



# Weekly Economic Update

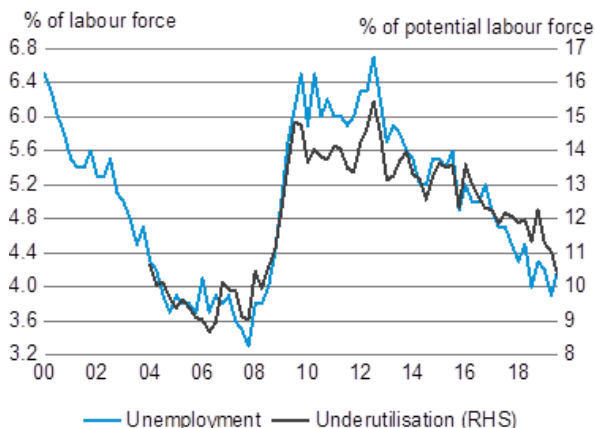
8 November 2019

Softer employment growth and a higher unemployment rate in the September quarter are consistent with the slowing in GDP growth seen over recent quarters. Business and consumer confidence improved in October and dwelling consents rose strongly in September.

### Employment growth softer...

The unemployment rate rose 4.2% in the September quarter. Growth in the number of people employed was 0.2% (0.9% annually). Despite the rise in the unemployment rate, the underutilisation rate, a broader measure of labour market capacity, fell to 10.4% in the quarter (Figure 1), indicating the labour market is still operating at close to capacity.

Figure 1: Unemployment and underutilisation



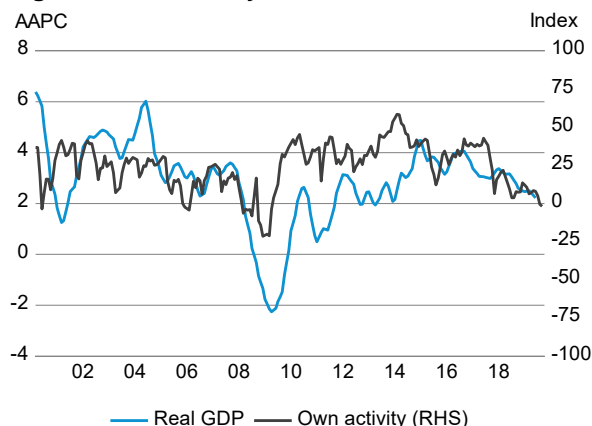
Source: Stats NZ

Ordinary time hourly earnings grew by 4.2% annually, supported by public sector wage settlements. We expect that the strong growth in wages and a rise in hours worked will provide support to household incomes and broader economic activity over the second half of 2019.

### Business confidence remains low...

Headline business confidence rose 12 points in the October ANZ Business Outlook Survey, released late last week. A net 42% of respondents reported that they expect general business conditions to deteriorate in the year ahead. However, firms' views of their own activity over the year ahead, which provides a better indicator of economic activity, fell 2 points to -4%, the lowest read since April 2009 (Figure 2).

Figure 2: Own activity and GDP



Source: Stats NZ, ANZ

### ...while consumer confidence picked up

Consumer confidence rose 4 points to 118 in October in the latest ANZ-Roy Morgan Consumer Confidence Survey. Consumers' perceptions of their current financial situation rose 9 points to a net 20% feeling financially better off than a year ago. House price inflation expectations lifted in Auckland but fell in Wellington and Canterbury.

### Building consents remain elevated...

Building consents rose 7.2% in September, driven by strong growth in multi-unit dwelling consents (up 24.9%). Consent issuance lifted 12.0% in the year ended September. Multiunit dwellings have driven much of the growth in consent issuance over the last couple of years, particularly in Auckland. This partially reflects regulatory easing under the Auckland Unitary Plan, which has supported a shift towards more intensive developments. We expect strong consent activity over 2019 to drive a pick-up in building activity growth over the rest of 2019 and into 2020.

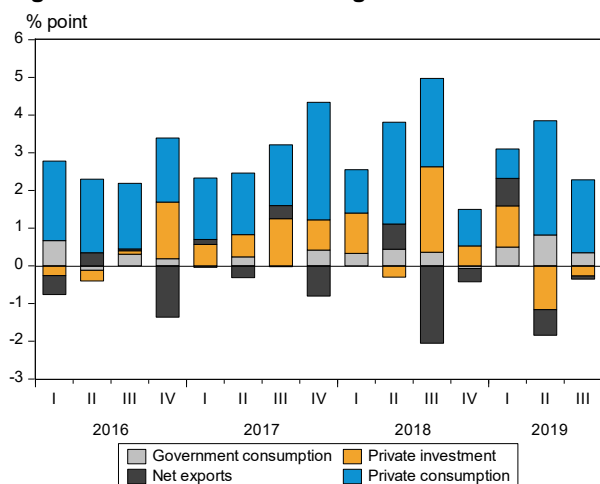
### ...and commodity prices lifted

The ANZ World Commodity Price Index lifted 1.2% in October to be up 7.2% annually, with dairy and meat being the main drivers of growth. In local currency terms, the index lifted 1.5% in the month. The *GlobalDairyTrade* index recorded its fourth consecutive increase, rising 3.7% at the latest auction, reflecting solid demand and constrained global supply.

### Growth slowed in the US...

Annual US real GDP growth slowed to 2.0% in the September quarter, from 2.3% in the June quarter. Business investment declined in the quarter, while growth was supported by both public and private consumption, areas that have remained resilient over 2019 (Figure 3). Net exports were a modest drag on growth.

**Figure 3: Annualised US GDP growth contributions**



Source: US Bureau of Economic Analysis

### ...but the outlook stabilised...

Several factors suggest US growth may stabilise over the next couple of quarters. Employment growth picked up in October, rising by 129,000 from 136,000 in September. The unemployment rate ticked up from 3.5% to 3.6% while wage growth held steady at 3.0%. October ISM manufacturing and non-manufacturing PMIs both lifted in the US (Figure 4).

As widely expected the US Federal Reserve lowered its main policy rate by 25bps at its latest meeting, to a target range of 1.5% - 1.75%. The Fed also changed the language of the statement on monetary policy, which analysts interpret as a signal that the Fed will pause its cutting cycle.

