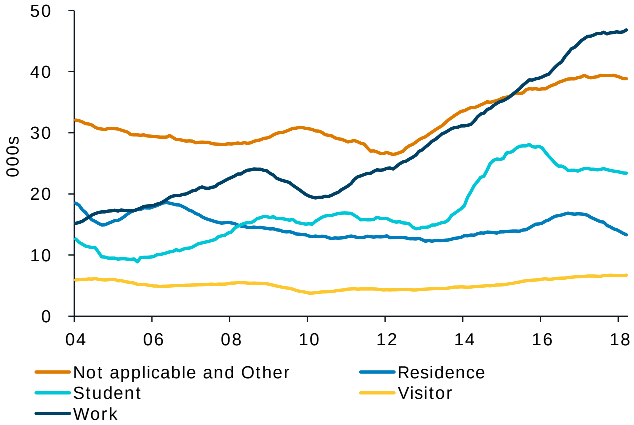
Arrivals from countries other than Australia have also been very elevated in recent years. Those from Asia have been particularly strong, with the annual total increasing from 27,500 in mid-2013 to a peak of 45,800 in February 2016. However, they have since moderated to 41,600 – some 14,000 above mid-2013 levels.

Figure 5. Arrivals by country



Source: Statistics NZ,

Figure 6. Trends in arrivals by visa type



Source: Statistics NZ

…and are expected to hold up at high levels, particularly work visas…

Arrivals on work visas have lifted strongly this cycle – up from 27,800 in the year to June-2013 to 46,800 in August 2018.[1] Nonetheless, the unemployment rate has trended lower, with employment growth more than absorbing the extra supply. Arrivals on work visas are likely to hold up for as long as policy and economic conditions accommodate. This reflects the mix of stable labour market conditions here and the real wage differential between New Zealand and a number of migrant countries. Adding to that, the government's decision to replace the KiwiBuild visa with easier policy settings for construction workers should be supportive. However, the same dynamics that have seen ANZ job ads growth moderate will also affect work visas. Indeed, this is already evident in the flattening off over the past 12 months.

…while resident and student visas look set to ease.

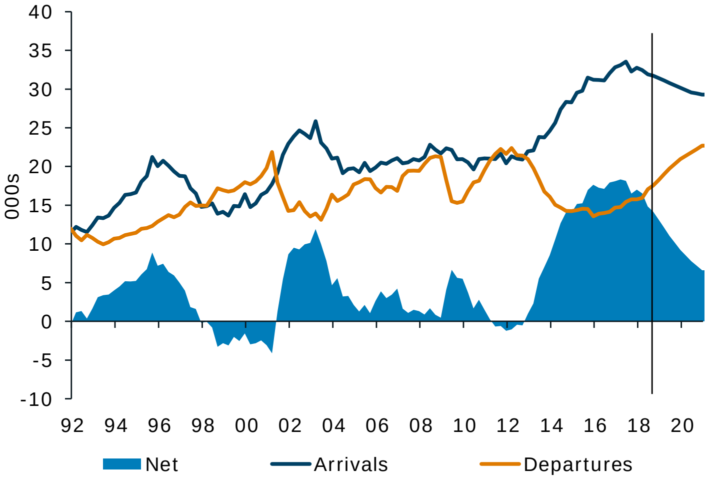
Residency visas have been slipping over the past year. Approvals data suggests resident arrivals are likely to moderate further. Student visas have held up after moderating into 2016 on the back of changes to English language requirements, but are expected to ease slightly from here due to more restrictive post-study work rights. If in-study work rights were also to be removed, we would expect student visa arrivals to fall more quickly.

Overall, easing in net migration is expected to continue

Putting it all together, we arrive at an outlook where net migration is expected to ease further, but at a relatively gradual pace. We expect that population growth will slow from 1.9% currently to 1.2% by December 2020 – with migration adding around 100,000 people to the population between now and then.

[1] Strength in '*not applicable'* largely reflects New Zealand and Australian arrivals who do not require a visa.

