

New Zealand Weekly Data Wrap

31 July 2020



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- [ANZ NZ Economic Outlook – Finding our way](#)
- [Current account outlook](#)
- [Farmgate sheep & beef prices](#)
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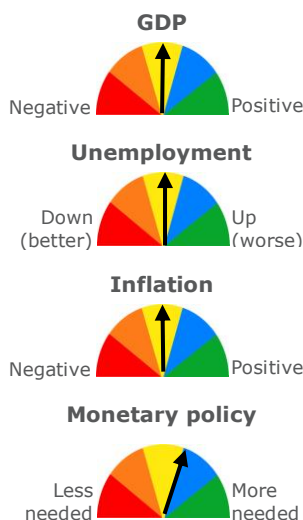
What's the view?

- GDP 5% below pre-COVID as we enter 2021.
- Unemployment peak: 10%.
- Inflation set to fall.
- QE to rise to \$90bn in August.

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

Balance of risks

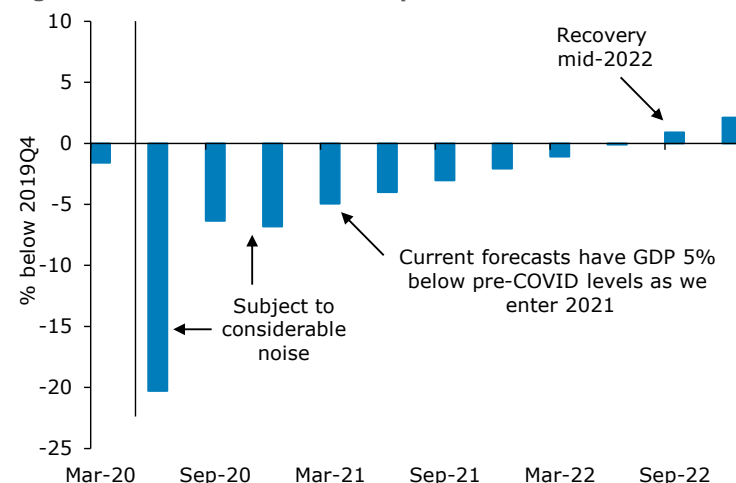
Risks remain skewed to the downside.



How has the view changed?

- Overall, we continue to see risks to our GDP forecasts as balanced – but timing matters a lot. There is a little upside risk to Q2/Q3 GDP, reflecting the recent bounce in activity. But this is being affected by volatility and timing effects, with the impact of this recession likely to be felt most **acutely as we enter the summer months**, when the trend is expected to become clear.
- Once the noise subsides, we expect that GDP will enter 2021 at 5% below pre-crisis levels. This view has not changed (with GDP in the 2020 year forecast to be 8% below 2019 levels). As the full brunt of the recession becomes more obvious in Q4, a double-dip recession is a non-trivial risk.
- Downside risks could see additional monetary policy tools deployed eventually, including a **negative OCR** next year, though QE remains the main game in town. The August MPS is shaping up to be a big event, with key decisions about the current QE programme expected, and more details on how the RBNZ is thinking about other tools should they be needed in time.

Figure 1. GDP % deviation from pre-COVID levels



Source: Statistics NZ, ANZ Research

What happened this week?

RBNZ New Mortgage Lending – June. 24% m/m bounce (though 13% below March levels), with a tick up in the share going to first home buyers.

Building consents – June. 0.5% m/m lift points to resilience, but multi-unit dwellings are providing a noisy boost and building tends to lag the cycle.

ANZ Business Outlook – July. The vigorous bounce out of lockdown **appears to be topping out**, with most activity indicators slipping slightly from their early-July preliminary reads, albeit still well up on June.

NZGB bond tender. \$850m of bonds, comprising 2025s, 2031s and 2040s. Demand was very strong, especially for the 2025s, with yields around +10bps over swap at the time. Demand for NZGBs and high-grade credit remains high and we expect the NZ yield curve to continue moving lower and flatter.

