

New Zealand Weekly Data Wrap

24 July 2020



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- [ANZ NZ Economic Outlook – Finding our way](#)
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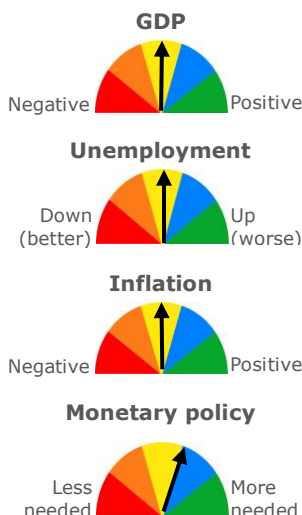
What's the view?

- 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

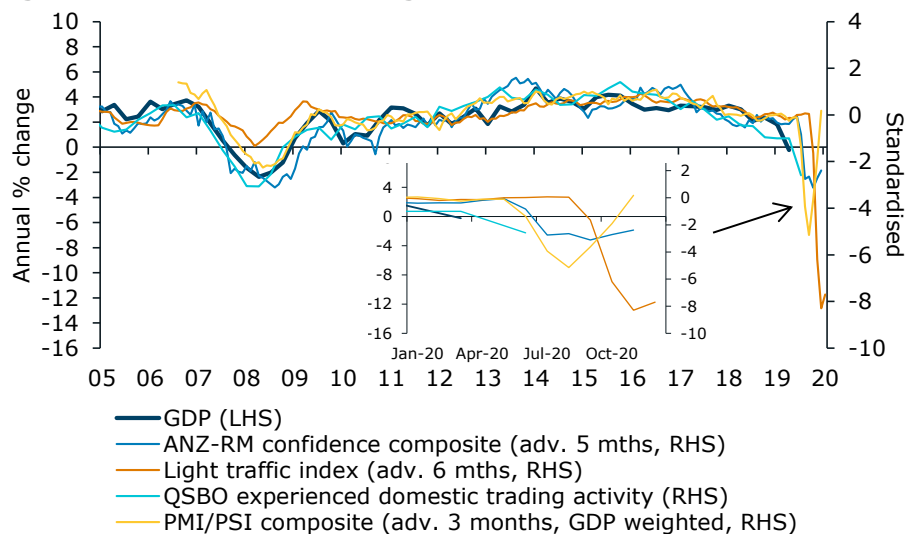
Risks remain skewed to the downside.



How has the view changed?

- The post-lockdown bounce in high-frequency indicators continues, including a strong pick-up in the PMI and PSI data. In isolation, these point to a vigorous bounce in near-term GDP, but there are some conflicting messages when the full suite of economic indicators is considered together.
- The housing market has also seen a bounce as lockdown has ended, due partly to low mortgage rates and temporary supports. **We expect** that house prices will fall 5-10%, with a sharper correction now looking more avoidable.
- Commodity prices remain resilient and dairy returns are in a stronger position as new-season milk starts to flow, though we expect dairy prices to ease later in the season. We have upgraded **our farmgate milk** price forecast for the 2020-21 season to 6.50/kg/MS.
- The solid near-term bounce in activity, resilient commodity prices and a better housing outlook are helping to temper some of the downside risk we see to our forecasts. We now see risks to the GDP outlook as balanced, though the bands of uncertainty remain wide.

Figure 1. GDP and forward-looking indicators



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

What happened this week?

Performance Services Index – June. Bounced to 54.1 from 37.2.

RBNZ Credit Card Spending – June. Up 14% after a 54% rise in May, as the recovery from the lockdown collapse continues.

GlobalDairyTrade auction. Dropped just 0.7% after last month's 8.3% gain.

NZGB bond tender. \$950m of bonds, comprising 2023s, 2029s and 2033s. Demand was decent, with global yields falling, NZ bonds still cheap against swap, and demand for duration strong ahead of month-end index lengthening.

Merchandise Trade – June. As foretold by the higher-frequency data, NZ recorded another monthly trade surplus (\$426m) as exports remained robust (\$5.07bn) and imports soft (\$4.64bn). The annual deficit narrowed \$96m to \$1.196bn. This was sitting just under \$5bn a year ago.