Figure 7. Annual PLT net migration forecast



Source: Statistics NZ

Risks to the outlook

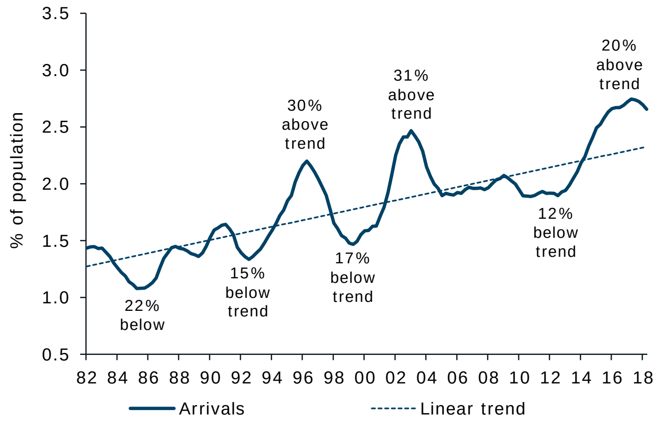
Risks to the outlook appear skewed to the downside

In practice, however, migration is very difficult to forecast. In our view, risks are skewed to the downside. There are a number of factors that could cause migration to evolve differently to our expectations:

- Domestic or global economic conditions could surprise.
- The large pool of recent arrivals could be more inclined to leave again than assumed. Following the largest cycle of arrivals ever, might we see the largest-ever cycle in departures? We won't know for some time.
- Fewer (or more) arrivals could go on to permanent residency than expected.
- Migration policy settings could change. So far, the change of government has led to only relatively minor tweaks to policy, with the Government appearing content to let the cyclical easing continue. However, given the rhetoric leading up to the election, tighter policy settings remain a possibility.
- Non-economic forces such as geopolitical tensions could also enter the equation.

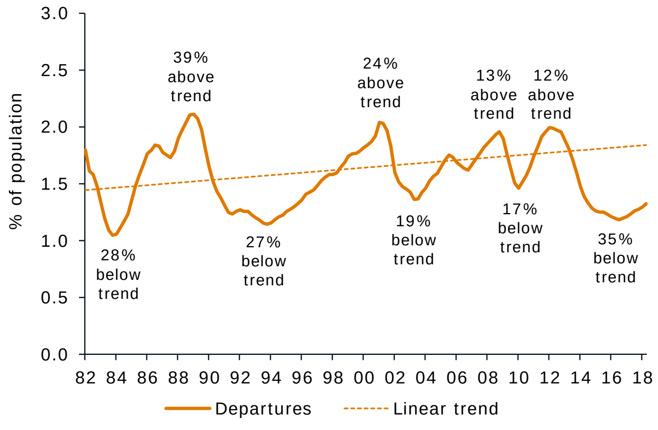
Historical deviations from trend provide some insight into how the migration cycle could evolve from here. While the estimated trend is sensitive to the choice of sample period, it is clear that over the past 30 years or so (up until the beginning of the current cycle), net migrant inflows have trended gradually higher.

Figure 8. Trend migration flows – arrivals



Source: Statistics NZ, ANZ Research

Figure 9. Trend migration flows – departures



Source: Statistics NZ, ANZ Research

Economic overview

Arrivals and departures are well away from trend

Both arrivals and departures are well away from their 30-year trends (measured up until the start of the current cycle). The current cycle peak in arrivals (as a share of the population) is similar to previous cycles, at 20% above trend in October 2017. But the trough in departures as a share of the population has been particularly low, hitting 35% below trend in September 2016.

Let's run some numbers.

- If arrivals and departures were to return to trend within two years, there would be almost 20,000 fewer people than our central forecast by Q4 2020.

A sharp return to trend would dampen GDP growth

- Alternatively, an overshoot of trend in both arrivals and departures of 15% by end-2020 would lower the population by around 62,000 people relative to our expectations – equivalent to 1.3% of the current population. All else equal, annual GDP growth could be 0.3%pts lower than our central forecast for 2.3% y/y growth at the end of 2020, although the effect is uncertain.[2] And if migration continued easing beyond our forecast horizon, the effect could be even greater.
- A reversal that saw arrivals (departures) 30% below (above) trend would be consistent with net migration turning significantly negative and dragging on growth, with GDP potentially running at an anaemic pace of 1.7% y/y by 2020.

None of these scenarios would be unprecedented based on historical experience (in terms of magnitude, although the timing of reversals has varied). This highlights just how significant migration risks are for the economic outlook.

There is a range of channels through which lower net migration would impact the economy – essentially the reverse of what we've seen in recent years.

