



TE TAI ŌHANGA
THE TREASURY

Weekly Economic Update

6 December 2019

Building consents fell in October and residential building activity was lower in the September quarter. Business confidence rebounded strongly and consumer confidence was higher in November. The terms of trade lifted due to strong meat and dairy prices.

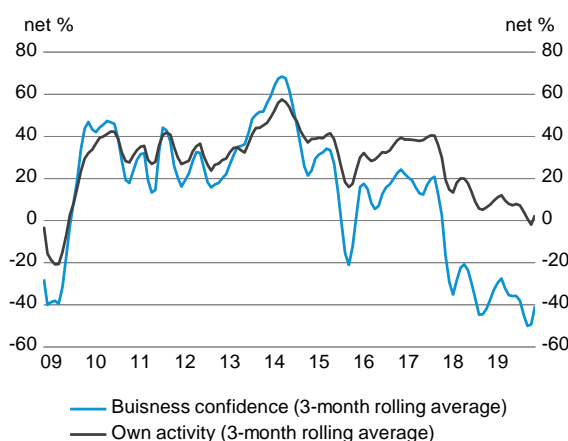
Dwelling consents lower in October

Building consents fell 1.1% in October, driven by a fall in multiunit dwelling consents. Consent issuance rose 12.2% in the year ended October. Building activity rose 0.4% in the September quarter with residential building activity falling 1.1% in the quarter. We expect the strong consent activity over 2019 to drive a pick-up in building activity growth into 2020.

Confidence rebounded...

Both headline business confidence and own activity rebounded to their highest levels reported this year in the November ANZ Business Outlook Survey. Headline business confidence rose 16 points (Figure 1), however remained in negative territory, with a net 26% of respondents expecting business conditions to deteriorate.

Figure 1: Business confidence



Source: ANZ

Employment and investment intentions also rose across all sectors. A combination of a weaker NZD, stronger meat and dairy prices and more certainty on the ETS saw a sharp rise in sentiment in the agriculture sector.

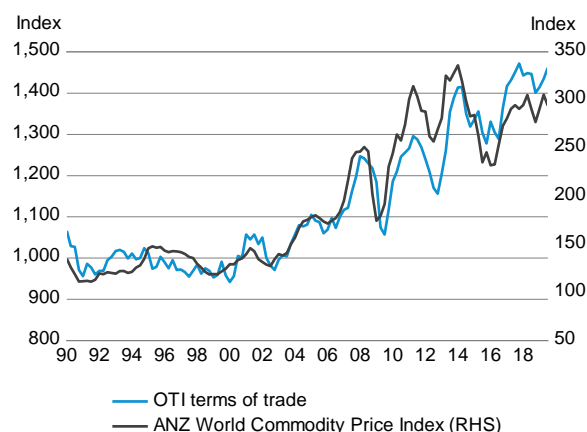
Consumer confidence reported in the ANZ-Roy Morgan Consumer Confidence index lifted 3 points in November to 121, following a 4-

percentage point increase last month, driven by increased confidence about the economic outlook.

...and the terms of trade lifted...

The goods terms of trade lifted 1.9% in the September quarter, on the back of higher meat and dairy export prices (Figure 2). Meat and dairy prices both rose in the quarter, while forestry prices fell. The ANZ World Commodity Price Index rose 4.3% in November, driven by a 19% rise in beef prices due to increased demand from China. Fonterra narrowed its forecast farm-gate milk payout price range, with the mid-point of the range now \$7.30/kgMS, the highest in 6 seasons.

Figure 2: Terms of trade and commodity prices



Source: StatsNZ, ANZ

...while export volumes fell

Export volumes fell 4.6% in the September quarter, with dairy exports continuing to wind back increase earlier seen in the March quarter. Import volumes rose 1.1% with increased imports of mechanical machinery and transport equipment.

Wholesale trade activity remains muted

Seasonally adjusted wholesale trade sales rose 0.3% in the September quarter with basic material wholesaling acting as a drag on growth, falling 2.8% due to reduced forestry product prices and volumes, flowing on from recent oversupply of logs into China.

RBNZ raises capital adequacy ratios for banks

As was widely expected, the RBNZ raised banks' capital adequacy ratios to 18% for the 4 main banks and 16% for the remaining banks, with the changes phased in over a seven-year period from 1 July 2020.

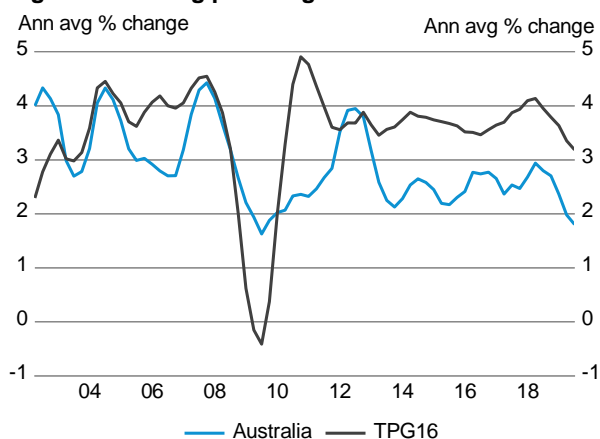
Annual growth picks up in Australia

GDP growth in Australia was 0.4% in the September quarter, from 0.6% (revised) in the June quarter. On an annual basis, growth picked up from 1.6% to 1.7%, supported by public sector activity, while private investment and consumption weighed on growth. On an annual average basis, growth remain subdued (Figure 3). The external sector remained positive in the quarter, reflected by a record \$7.9 AUDb current account surplus.

The Reserve Bank of Australia (RBA) expect growth to strengthen further in the December quarter, supported by monetary and fiscal stimulus. Consistent with this view, the RBA left the cash rate on hold at 0.75% at their meeting this week, but stated they are 'prepared to ease further if needed'.

