

New Zealand Weekly Data Wrap

4 September 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](#).

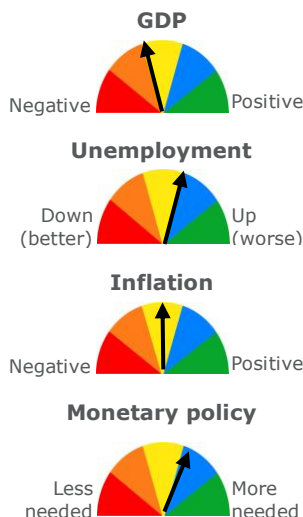
What's the view?

- 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

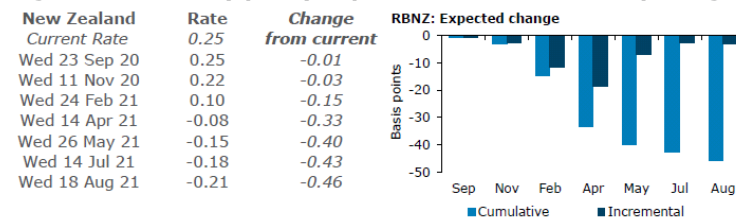
Risks remain skewed to the downside.



How has the view changed?

- RBNZ Governor Orr's speech was as expected, reiterating previous messaging. However, we consider two aspects worth emphasising, as they underscore key elements of [our view](#).
- The first was Orr's reference to wanting to see interest rates lower than they are now. That reinforces our expectation that monetary conditions will keep easing; a [negative OCR](#) and Funding for Lending Scheme are expected next year but the RBNZ will not be complacent in the meantime. We think the MPC will flex its tactical approach to the LSAP in September, directing staff to ramp up purchases with an LSAP expansion in November to \$120bn.
- The second key element was Orr reinforcing the RBNZ's forward guidance that the OCR would be on hold at 0.25% "for at least a year", following its commitment in March. Some have speculated that the RBNZ might drop this guidance, with this risk currently reflected in market pricing. But we see the RBNZ as very committed to its guidance and, as such, we do not expect an OCR cut until April, though the RBNZ may choose to foreshadow or commit to it sooner than that.
- Why not go sooner if more stimulus is needed? The RBNZ is playing the long game. If they renege on their guidance now, who's to say they won't do the same again? Reneging could jeopardise the RBNZ's future ability to provide trusted guidance that shapes market pricing and inflation expectations down the track (eg to stem an increase in yields). February or April might seem neither here nor there, but in terms of credibility it is paramount.

Figure 1. Monetary policy expectations from market pricing



Source: Bloomberg, ANZ Research

What happened this week?

ANZ Business Outlook – August. Deteriorated a little from July, but was actually pretty resilient through the month, given the renewed lockdown.

RBNZ sectoral lending – July. Firms not borrowing but their deposits surged.

Building consents – July. Down 4.5% but still at high levels.

GlobalDairyTrade auction. Dipped 1% to be down 8% since early July.

Overseas Trade Indices – Q2. Terms of trade up 2.5% – more than expected.

Speech by RBNZ Governor Orr. An [outline](#) of the monetary policy response to the COVID-19 crisis, reiterating previous messaging.

ANZ Commodity Price Index – August. The [World Commodity Price Index](#) fell 0.9% in August as dairy prices start to weaken.

Work Put in Place – Q2. Down 22.4% q/q. These data provide a steer on around 6.5% of GDP. We'll firm up our Q2 GDP pick next week.

Week-ahead LSAP schedule. The RBNZ left the pace of QE bond purchases next week unchanged at \$1.4bn. We thought there were grounds for an increase, but the steady pace gives NZGB curve less reason to flatten near term.



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.

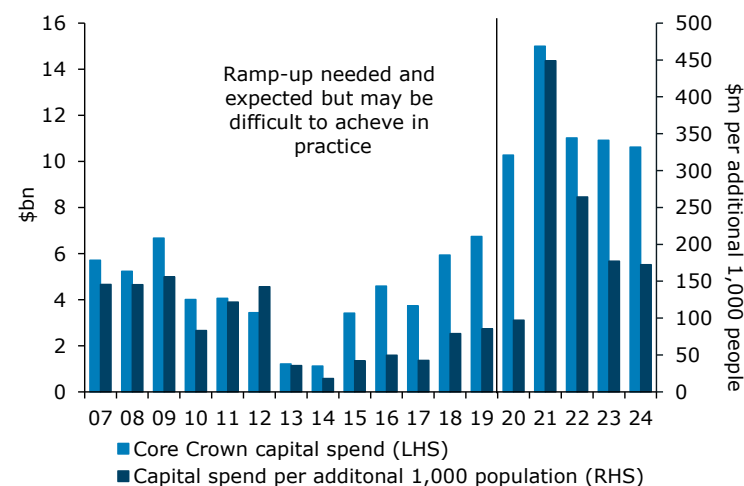
Data calendar

Date	Data/event
Wed 9 Sep (10:00am)	ANZ Truckometer – Aug
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 (10:30am)	BusinessNZ Manuf PMI – 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
Thu 17 Sep (10:45am)	GDP – Q2
Mon 21 Sep (3:00pm)	RBNZ Credit Card Spending – Aug
Wed 23 Sep (2:00pm)	RBNZ OCR
Thu 24 Sep (10:45am)	Merchandise Trade –Aug
Thu 24 Sep (3:00pm)	RBNZ New Mortgage Lending – Aug

What are we watching?