- Fewer people demanding goods and services would directly dampen consumption and subsequently hiring and investment.
- On the supply side, the productive capacity of the economy would grow more slowly, due to slower growth in the working-age population.
- Wages and inflation would face offsetting impacts: labour demand would be smaller, but so too would labour supply. The impact on wages is unclear and could vary by sector.
- With fewer people earning, spending and paying taxes than otherwise, the Government's fiscal position would also be softer.

Fewer people could take some pressure off the housing market

Another important channel is of course the housing market. Based on historical analysis, a 1% increase in the population has been associated with 7-9% higher house prices over three years.[3] A number of headwinds are affecting the housing market at present: LVR restrictions, government policy, affordability constraints, and credit availability. Nonetheless, it's a fair assumption that a smaller population would mean less housing demand than otherwise, which would impact both house prices and residential investment.

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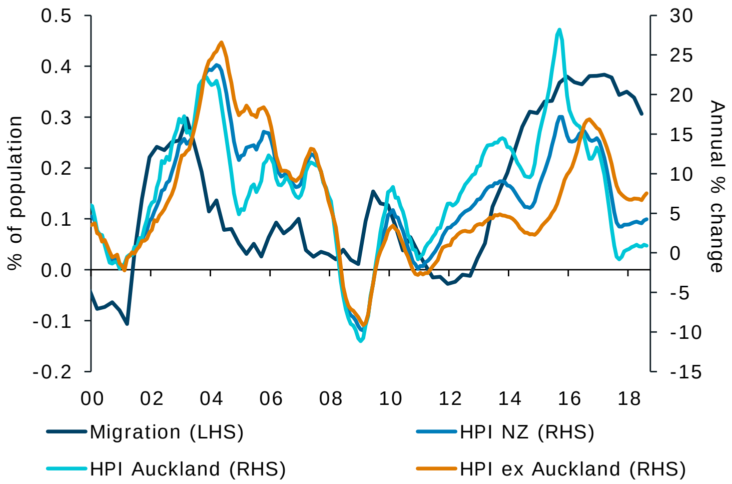
[2] This assumes that per capita GDP growth is otherwise the same, which is a simplifying assumption. The impact on per capita GDP would depend on the productivity of migrants and a range of other factors, which we ignore for simplicity.

[3] Based on our estimates from an ordinary least squares regression including migration and interest rates. See also McDonald (2013).

Economic overview

Figure 10. Annual net migration and house price inflation



Source: REINZ, Statistics NZ, ANZ Research

All up, the economic outlook faces risks from both higher and lower migration, but it's fair to say the risks are skewed to the downside over coming years. While we maintain our view the migration will continue to trend lower, the possibility of this occurring more rapidly is very real.

The week ahead

The QSBO will be closely watched

It's a relatively light data week, with the main event being the NZIER's Q3 Quarterly Survey of Business Opinion on Tuesday. We suspect this will be watched closely, given the attention our own ANZ Business Survey has received in recent months. We will be watching investment and employment intentions, in particular, to provide an independent read on the degree to which downbeat sentiment is likely to flow through into decisions.

ANZ Job Ads and the ANZ Commodity Price Index for September are out on Wednesday at 10am and 1pm respectively.

There's also a GlobalDairyTrade auction this week. Futures suggest a small rebound in the average milk price index is on the cards, but with some weakness in near-term contracts. However, expectations for ongoing recovery in New Zealand production growth alongside buoyant global production may support buyer patience and another negative print overall. In fact, further declines seem likely in the short term, but moderation should be gradual, given prices are currently at a level that has typically seen marginal demand come on-stream, putting a floor under declines.

We have revised our 2018/19 season milk price down to $6.40/kg MS…

We have lowered our forecast farmgate milk price for the 2018/19 season…

…owing largely to stronger than expected global supply

The GlobalDairyTrade index has fallen over 15% since May. On the back of these declines, and expectations that prices will moderate further in the near term, we have revised down our forecast milk price to $6.40/kg MS for the 2018/19 season (previously $6.75/kg MS).

On the supply side, New Zealand production is recovering at a solid pace, with milksolids production up 4.6% y/y in August. Generally favourable weather conditions suggest solid production growth will be maintained heading into the seasonal peak in October. Across the ditch, drought is causing headaches for farmers and impacting volumes. South American production has staged a solid recovery over the past few months, but operating costs are poised to rise, suggesting risks are skewed to the downside.