The release of Australian GDP completed the set of GDP data for our 16 main trading partners for the September 2019 quarter. Growth slowed to 3.2%, from 3.4% in the June quarter, and 3.6% in the March quarter (Figure 3). The slowing reflects global headwinds such as persistent trade uncertainty and sluggish global demand.

Figure 3: Trading partner growth slows



Source: Haver Analytics

Domestic demand supports euro area growth

Euro area growth was confirmed unchanged at 0.2% in the September quarter and 1.1% on an annual basis. The breakdown showed resilience in domestic demand, which has been supported by solid labour market conditions and accommodative monetary policy.

Trade woes continue...

Worries intensified that 15% tariffs on around \$160b of Chinese imports scheduled for 15 December may go ahead, after US President

Donald Trump announced that he was prepared to wait until after the November 2020 US election to reach a trade deal with China. The Trump administration also threatened to re-impose tariffs on imports of aluminium and steel from Argentina and Brazil, as well as 100% tariffs on up to \$2.4 USb of French goods, after concluding the country's digital services tax unfairly discriminated against American technology companies.

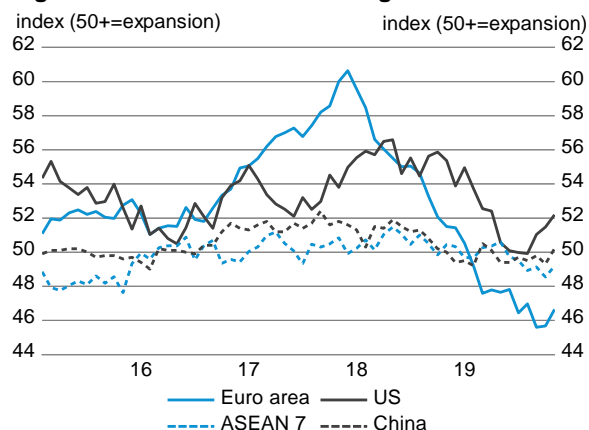
...as Japan set to benefit from fiscal stimulus

Japanese Prime Minister Shinzo Abe announced a major fiscal stimulus package, worth roughly \$121 USb (around 2% of Japan's GDP), as the country deals with the fallout from ongoing trade tensions and soft global demand. The package aims to repair typhoon damage, upgrade infrastructure and invest in new technologies.

Manufacturing activity improves

Manufacturing activity picked up in November, according to IHS Markit PMIs (Figure 4). Outturns across the US, Asia and the euro area are generally consistent with what appears to be a turning point, although ongoing trade tensions may weigh on activity going forward. Services activity continued to remain elevated across many of these countries in November.

Figure 4: Selected manufacturing PMIs



Source: IHS Markit

Date	Key NZ Data	Previous
9 Dec	Manufacturing activity	-2.7%
11 Dec	Retail card spending	-0.6%
12 Dec	Migration	54,624 (net PLT)

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	-1.0	1.0
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	5.4
Total retail sales volume	apc	3.1	2.7	3.5	3.3	2.9	4.5
WMM - consumer confidence (3)	Index	108.6	103.5	109.1	103.8	103.5	103.1
QSBO - general business situation (1,4)	net%	-20.3	-26.5	-20.9	-29.0	-33.7	-35.4
QSBO - own activity outlook (1,4)	net%	14.7	10.3	15.5	4.8	-4.4	0.3

Monthly Indicators		Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19
Merchandise trade balance (12 month total)	NZ\$m	-4987	-5516	-5591	-5330	-5037	...
Dwelling consents - residential	apc	3.4	24.3	6.0	30.8	16.4	...
House sales - dwellings	apc	-0.5	6.9	-3.4	7.6	-4.0	...
REINZ - house price index	apc	1.7	1.6	2.7	3.3	3.9	...
Estimated net migration (12 month total)	people	55548	56405	55993	54624	...	...
ANZ NZ commodity price index	apc	1.8	0.3	3.7	6.5	9.7	18.8
ANZ world commodity price index	apc	-2.4	-0.5	0.9	3.4	7.2	12.4
ANZBO - business confidence	net%	-38	-44	-52	-54	-42	-26
ANZBO - activity outlook	net%	8	5	-1	-2	-4	13
ANZ-Roy Morgan - consumer confidence	net%	123	116	118	114	118	121

Daily Indicators		Thu 28/11/19	Fri 29/11/19	Mon 2/12/19	Tue 3/12/19	Wed 4/12/19	Thu 5/12/19
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6425	0.6419	0.6439	0.6500	0.6520	0.6552
NZD/AUD	\$	0.9493	0.9483	0.9513	0.9529	0.9538	0.9582
Trade weighted index (TWI)	index	71.4	71.3	71.6	72.1	72.3	72.6
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%	1.23	1.23	1.22	1.22	1.21	1.20
10 year govt bond rate	%	1.29	1.28	1.31	1.41	1.38	1.42
Share markets (6)							
Dow Jones	index	...	28051	27783	27503	27650	27678
S&P 500	index	...	3141	3114	3093	3113	3117
VIX volatility index	index	...	12.6	14.9	16.0	14.8	14.5
AU all ords	index	6966	6948	6965	6818	6714	6791
NZX 50	index	11207	11317	11302	11228	11210	11258
US interest rates							
3 month OIS	%	1.55	1.56	1.56	1.55	1.55	...
3 month Libor	%	1.91	1.91	1.90	1.89	1.89	...
10 year govt bond rate	%	...	1.78	1.83	1.72	1.77	1.80
Commodity prices (6)							
WTI oil	US\$/barrel	...	55.17	55.97	56.15	58.43	...
Gold	US\$/ounce	1455	1460	1461	1477	1475	...
CRB Futures	index	...	386	386	386	387	...