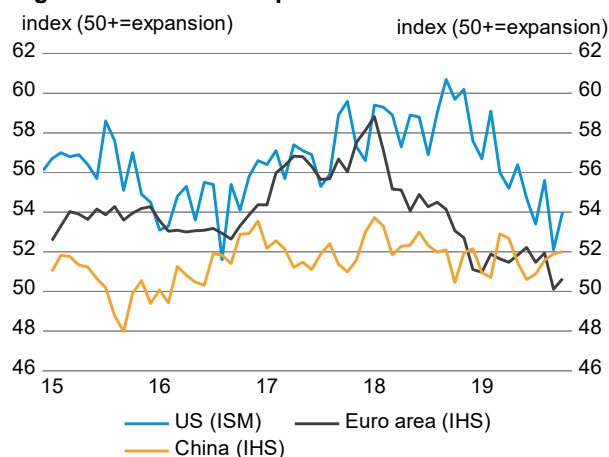
### ...and other global risks eased

Trade tensions have eased, with comments from both the US and China that suggest tariffs on each other's imports will be eliminated as part of the first phase of the trade deal.

October PMI data was mixed in China, but on the whole suggested that growth may be stabilising. In addition, the People's Bank of China lowered the interest rate on its one-year medium term lending facility.

Sluggish growth in Europe continued in the September quarter, with GDP growth steady at 0.2% in the quarter and steady at 1.1% on annual basis. The December quarter also looks sluggish, with the final euro area composite PMI for October rising to 50.6 in September (Figure 4), a level consistent with barely positive GDP growth.

**Figure 4: Selected composite PMIs**



Source: IHS Markit/ISM

### Mixed activity in Australia

Retail spending fell 0.1% in the September quarter in Australia, from a 0.2% gain in the June quarter. On an annual basis, retail sales continued to fall and are now in negative territory, down 0.2%. The data suggest that tax rebates and interest rate cuts are yet to filter through to consumer spending. Annual CPI inflation was also subdued, coming in at 1.7%. As widely expected, the RBA held the cash rate at 0.75% at their latest meeting, but maintained an easing bias. Market expectations imply just over a 50% chance for another rate cut next year.

While domestic activity remains flat in Australia, the external sector remains strong. The trade surplus lifted to \$7.2b in September, from \$6.6b in August.

Date	Key NZ Data	Previous
11 Nov	Electronic Cards	0.4% (mpc)
12 Nov	Net Migration	53,800 (net annual)

Quarterly Indicators		2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3
Real Production GDP (1)	qpc	0.9	0.3	0.7	0.6	0.5	...
	aapc	3.2	3.1	2.8	2.7	2.4	...
Current account balance (annual)	%GDP	-3.2	-3.6	-3.9	-3.6	-3.4	...
Merchandise terms of trade	apc	1.2	-0.3	-4.8	-1.9	-0.8	...
CPI inflation	qpc	0.4	0.9	0.1	0.1	0.6	0.7
	apc	1.5	1.9	1.9	1.5	1.7	1.5
Employment (HLFS) (1)	qpc	0.5	0.8	0.1	-0.0	0.6	0.2
Unemployment rate (1)	%	4.5	4.0	4.3	4.2	3.9	4.2
Participation rate (1)	%	70.8	70.8	70.7	70.3	70.3	70.4
LCI salary & wage rates - total (2)	apc	1.9	1.8	1.9	2.0	2.1	2.5
QES average hourly earnings - total (2)	apc	3.0	2.9	3.1	3.4	4.4	4.2
Core retail sales volume	apc	4.5	3.7	5.0	3.9	3.6	...
Total retail sales volume	apc	3.1	2.7	3.5	3.3	2.9	...
WMM - consumer confidence (3)	Index	108.6	103.5	109.1	103.8	103.5	103.1
OSBO - general business situation (1,4)	net%	-20.3	-26.5	-20.9	-29.0	-33.7	-35.4
OSBO - own activity outlook (1,4)	net%	14.7	10.3	15.5	4.8	-4.4	0.3

Monthly Indicators		May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19
Merchandise trade balance (12 month total)	NZ\$m	-5602	-4987	-5490	-5551	-5213	...
Dwelling consents - residential	apc	9.3	3.4	24.3	6.0	30.8	...
House sales - dwellings	apc	-5.1	-0.5	6.8	-3.6	4.5	...
REINZ - house price index	apc	1.7	1.7	1.5	2.9	3.5	...
Estimated net migration (12 month total)	people	54538	54274	54954	53809	...	...
ANZ NZ commodity price index	apc	5.7	1.8	0.3	3.7	6.5	9.7
ANZ world commodity price index	apc	0.7	-2.4	-0.5	0.9	3.4	7.2
ANZBO - business confidence	net%	-32	-38	-44	-52	-54	-42
ANZBO - activity outlook	net%	9	8	5	-1	-2	-4
ANZ-Roy Morgan - consumer confidence	net%	119	123	116	118	114	118

Daily Indicators		Thu 31/10/19	Fri 1/11/19	Mon 4/11/19	Tue 5/11/19	Wed 6/11/19	Thu 7/11/19
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6414	0.6420	0.6440	0.6401	0.6366	0.6360
NZD/AUD	\$	0.9277	0.9314	0.9322	0.9302	0.9243	0.9248
Trade weighted index (TWI)	index	70.8	70.9	71.0	70.7	70.3	70.3
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%	1.10	1.12	1.13	1.14	1.14	1.13
10 year govt bond rate	%	1.29	1.27	1.31	1.35	1.37	1.33
Share markets (6)							
Dow Jones	index	27046	27347	27462	27493	27493	...
S&P 500	index	3038	3067	3078	3075	3077	...
VIX volatility index	index	13.2	12.3	12.8	13.1	12.6	...
AU all ords	index	6773	6779	6800	6812	6773	6837
NZX 50	index	10788	10762	10802	10842	10759	10795
US interest rates							
3 month OIS	%	1.58	1.57	1.56	1.56	...	...
3 month Libor	%	1.90	1.89	1.91	1.89	1.90	...
10 year govt bond rate	%	1.69	1.73	1.79	1.86	1.81	...
Commodity prices (6)							
WTI oil	US\$/barrel	54.18	56.04	56.33	57.04	56.35	...
Gold	US\$/ounce	1511	1509	1509	1489	1486	...
CRB Futures	index	390	390	391	391	389	...

