

New Zealand Weekly Data Wrap

7 August 2020



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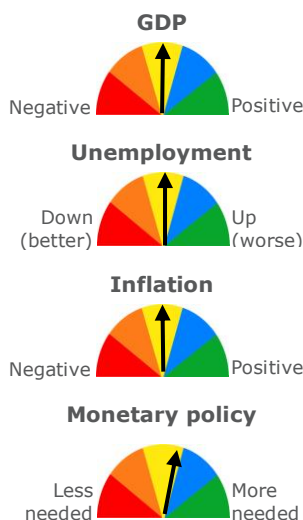
What's the view?

- 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

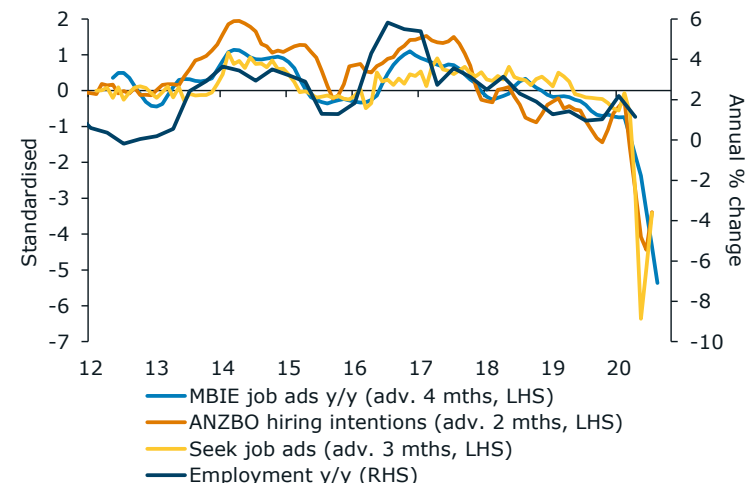
Risks remain skewed to the downside.



How has the view changed?

- We continue to expect that **the RBNZ will** expand the LSAP programme (QE) to \$90bn at the August MPS. Relative to a couple of months ago, there is a slightly greater chance that we see a smaller increase than this, on the back of stronger data, with an increase to \$75bn the most likely alternative.
- But the RBNZ's decision regarding QE is complicated and recent data flow is only one factor to consider. We are **cautious about the outlook** and think the RBNZ will be too, and there are **technical reasons** why staying pat at \$60bn is unlikely, even if the RBNZ would prefer to wait and see.
- Weighing up a number of considerations, moving to a \$90bn programme over 18 months achieves the best balance. It acknowledges medium-term challenges ahead, maintains the current pace of purchases, provides firepower to support the recovery, and addresses concerns about purchases ending, without creating distortions. Arguably, however, the more important outcome next week will be the RBNZ's thinking about other policy options (see 'What are we watching?', page 2)
- This week's labour market data did not change our view. The unexpected decline in the unemployment rate is mystifying, but there are very **clear reasons** to discount it, due to measurement difficulties and the wage subsidy bolstering the figures. Policymakers should be focused on what happens next (figure 1). Job losses are set to rise rapidly, and keeping these at a minimum should be a clear priority.

Figure 1. Employment and forward-looking indicators



Source: Statistics NZ, MBIE, Seek, ANZ Research

What happened this week?

GlobalDairyTrade auction. Fell 5.1%, which was more than expected.

Labour Market Statistics – Q2. Unemployment fell but it's not a true reflection of market conditions, with **weakness emerging** and set to increase.

ANZ Commodity Price Index – July. **Gained** 2.3% on strength in dairy.

RBNZ Inflation Expectations Survey – Q3. Lifted off record lows, but with the 2-year ahead measure at 1.43% (still historically low) the RBNZ should be concerned.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Agri Focus: All that glitters is gold
- 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

Click [here](#) for more.

Data calendar

Date	Data/event
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 (09:00am)	REINZ House Prices - Jul
Thu 13 Aug (10:45am)	Food Prices – Jul
Thu 13 Aug (10:45am)	Rental Price Index – 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
Fri 28 Aug (10:00am)	ANZ Consumer Confidence – Jul
Mon 31 Aug (1:00pm)	ANZ Business Outlook – Aug F
Tue 1 Sep (10:45am)	Terms of Trade – Q2

What are we watching?

The key focus is the MPS next week, which should provide clarity in a number of areas (figure 2). There is some uncertainty about where the RBNZ will land on QE, but the greatest room for surprise is likely to be what the RBNZ says on other unconventional monetary policy tools. We expect that the RBNZ will **keep its options open**, with a negative OCR and foreign asset purchases on the table, reaffirming market expectations that a **negative OCR** next year is a non-trivial possibility (with 25bps priced in by mid-2021), and keeping a lid on the **elevated exchange rate**. A move to a tactical approach to weekly purchases, while not expected, would also be helpful to get the most impact out of the current QE programme, and could shake up the bond market. The RBNZ's decision and commentary will inform our thinking about the policy outlook should downside risks materialise, and it is hard to know exactly what criteria they will settle on for deployment. We await the Statement with an open mind.

Figure 2. A number of questions to be answered at the RBNZ MPS

How will the RBNZ weigh up the outlook?	We see a dovish tone, balancing some positive data with the grim outlook ahead
What will the RBNZ decide for size and length of the QE programme?	It is quite complicated, but we see an increase to \$90bn over 18 months.
Will the approach to QE change?	Probably not, but we think a more tactical approach to purchases would be good.
What will they say about other monetary policy tools?	Expect an open mind, with options on the table, and more practical details.
Will they actually deploy these tools?	There are reasons to be cautious, but if the outlook deteriorates, absolutely.