Economic overview

Northern Hemisphere production has been expanding year-on-year, but there are discrepancies between countries and the pace of expansion is slowing. So far, European production has proved resilient against the dry, hot summer, but the mix of high feed costs and slipping milk prices will squeeze margins, with softening production expected to follow. In the US, production has been holding up on productivity gains, but again, slipping prices should see some moderation.

Overall, global production growth has been coming in on the stronger side of expectations, putting downward pressure on prices, but with the exception of New Zealand, production growth is expected to soften. As long as demand holds up, this suggests prices will recover into the second half of the season. That said, the global economy is riddled with risks and uncertainties at present. While we see stable demand for New Zealand exports persisting, global growth is past its peak and the US-China trade war (and uncertainties that accompany it) is threatening a shaper downturn.

...and nudged up our near-term CPI pick on higher petrol prices

We've lifted our near-term inflation forecast on higher petrol prices.

The combination of rising oil prices, a depreciating NZD and the lift in fuel tax has seen petrol prices at the pump hit record highs. While we saw the taxes coming, we did not anticipate oil prices would rise as sharply. Passing higher-than-expected petrol prices through to our headline CPI forecast lifts the q/q change by 0.1%pts in both Q3 and Q4 to 0.6% and 0.4% respectively. That would see annual inflation hit 1.7% in Q3 and 2.0% in Q4, well above the RBNZ August MPS forecast of 1.4% and 1.6%. From there, we expect headline inflation to tick above the mid-point of the RBNZ's target band, hitting 2.2% y/y in Q1 and Q2 next year, but only temporarily.

We expect the RBNZ will look though the tradable inflation bump as a transitory shock (with higher petrol prices, at the margin, bad for growth). The RBNZ will be focused on the persistent trend in inflation. As such, non-tradable and core inflation, along with medium-term inflation expectations, will be more important for assessing the underlying inflation pulse, even if headline inflation surprises on the upside on account of higher tradable inflation.

Unlike the RBNZ, we are not forecasting a gradual and persistent rise in inflation over the next three years. Rather, we expect annual inflation to moderate to 1.6% by end-2020 after some of the near-term noise (including rising petrol prices) drops out. The lack of underlying inflationary pressures in our forecast compared to the RBNZ hinges largely on our relative growth outlooks. We see growth persisting at around current rates, compared to the RBNZ's forecast for growth momentum to lift.

We'll be locking down our final Q3 CPI forecast after September food prices and the ANZ Monthly Inflation Gauge have been released.

Local data

Overseas Merchandise Trade. The trade deficit widened more than expected on weaker exports, particularly dairy volumes.

ANZ Business Outlook – September. Both the confidence and own activity measures bounced, but remain at subdued levels.

RBNZ New Lending – August. New lending continued to soften in August.

RBNZ OCR Review. The RBNZ left the OCR unchanged and reiterated that the next move could be up or down.

ANZ Consumer Confidence – September. Consumer confidence remains in a holding pattern around historical levels.

Building consents – August. Consent issuance partially recovered in August, but the trend continues to head south.

