

New Zealand Weekly Data Wrap

28 August 2020



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See [page 4](#).

Forecast updates

Recent ANZ NZ Forecast Updates can be found [here](#).

- [GDP and labour market: Renewed restrictions will hamper recovery](#)
- [Current account outlook](#)
- [Farmgate sheep & beef prices](#)
- [Farmgate milk price](#)

Our other recent publications are on [page 2](#).

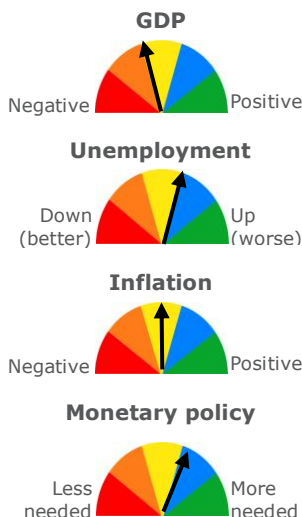
What's the view?

- GDP to remain below pre-COVID level until 2022.
- Unemployment peak: 10%.
- Inflation set to fall.
- Risks are to the downside.
- We see a negative OCR in April next year.

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

Balance of risks

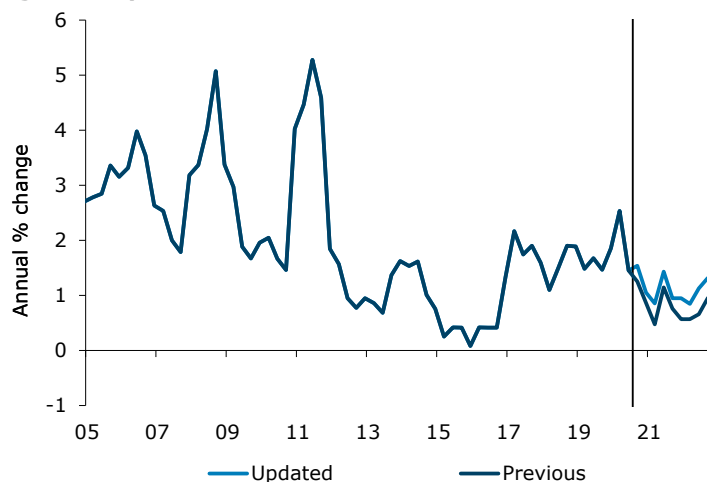
Risks remain skewed to the downside.



How has the view changed?

- We have updated our inflation forecasts following updates to [GDP and the labour market](#). With more QE on the way and the OCR expected to go negative next year, we now see a stronger economic recovery through 2022, supporting a better outlook for non-tradable inflation. Stronger world import prices also contribute to a better outlook for tradable inflation.
- Near-term data flow has also seen us revise up our inflation pick for Q3 2020 from 0.5% q/q to 0.8%, which would see annual inflation stable at 1.5%. However, there is more data to come that will shape this pick.
- In an absolute sense the inflation outlook is still very weak, even with more stimulus on the way. Inflation is expected to start creeping higher as recovery eventually takes hold, but slack in the economy is expected for some time and the elevated TWI will weigh. We see CPI reaching 1.4% y/y by end-2022, still well below the 1-3% target midpoint.
- We see risks to the inflation outlook in both directions: downside risks to the activity outlook could weigh, but if the RBNZ can generate a sharp depreciation in the TWI with further policy action, that would see a welcome stronger pick-up in inflation from here. But for now, the exchange rate remains resilient. World prices for our imports will also be important.

Figure 1. Updated ANZ inflation forecast



Source: Stats NZ, ANZ Research

What happened this week?

Retail Trade Survey – Q2. Down 14.6% q/q overall, with accommodation and food and beverage services down almost 40% q/q.

Overseas Merchandise Trade – July. The annual deficit continued to narrow on the back of robust exports and weak imports. A surplus shouldn't be far off.

RBNZ new mortgage lending data – July. Strong for a July month, with the first-home buyer share lifting. Pent-up demand is still a factor.

NZGB issuance and QE. The Treasury issued \$4bn of NZGB 2027 bonds. The deal attracted a record \$17.5bn of bids and was very well received. In the QE space, the RBNZ will buy \$1.4bn of bonds next week (the same as this week).