ANZ Roy Morgan Consumer Confidence – July. Confidence was practically unchanged at 104.3. Still well under its historical average but also well off its lows. **The signal for consumer spending is not good.**



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Insight: A straight-line recovery looks unlikely
- ANZ NZ Property Focus: Turn of the tide
- 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

Click [here](#) for more.

Data calendar

Date	Data/event
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
Wed 18 Aug (early am)	GlobalDairyTrade auction
Wed 19 Aug (10:45am)	PPI – Q2
Thu 20 Aug (1:00pm)	Pre-election Economic and Fiscal Update
Fri 21 Aug (3:00pm)	Credit Card Spending – Jul
Mon 24 Aug (10:45am)	Retail Sales – Q2
Wed 26 Aug (10:45am)	Merchandise Trade – Jul

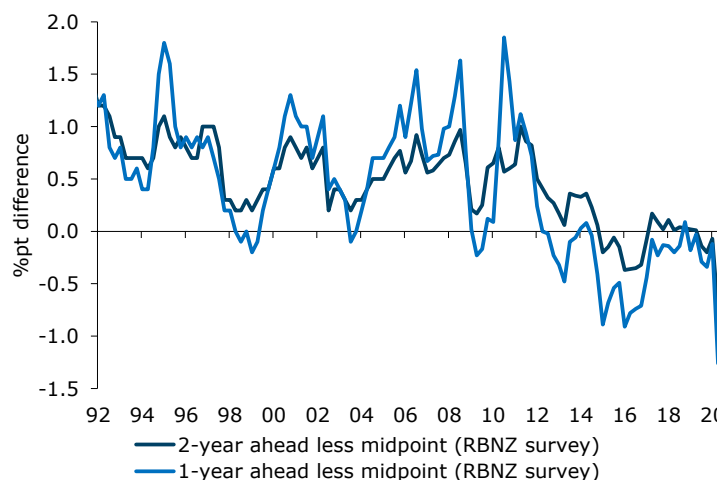
What are we watching?

The week ahead brings labour market data for Q2. Usually, this would get a lot of attention, but [this time](#) there is reason to discount it. Measurement issues are rife and the true extent of job losses will be understated, plus the full impact of the recession on the labour market is being delayed by temporary supports.

We may see a bounce in inflation expectations this week, but any improvement will be fragile, with inflation set to track below the target 1-3% range, slack in the economy opening up, weak imported inflation and the exchange rate providing an [unhelpful headwind](#). In fact, anything less than a material rebound should be quite concerning for the RBNZ, providing further incentive to keep the money printer pumping.

For the RBNZ, the path of least regrets is providing extra stimulus to shore against downside risks and ensure there is enough QE ammunition to last through what will be a sluggish recovery. However, a number of constraints and considerations need to be weighed up when deciding on the future path for QE, including the indemnity cap, duration of the programme, the pace and strategic approach to purchases, and communication to the market. We will have more to say early next week about the outlook for the QE programme and the various options the RBNZ will be weighing up ahead of the August MPS.

Figure 2. RBNZ inflation expectations less inflation target midpoint



Source: RBNZ, ANZ Research

The week ahead

GlobalDairyTrade auction (Wednesday 5 August July, early am).

Markets indicate a 3% fall in the GDT Price Index is likely as commodities give up a portion of recent gains.

Labour Market Statistics – Q2 (Wednesday 5 August, 10:45am).

Measurement issues mean these data will shed little light on how the labour market has fared. [We are picking](#) a lift in the unemployment rate to 5.7%, but this would understate true weakness.

ANZ Commodity Price Index – July (Wednesday 5 May, 1:00pm).

RBNZ Inflation Expectations Survey – Q3 (Thursday 6 August, 3:00pm). Q2 marked a record low. Q3 could see some rebound, but the overall read looks set to remain weak.