RBNZ Sectoral Credit – August. Private sector credit continued to tick up, supported by solid growth in business credit.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
1-Oct	JN	Tankan Large Mfg Index - Q3	22	21	12:50
	JN	Tankan Large Mfg Outlook - Q3	20	21	12:50
	JN	Tankan Large Non-Mfg Index - Q3	23	24	12:50
	JN	Tankan Large Non-Mfg Outlook - Q3	21	21	12:50
	JN	Tankan Large All Industry Capex - Q3	13.9%	13.6%	12:50
	JN	Tankan Small Mfg Index - Q3	13	14	12:50
	JN	Tankan Small Mfg Outlook - Q3	12	12	12:50
	JN	Tankan Small Non-Mfg Index - Q3	6	8	12:50
	JN	Tankan Small Non-Mfg Outlook - Q3	4	5	12:50
	JN	Nikkei PMI Mfg - Sep F	--	52.9	13:30
	AU	Melbourne Institute Inflation MoM - Sep	--	0.1%	14:00
	AU	Melbourne Institute Inflation YoY - Sep	--	2.1%	14:00
	GE	Retail Sales MoM - Aug	0.5%	-1.1%	19:00
	GE	Retail Sales YoY - Aug	1.6%	0.8%	19:00
	GE	Markit/BME Manufacturing PMI - Sep F	53.7	53.7	20:55
	EC	Markit Manufacturing PMI - Sep F	53.3	53.3	21:00
	UK	Net Consumer Credit - Aug	£1.3B	£0.8B	21:30
	UK	Net Lending Sec. on Dwellings - Aug	£3.5B	£3.2B	21:30
	UK	Mortgage Approvals - Aug	64.5k	64.8k	21:30
	UK	Money Supply M4 MoM - Aug	--	0.9%	21:30
	UK	M4 Money Supply YoY - Aug	--	2.1%	21:30
	UK	M4 Ex IOFCs 3M Annualised - Aug	--	3.5%	21:30
	UK	Markit PMI Manufacturing SA - Sep	52.5	52.8	21:30
	EC	Unemployment Rate - Aug	8.1%	8.2%	22:00
2-Oct	US	Markit Manufacturing PMI - Sep F	55.6	55.6	02:45
	US	Construction Spending MoM - Aug	0.4%	0.1%	03:00
	US	ISM Manufacturing - Sep	60.0	61.3	03:00
	NZ	NZIER QSBO – Q3	--	-20	10:00
	AU	CBA PMI Mfg - Sep	--	53.2	12:00
	AU	ANZ-RM Consumer Confidence Index - 30-Sep	--	117.2	12:30
	AU	CoreLogic House Px MoM - Sep	--	-0.4%	13:00
	AU	RBA Cash Rate Target - Oct	1.50%	1.50%	17:30
	UK	Nationwide House PX MoM - Sep	0.2%	-0.5%	19:00
	UK	Nationwide House Px NSA YoY - Sep	1.9%	2.0%	19:00
	AU	Commodity Index SDR YoY - Sep	--	6.7%	19:30
	AU	Commodity Index AUD - Sep	--	113.6	19:30
	UK	Markit/CIPS Construction PMI - Sep	52.9	52.9	21:30
	EC	PPI MoM - Aug	0.2%	0.4%	22:00
	EC	PPI YoY - Aug	3.8%	4.0%	22:00
3-Oct	NZ	QV House Prices YoY - Sep	--	4.8%	05:00
	NZ	ANZ Job Advertisements MoM - Sep	--	0.6%	10:00
	AU	Ai Group Perf of Services Index - Sep	--	52.2	11:30
	NZ	ANZ Commodity Price - Sep	--	-1.1%	13:00
	JN	Nikkei Japan PMI Services - Sep	--	51.5	13:30
	JN	Nikkei Japan PMI Composite - Sep	--	52.0	13:30
	AU	Building Approvals MoM - Aug	1.0%	-5.2%	14:30
	AU	Building Approvals YoY - Aug	-2.5%	-5.6%	14:30
	GE	Markit Services PMI - Sep F	56.5	56.5	20:55