(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
United States [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	2.3	2.2		2.0	2.0	2.1		...	...
Japan [6.1%]	PMI manufacturing (1)	index	52.8	52.1	51.7		51.2	49.1	47.8		48.3	48.1
	Consumer confidence (1)(3)	index	129.2	131.3	124.3		135.8	134.2	126.3		126.1	125.5
	GDP (1)	qpc				0.4				0.1		
	Industrial production (1)	mpc	0.6	2.0	-3.3		1.3	-1.2	1.7		-4.2	...
Euro area [5.5%]	CPI	apc	0.9	0.7	0.7		0.5	0.3	0.2		0.2	...
	Unemployment rate (1)	%	2.4	2.4	2.3		2.2	2.2	2.4		2.4	...
	Retail sales value	apc	0.4	1.3	0.5		-2.0	1.8	9.2		-7.1	...
	PMI manufacturing (1)	index	50.2	49.8	49.3		49.4	49.3	48.9		48.4	48.9
	Consumer confidence (1)(4)	index	40.0	39.5	38.9		37.9	37.2	35.9		36.3	38.7
	GDP (1)	qpc				0.2				0.2		
United Kingdom [2.7%]	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	7.6		7.5	...
	Retail sales volume	apc	2.2	1.3	2.8		2.4	2.8	2.7		1.4	...
	House prices (6)	apc	0.9	0.6	0.5		0.3	0.6	0.2		0.4	0.8
	PMI manufacturing (1)	index	47.9	47.7	47.6		46.5	47.0	45.7		45.9	46.9
Australia [15.8%]	Consumer confidence (5)	index	-7.3	-6.5	-7.2		-6.6	-7.1	-6.5		-7.6	-7.2
	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 (7)	apc	0.9	0.6	0.5		0.3	0.6	0.2		0.4	0.8
China [24.3%]	PMI manufacturing (1)	index	53.1	49.4	48.0		48.0	47.4	48.3		49.6	48.9
	Consumer confidence (1)(5)	index	-11.1	-8.3	-10.5		-6.9	-11.4	-9.8		-10.6	-8.8
	GDP (1)	qpc				0.6				0.4		
	CPI	apc				1.6				1.7		
	Unemployment rate (1)	%	5.2	5.2	5.3		5.3	5.3	5.2		5.3	...
South Korea [3.0%]	Retail sales value	apc	4.2	2.9	1.9		2.6	2.9	2.0		2.7	...
	House Prices (7)	apc				-7.7				...		
	PMI manufacturing (1)	index	54.8	52.7	49.4		51.3	53.1	54.7		51.6	48.1
	Consumer confidence (8)	index	100.7	101.3	100.7		96.5	100.0	98.2		92.8	97.0
China [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	...
South Korea [3.0%]	PMI manufacturing (1)	index	50.1	49.4	49.4		49.7	49.5	49.8		49.3	50.2
	GDP (1)	qpc				1.0				0.4		
South Korea [3.0%]	Industrial production (1)	mpc	1.9	-1.0	0.0		2.8	-1.8	2.0		-1.7	...
	CPI	apc	0.6	0.7	0.7		0.6	-0.0	-0.4		0.0	0.2

(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

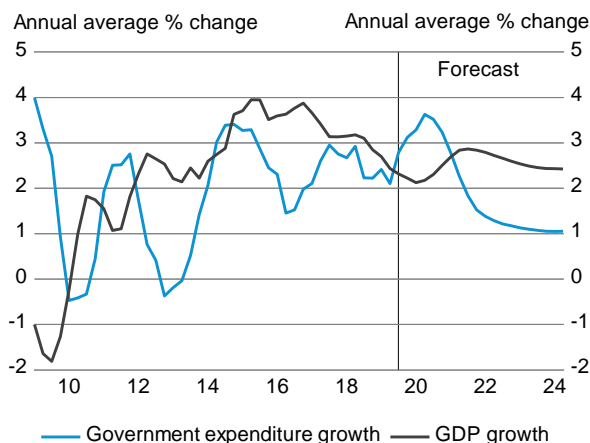
(8) Melbourne/Westpac Consumer Sentiment Index

The Government announced an additional \$12 billion of capital spending as part of the Half-year Update (*HYEFU*). Manufacturing activity remained solid in the September quarter. House prices in Auckland recovered in November.

Government to increase spending

The Half-year Update included an increase of \$12 billion in capital spending by Government, the majority of which will be used for infrastructure projects. The Treasury's forecasts show that annual GDP will slow compared to the Budget Update. Growth is expected to slow in 2020 before picking up to reach 2.8% in 2021 and then tailing off again to 2.4% by 2024 (Figure 1).

Figure 1: GDP and Government expenditure



Sources: StatsNZ, the Treasury

Net core Crown debt is forecast to reach 21.5% of GDP in 2022 before dropping to 19.6% by 2024.

Manufacturing activity remains solid...

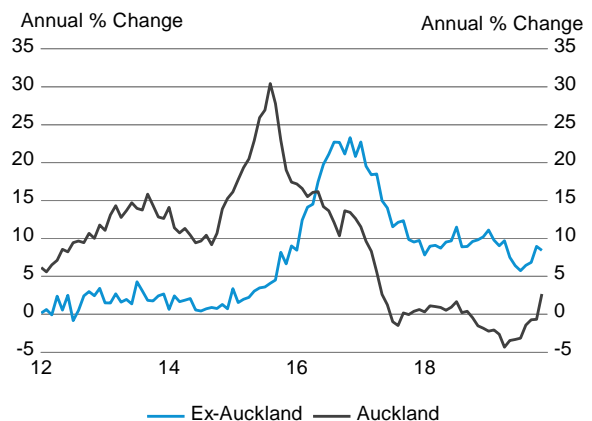
Total manufacturing sales volumes fell 0.3% in the September quarter, led by meat and dairy (down 4.5%), although a build-up of inventories point to solid production during the quarter. Core manufacturing (excluding dairy and meat) rose 0.8%. Sales values rose 0.9%, driven by higher prices for meat and dairy (up 2.0%). These results point to a slight upside risk to our September quarter GDP forecast of 0.4% at *HYEFU*.