Source: ANZ Research

The week ahead

ANZ Business Outlook Flash – August (Monday 10 August, 1:00pm).

ANZ Truckometer – July (Tuesday 11 August, 10:00am).

Electronic Card Transactions – July (Tuesday 11 August, 10:45am). The rebound looks set to stabilise.

Net Migration – June (Wednesday 12 August, 10:45am). Arrivals remain capped by quarantine capacity. This is less of an issue for departures of temporary visa holders.

RBNZ Monetary Policy Statement – May (Wednesday 12 August, 2:00pm). LSAP increased to \$90bn over 18mth. See our [preview](#).

REINZ House Sales – July (Thursday 13 August, 9:00am). The housing market remained supported in June, but the medium-term picture is a worry.

Food Prices – July (Thursday 13 August, 10:45am). July usually brings a monthly lift of around 0.5-1% on the back of seasonally higher fruit and veg prices. However, imports should be subdued thanks to the elevated NZD.

Rental Price Index – July (Thursday 13 August, 10:45am). Slow moving, but should moderate.

BNZ-Business NZ Manufacturing PMI - July (Friday 14 August, 10:30am). The headline reads in June were strong, but with employment lagging behind you have to ask how long that will last – another month perhaps, maybe two?



Markets and forecasts

Markets outlook

Better than expected Q2 employment data and improving risk sentiment have seen the NZGB yield curve steepen and the NZD appreciate as the market has gravitated towards the view that the RBNZ will leave the LSAP unchanged next week. We think it would be a mistake to expect Wednesday's labour market data to lead to a dialling back in dovish rhetoric. Doing so risks a knee-jerk rally in the NZD and a steeper yield curve, undoing the easing to date. Without doubt, deliberations will be difficult and any decision around the size of the LSAP is complicated, mostly thanks to the small size of the local bond market, which is also a factor necessitating keeping other unconventional options on the table. Until now, the main policy signal has been the size of the LSAP, with forward guidance provided by the timeframe of purchases, and we think it makes sense to increase both. From current levels, an outcome along the lines of what we expect is likely to see the NZD soften, and the NZGB curve to move lower and flatter. Ahead of this and in the wake of the Fed's softer rhetoric, we have downgraded our NZ 10yr bond forecasts a touch.



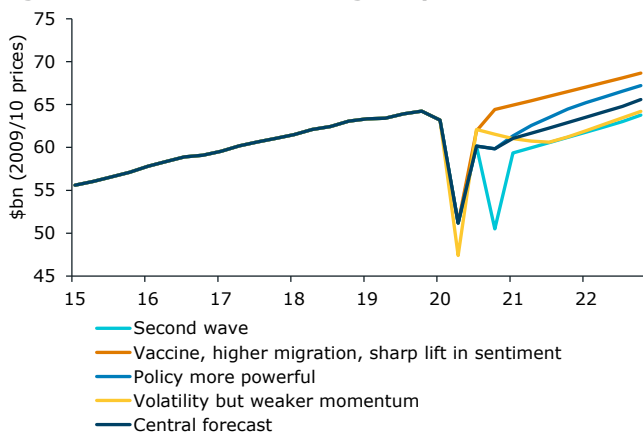
FX rates	Actual			Forecast (end month)					
	Jun-20	Jul-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.641	0.663	0.668	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.935	0.928	0.924	0.93	0.93	0.93	0.93	0.93	0.93
NZD/EUR	0.571	0.563	0.563	0.55	0.54	0.54	0.55	0.55	0.57
NZD/JPY	69.00	70.15	70.55	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.522	0.507	0.509	0.50	0.50	0.49	0.49	0.48	0.47
NZ\$ TWI	71.38	72.47	72.49	71.3	70.9	71.1	71.4	71.3	71.7
Interest rates/QE	Jun-20	Jul-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)	60	60	60	90	90	90	90	90	90
NZ 90 day bill	0.30	0.30	0.30	0.28	0.27	0.27	0.27	0.27	0.27
NZ 10-yr bond	0.93	0.74	0.77	0.65	0.50	0.60	0.65	0.75	0.75

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	-0.4	-1.2	-2.0	-1.0	0.7	0.9	1.0	1.0
Employment (% yoy)	1.6	1.2	-0.5	-2.6	-4.5	-3.5	-1.4	1.6	3.6
Unemployment Rate (% sa)	4.2	4.0	6.5	8.5	9.8	9.6	9.2	8.5	7.8

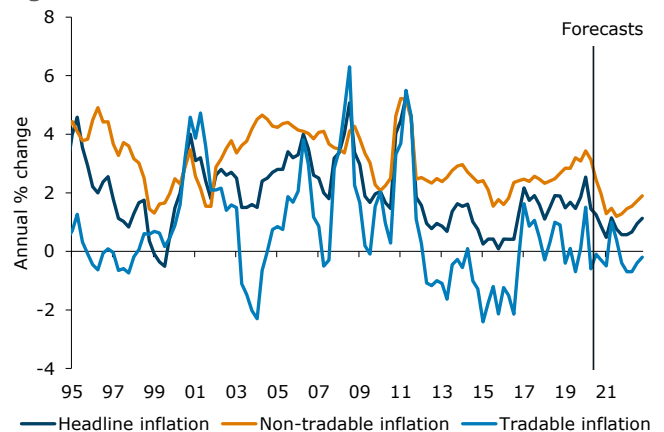
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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