ANZ Roy Morgan Consumer Confidence– August. [Consumer confidence](#) eased, and is well under its historical average.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Insight: Freshwater regulatory change
- ANZ NZ Property Focus: Locked out
- NZ OCR call change: RBNZ to cut OCR 50bp to -0.25% in April
- ANZ NZ Agri Focus: All that glitters is gold
- ANZ NZ Insight: A straight-line recovery looks unlikely
- ANZ NZ Insight: Exchange rate a headwind
- ANZ NZ Insight: Negative OCR – an introduction

[Click here for more.](#)

Data calendar

Date	Data/event
Mon 31 Aug (1:00pm)	ANZ Business Outlook – Aug F
Mon 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Tue 1 Sep (10:45am)	Terms of Trade – Q2
Tue 1 Sep (10:45am)	Building Permits – Jul
Wed 2 Sep (early am)	GlobalDairyTrade auction
Thu 3 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Fri 4 Sep (10:45am)	Building Work Put in Place – Q2
Wed 9 Sep (10:00am)	ANZ Truckometer – Jul
Wed 9 Sep (10:45am)	Economic Survey of Manuf – Q2
Wed 9 Sep (1:00pm)	ANZ Business Outlook – Sep P
Thu 10 Sep (10:45am)	Electronic Card Transactions – Aug
Fri 11 Sep (10:45am)	Food Price Index – Aug
Fri 11 Sep (10:45am)	Rental Price Index – Aug
Mon 14 Sep (10:30am)	Performance Services Index Aug
Mon 14 Sep (10:45am)	Net Migration - Jul
Wed 16 Sep (10:45am)	Balance of Payments – Q2
Wed 16 Sep (1:00pm)	PREFU 2020

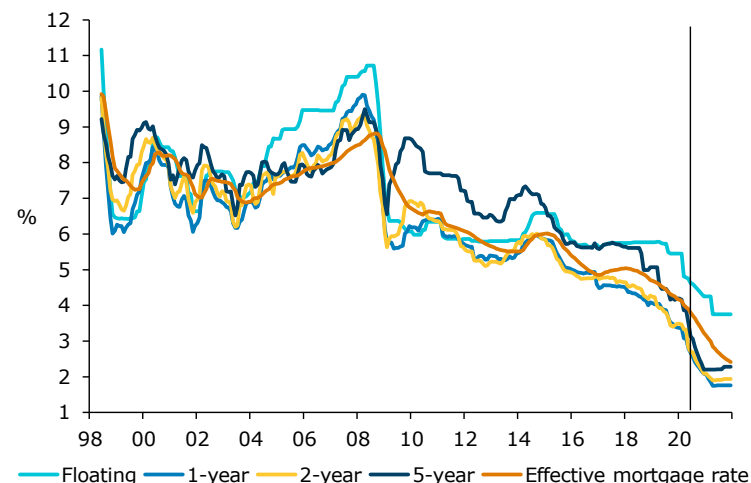
What are we watching?

The partial data for Q2 GDP continue to roll in, but that's a glimpse of a point in time that's firmly in the rear-view mirror. The path forward in terms of combatting the current outbreak and returning to life as normal will be far more important, as will the policy response as firms come under more strain.

The widespread expectation that the RBNZ will take the OCR negative next year, and a more tactical approach to the LSAP (QE), will continue to put downward pressure on wholesale interest rates. Eventually, this is expected to pass through into lower retail rates, especially if the RBNZ pulls the trigger in April next year as we expect. Our updated mortgage rate forecasts were included in our [ANZ Property Focus](#) out this week. This will bode well for the property market, offsetting income strains that are set to weigh.

Globally, the data has been better than expected given the current global shock underway, but the path ahead looks to be a long and difficult one, and our commodity prices have started to falter. However, dairy prices are anticipated to break the recent downward trend at next week's GDT event. The dairy market continues to be supported by strong buying from China, while the US internal market has been pushed up by a recent expansion of the government programme to purchase dairy products for the needy.

Figure 2. Mortgage rate forecasts



Source: RBNZ, ANZ Research

The week ahead

ANZ Business Outlook – August (Monday 31 August, 1:00pm).

RBNZ sectoral lending data – July (Monday 31 August, 3:00pm). Housing lending likely to accelerate, but beyond that credit demand isn't strong.

Overseas Trade Indices – Q2 (Tuesday 1 September, 10:45am). Both export and import prices are expected to fall around 2.5% q/q, with the terms of trade broadly stable.

Building consents – July (Tuesday 1 September, 10:45am). Stabilised in June and that should continue into July, but these data can be volatile.

GlobalDairyTrade auction (Wednesday 2 September, early am). Prices are expected to firm by about 1% but may be tempered by higher offer volumes.

ANZ Commodity Price Index – August (Thursday 3 September, 1:00pm).

Work Put in Place – Q2 (Friday 4 September, 10:45am). These data provide an indicator for around 6.5% of Q2 GDP. Just a few days of lockdown in Q1 saw the volume fall 5.7% q/q. We expect a fall closer to 20% in Q2.