Performance of Manufacturing Index (PMI) data remained in expansionary territory (51.4) in November, with continued strength in new orders (54.5) leading the way.

... Auckland house prices recover...

National house prices lifted 1.5% in November to be up 5.6% on an annual basis. The strength in the housing market was centred in Auckland, with prices in the region lifting 2.5% in the month and 2.7% on an annual basis (Figure 2). Excluding Auckland, house prices lifted 0.5% in November, to be up 8.4% over the year. Continued low interest rates and shortages in housing supply should support house prices over coming years, with our *HYEFU* forecast predicting price growth of around 5.0% in 2020 and 6.0% in 2021.

Figure 2: House price growth



Source: REINZ

...and retail card spending rose

Retail card sales bounced back in November, up 2.6%, the largest rise since January 2017, supporting our *HYEFU* forecast for solid household consumption growth. The lift coincided with the Singles day and Black Friday sales promotions. Durables rose 5.4% while consumables were up 1.4%. Core retail spending (excluding fuel and vehicles) rose 2.6%.

Visitor arrivals growth slowed

Annual visitor arrivals growth continued to slow, growing 2.1% in the year to October, the lowest growth rate in an October year in the past seven years. This slowing growth was driven by a fall in visitors from Asia, offset by increased visitors from Australia and the US.

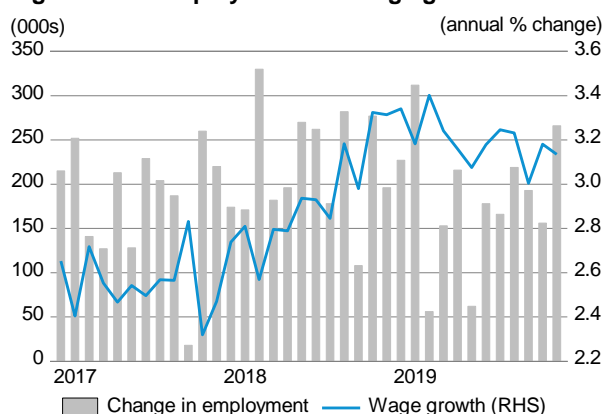
Long-term arrivals continued to rise at a faster rate than departures, leading to a net gain of 55,614 migrants in the 12 months to October, up 10.8% on the previous year.

Employment growth picks up in the US

The US economy added 266,000 jobs in November, following 156,000 (revised) in October (Figure 3). The unemployment rate fell to 3.5% from 3.6%, while average hourly earnings fell slightly, from 3.2% to 3.1%. A solid labour market helps explain the resilience of consumption, while other sectors of the economy slow in the face of sluggish global demand and persistent trade uncertainty. Annual inflation ticked up to be 2.1% in November, from 1.8% in October. Core inflation was steady at 2.3%.

Consistent with a solid labour market and stable inflation, the Federal Reserve kept the policy rate range unchanged at 1.5-1.75% and indicated that they would keep rates on hold in 2020. Markets are pricing another cut in 2020.

Figure 3: US employment and wage growth



Source: Haver Analytics

Inflation picks up in China

Annual inflation in China rose to 4.5% in November, from 3.7% in October. Inflationary pressure is being driven by surging pork prices, which are up 110% on an annual basis as African swine fever reduces pork supply. Prices of other meats are rising sharply too, and swine fever outbreaks have been confirmed in other areas such as Vietnam. Producer prices fell 1.4% in November, reflecting weak industrial demand. The dichotomy of rising consumer inflation but slowing economic momentum limits China's monetary policy choices.

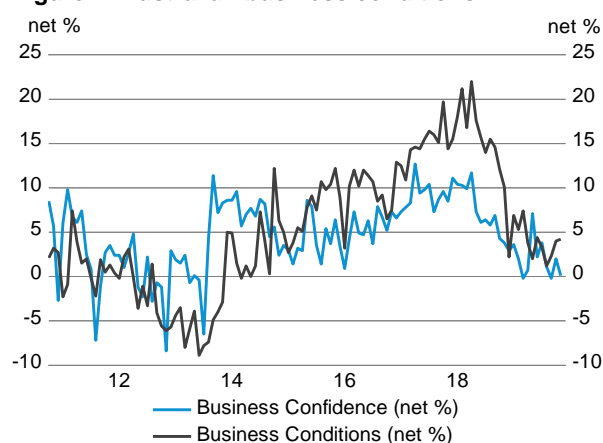
Falling agricultural output forecast in Australia

A drought in Australia is also supporting meat prices. The Australian Department of Agriculture [forecasts](#) herd numbers of cattle and sheep to fall again in 2020 as the drought continues. Combined with the shortage of pork in Asia, this should

support the outlook for commodity prices in New Zealand.

Australian business conditions remained subdued in November (Figure 4), pointing to sluggish GDP growth in the December quarter. The Mid-year Economic and Fiscal Outlook (MYEFO) will be released next week, most likely on Monday according to newspaper reports.

Figure 4: Australian business conditions



Source: NAB Monthly Business Survey

Trade and politics dominate headlines

In the UK, a conservative majority of around 86 seats is expected in the House of Commons. Commentators argue that this will make it more likely that the UK will leave the European Union by the January 31st deadline. Market reaction was significant immediately after the release of the exit poll, with the pound appreciating by over 2.0% against the USD.

Reports this morning suggest that the US and China have agreed to a 'phase one' trade deal pending President Trump's approval. The deal would reportedly involve the US scrapping tariffs of 15% on \$160 US billion of Chinese imports scheduled for December 15th and the reduction some existing tariffs. In other news, the US, Mexico and Canada agreed to a revised trade agreement (USMCA) that replaces NAFTA, although the deal still needs to be ratified.

