

New Zealand Weekly Data Wrap

10 July 2020



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Forecast updates

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- [ANZ NZ Economic Outlook – Finding our way](#)
- [Current account outlook](#)
- [Farmgate sheep & beef prices](#)
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Our other recent publications are on [page 2](#).

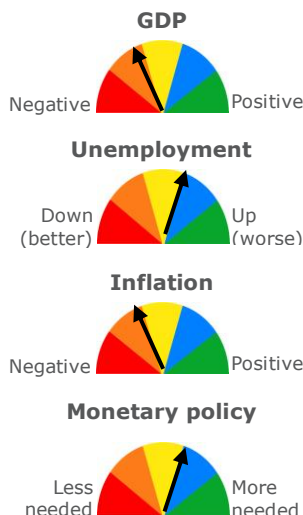
What's the view?

- Currently in the midst of a huge economic blow.
- GDP 7-9% lower this year.
- Unemployment peak: 10%.
- Inflation set to fall.
- QE to rise to \$90bn in August.

Our forecasts are on [page 3](#).

Balance of risks

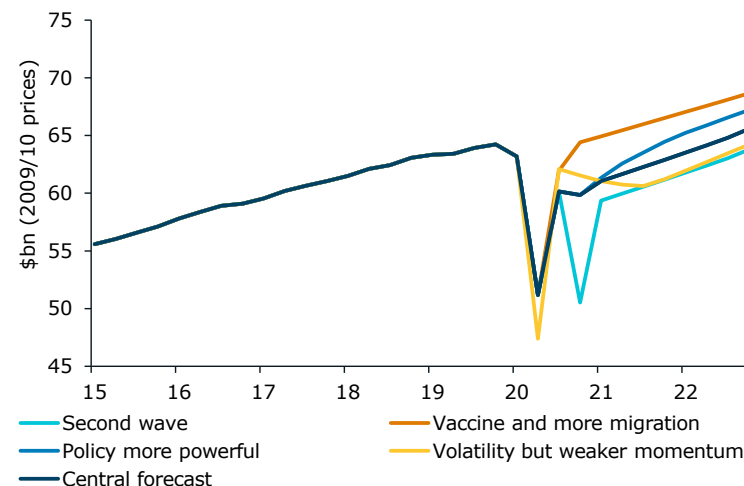
Risks remain skewed to the downside.



How has the view changed?

- The post-lockdown rebound continues, with our [ANZ Business Outlook Flash](#) seeing confidence continue to improve. Our enviable position, global liquidity and resilient commodity prices continue to put the wind up the NZD.
- The outlook remains uncertain; we see a [range of scenarios](#) as possible, subtracting 5-12% from GDP this year. With risks skewed to the downside, implications for policy are clear: make it count. For fiscal policy, that means a targeted and considered response. Initiatives to support [investment and hiring](#) would be welcome, like cutting red tape or labour market reform.
- For monetary policy, that means [going hard and going early](#). If downside risks materialise, the RBNZ may take a kitchen-sink approach. That's why it pays to be prepared for a [negative OCR](#), even though we don't think it's probable. We will get more guidance from the RBNZ on the outlook in August. But until then, rates markets will continue to ebb and flow.

Figure 1. ANZ GDP forecast and possible scenarios



Source: Bloomberg, John Hopkins University, ANZ Research

What happened this week?

ANZ Commodity Price Index – May. The [World Price Index](#) fell 0.7% in June, but was down 4.5% in local currency terms reflecting a stronger NZD.

NZIER Quarterly Survey of Business Opinion –Q2. [Business confidence](#) nudged a little higher than in Q1, but is still very dire.

GlobalDairyTrade auction. A 14% jump in whole milk powder prices pulled the overall GDT Price Index up 8.3%.

ANZ Truckometer – June. The [Light Traffic Index](#) lifted 28% in June. The Heavy Traffic rose 14.5%. Overall traffic is nearly back to year-ago levels.

ANZ Business Outlook Flash – July. [Business confidence](#) and activity indicators continued to bounce out of lockdown.

NZGB bond tender. \$950m of bonds, comprising 2023s, 2029s and 2033s. Demand was fairly tepid ahead of next week's launch of the new 2041 bond.

Electronic Card Transactions – June. Total card spending rebounded another 19.1%. Pent-up demand dynamics are still working through.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Insight: Negative OCR – an introduction
- ANZ NZ Insight: Irrigation opportunities
- ANZ NZ Insight: More QE is on the way
- ANZ NZ Property Focus – Where the rubber meets the road
- ANZ NZ Insight: Where to now with Quantitative Easing?
- Click [here](#) for more.