Markets and forecasts

Markets outlook

Global bond markets ended the week on the back foot, with the bellwether US Treasury yield curve higher and steeper in the wake of the Fed's announcement that it will move to an average inflation targeting strategy. Although at face value it may appear to be a minor tweak, it does mean that if inflation runs *below* 2% for a long period, that will be followed by a period when the Fed will set policy to achieve inflation moderately *above* 2%. At the moment, core inflation is below target (and it has been since the end of 2018), so what that means is that the Fed will keep policy easier for longer, and until well after the recovery. That's generally considered to be good news for equities and other markets that benefit from inflation, but it's bad news for bonds, hence the steeper US curve. However, with the Fed Funds rate at 0.25% and the US 10yr bond back above 0.75%, it remains to be seen whether the market can sustain yields that high if the Fed Funds rate is set to remain at 0.25% for some years to come. Local interest rates have risen in response, but we expect them to rise by less as the market eyes a negative OCR, and as the RBNZ flexes the size of the LSAP QE programme. The Fed's new stance does frustrate the outlook for the NZD somewhat, with easier Fed policy going head to head with RBNZ policy implying a more neutral outlook.



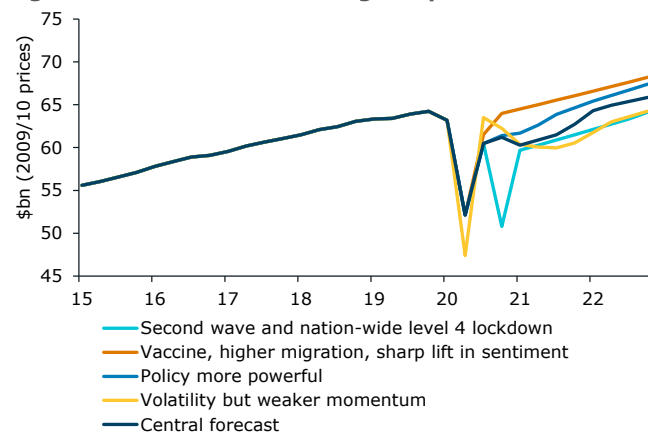
FX rates	Actual					Forecast (end month)			
	Jun-20	Jul-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.641	0.663	0.665	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.935	0.928	0.914	0.93	0.89	0.87	0.87	0.87	0.87
NZD/EUR	0.571	0.563	0.562	0.55	0.54	0.54	0.55	0.55	0.57
NZD/JPY	69.0	70.1	71.0	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.522	0.507	0.503	0.50	0.50	0.49	0.49	0.48	0.47
NZ\$ TWI	71.4	72.5	71.9	71.3	70.3	70.0	70.3	70.3	70.7
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	100	100	120	120	120	120	120
NZ 90 day bill	0.30	0.30	0.29	0.26	0.25	-0.08	-0.25	-0.25	-0.25
NZ 10-yr bond	0.93	0.74	0.63	0.40	0.30	0.30	0.30	0.40	0.40

Economic forecasts

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
GDP (% qoq)	-1.6	-17.5	16.0	1.2	-1.5	1.0	1.0	2.0	2.5
GDP (% yoy)	-0.2	-17.8	-5.4	-4.7	-4.6	16.8	1.7	2.5	6.7
CPI (% qoq)	0.8	-0.5	0.8	0.0	0.6	0.1	0.3	0.0	0.5
CPI (% yoy)	2.5	1.5	1.5	1.1	0.9	1.4	0.9	0.9	0.8
Employment (% qoq)	1.0	-0.4	-1.2	-1.5	-0.5	-0.5	0.9	1.2	1.4
Employment (% yoy)	2.2	1.2	-0.5	-2.1	-3.6	-3.7	-1.6	1.1	3.0
Unemployment Rate (% sa)	4.2	4.0	6.5	8.0	8.8	9.8	9.3	8.5	7.4

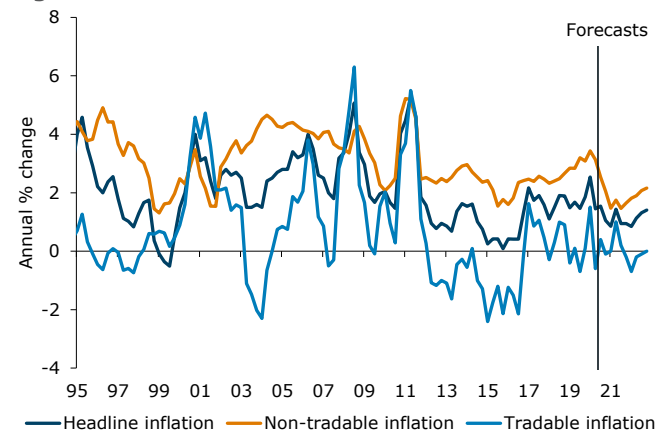
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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