Date	Key NZ Data	Previous
18 Dec	BOP	-3.4 (% GDP)
19 Dec	GDP	0.5% (qpc)

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	-1.0	1.0
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	5.4
Total retail sales volume	apc	3.1	2.7	3.5	3.3	2.9	4.5
WMM - consumer confidence (3)	Index	108.6	103.5	109.1	103.8	103.5	103.1
QSBO - general business situation (1,4)	net%	-20.3	-26.5	-20.9	-29.0	-33.7	-35.4
QSBO - own activity outlook (1,4)	net%	14.7	10.3	15.5	4.8	-4.4	0.3

Monthly Indicators		Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19
Merchandise trade balance (12 month total)	NZ\$m	-4987	-5516	-5591	-5330	-5037	...
Dwelling consents - residential	apc	3.4	24.3	6.0	30.8	16.4	...
House sales - dwellings	apc	-0.5	6.9	-3.4	8.3	-0.8	-1.9
REINZ - house price index	apc	1.7	1.6	2.7	3.2	3.9	5.6
Estimated net migration (12 month total)	people	55609	56812	56606	56191	55614	...
ANZ NZ commodity price index	apc	1.8	0.3	3.7	6.5	9.7	18.8
ANZ world commodity price index	apc	-2.4	-0.5	0.9	3.4	7.2	12.4
ANZBO - business confidence	net%	-38	-44	-52	-54	-42	-26
ANZBO - activity outlook	net%	8	5	-1	-2	-4	13
ANZ-Roy Morgan - consumer confidence	net%	123	116	118	114	118	121

Daily Indicators		Thu 5/12/19	Fri 6/12/19	Mon 9/12/19	Tue 10/12/19	Wed 11/12/19	Thu 12/12/19
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6552	0.6544	0.6556	0.6552	0.6539	0.6586
NZD/AUD	\$	0.9582	0.9570	0.9594	0.9600	0.9599	0.9578
Trade weighted index (TWI)	index	72.6	72.4	72.6	72.6	72.4	72.7
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%	1.20	1.20	1.19	1.19	1.19	1.19
10 year govt bond rate	%	1.42	1.47	1.52	1.54	1.54	1.52
Share markets (6)							
Dow Jones	index	27678	28015	27910	27882	27911	28132
S&P 500	index	3117	3146	3136	3133	3142	3169
VIX volatility index	index	14.5	13.6	15.9	15.7	15.0	13.9
AU all ords	index	6791	6813	6836	6812	6853	6811
NZX 50	index	11258	11276	11230	11284	11292	11308
US interest rates							
3 month OIS	%	1.55	1.55	1.55	1.55	1.55	...
3 month Libor	%	1.89	1.89	1.89	1.89	1.89	...
10 year govt bond rate	%	1.80	1.84	1.83	1.85	1.79	1.90
Commodity prices (6)							
WTI oil	US\$/barrel	58.43	59.20	58.99	59.22	58.76	...
Gold	US\$/ounce	1476	1460	1462	1465	1467	...
CRB Futures	index	387	391	391	393	394	...

(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		May 19	Jun 19	2019Q2	Jul 19	Aug 19	Sep 19	2019Q3	Oct 19	Nov 19	Dec 19
United States [9.6% share of total goods exports]	GDP (1)	qpc			0.5				0.5			
	Industrial production (1)	mpc	0.2	0.0		-0.1	0.7	-0.3		-0.8	...	...
	CPI	apc	1.8	1.6		1.8	1.7	1.7		1.8	2.1	...
	Unemployment rate (1)	%	3.6	3.7		3.7	3.7	3.5		3.6	3.5	...
	Employment change (1)	000s	62.0	178.0		166.0	219.0	193.0		156.0	266.0	...
	Retail sales value	apc	3.0	3.3		3.5	4.4	4.1		3.1	...	...
	House prices (2)	apc	2.3	2.2		2.0	2.0	2.1		...	...	...
	PMI manufacturing (1)	index	52.1	51.7		51.2	49.1	47.8		48.3	48.1	...
Consumer confidence (1)(3)	index	131.3	124.3		135.8	134.2	126.3		126.1	125.5	...	
Japan [6.1%]	GDP (1)	qpc			0.5				0.4			
	Industrial production (1)	mpc	2.0	-3.3		1.3	-1.2	1.7		-4.2	...	...
	CPI	apc	0.7	0.7		0.5	0.3	0.2		0.2	...	...
	Unemployment rate (1)	%	2.4	2.3		2.2	2.2	2.4		2.4	...	...
	Retail sales value	apc	1.3	0.5		-2.0	1.8	9.2		-7.1	...	...
	PMI manufacturing (1)	index	49.8	49.3		49.4	49.3	48.9		48.4	48.9	...
	Consumer confidence (1)(4)	index	39.5	38.9		37.9	37.2	35.9		36.3	38.7	...
Euro area [5.5%]	GDP (1)	qpc			0.2				0.2			
	Industrial production (1)	mpc	0.8	-1.5		-0.3	0.5	-0.1		-0.5	...	...
	CPI	apc	1.2	1.3		1.0	1.0	0.8		0.7	...	...
	Unemployment rate (1)	%	7.6	7.5		7.6	7.5	7.6		7.5	...	...
	Retail sales volume	apc	1.3	2.8		2.4	2.8	2.7		1.4	...	...
	PMI manufacturing (1)	index	47.7	47.6		46.5	47.0	45.7		45.9	46.9	...
Consumer confidence (5)	index	-6.5	-7.2		-6.6	-7.1	-6.5		-7.6	-7.2	...	
United Kingdom [2.7%]	GDP (1)	qpc			-0.2				0.3			
	Industrial production (1)	mpc	1.1	0.0		0.1	-0.7	-0.2		0.1	...	...
	CPI	apc	2.0	2.0		2.0	1.8	1.8		1.5	...	...
	Unemployment rate (1)	%	3.8	3.9		3.8	3.9	3.8		...	...	...
	Retail sales volume	apc	2.4	3.6		3.5	2.6	3.1		3.1	...	...
	House prices (6)	apc	0.6	0.5		0.3	0.6	0.2		0.4	0.8	...
	PMI manufacturing (1)	index	49.4	48.0		48.0	47.4	48.3		49.6	48.9	...
Consumer confidence (1)(5)	index	-8.3	-10.5		-6.9	-11.4	-9.8		-10.6	-8.8	...	
Australia [15.8%]	GDP (1)	qpc			0.6				0.4			
	CPI	apc			1.6				1.7			
	Unemployment rate (1)	%	5.2	5.3		5.3	5.3	5.2		5.3	...	...
	Retail sales value	apc	2.9	1.9		2.6	2.9	2.0		2.7	...	...
	House Prices (7)	apc			-7.7					-3.9	...	...
	PMI manufacturing (1)	index	52.7	49.4		51.3	53.1	54.7		51.6	48.1	...
Consumer confidence (8)	index	101.3	100.7		96.5	100.0	98.2		92.8	97.0	95.1	
China [24.3%]	GDP	apc			6.2				6.0			
	Industrial production	apc	5.0	6.3		4.8	4.4	5.8		4.7	...	...
	CPI	apc	2.7	2.7		2.8	2.8	3.0		3.8	4.5	...
	PMI manufacturing (1)	index	49.4	49.4		49.7	49.5	49.8		49.3	50.2	...
South Korea [3.0%]	GDP (1)	qpc			1.0				0.4			
	Industrial production (1)	mpc	-1.0	0.0		2.8	-1.8	2.0		-1.7	...	...
	CPI	apc	0.7	0.7		0.6	-0.0	-0.4		0.0	0.2	...