Markets and forecasts

Markets outlook

Global yield curves continue to grind lower and flatter as data falters and as the reality that policy rates will be low for an extraordinary period of time bites. US Federal Reserve Chairman Powell echoed an extremely dovish tone at this week's post-FOMC press conference, downplaying the recovery seen in recent activity data and emphasising that policy will remain accommodative until well beyond the recovery. The prospect of higher rates is years away, especially if the Fed moves to an inflation make-up or average inflation target strategy, as many expect. Against that backdrop, there is scope for the US yield curve to continue moving lower and flatter. We expect the RBNZ to echo an equally dovish tone at the August MPS, where we expect the LSAP to be increased to \$90bn, adding further pressure on the NZGB curve to go lower and flatter. The USD remains under pressure as the spread of COVID-19 accelerates and as markets eye the consequences of easy policy and abundant liquidity. The NZD hasn't capitalised on USD weakness as much as EUR and the other majors. While USD weakness will keep NZD/USD elevated, it faces its own headwinds, with negative rates and foreign purchases still on the table as unconventional policy options.



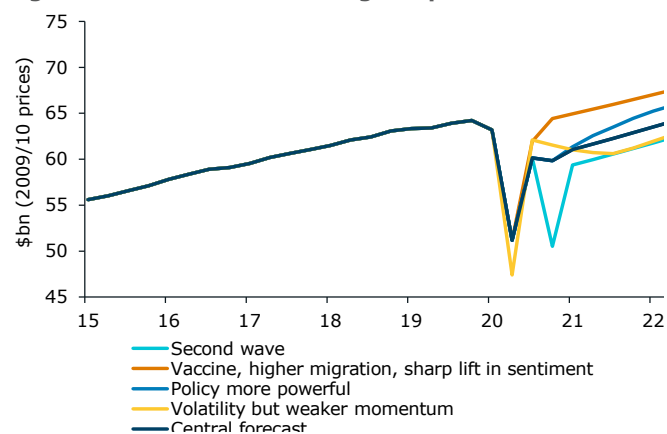
FX rates	Actual			Forecast (end month)					
	May-20	Jun-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.621	0.641	0.669	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.931	0.935	0.930	0.93	0.93	0.93	0.93	0.93	0.93
NZD/EUR	0.559	0.571	0.565	0.55	0.54	0.54	0.55	0.55	0.57
NZD/JPY	66.91	69.00	70.10	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.503	0.522	0.511	0.50	0.50	0.49	0.49	0.48	0.47
NZ\$ TWI	70.12	71.38	72.87	70.6	70.2	70.3	70.6	70.6	71.0
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	0.78	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	-3.2	-1.3	0.0	1.0	0.7	0.9	0.9	0.9
Employment (% yoy)	1.6	-2.3	-3.7	-3.8	-3.5	0.4	2.6	3.5	3.4
Unemployment Rate (% sa)	4.2	5.7	8.5	10.6	10.0	9.8	9.4	8.9	8.2

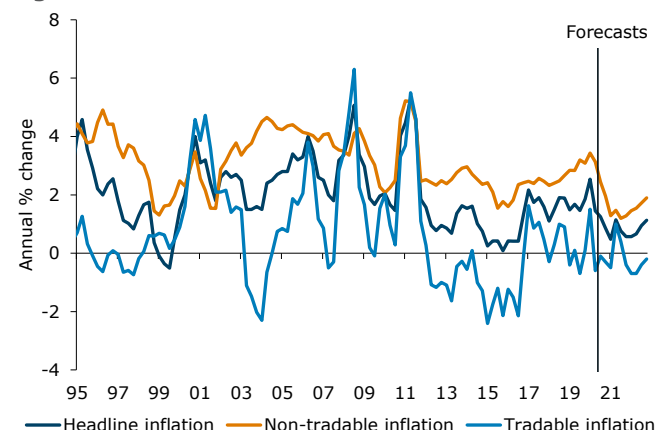
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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