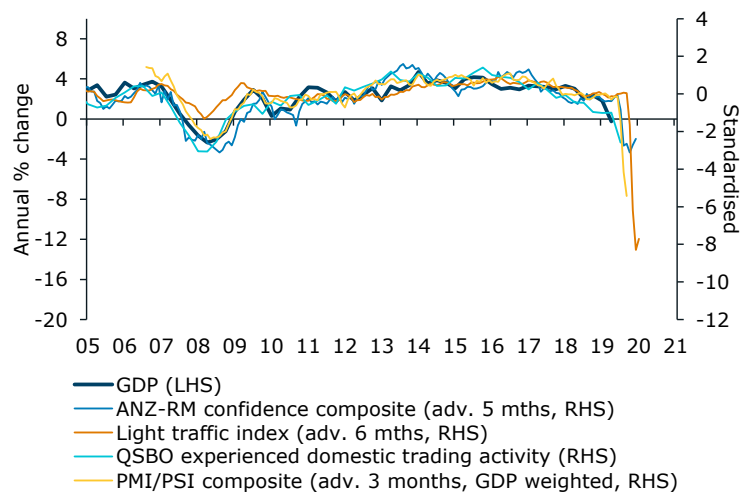
Data calendar

Date	Data/event
Mon 13 Jul (10:45am)	Food Prices – Jun
Mon 13 Jul (10:45am)	Rental Price Index – Jun
Tue 14 Jul (09:00am)	REINZ Housing Data – Jun
Tue 14 Jul (10:45am)	Net Migration – May
Tues 14 Jul (1:00pm)	ANZ Monthly Inflation Gauge – Jun
Tues 14 Jul	RBNZ Credit Conditions Survey – Q2
Thu 16 Jul (10:45am)	CPI – Q2
Thu 16 Jul (2:05pm)	NZGB Bond Tender
Fri 17 Jul (10:30am)	BNZ Manufacturing PMI – Jun
Mon 20 Jul (10:30am)	Performance Services Index – Jun
Tues 21 Jul (3:00pm)	Credit Card Spending – Jun
Wed 22 Jul (early am)	GlobalDairyTrade auction
Fri 24 Jul (10:45am)	Merchandise Trade – Jun
Fri 24 Jul (3:00pm)	RBNZ New Mortgage Lending – Jun
Thu 30 Jul (10:45am)	Building Permits – Jun
Thu 30 Jul (1:00pm)	ANZ Business Outlook – Jul F
Thu 30 Jul (2:05pm)	NZGB Bond Tender
Fri 31 Jul (10:00am)	ANZ Consumer Confidence – Jul

What are we watching?

The uncertain outlook is being compounded by noise in the economic data as the post-lockdown bounce percolates (figure 2). The bounce has been vigorous and broad-based, but there are pockets of underlying weakness that speak to **persistent economic impacts**, which we expect will set the tone in the second half of this year. Consents, house prices and sales data will provide a sense of momentum in the housing market – usually a bellwether of the domestic cycle in New Zealand. We will get REINZ data for June this week. The RBNZ will be nervous about the impact of the current downturn on employment and inflation. The impact of the lockdown on prices is difficult to measure, so that will make next week's CPI data difficult to interpret. We see inflation persistently below the RBNZ's target band over the next couple of years, without a more aggressive, front-loaded response.

Figure 2. GDP and forward-looking indicators



Source: BNZ-BusinessNZ, NZIER, Roy-Morgan, Statistics NZ, ANZ Research

The week ahead

Food Prices – June (Monday 13 July, 10:45am). Usually pretty stable in June, but there could still be some residual noise in the data.

Rental Price Index – June (Monday 13 July, 10:45am). Poised to moderate, but has proven to be slow moving despite rent freezes, no tourists and fewer international students in NZ.

REINZ House Sales – June (Tuesday 14 July, 9:00am). **Fundamentals have changed;** weaker momentum will become evident in time.

Net Migration – May (Tuesday 14 July, 10:45am). More kiwis coming home, but a much lower net inflow compared to the good old days.

RBNZ Credit Conditions Survey– Q2 (Tuesday 14 July). We will get a detailed sense of how credit conditions changed post-COVID.

ANZ Monthly Inflation Gauge – June (Tuesday 14 July, 1:00pm).

CPI – Q2 (Thursday 16 July, 10:45am). **Lockdown-induced measurement issues and methodological changes** are likely to make Q2 a very noisy quarter. Looking through this, the medium-term outlook will remain a key concern for the RBNZ. We will be releasing our Q2 CPI Preview note on Monday once food prices and rents are out.

BNZ-Business NZ Manufacturing PMI - June (Friday 17 July, 10:30am). The recovery started in May and should continue in June.