(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

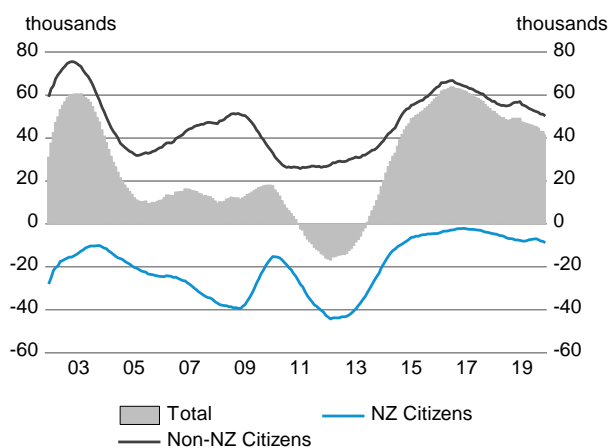
(8) Melbourne/Westpac Consumer Sentiment Index

House prices continued to pick up, as did dairy prices, while inflation picked up. Manufacturing and services activity softened somewhat and net migration continued to taper off from historic highs.

Net migration tapers off

Net migration continues the steady fall-off we have seen since reaching a peak of around 64,000 in mid-2016. Recent (and prone to revision) estimates of net migration of 41,400 in the year to November 2019 are down 16% on the year to November 2018 (Figure 1).

Figure 1: Estimated net migration



Source: Stats NZ

The pace of visitor arrivals growth continued to slow with overseas visitor arrivals falling by 13,700 (down 3.5%) in November 2019 compared with November 2018, suggesting slowing growth in tourism spending in NZ.

Milk prices continue to recover

Tuesday night's *GlobalDairyTrade* auction saw a continued recovery in dairy prices. The index rose 1.7% following on from the 2.8% rise at the previous event, with the important Whole Milk Powder index rising 2.4%. These rises wind back some of the weakness in results seen in December (down 5.6% over December).

Subdued domestic milk production (with recent dry weather conditions limiting pasture growth), constrained global production and the recent strength in the Chinese currency remain supportive of prices.

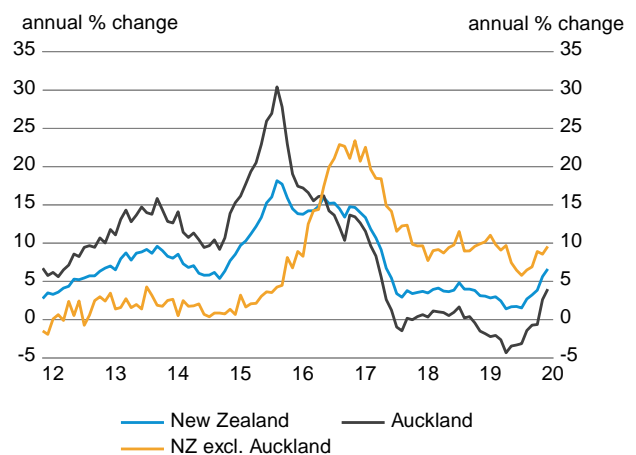
Manufacturing and services sectors soften

The Performance of Manufacturing Index (PMI) fell back into contractionary territory in December, dropping to 49.3 following two previous months of expansion. Both production and employment contributed to the weak result. In a similar vein, the Performance of Manufacturing Index (PSI) continued to slide, falling to 51.9 (its lowest read since September 2012) although there are some signs of increasing employment.

House prices continue to increase...

National house prices lifted 1.2% in December to be up 6.6% on an annual basis (Figure 2). November's strength in the Auckland market carried through to December and prices outside of Auckland continued to perform strongly. This strength in house prices provides some upside risk to our *HYEFU* forecast price growth of around 5.0% in 2020 and 6.0% in 2021.