(1) Seasonally Adjusted

(2) Ordinary time, all sectors

(3) Westpac Mcdermott Miller

(4) Quarterly Survey of Business Opinion

(5) Reserve Bank (11am)

(6) Daily close

*Data in Italic font are provisional*

... Not available

Country	Indicator		2019Q1	Apr 19	May 19	Jun 19	2019Q2	Jul 19	Aug 19	Sep 19	2019Q3	Oct 19
<b>United States</b> [9.6% share of total goods exports]	GDP (1)	qpc	0.8				0.5				0.5	
	Industrial production (1)	mpc		-0.6	0.2	0.1		-0.2	0.8	-0.4		...
	CPI	apc		2.0	1.8	1.6		1.8	1.7	1.7		...
	Unemployment rate (1)	%		3.6	3.6	3.7		3.7	3.7	3.5		3.6
	Employment change (1)	000s		216.0	62.0	178.0		166.0	219.0	180.0		128.0
	Retail sales value	apc		3.8	3.0	3.3		3.5	4.4	4.1		...
	House prices (2)	apc		2.5	2.4	2.2		2.0	2.0	...		...
<b>Japan</b> [6.1%]	PMI manufacturing (1)	index		52.8	52.1	51.7		51.2	49.1	47.8		48.3
	Consumer confidence (1)(3)	index		129.2	131.3	124.3		135.8	134.2	126.3		125.9
	GDP (1)	qpc	0.5				0.3				...	
	Industrial production (1)	mpc		0.6	2.0	-3.3		1.3	-1.2	1.4		...
	CPI	apc		0.9	0.7	0.7		0.5	0.3	0.2		...
	Unemployment rate (1)	%		2.4	2.4	2.3		2.2	2.2	2.4		...
	Retail sales value	apc		0.4	1.3	0.5		-2.0	1.8	9.1		...
<b>Euro area</b> [5.5%]	PMI manufacturing (1)	index		50.2	49.8	49.3		49.4	49.3	48.9		48.4
	Consumer confidence (1)(4)	index		40.0	39.5	38.9		37.9	37.2	35.9		36.3
	GDP (1)	qpc	0.4				0.2				0.2	
	Industrial production (1)	mpc		-0.5	0.8	-1.5		-0.4	0.4	...		...
	CPI	apc		1.7	1.2	1.3		1.0	1.0	0.8		...
	Unemployment rate (1)	%		7.6	7.6	7.5		7.6	7.5	7.5		...
	Retail sales volume	apc		2.2	1.3	2.8		2.3	2.7	3.1		...
<b>United Kingdom</b> [2.7%]	PMI manufacturing (1)	index		47.9	47.7	47.6		46.5	47.0	45.7		45.9
	Consumer confidence (5)	index		-7.3	-6.5	-7.2		-6.6	-7.1	-6.5		-7.6
	GDP (1)	qpc	0.6				-0.2				...	
	Industrial production (1)	mpc		-3.1	1.1	0.0		0.1	-0.6	...		...
	CPI	apc		2.1	2.0	2.0		2.0	1.8	1.8		...
	Unemployment rate (1)	%		3.8	3.8	3.9		3.8	3.9	...		...
	Retail sales volume	apc		4.9	2.4	3.6		3.4	2.5	3.1		...
<b>Australia</b> [15.8%]	House prices (6)	apc		0.9	0.6	0.5		0.3	0.6	0.2		0.4
	PMI manufacturing (1)	index		53.1	49.4	48.0		48.0	47.4	48.3		49.6
	Consumer confidence (1)(5)	index		-11.1	-8.3	-10.5		-6.9	-11.4	-9.8		-10.6
	GDP (1)	qpc	0.5				0.5				...	
	CPI	apc	1.3				1.6				1.7	
	Unemployment rate (1)	%		5.2	5.2	5.2		5.3	5.3	5.2		...
	Retail sales value	apc		4.2	2.9	1.9		2.6	2.9	2.0		...
<b>China</b> [24.3%]	House Prices (7)	apc	-7.7				-7.7				...	
	PMI manufacturing (1)	index		54.8	52.7	49.4		51.3	53.1	54.7		51.6
	Consumer confidence (8)	index		100.7	101.3	100.7		96.5	100.0	98.2		92.8
	GDP	apc	6.4				6.2				6.0	
<b>South Korea</b> [3.0%]	Industrial production	apc		5.4	5.0	6.3		4.8	4.4	5.8		...
	CPI	apc		2.5	2.7	2.7		2.8	2.8	3.0		...
	PMI manufacturing (1)	index		50.1	49.4	49.4		49.7	49.5	49.8		49.3
<b>South Korea</b> [3.0%]	GDP (1)	qpc	-0.4				1.0				0.4	
	Industrial production (1)	mpc		1.9	-1.0	0.0		2.8	-1.8	2.0		...
	CPI	apc		0.6	0.7	0.7		0.6	-0.0	-0.4		0.0

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index

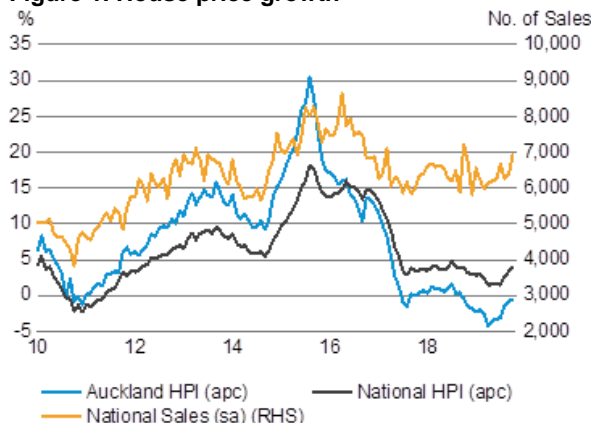


House prices and sales lifted in October but consumer spending fell. Migration rose in September as long term arrivals outweighed departures. The PMI moved back into expansionary territory in October.

### House prices and sales volumes lifted...

Seasonally adjusted house prices rose 0.9% in October, to be up 3.9% on an annual basis (Figure 1). Regional prices lifted 2.5% in October to be up 9.4% from this time last year while Auckland prices were flat in the month. Sales activity continued to pick up.

Figure 1. House price growth



Source: REINZ

It is likely that the pick-up reflects confidence returning to the market, following falls in mortgage rates. Looking forward, interest rates are expected to remain at low levels, and housing remains short in supply. These factors will support price growth and sales activity over the end of the year and into 2020.