Markets and forecasts

Markets outlook

US 10-year Treasury bond yields have fallen to their lowest levels in almost 3 months, with fears of the uncontained spread of COVID-19 globally (and in the US) re-capturing market attention. Equity markets have stalled. Although the bounce in the US S&P 500 index has been very impressive, since regaining the 3000 level in late May it has range-traded between 3000 and 3250.

Correlations are high across asset classes and the recovery in equities has helped keep the NZD elevated, with global rather than local factors still in the driving seat. We don't expect this dynamic to change, or for the NZD to carve out its own niche until we see structural changes. That's where the RBNZ's suggestion of negative rates or potential foreign asset purchases comes in, possibly in August.

Returning to interest rate markets – the medium-term theme remains one of flatter curves and lower rates, with the Fed and RBNZ both committed to doing what it takes. However, expect the local market to tread water and for the yield curve here to be a little steeper in the short term, with a new 2041 bond coming next week, which will contain demand for long bonds over the next few days.



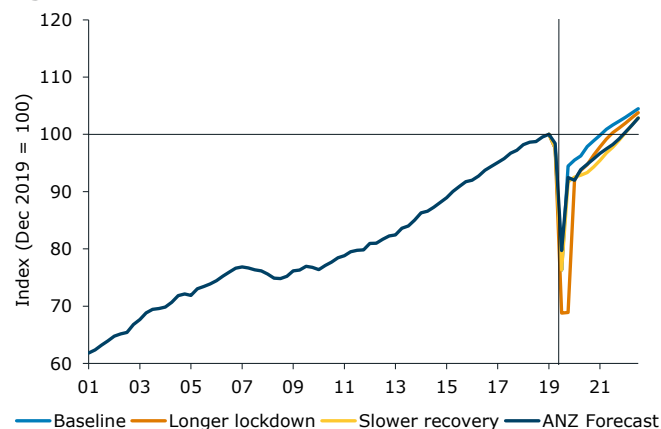
FX rates	Actual			Forecast (end month)					
	May-20	Jun-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.621	0.641	0.657	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.931	0.935	0.944	0.93	0.93	0.93	0.93	0.93	0.93
NZD/EUR	0.559	0.571	0.582	0.56	0.57	0.57	0.59	0.60	0.60
NZD/JPY	66.91	69.00	70.43	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.503	0.522	0.521	0.52	0.53	0.54	0.53	0.52	0.52
NZ\$ TWI	70.12	71.38	72.60	71.3	71.7	71.8	72.2	72.5	72.5
Interest rates/QE	May-20	Jun-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZ OCR	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
LSAP (\$bn)	33	33	60	90	90	90	90	90	90
NZ 90 day bill	0.26	0.30	0.31	0.31	0.31	0.31	0.31	0.31	0.31
NZ 10-yr bond	0.82	0.93	0.99	0.75	1.00	1.00	1.25	1.25	1.25

Economic forecasts

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
GDP (% qoq)	-1.6	-19.0	17.5	-0.5	2.0	1.0	1.0	1.0	1.0
GDP (% yoy)	-0.2	-19.3	-5.9	-6.8	-3.4	20.4	3.5	5.1	4.1
CPI (% qoq)	0.8	-0.4	0.1	-0.1	0.5	0.3	0.2	-0.1	0.3
CPI (% yoy)	2.5	1.6	1.0	0.4	0.1	0.8	0.9	0.9	0.8
Employment (% qoq)	0.7	-6.0	-1.9	1.5	1.0	0.7	0.9	0.9	0.9
Employment (% yoy)	1.6	-5.1	-7.1	-5.8	-5.5	1.3	4.2	3.5	3.4
Unemployment Rate (% sa)	4.2	7.6	10.0	9.7	9.3	9.2	8.9	8.4	8.0

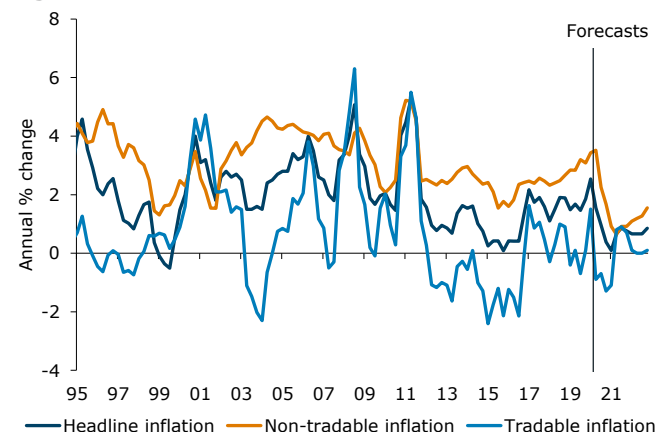
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. ANZ forecasts and RBNZ scenarios



Source: Statistics NZ, RBNZ, ANZ Research

Figure 4. Inflation



Source: Statistics NZ, ANZ Research



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