Figure 2: House price growth



Source: REINZ

...and airfares and rents boost consumer prices

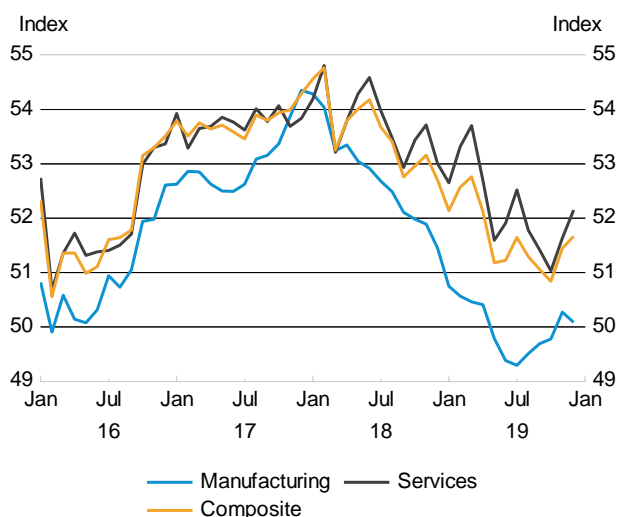
Annual CPI inflation came in slightly above expectations at 1.9% (up 0.5% on a quarterly basis), driven by higher airfares and rents. Annual rent inflation rose 3.1%, its highest rate in over a decade. Non-tradables inflation largely retained strength from the September quarter, up 3.1% on an annual basis. Tradable inflation remained subdued, up 0.4% in the quarter, and 0.1% over the year.

Global growth expected to pick up in 2020...

The International Monetary Fund's (IMF) January World Economic Outlook (WEO) update projects global growth to recover from 2.9% in 2019 to 3.3% and 3.4% in 2020 and 2021, respectively. The IMF's new global growth projections are 0.1 percentage points (ppts) lower for 2019 and 2020 and 0.2 ppts lower for 2021. The IMF notes that a more subdued growth forecast for India accounts for the lion's share of the downward revisions.

Encouragingly, the IMF observes that downside risks to the global outlook are less pronounced than in the October 2019 WEO. They also note that leading indicators suggest the contraction in manufacturing activity is stabilising and service sector activity continues to expand (Figure 3).

Figure 3: Global PMIs stabilise



Source: JP Morgan, Haver Analytics

This stabilisation was evident in China, where 2019Q4 GDP increased 6.0% from the same quarter a year ago, the same as in Q3, and 6.1% over the year.

...risks include coronavirus ...

Markets are keeping a careful eye on the coronavirus news out of China, although there has not been a significant impact on domestic markets so far – Air New Zealand's share price remains close to its average since the start of the year. The biggest risk to New Zealand is likely to come from reduced travel, which could harm tourism earnings.

Commentators note the major differences between the current episode and the 2003 SARS virus are greater transparency, and swifter and more substantial action from the Chinese authorities, including the decision to lockdown the city of

Wuhan. However, it is too early to know what the ultimate impacts will be.

...and "green swan" events

The Bank of International Settlements (BIS) is calling for central banks to start incorporating climate change into their thinking about the stability of the economy, warning that climate change could lead to "green swan" events and be the cause of the next financial crisis.

Meanwhile, the ECB announced a wide-ranging review of monetary policy, from the quantitative definition of price stability to the approaches and tools used to achieve their price stability objective (like the monetary policy toolkit, economic and monetary analyses and communications). Financial stability, employment and environmental sustainability will also be part of the review, which is expected to conclude by the end of 2020.

This announcement coincided with the ECB's decision to keep the main deposit rate at -0.5%.

Australian unemployment fell...

The unemployment rate fell to 5.1% in December, from 5.2% in November and 5.3% in October, driven by strong employment growth. Analysts consider this improvement reduces the urgency for further monetary policy support. Although, with unemployment somewhat above the full employment rate of 4.5% and inflation below target, the Reserve Bank of Australia is expected to further lower its policy rate this year.

...while bushfires drag on activity...

The consensus among commentators is that the bushfires could shave around 0.3 ppts from GDP growth over 2019Q4 and 2020Q1, but subsequent rebuild activity could largely offset this.

The bushfires also likely dragged on consumer confidence, which fell 1.8% in January to 93.4, to be well below its long-run average of 101.1.

Date	Key NZ Data	Previous
30 Jan	Merchandise Trade	-\$753 NZm

Quarterly Indicators		2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
Real Production GDP (1)	qpc	0.6	1.0	0.4	0.1	0.7	...
	aapc	3.2	3.2	3.1	2.8	2.7	...
Current account balance (annual)	%GDP	-3.6	-3.8	-3.6	-3.3	-3.3	...
Merchandise terms of trade	apc	-0.3	-4.8	-1.9	-1.0	1.0	...
CPI inflation	qpc	0.9	0.1	0.1	0.6	0.7	0.5
	apc	1.9	1.9	1.5	1.7	1.5	1.9
Employment (HLFS) (1)	qpc	0.8	0.1	-0.0	0.6	0.2	...
Unemployment rate (1)	%	4.0	4.3	4.2	3.9	4.2	...
Participation rate (1)	%	70.8	70.7	70.3	70.3	70.4	...
LCI salary & wage rates - total (2)	apc	1.8	1.9	2.0	2.1	2.5	...
QES average hourly earnings - total (2)	apc	2.9	3.1	3.4	4.4	4.2	...
Core retail sales volume	apc	3.7	5.0	3.9	3.6	5.4	...
Total retail sales volume	apc	2.7	3.5	3.3	2.9	4.5	...
WMM - consumer confidence (3)	Index	103.5	109.1	103.8	103.5	103.1	109.9
QSBO - general business situation (1,4)	net%	-26.3	-21.4	-29.0	-33.3	-35.3	-26.1
QSBO - own activity outlook (1,4)	net%	10.5	15.5	4.7	-4.4	0.5	6.8