### ...and consumer spending fell

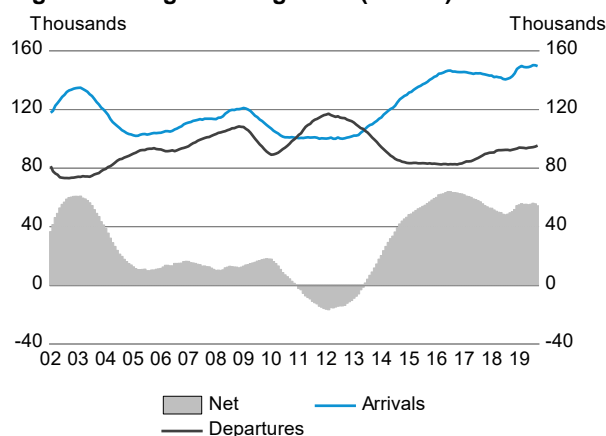
Retail card spending fell 0.6% in October, following a 0.2% rise in September. Core retail spending (excluding vehicle-related industries) also fell 0.6%. The total value of electronic card spending (including services and non-retail), fell 0.2%. This fall was preceded by 2 months of growth in spending and we continue to expect reasonable household spending growth in the September quarter and beyond.

Food prices fell 0.3% in October, led by lower prices for fruits and vegetables, while rental prices rose 0.2%.

### Migration continued to rise...

There was a net gain of 54,600 migrants in the 12 months to September, up 10.3% on the previous year, according to the latest data from Stats NZ. Long-term migrant arrivals and departures both increased but arrivals grew at a faster rate (Figure 2).

Figure 2: Long-term migration (annual)



Source: Stats NZ

Visitor arrivals rose by 2.5% in the year ended September, driven by higher visitor arrivals from Australia more than offsetting a fall in visitors from China.

### ...and the RBNZ left the OCR on hold

The RBNZ surprised markets by leaving the OCR on hold at 1.0%, saying economic developments since the August Statement did not warrant a change at this time, and that interest rates will need to remain at low levels for some time.

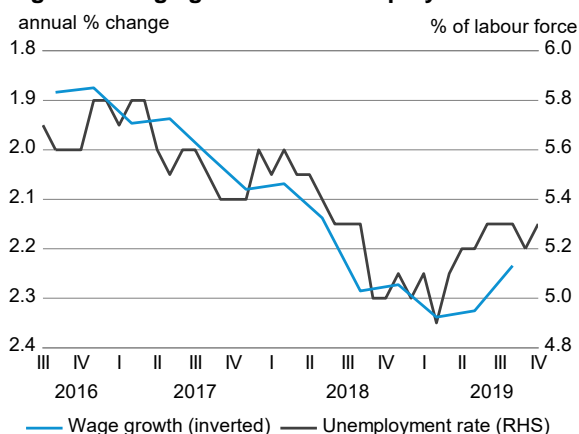
### The PMI is back in black

The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) rose to 52.6, back in expansionary territory, to the highest level since April. The sub-index of new orders continued its recovery to record its highest value since May 2018, while production was its highest result since February 2019. This positive result may indicate that the manufacturing sector's negative effect on GDP may come to an end this quarter.

### Employment cools in Australia...

Employment in Australia fell by 19,000 in October, while annual growth cooled to 2.0%, from 2.5% in September. The unemployment rate edged up to 5.3% from 5.2%, and the underemployment rate increased from 8.3% to 8.5%. Annual wage inflation cooled from 2.3% to 2.2% in the September quarter, consistent with increasing spare capacity in the labour market (Figure 3).

**Figure 3: Wage growth and unemployment**

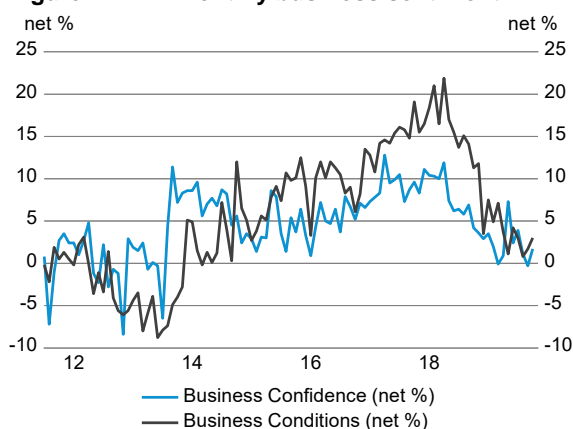


Source: Australian Bureau of Statistics

### ...as sentiment recovers slightly

Business conditions and business confidence recovered slightly in October according to the NAB Monthly Business Survey. However, both indices remain below their long run averages (Figure 4). Despite low business confidence and slowing employment, RBA forecasts published last week show growth of 2.3% in the December quarter, implying solid growth over the second half of the year. Growth slowed to 1.4% in the June quarter.

**Figure 4: NAB monthly business sentiment**



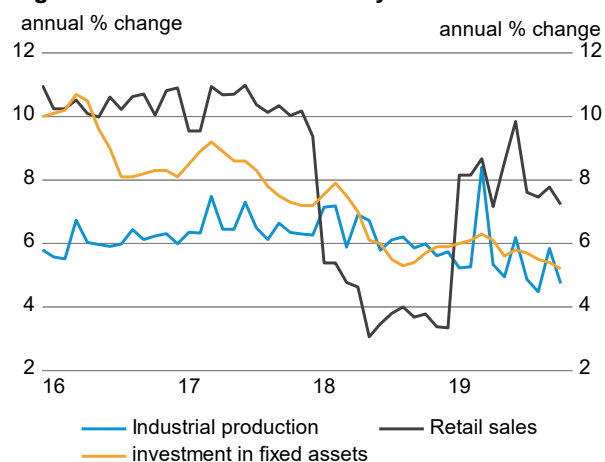
Source: NAB

### Activity slows in China...

Annual investment growth cooled to 5.2% from 5.4% in September. Annual industrial production

growth eased from 5.8% to 4.7% despite stimulus measures aimed supporting the manufacturing sector. Retail sales eased, but growth remains high (Figure 5). Credit growth slowed to \$661b yuan in October, from \$1,690b yuan in September. Overall, the slowing in activity suggests trade tensions and financial deleveraging are still affecting the economy and further monetary and fiscal stimulus may be required to support growth.