Looking ahead



Recent Publications

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- ANZ NZ Insight: Exchange rate a headwind
- ANZ NZ Insight: Negative OCR – an introduction
- ANZ NZ Insight: Irrigation opportunities
- ANZ NZ Insight: More QE is on the way
- ANZ NZ Insight: Where to now with Quantitative Easing?

[Click here](#) for more.

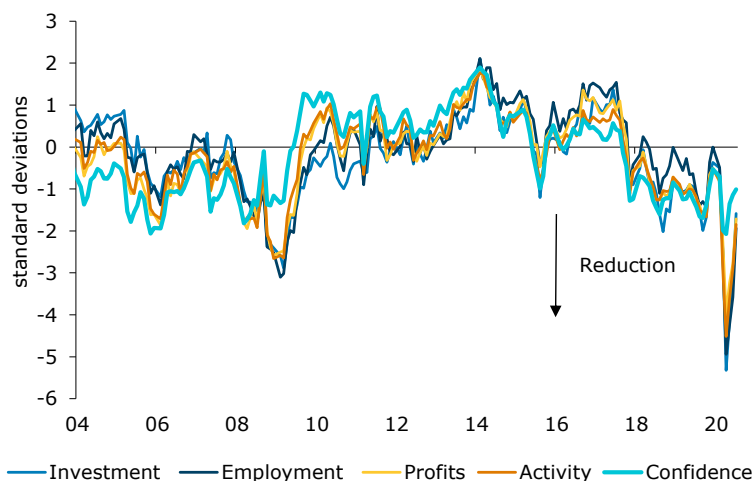
Data calendar

Date	Data/event
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
Fri 31 Jul (3:00pm)	RBNZ Sectoral Lending – Jun
Wed 5 Aug (early am)	GlobalDairyTrade auction
Wed 5 Aug (10:45am)	Labour Market – Q2
Wed 5 Aug (1:00pm)	ANZ Commodity Price Index – Jul
Thu 6 Aug (3:00pm)	RBNZ 2Yr Inflation Expectations – Q3
Mon 10 Aug (1:00pm)	ANZ Business Outlook – Aug P
Tues 11 Aug (10:00am)	ANZ Truckometer – Jul
Tue 11 Aug (10:45am)	Electronic Card Transactions – Jul
Wed 12 Aug (10:45am)	Net Migration – Jun
Wed 12 Aug (2:00pm)	RBNZ Monetary Policy Statement
Thu 13 Aug (10:45am)	Food Prices – Jul
Fri 14 Aug (10:30am)	BusinessNZ Manuf PMI – Jul
Mon 17 Aug (10:30am)	Performance Service Index – Jul

What are we watching?

Momentum in the economy is difficult to ascertain, being clouded by volatility, a post-lockdown spending flurry that is not expected to last, unusually strong domestic tourism in the quiet winter season, fiscal support, and business letting out a sigh of relief as activity has resumed. The closed border guarantees a weaker economic pulse, but it is possible that the recessionary impacts of the COVID-19 crisis take a little longer to become evident, with crunch time hitting for many businesses a little later in the year. The post-lockdown bounce will peter out; wage subsidies, income relief payments and mortgage deferment schemes will roll off; job losses will mount; the lack of international visitors will become more apparent as summer approaches; a weaker housing pulse will become evident; and softer underlying demand will become clear. Businesses are still wary of the outlook, with both expectation and intentions activity indicators still well below average. It's hard to argue prudence isn't justified in this uncertain environment, but if sustained, this will weigh on employment, investment, and have broader flow-on effects to the economy from there.

Figure 2. ANZ Business Outlook confidence, expectations and intentions (deviation from average)



Source: ANZ Research

The week ahead

RBNZ New Mortgage Lending – June (Friday 24 July, 3:00pm). The rebound started in May (with annual growth lifting from -49.6% in April to -33.3%) and looks set to continue, given the lift in the REINZ sales data.

Building consents – June (Thursday 30 July, 10:45am). Consents rebounded sharply last month as the backlog was processed, and there could still be a little more to come on that front. However, the fundamentals have changed and that should be reflected in a weaker trend in due course.

ANZ Business Outlook – July (Thursday 30 July, 1:00pm).

NZGB bond tender (Thursday 30 July, 2:05pm). \$850m of bonds scheduled to be issued, comprising 2025s (\$450m), 2031s (\$350m) and 2040s (\$50m).

ANZ Roy Morgan Consumer Confidence – July (Friday 31 July, 10:00am).