Monthly Indicators		Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19
Merchandise trade balance (12 month total)	NZ\$m	-5516	-5591	-5333	-5067	-4816	...
Dwelling consents - residential	apc	24.3	6.0	30.8	16.4	2.7	...
House sales - dwellings	apc	6.9	-3.4	8.3	-0.3	0.4	12.3
REINZ - house price index	apc	1.6	2.7	3.2	3.8	5.6	6.6
Estimated net migration (12 month total)	people	45361	44688	43217	42980	41478	...
ANZ NZ commodity price index	apc	0.3	3.7	6.5	9.7	18.8	12.9
ANZ world commodity price index	apc	-0.5	0.9	3.4	7.2	12.4	9.4
ANZBO - business confidence	net%	-44	-52	-54	-42	-26	-13
ANZBO - activity outlook	net%	5	-1	-2	-4	13	17
ANZ-Roy Morgan - consumer confidence	net%	116	118	114	118	121	123

Daily Indicators		Thu 16/1/20	Fri 17/1/20	Mon 20/1/20	Tue 21/1/20	Wed 22/1/20	Thu 23/1/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6634	0.6636	0.6615	0.6605	0.6589	0.6594
NZD/AUD	\$	0.9594	0.9622	0.9618	0.9611	0.9637	0.9596
Trade weighted index (TWI)	index	72.7	72.8	72.6	72.5	72.5	72.5
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%	1.29	1.29	1.29	1.27	1.27	1.27
10 year govt bond rate	%	1.50	1.52	1.53	1.55	1.54	1.52
Share markets (6)							
Dow Jones	index	29298	29348	...	29196	29186	29160
S&P 500	index	3317	3330	...	3321	3322	3326
VIX volatility index	index	12.3	12.1	...	12.9	12.9	13.0
AU all ords	index	7159	7180	7196	7181	7249	7199
NZX 50	index	11738	11800	11747	11805	11890	11901
US interest rates							
3 month OIS	%	1.54	1.55	1.55	1.55	1.55	...
3 month Libor	%	1.83	1.82	1.80	1.81	1.80	...
10 year govt bond rate	%	1.81	1.84	...	1.78	1.77	...
Commodity prices (6)							
WTI oil	US\$/barrel	58.52	58.55	...	58.25	56.76	...
Gold	US\$/ounce	1555	1558	1560	1551	1557	...
CRB Futures	index	409	411	...	411	410	...

(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		2019Q2	Jul 19	Aug 19	Sep 19	2019Q3	Oct 19	Nov 19	Dec 19	2019Q4	Jan 20
United States [9.6% share of total goods exports]	GDP (1)	qpc	0.5				0.5				...	...
	Industrial production (1)	mpc		-0.2	0.8	-0.5		-0.5	0.8	-0.3		...
	CPI	apc		1.8	1.7	1.7		1.8	2.1	2.3		...
	Unemployment rate (1)	%		3.7	3.7	3.5		3.6	3.5	3.5		...
	Employment change (1)	000s		166.0	219.0	193.0		152.0	256.0	145.0		...
	Retail sales value	apc		3.5	4.4	4.0		3.1	3.3	5.8		...
	House prices (2)	apc		2.0	2.0	2.1		2.2	...	...		...
Japan [6.1%]	PMI manufacturing (1)	index		51.2	49.1	47.8		48.3	48.1	47.2		...
	Consumer confidence (1)(3)	index		135.8	134.2	126.3		126.1	126.8	126.5		...
	GDP (1)	qpc	0.5				0.4				...	...
	Industrial production (1)	mpc		1.3	-1.2	1.7		-4.5	-1.0	...		...
Euro area [5.5%]	CPI	apc		0.5	0.3	0.2		0.2	0.5	...		...
	Unemployment rate (1)	%		2.2	2.2	2.4		2.4	2.2	...		...
	Retail sales value	apc		-2.0	1.8	9.2		-7.0	-2.1	...		...
	PMI manufacturing (1)	index		49.4	49.3	48.9		48.4	48.9	48.4		...
	Consumer confidence (1)(4)	index		37.9	37.2	35.9		36.3	38.7	39.0		...
	GDP (1)	qpc	0.2				0.3				...	...
	Industrial production (1)	mpc		-0.4	0.6	0.0		-0.9	0.2	...		...
United Kingdom [2.7%]	CPI	apc		1.0	1.0	0.8		0.7	1.0	1.3		...
	Unemployment rate (1)	%		7.6	7.5	7.6		7.5	7.5	...		...
	Retail sales volume	apc		2.3	2.8	2.9		1.7	2.2	...		...
	House prices (6)	apc		0.3	0.6	0.2		0.4	0.8	1.4		...
	PMI manufacturing (1)	index		46.5	47.0	45.7		45.9	46.9	46.3		...
	Consumer confidence (5)	index		-6.6	-7.1	-6.5		-7.6	-7.2	-8.1		-8.1
	GDP (1)	qpc	-0.2				0.4				...	...
Australia [15.8%]	Industrial production (1)	mpc		0.2	-0.7	0.0		0.3	-1.2	...		...
	CPI	apc		2.0	1.8	1.8		1.5	1.4	1.3		...
	Unemployment rate (1)	%		3.8	3.9	3.8		3.8	3.8	...		...
	Retail sales volume	apc		3.5	2.6	2.9		3.2	0.8	0.8		...
	House Prices (7)	apc	-7.7				-3.9				...	...
	PMI manufacturing (1)	index		51.3	53.1	54.7		51.6	48.1	48.3		...
	Consumer confidence (8)	index		96.5	100.0	98.2		92.8	97.0	95.1		93.4
China [24.3%]	GDP	apc	6.2				6.0				6.0	...
	Industrial production	apc		4.8	4.4	5.8		4.7	6.2	6.9		...
	CPI	apc		2.8	2.8	3.0		3.8	4.5	4.5		...
South Korea [3.0%]	PMI manufacturing (1)	index		49.7	49.5	49.8		49.3	50.2	50.2		...
	GDP (1)	qpc	1.0				0.4				1.2	...
	Industrial production (1)	mpc		2.8	-1.8	2.3		-1.6	-0.5	...		...
	CPI	apc		0.6	-0.0	-0.4		0.0	0.2	0.7		...

(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