**Figure 5: China domestic activity**



Source: China National Bureau of Statistics

September quarter GDP growth in Japan rose 0.1%, from 0.3% in the June quarter. The outturn was driven by weak manufacturing and exports, reflective of soft global demand and US/China trade tensions.

### ...and remains sluggish in Europe

This week's data flow continues to be sluggish in Europe. Germany narrowly avoided a recession in the September quarter, with growth of 0.2, from -0.1 in the June quarter. Euro area growth over the same period was confirmed at 0.2% in the quarter, and 1.2% on an annual basis.

UK GDP growth was 0.3% in the September quarter, from -0.2% in the June quarter. The economy slowed to 1.0% on an annual basis, from 1.3% previously. Weak business investment and industrial production continues to weigh on the UK economy reflecting ongoing Brexit uncertainty.

Date	Key NZ Data	Previous
19 Nov	Business price indexes	0.5% qpc (output)

Quarterly Indicators		2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3
Real Production GDP (1)	qpc	0.9	0.3	0.7	0.6	0.5	...
	aapc	3.2	3.1	2.8	2.7	2.4	...
Current account balance (annual)	%GDP	-3.2	-3.6	-3.9	-3.6	-3.4	...
Merchandise terms of trade	apc	1.2	-0.3	-4.8	-1.9	-0.8	...
CPI inflation	qpc	0.4	0.9	0.1	0.1	0.6	0.7
	apc	1.5	1.9	1.9	1.5	1.7	1.5
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Unemployment rate (1)	%	4.5	4.0	4.3	4.2	3.9	4.2
Participation rate (1)	%	70.8	70.8	70.7	70.3	70.3	70.4
LCI salary & wage rates - total (2)	apc	1.9	1.8	1.9	2.0	2.1	2.5
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Core retail sales volume	apc	4.5	3.7	5.0	3.9	3.6	...
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NZD/USD	\$	0.6360	0.6369	0.6338	0.6366	0.6400	0.6404
NZD/AUD	\$	0.9248	0.9252	0.9245	0.9289	0.9338	0.9407
Trade weighted index (TWI)	index	70.3	70.3	70.1	70.4	70.8	71.0
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%	1.13	1.15	1.15	1.14	1.09	1.27
10 year govt bond rate	%	1.33	1.39	1.38	1.38	1.36	1.45
Share markets (6)							
Dow Jones	index	27675	27681	27691	27691	27784	27782
S&P 500	index	3085	3093	3087	3092	3094	3097
VIX volatility index	index	12.7	12.1	12.7	12.7	13.0	13.1
AU all ords	index	6837	6833	6877	6857	6806	6841
NZX 50	index	10795	10877	10920	10926	10835	10899
US interest rates							
3 month OIS	%	1.55	1.55	1.55	1.55	1.55	...
3 month Libor	%	1.90	1.90	1.90	1.91	1.91	...
10 year govt bond rate	%	1.92	1.94	...	1.92	1.88	1.82
Commodity prices (6)							
WTI oil	US\$/barrel	57.15	57.02	56.61	56.67	57.12	56.77
Gold	US\$/ounce	1484	1464	1459	1452	1463	1467
CRB Futures	index	391	391	391	392	390	...

(1) Seasonally Adjusted

(2) Ordinary time, all sectors

(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion

(5) Reserve Bank (11am)

(6) Daily close

*Data in Italic font are provisional*

... Not available

Country	Indicator		Apr 19	May 19	Jun 19	2019Q2	Jul 19	Aug 19	Sep 19	2019Q3	Oct 19	Nov 19
<b>United States</b> [9.6% share of total goods exports]	GDP (1)	qpc				0.5				0.5		
	Industrial production (1)	mpc	-0.6	0.2	0.1		-0.2	0.8	-0.4		...	...
	CPI	apc	2.0	1.8	1.6		1.8	1.7	1.7		1.8	...
	Unemployment rate (1)	%	3.6	3.6	3.7		3.7	3.7	3.5		3.6	...
	Employment change (1)	000s	216.0	62.0	178.0		166.0	219.0	180.0		128.0	...
	Retail sales value	apc	3.8	3.0	3.3		3.5	4.4	4.1		...	...
	House prices (2)	apc	2.5	2.4	2.2		2.0	2.0	...		...	...
	PMI manufacturing (1)	index	52.8	52.1	51.7		51.2	49.1	47.8		48.3	...
Consumer confidence (1)(3)	index	129.2	131.3	124.3		135.8	134.2	126.3		125.9	...	
<b>Japan</b> [6.1%]	GDP (1)	qpc				0.4				0.1		
	Industrial production (1)	mpc	0.6	2.0	-3.3		1.3	-1.2	1.4		...	...
	CPI	apc	0.9	0.7	0.7		0.5	0.3	0.2		...	...
	Unemployment rate (1)	%	2.4	2.4	2.3		2.2	2.2	2.4		...	...
	Retail sales value	apc	0.4	1.3	0.5		-2.0	1.8	9.2		...	...
	PMI manufacturing (1)	index	50.2	49.8	49.3		49.4	49.3	48.9		48.4	...
	Consumer confidence (1)(4)	index	40.0	39.5	38.9		37.9	37.2	35.9		36.3	...
<b>Euro area</b> [5.5%]	GDP (1)	qpc				0.2				0.2		
	Industrial production (1)	mpc	-0.5	0.8	-1.4		-0.5	0.4	0.1		...	...
	CPI	apc	1.7	1.2	1.3		1.0	1.0	0.8		...	...
	Unemployment rate (1)	%	7.6	7.6	7.5		7.6	7.5	7.5		...	...
	Retail sales volume	apc	2.2	1.3	2.8		2.3	2.7	3.1		...	...
	PMI manufacturing (1)	index	47.9	47.7	47.6		46.5	47.0	45.7		45.9	...
Consumer confidence (5)	index	-7.3	-6.5	-7.2		-6.6	-7.1	-6.5		-7.6	...	
<b>United Kingdom</b> [2.7%]	GDP (1)	qpc				-0.2				0.3		
	Industrial production (1)	mpc	-3.1	1.1	0.0		0.1	-0.7	-0.2		...	...
	CPI	apc	2.1	2.0	2.0		2.0	1.8	1.8		...	...
	Unemployment rate (1)	%	3.8	3.8	3.9		3.8	3.9	3.8		...	...
	Retail sales volume	apc	4.9	2.4	3.6		3.5	2.6	3.1		3.1	...
	House prices (6)	apc	0.9	0.6	0.5		0.3	0.6	0.2		0.4	...
	PMI manufacturing (1)	index	53.1	49.4	48.0		48.0	47.4	48.3		49.6	...
Consumer confidence (1)(5)	index	-11.1	-8.3	-10.5		-6.9	-11.4	-9.8		-10.6	...	
<b>Australia</b> [15.8%]	GDP (1)	qpc				0.5				...		
	CPI	apc				1.6				1.7		
	Unemployment rate (1)	%	5.2	5.2	5.3		5.3	5.3	5.2		5.3	...
	Retail sales value	apc	4.2	2.9	1.9		2.6	2.9	2.0		...	...
	House Prices (7)	apc				-7.7					...	...
	PMI manufacturing (1)	index	54.8	52.7	49.4		51.3	53.1	54.7		51.6	...
Consumer confidence (8)	index	100.7	101.3	100.7		96.5	100.0	98.2		92.8	97.0	
<b>China</b> [24.3%]	GDP	apc				6.2				6.0		
	Industrial production	apc	5.4	5.0	6.3		4.8	4.4	5.8		4.7	...
	CPI	apc	2.5	2.7	2.7		2.8	2.8	3.0		3.8	...
PMI manufacturing (1)	index	50.1	49.4	49.4		49.7	49.5	49.8		49.3	...	
<b>South Korea</b> [3.0%]	GDP (1)	qpc				1.0				0.4		
	Industrial production (1)	mpc	1.9	-1.0	0.0		2.8	-1.8	2.0		...	...
	CPI	apc	0.6	0.7	0.7		0.6	-0.0	-0.4		0.0	...