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
3-Oct	GE	Markit/BME Composite PMI - Sep F	55.3	55.3	20:55
	EC	Markit Services PMI - Sep F	54.7	54.7	21:00
	EC	Markit Composite PMI - Sep F	54.2	54.2	21:00
	UK	Official Reserves Changes - Sep	--	$437M	21:30
	UK	Markit/CIPS Services PMI - Sep	54.0	54.3	21:30
	UK	Markit/CIPS Composite PMI - Sep	54.0	54.2	21:30
	EC	Retail Sales MoM - Aug	0.2%	-0.2%	22:00
	EC	Retail Sales YoY - Aug	1.7%	1.1%	22:00
4-Oct	US	MBA Mortgage Applications - 28-Sep	--	2.9%	00:00
	US	ADP Employment Change - Sep	185k	163k	01:15
	US	Markit Services PMI - Sep F	53.0	52.9	02:45
	US	Markit Composite PMI - Sep F	--	53.4	02:45
	US	ISM Non-Manufacturing Index - Sep	58.0	58.5	03:00
	AU	CBA PMI Services - Sep	--	51.8	12:00
	AU	CBA PMI Composite - Sep	--	52.0	12:00
	AU	Trade Balance - Aug	A$1450M	A$1551M	14:30
	GE	Markit Construction PMI - Sep	--	51.5	20:30
5-Oct	US	Challenger Job Cuts YoY - Sep	--	13.7%	00:30
	US	Initial Jobless Claims - 29-Sep	213k	214k	01:30
	US	Continuing Claims - 22-Sep	1665k	1661k	01:30
	US	Factory Orders - Aug	2.2%	-0.8%	03:00
	US	Factory Orders Ex Trans - Aug	--	0.2%	03:00
	US	Durable Goods Orders - Aug F	--	4.5%	03:00
	US	Durables Ex Transportation - Aug F	--	0.1%	03:00
	US	Cap Goods Orders Nondef Ex Air - Aug F	--	-0.5%	03:00
	US	Cap Goods Ship Nondef Ex Air - Aug F	--	0.1%	03:00
	AU	Ai Group Perf of Construction Index - Sep	--	51.8	11:30
	AU	Retail Sales MoM - Aug	0.3%	0.0%	14:30
	GE	Factory Orders MoM - Aug	0.8%	-0.9%	19:00
	GE	Factory Orders WDA YoY - Aug	-3.0%	-0.9%	19:00
	GE	PPI MoM - Aug	0.2%	0.2%	19:00
	GE	PPI YoY - Aug	2.9%	3.0%	19:00
	UK	Halifax House Prices MoM - Sep	0.2%	0.1%	20:30
	UK	Halifax House Price 3Mths/Year - Sep	3.4%	3.7%	20:30
	UK	Unit Labor Costs YoY - Q2	--	3.1%	21:30
6-Oct	US	Trade Balance - Aug	-$53.0B	-$50.1B	01:30
	US	Change in Nonfarm Payrolls - Sep	185k	201k	01:30
	US	Unemployment Rate - Sep	3.8%	3.9%	01:30
	US	Average Hourly Earnings MoM - Sep	0.3%	0.4%	01:30
	US	Average Hourly Earnings YoY - Sep	2.8%	2.9%	01:30
	US	Labor Force Participation Rate - Sep	62.7%	62.7%	01:30
	US	Consumer Credit - Aug	$15.00B	$16.64B	08:00

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

Though growth in Q2 was solid, the economy appears to have lost some steam since then. We don't expect that it will roll over, but we think 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 still see the balance of risks tilted towards the next move being a cut.

Date	Data/event	Economic signal	Comment
Tue 2 Oct (10:00am)	Quarterly Survey of Business Opinion – Q3	Mirror	We'll be looking to see whether investment and employment intentions mirror the downbeat pulse from the ANZBO.
Wed 3 Oct (5:00am)	QV House Prices	Old news	These data are lagged 2-3 months, so won't give us new information. Expect continued moderation in line with REINZ.
Wed 3 Oct (10:00am)	ANZ Job Ads – September	--	--
Wed 3 Oct (1:00pm)	ANZ Commodity Price Index – September	--	--
Tue 9 Oct (10:00am)	ANZ Truckometer – September	--	--
Tue 9 Oct (1:00pm)	ANZ Monthly Inflation Gauge – September	--	--
Wed 10 Oct (10:45am)	Electronic Card Transactions – September	Looking	Spending growth has stabilised after recent softness; we will be looking for moderate growth in coming months.
10-14 Oct	REINZ Housing Market Statistics – September	Contained	After ticking up over the past two months, house price pressures are likely to remain contained or even moderate.
Tue 16 Oct (10:45am)	Consumer Price Index – Q3	Fuelled	Higher fuel prices are expected to contribute to rising CPI inflation in the quarter.
Fri 19 Oct (10:45am)	International Travel and Migration – September	Easing	Net migration flows are expected to continue easing, with departures to Australia lifting further.
Thu 25 Oct (10:45am)	Overseas Merchandise Trade – September	Recovery	Exports are expected to lift on the back of the weaker NZD and solid milk production.
Wed 31 Oct (10:45am)	Building Consents – September	How far?	We will start to get a sense regarding the extent of the recent downward trend.
Wed 31 Oct (1:00pm)	ANZ Business Outlook – October	--	--
Thu 1 Nov (10am)	ANZ Job Ads – October	--	--
Fri 2 Nov (10am)	ANZ Consumer Confidence – October	--	--
Mon 5 Nov (1pm)	ANZ Commodity Price Index – October	--	--
Wed 7 Nov (10:45am)	Labour Market Statistics – Q3	Steady	Improvement in the labour market is expected to be a slow grind from here, with wage growth remaining subdued.
Thu 8 Nov (9am)	RBNZ Monetary Policy Statement – November	Up or down	With little to change the picture in the next wee while, we expect the RBNZ will retain a similar message of caution.
Fir 9 Nov (10am)	ANZ Truckometer – October	--	--
Fir 9 Nov (10:45am)	Electronic Cards Transactions – October	Fuel	We'll be looking for moderate spending growth, although increases in fuel prices could induce some bumps.
On balance		**Data watch**	**The short-term data pulse may improve, but the medium-term picture is looking less assured.**