RBNZ sectoral lending data – June (Friday 31 July, 3:00pm). It's a bit of a mixed bag. Businesses are still working through their earlier working capital requirements; housing has remained supported; and agri credit has been trending lower. Meanwhile, the bank funding gap has closed with household deposits lifting sharply on the back of the wage subsidy, forced savings during lockdown, precautionary savings, and delayed and cancelled spending.



Markets and forecasts

Markets outlook

An abundance of liquidity and a reduction in bond market volatility are emerging as two key themes in global financial markets, and it is leading to ongoing USD weakness and a steady recovery in equity indices off earlier lows. There has been little progress containing COVID-19 globally and in the US, but markets have shrugged this off and are instead focusing on promising reports on the vaccine front. It's difficult to know where things will land, but markets appear more eager to embrace good news stories, "safe" in the knowledge that the central bank response will simply be to provide more liquidity. Against that backdrop, the NZD remains well bid on dips, and is performing better against the USD than other currencies. Locally, the bond market remains little heavy. Although reduced global bond market volatility has helped contain yields, significant bond issuance is now a permanent feature of the landscape here and the market is wary of it. Some respite will come as syndicated bond placements take a breather around the election, and we do expect the RBNZ to expand QE on August 12th. However, the market has to digest the tap of more 2027 bonds first (likely the first week of August), which will keep yields elevated for a little longer.



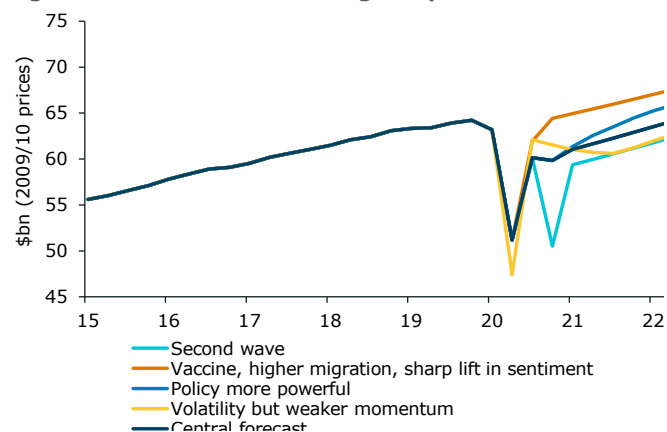
FX rates	Actual			Forecast (end month)					
	May-20	Jun-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.621	0.641	0.663	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.931	0.935	0.935	0.93	0.93	0.93	0.93	0.93	0.93
NZD/EUR	0.559	0.571	0.572	0.56	0.57	0.57	0.59	0.60	0.60
NZD/JPY	66.91	69.00	70.88	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	72.82	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	60	60	90	90	90	90	90	90
NZ 90 day bill	0.26	0.30	0.30	0.31	0.31	0.31	0.31	0.31	0.31
NZ 10-yr bond	0.82	0.93	0.83	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	-0.5	0.5	0.1	0.4	0.2	0.1	-0.1	0.4
CPI (% yoy)	2.5	1.5	1.3	0.9	0.5	1.1	0.8	0.6	0.6
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

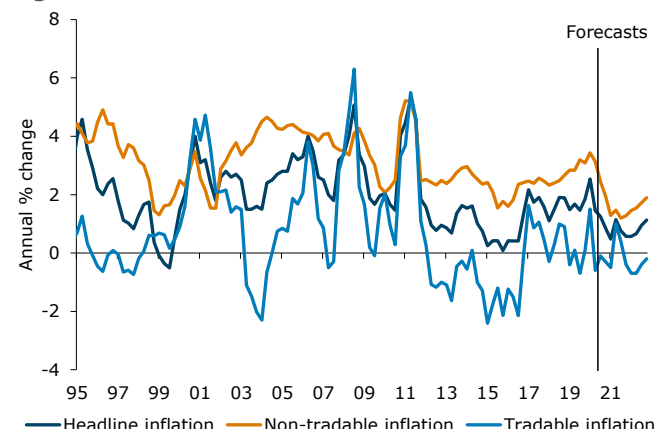
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP forecast and high-impact scenarios



Source: Statistics NZ, ANZ Research

Figure 4. Inflation



Source: Statistics NZ, ANZ Research



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