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index





# Weekly Economic Update

22 November 2019

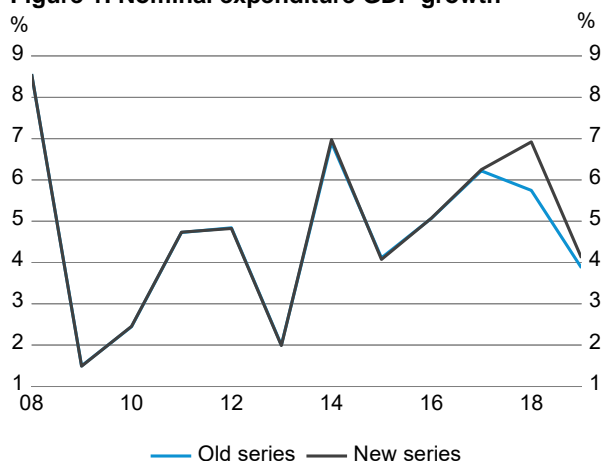
Annual national accounts for the year ended March 2019 were \$4.2 billion higher than previously published quarterly figures, driven by changes to investment and consumption. Strong growth in the services and manufacturing sectors in October point to a stronger outlook for GDP growth. Producer prices rose in the September quarter, driven by higher prices for meat and dairy.

### GDP revised higher in the year to March 2019

This week, Stats NZ published annual national accounts for the year ended March 2019. Nominal expenditure GDP was \$301.0 billion in the year to March 2019, up \$4.2 billion from \$296.8 billion previously published in the quarterly figures (Figure 1).

The upward revision was driven largely by changes to gross fixed capital formation (investment) and consumption (both private and general government). The upwards revisions in income, particularly for businesses, helps to explain some of the strength seen in corporate tax revenue over the past two years. All else equal, higher nominal GDP would decrease the core Crown net debt to GDP ratio by around 0.2pp in 2018/19. Households continued to spend more than they save. Household saving fell from -0.3 billion to -0.6 billion, with the saving ratio falling from -0.2% of net disposable income to -0.3% between the years ended March 2018 and 2019.

Figure 1: Nominal expenditure GDP growth

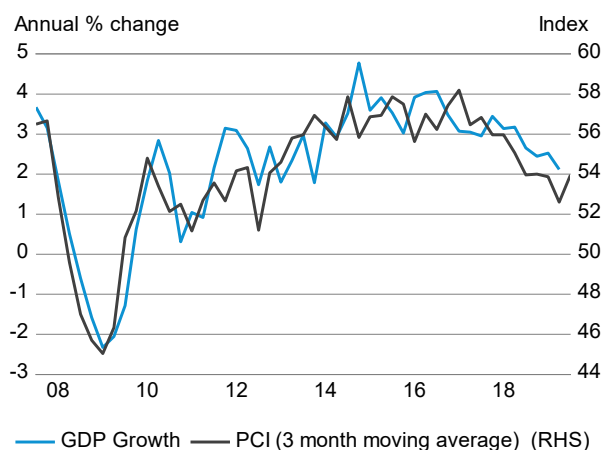


Source: StatsNZ,

### Expansion continued in services...

The BNZ-BusinessNZ Performance of Services Index (PSI) rose 0.9 points to 55.4 in October, above its long term average of 54.4. Both new orders and sales activity improved to drive the PSI higher. Combined with the sharp recovery in the Performance of Manufacturing Index (PMI), this result points to a stronger outlook for GDP growth (Figure 2). The PCI rose 1.3 points to 55.1 in October, its highest reading since January.

Figure 2. GDP growth and the PCI



Sources: StatsNZ, BNZ-BusinessNZ

### ...and producer prices rose

Producer input prices rose 0.9% in the September quarter, while output prices rose 1.0%. The rise in output prices was driven by higher prices for meat products with much of this strength due to increased demand for proteins because of the outbreak of African Swine Fever in China. These strong price rises were offset a little by lower log prices as increases in supply into China recently have resulted in log stockpiles, suppressing prices.

Dairy prices rose for the fifth consecutive *GlobalDairyTrade* event, up by 1.7% in USD terms (0.9% in NZD terms), at the latest auction, led by strong price rises in both SMP and WMP. The cumulative rise for 2019 is now 30% in NZD terms. These gains support Fonterra's recent higher payout forecasts and we expect global demand for our meat and dairy products to continue to support prices over the next year.