Key forecasts and rates

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
GDP (% qoq)	1.0	**0.6**	**0.5**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.8	**2.8**	**2.6**	**2.8**	**2.5**	**2.5**	**2.6**	**2.5**	**2.4**	**2.4**
CPI (% qoq)	0.4	**0.6**	**0.4**	**0.7**	**0.4**	**0.5**	**0.2**	**0.5**	**0.4**	**0.5**
CPI (% yoy)	1.5	**1.7**	**2.0**	**2.2**	**2.2**	**2.1**	**1.8**	**1.7**	**1.7**	**1.7**
LCI Wages (% qoq)	0.6	**0.6**	**0.5**	**0.4**	**0.7**	**0.6**	**0.5**	**0.5**	**0.7**	**0.6**
LCI Wages (% yoy)	2.1	**1.9**	**2.0**	**2.0**	**2.1**	**2.1**	**2.2**	**2.3**	**2.4**	**2.4**
Employment (% qoq)	0.5	**0.3**	**0.4**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	3.7	**1.8**	**1.8**	**1.7**	**1.6**	**1.7**	**1.7**	**1.6**	**1.5**	**1.5**
Unemployment Rate (% sa)	4.5	**4.4**	**4.4**	**4.4**	**4.5**	**4.3**	**4.2**	**4.2**	**4.3**	**4.1**
Current Account (% GDP)	-3.3	**-3.5**	**-3.7**	**-3.5**	**-3.5**	**-3.7**	**-3.8**	**-3.9**	**-3.9**	**-3.9**
Terms of Trade (% qoq)	0.6	**-1.9**	**-0.5**	**0.3**	**0.2**	**0.1**	**0.3**	**0.2**	**0.3**	**0.1**
Terms of Trade (% yoy)	1.4	**-1.9**	**-3.7**	**-1.5**	**-1.9**	**0.1**	**0.8**	**0.8**	**0.8**	**0.9**

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Retail ECT (% mom)	0.3	1.2	-0.3	1.7	-2.3	0.8	0.8	0.2	1.0	--
Retail ECT (% yoy)	3.8	4.1	4.0	6.7	1.4	4.2	4.9	3.8	6.3	--
Credit Card Billings (% mom)	0.6	-0.6	0.7	1.0	0.6	-1.4	2.0	-1.3	2.6	--
Credit Card Billings (% yoy)	6.3	4.6	7.0	7.3	6.9	3.7	5.9	3.3	7.7	--
Car Registrations (% mom)	-4.7	3.2	-8.9	-3.7	-1.0	13.2	-6.2	0.1	3.1	--
Car Registrations (% yoy)	4.7	6.2	-4.2	-11.9	-9.0	-0.6	-4.9	-0.7	-4.7	--
Building Consents (% mom)	-9.1	-0.2	6.4	13.0	-3.8	6.7	-8.1	-10.8	7.7	--
Building Consents (% yoy)	4.5	4.1	-0.6	18.5	15.3	23.2	11.9	-5.8	-2.9	--
REINZ House Price Index (% yoy)	3.7	3.5	4.0	4.1	3.7	3.6	3.8	4.8	4.1	--
Household Lending Growth (% mom)	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	5.9	5.8	5.7	5.7	5.8	5.8	5.8	6.0	6.0	--
ANZ Roy Morgan Consumer Conf.	121.8	126.9	127.7	128.0	120.5	121.0	120.0	118.4	117.6	117.6
ANZ Business Confidence	-37.8	..	-19.0	-20.0	-23.4	-27.2	-39.0	-44.9	-50.3	-38.3
ANZ Own Activity Outlook	15.6	..	20.4	21.8	17.8	13.6	9.4	3.8	3.8	7.8
Trade Balance ($m)	614	-662	188	-151	200	199	-296	-196	-1484	--
Trade Bal ($m ann)	56476	57252	57451	58071	58675	58982	59707	60720	61395	--
ANZ World Comm. Price Index (% mom)	-1.9	0.7	2.8	1.2	1.0	1.5	-0.9	-3.3	-1.1	--
ANZ World Comm. Price Index (% yoy)	3.2	4.1	5.0	5.8	7.1	5.4	2.3	-0.2	-0.5	--
Net Migration (sa)	5670	6230	4870	5350	4900	5080	4850	4750	5010	--
Net Migration (ann)	70016	70147	68943	67984	67038	66243	64995	63779	63288	--
ANZ Heavy Traffic Index (% mom)	-4.2	4.1	-2.5	-0.3	1.4	3.0	-1.5	-0.4	1.1	--
ANZ Light Traffic Index (% mom)	-1.7	-0.5	-0.2	2.2	-0.5	1.1	0.7	0.4	0.9	--
ANZ Job Ads (% mom)	-0.1	2.9	-1.4	0.6	-1.9	2.5	-1.2	3.2	0.4	--