We will be firming up our views on Q2 GDP next week, along with our expectations for the Pre-Election Economic and Fiscal Update. The fiscal response to the COVID crisis has been substantial to date, reflecting the enormous cost of policies like the wage subsidy. But to wean business off that support and shore up the recovery, a different tack will be needed; fiscal policy will need to pivot to growth-supporting initiatives that boost jobs and productivity, which could entail spending, regulatory changes, and/or tax adjustments. On capital spending, we have seen some projects come out of the COVID relief fund and more are expected, but making capital spending plans a growth-enhancing reality can be challenging – and slow – at the best of times. One difficulty is finding quality projects that are ready to go. But with an infrastructure deficit having built up due to strong population growth, there will be good opportunities out there, even if they take some time to plan and implement. The economy is going to need all the help it can get – and the sooner the better – to plug the gap as the full **impact of the closed border becomes evident** later this year.

Figure 2. Net core Crown capital spending (Budget 2020)



Source: The Treasury, ANZ Research

The week ahead

ANZ Truckometer – August (Wednesday 9 September, 10:00am).

Economic Survey of Manufacturing – Q2 (Wednesday 9 September, 10:45am). Food and beverage manufacturing should hold up relatively well, but lockdown restrictions will weigh. This is the last of the Q2 GDP partial indicators.

ANZ Business Outlook Flash – September (Wednesday 9 September, 1:00pm).

Electronic Card Transactions – August (Thursday 10 September, 10:45am). Renewed lockdown restrictions will weigh.

Food Prices – August (Friday 11 September, 10:45am). August can be a bit of a mixed bag for food prices. We've pencilled in a small dip (around 0.5% m/m), given July's solid rise (1.4%).

Rental Price Index – August (Friday 11 September, 10:45am). Rental inflation has been holding up despite rent freezes.

REINZ House Sales – August (10-17 September). More resilience likely given low inventory, though we expect to see a wobble in the summer months.



Markets and forecasts

Markets outlook

Global bond markets regained their composure this week, with the yield on the bellwether US 10yr Treasury note falling steadily as the week progressed, and as the US equity market rally took a breather. As we noted last week, the Fed's newly adopted average inflation targeting strategy does speak to higher tolerance for inflation, which will eventually be detrimental to bond markets, but the pursuit of that goal involves keeping the Fed Funds rate lower for a lot longer, and that's a crucial consideration for bond holders. Enthusiasm over the prospect of a RBNZ OCR cut earlier than March has seen short end bond and swap yields plumb new lows. While we do see scope for some disappointment going into the September MPR on the expectation that the RBNZ re-emphasises its earlier forward guidance, short end rates are nonetheless on a gradual downward trajectory. However, confidence is lacking at the longer end of the curve amid mixed demand for 9-13yr NZGBs at tender, and market disappointment in the lack of an increase in the pace of RBNZ bond purchases this week and next, which has happened despite the forecast fall in settlement cash, steeper curve and higher NZD. Given the trend weakening in the USD and the higher and steeper NZGB curve, further NZD strength cannot be ruled out ahead of the RBNZ actually taking the OCR negative next year.



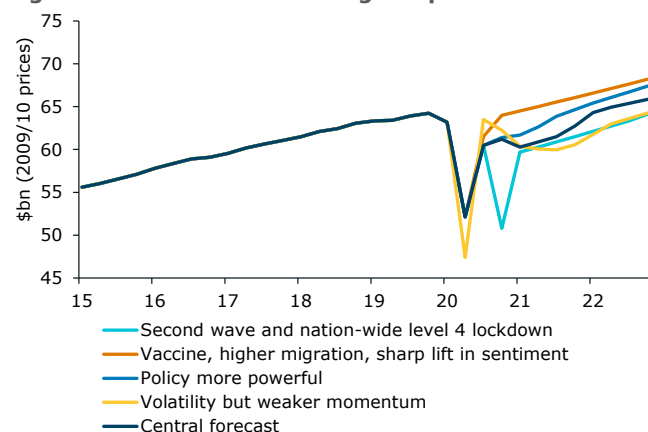
FX rates	Actual					Forecast (end month)			
	Jul-20	Aug-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.663	0.673	0.671	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.928	0.915	0.922	0.93	0.89	0.87	0.87	0.87	0.87
NZD/EUR	0.563	0.565	0.566	0.55	0.54	0.54	0.55	0.55	0.57
NZD/JPY	70.1	71.3	71.2	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.507	0.505	0.505	0.50	0.50	0.49	0.49	0.48	0.47
NZ\$ TWI	72.5	72.4	72.4	71.3	70.3	70.0	70.3	70.3	70.7
Interest rates/QE	Jul-20	Aug-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	100	100	100	120	120	120	120	120
NZ 90 day bill	0.30	0.29	0.30	0.26	0.25	-0.08	-0.25	-0.25	-0.25
NZ 10-yr bond	0.74	0.63	0.60	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

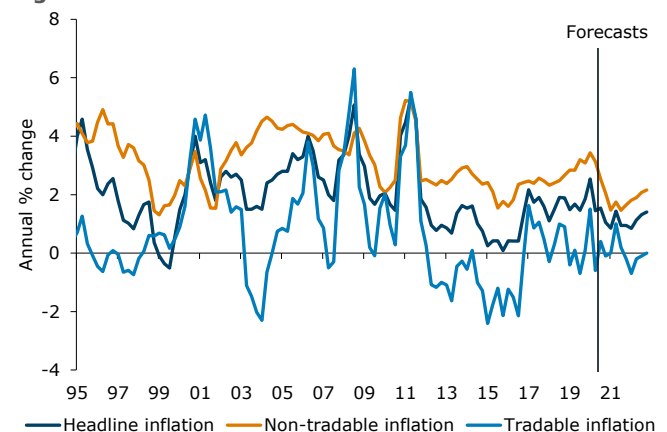
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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