### OECD downgraded the world outlook...

The latest OECD economic outlook showed world growth of 2.9% in 2019 and 2020, and 3.0% in 2021 (Table 1). The outlook for 2020 was revised down marginally since September, due to downwards revisions to emerging market economies such as Mexico, India and Saudi Arabia. The report argues that much of the weaker outlook is as much about structural factors as cyclical, and therefore monetary and fiscal policy may not be enough to counter the slowdown. The risks are still viewed as being skewed to the downside and include further trade and cross-border investment restrictions, ongoing Brexit uncertainty and a greater than forecast slowdown in China.

**Table 1: OECD real GDP growth forecasts (apc)**

	2019	2020	2021
<b>World</b>	2.9	2.9	3.0
<b>OECD</b>	1.7	1.6	1.7
<b>Australia</b>	1.7	2.3	2.3
<b>Euro area</b>	1.2	1.1	1.2
<b>China</b>	6.2	5.7	5.5
<b>US</b>	2.3	2.0	2.0
<b>UK</b>	1.2	1.0	1.2
<b>NZ</b>	2.7	2.5	2.4

Source: OECD

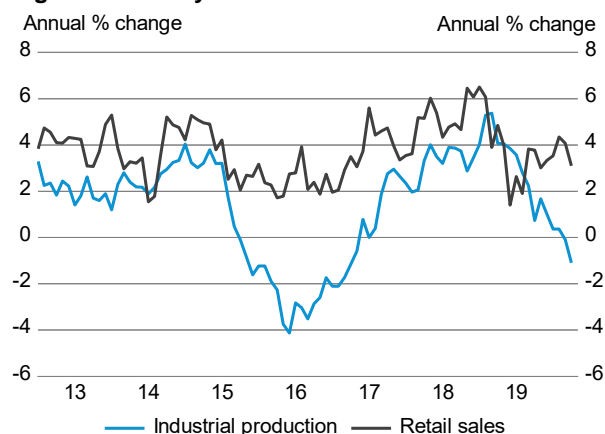
### ...as domestic activity slowed in the US

US retail sales lifted 0.3% in October, up 3.1% on an annual basis, down from 4.1% growth in September (Figure 3). Industrial production fell by 0.8% in October, to be down 1.1% on an annual basis, though this was compounded by a strike at General Motors, which pushed down auto production by 7.1%. More generally, industrial production continues to be hit by several headwinds such as weak global demand and international trade uncertainty. Slowing retail sales data suggest this slowdown may be starting to spill over into consumption.

Overall, the data are consistent with December quarter US GDP growth slowing to around 0.3 – 0.4%, from growth of 0.5% in the September quarter. This would bring the annual average growth rate to around 2.3% from 2.4% in the

September quarter, in line with the OECD projections (Table 1).

**Figure 3: Activity slows in the US**



Source: Haver Analytics

### Trade tensions seesaw...

News flows surrounding trade tensions continue to seesaw, with latest reports suggesting that the 'Phase One' interim trade agreement between China and the US may not be completed until next year. In other news, the US approved another 90-day extension for US companies doing business with Huawei. This is the third such extension.

Trade tensions continue to be evident in macro data, with exports in Japan down 9.9% on an annual basis. The People's Bank of China (PBoC) also marginally lowered the one-year loan prime rate this week, reducing company-funding costs to shore up slowing economic activity. Bank Indonesia lowered commercial banks' reserve requirement ratio by 50bps to 5.5%, in a move aimed at boosting liquidity and supporting growth.

Over the last month, prospects of a US-China trade agreement have generally supported sentiment. This has led to equity markets posting record highs and stabilisation in bond markets as investors pare back expectations of monetary easing and allocate funds away from bonds to more risky asset classes.

Date	Key NZ Data	Previous
26 Nov	Retail trade survey	2.9% (apc)
27 Nov	Overseas trade	-\$5,213 NZm
28 Nov	ANZ Business outlook	-4 (net %)
29 Nov	Building consents	30.8% (apc)

Quarterly Indicators		2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3
Real Production GDP (1)	qpc	0.9	0.3	0.7	0.6	0.5	...
	aapc	3.2	3.1	2.8	2.7	2.4	...
Current account balance (annual)	%GDP	-3.2	-3.6	-3.9	-3.6	-3.4	...
Merchandise terms of trade	apc	1.2	-0.3	-4.8	-1.9	-0.8	...
CPI inflation	qpc	0.4	0.9	0.1	0.1	0.6	0.7
	apc	1.5	1.9	1.9	1.5	1.7	1.5
Employment (HLFS) (1)	qpc	0.5	0.8	0.1	-0.0	0.6	0.2
Unemployment rate (1)	%	4.5	4.0	4.3	4.2	3.9	4.2
Participation rate (1)	%	70.8	70.8	70.7	70.3	70.3	70.4
LCI salary & wage rates - total (2)	apc	1.9	1.8	1.9	2.0	2.1	2.5
QES average hourly earnings - total (2)	apc	3.0	2.9	3.1	3.4	4.4	4.2
Core retail sales volume	apc	4.5	3.7	5.0	3.9	3.6	...
Total retail sales volume	apc	3.1	2.7	3.5	3.3	2.9	...
WMM - consumer confidence (3)	Index	108.6	103.5	109.1	103.8	103.5	103.1
OSBO - general business situation (1,4)	net%	-20.3	-26.5	-20.9	-29.0	-33.7	-35.4
OSBO - own activity outlook (1,4)	net%	14.7	10.3	15.5	4.8	-4.4	0.3

Monthly Indicators		May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19
Merchandise trade balance (12 month total)	NZ\$m	-5602	-4987	-5490	-5551	-5213	...
Dwelling consents - residential	apc	9.3	3.4	24.3	6.0	30.8	...
House sales - dwellings	apc	-5.1	-0.5	6.9	-3.4	7.6	-4.0
REINZ - house price index	apc	1.7	1.7	1.6	2.7	3.3	3.9
Estimated net migration (12 month total)	people	55342	55548	56405	55993	54624	...
ANZ NZ commodity price index	apc	5.7	1.8	0.3	3.7	6.5	9.7
ANZ world commodity price index	apc	0.7	-2.4	-0.5	0.9	3.4	7.2
ANZBO - business confidence	net%	-32	-38	-44	-52	-54	-42
ANZBO - activity outlook	net%	9	8	5	-1	-2	-4
ANZ-Roy Morgan - consumer confidence	net%	119	123	116	118	114	118