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)						
	Jul-18	Aug-18	Today	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
NZD/USD	0.681	0.662	0.66	0.62	0.61	0.61	0.61	0.61	0.62	0.63
NZD/AUD	0.919	0.920	0.92	0.89	0.87	0.87	0.87	0.87	0.89	0.89
NZD/EUR	0.581	0.570	0.57	0.53	0.50	0.49	0.48	0.48	0.48	0.48
NZD/JPY	76.00	73.45	75.30	65.1	62.2	60.4	59.2	58.6	59.5	59.9
NZD/GBP	0.518	0.510	0.51	0.48	0.46	0.45	0.44	0.44	0.43	0.43
NZ$ TWI	71.3	69.9	72.2	65.4	63.2	62.3	61.8	61.5	62.2	62.9
Interest rates	Jul-18	Aug-18	Today	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-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	1.91	1.91	1.91	1.95	1.95	1.95	1.95	1.95	1.95	1.95
NZ 10-yr bond	2.76	2.54	2.61	2.70	2.75	2.80	2.85	2.90	2.95	3.00
US Fed funds	2.00	2.00	2.25	2.50	2.50	2.75	2.75	2.75	2.75	2.75
US 3-mth	2.35	2.32	2.40	2.90	2.90	3.10	3.10	3.10	3.10	3.10
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00	2.00
AU 3-mth	1.96	1.95	1.94	2.05	2.05	2.00	2.30	2.50	2.50	2.50

	28-Aug	24-Sep	25-Sep	26-Sep	27-Sep	28-Sep
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.91	1.92	1.92	1.91	1.90	1.91
NZGB 05/21	1.75	1.78	1.79	1.80	1.79	1.77
NZGB 04/23	1.97	2.00	2.02	2.02	2.01	1.98
NZGB 04/27	2.44	2.48	2.50	2.51	2.48	2.45
NZGB 04/33	2.78	2.83	2.85	2.85	2.82	2.78
2 year swap	2.04	2.04	2.05	2.06	2.04	2.04
5 year swap	2.38	2.41	2.41	2.42	2.41	2.39
RBNZ TWI	72.39	72.40	72.12	72.50	72.25	72.08
NZD/USD	0.6708	0.6670	0.6645	0.6656	0.6644	0.6619
NZD/AUD	0.9129	0.9172	0.9169	0.9172	0.9184	0.9166
NZD/JPY	74.51	75.12	75.02	75.17	74.93	75.27
NZD/GBP	0.5201	0.5080	0.5053	0.5062	0.5056	0.5084
NZD/EUR	0.5734	0.5670	0.5650	0.5665	0.5669	0.5706
AUD/USD	0.7348	0.7272	0.7248	0.7257	0.7234	0.7224
EUR/USD	1.1698	1.1764	1.1762	1.1750	1.1720	1.1604
USD/JPY	111.07	112.62	112.89	112.93	112.78	113.70
GBP/USD	1.2896	1.3130	1.3152	1.3148	1.3141	1.3031
Oil (US$/bbl)	68.53	72.08	72.28	71.57	72.12	73.25
Gold (US$/oz)	1212.65	1198.70	1200.16	1198.64	1195.60	1190.88
NZX 50	9214	9338	9346	9350	9286	9351
Baltic Dry Freight Index	1684	1434	1450	1503	1524	1540
NZX WMP Futures (US$/t)	2825	2720	2750	2750	2745	2715

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