Daily Indicators		Thu 14/11/19	Fri 15/11/19	Mon 18/11/19	Tue 19/11/19	Wed 20/11/19	Thu 21/11/19
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6404	0.6386	0.6400	0.6391	0.6427	0.6405
NZD/AUD	\$	0.9407	0.9398	0.9386	0.9413	0.9419	0.9432
Trade weighted index (TWI)	index	71.0	70.8	70.9	70.8	71.2	71.1
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%	1.27	1.24	1.22	1.21	1.21	1.20
10 year govt bond rate	%	1.45	1.39	1.40	1.41	1.38	1.36
Share markets (6)							
Dow Jones	index	27782	28005	28036	27934	27821	27766
S&P 500	index	3097	3120	3122	3120	3108	3104
VIX volatility index	index	13.1	12.1	12.5	12.9	12.8	13.1
AU all ords	index	6841	6899	6872	6914	6828	6778
NZX 50	index	10899	10895	10873	10892	10975	10958
US interest rates							
3 month OIS	%	1.55	1.55	1.55	1.55	1.55	...
3 month Libor	%	1.90	1.90	1.90	1.89	1.90	...
10 year govt bond rate	%	1.82	1.84	1.81	1.79	1.73	1.77
Commodity prices (6)							
WTI oil	US\$/barrel	56.77	57.54	56.82	54.93	57.11	58.58
Gold	US\$/ounce	1467	1467	1468	1468	1472	1467
CRB Futures	index	391	391	389	389	388	...

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Country	Indicator		Apr 19	May 19	Jun 19	2019Q2	Jul 19	Aug 19	Sep 19	2019Q3	Oct 19	Nov 19
<b>United States</b> [9.6% share of total goods exports]	GDP (1)	qpc				0.5				0.5		
	Industrial production (1)	mpc	-0.6	0.2	0.0		-0.1	0.7	-0.3		-0.8	...
	CPI	apc	2.0	1.8	1.6		1.8	1.7	1.7		1.8	...
	Unemployment rate (1)	%	3.6	3.6	3.7		3.7	3.7	3.5		3.6	...
	Employment change (1)	000s	216.0	62.0	178.0		166.0	219.0	180.0		128.0	...
	Retail sales value	apc	3.8	3.0	3.3		3.5	4.4	4.1		3.1	...
	House prices (2)	apc	2.5	2.4	2.2		2.0	2.0	...		...	...
	PMI manufacturing (1)	index	52.8	52.1	51.7		51.2	49.1	47.8		48.3	...
Consumer confidence (1)(3)	index	129.2	131.3	124.3		135.8	134.2	126.3		125.9	...	
<b>Japan</b> [6.1%]	GDP (1)	qpc				0.4				0.1		
	Industrial production (1)	mpc	0.6	2.0	-3.3		1.3	-1.2	1.7		...	...
	CPI	apc	0.9	0.7	0.7		0.5	0.3	0.2		...	...
	Unemployment rate (1)	%	2.4	2.4	2.3		2.2	2.2	2.4		...	...
	Retail sales value	apc	0.4	1.3	0.5		-2.0	1.8	9.2		...	...
	PMI manufacturing (1)	index	50.2	49.8	49.3		49.4	49.3	48.9		48.4	...
	Consumer confidence (1)(4)	index	40.0	39.5	38.9		37.9	37.2	35.9		36.3	...
<b>Euro area</b> [5.5%]	GDP (1)	qpc				0.2				0.2		
	Industrial production (1)	mpc	-0.5	0.8	-1.4		-0.5	0.4	0.1		...	...
	CPI	apc	1.7	1.2	1.3		1.0	1.0	0.8		0.7	...
	Unemployment rate (1)	%	7.6	7.6	7.5		7.6	7.5	7.5		...	...
	Retail sales volume	apc	2.2	1.3	2.8		2.3	2.7	3.1		...	...
	PMI manufacturing (1)	index	47.9	47.7	47.6		46.5	47.0	45.7		45.9	...
Consumer confidence (5)	index	-7.3	-6.5	-7.2		-6.6	-7.1	-6.5		-7.6	-7.2	
<b>United Kingdom</b> [2.7%]	GDP (1)	qpc				-0.2				0.3		
	Industrial production (1)	mpc	-3.1	1.1	0.0		0.1	-0.7	-0.2		...	...
	CPI	apc	2.1	2.0	2.0		2.0	1.8	1.8		1.5	...
	Unemployment rate (1)	%	3.8	3.8	3.9		3.8	3.9	3.8		...	...
	Retail sales volume	apc	4.9	2.4	3.6		3.5	2.6	3.1		3.1	...
	House prices (6)	apc	0.9	0.6	0.5		0.3	0.6	0.2		0.4	...
	PMI manufacturing (1)	index	53.1	49.4	48.0		48.0	47.4	48.3		49.6	...
Consumer confidence (1)(5)	index	-11.1	-8.3	-10.5		-6.9	-11.4	-9.8		-10.6	...	
<b>Australia</b> [15.8%]	GDP (1)	qpc				0.5				...		
	CPI	apc				1.6				1.7		
	Unemployment rate (1)	%	5.2	5.2	5.3		5.3	5.3	5.2		5.3	...
	Retail sales value	apc	4.2	2.9	1.9		2.6	2.9	2.0		...	...
	House Prices (7)	apc				-7.7					...	...
	PMI manufacturing (1)	index	54.8	52.7	49.4		51.3	53.1	54.7		51.6	...
Consumer confidence (8)	index	100.7	101.3	100.7		96.5	100.0	98.2		92.8	97.0	
<b>China</b> [24.3%]	GDP	apc				6.2				6.0		
	Industrial production	apc	5.4	5.0	6.3		4.8	4.4	5.8		4.7	...
	CPI	apc	2.5	2.7	2.7		2.8	2.8	3.0		3.8	...
PMI manufacturing (1)	index	50.1	49.4	49.4		49.7	49.5	49.8		49.3	...	
<b>South Korea</b> [3.0%]	GDP (1)	qpc				1.0				0.4		
	Industrial production (1)	mpc	1.9	-1.0	0.0		2.8	-1.8	2.0		...	...
CPI	apc	0.6	0.7	0.7		0.6	-0.0	-0.4		0.0	...	

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

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