

New Zealand Weekly Data Wrap

11 September 2020



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See [page 4](#).

Forecast updates

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

- [GDP 2020Q2 Preview](#)
- [GDP and labour market: Renewed restrictions will hamper recovery](#)
- [Current account outlook](#)
- [Farmgate sheep & beef prices](#)

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

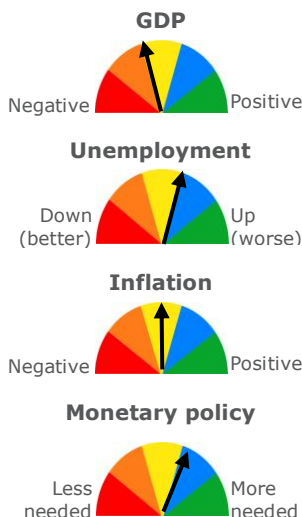
What's the view?

- 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

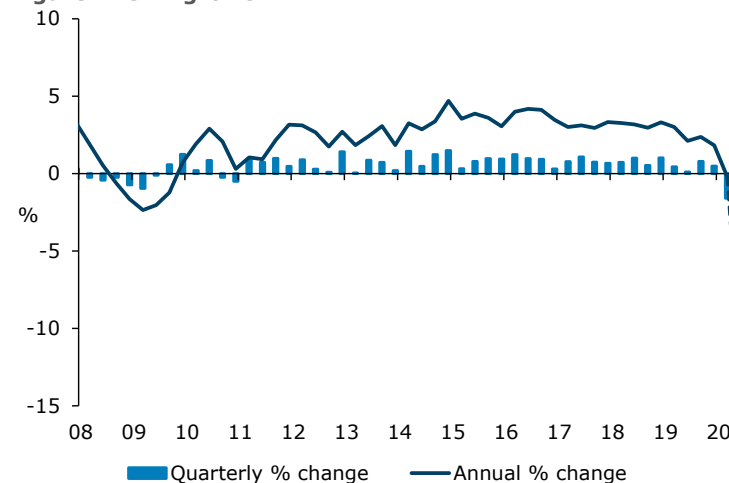
Risks remain skewed to the downside.



How has the view changed?

- We have updated [our expectations](#) for Q2 GDP out next week and now expect a fall of -12% q/q, rather than -17.5%. That's a big change, but it largely reflects a paucity of reliable data, rather than a change in our fundamental view. With the data noisy, policymakers are expected to largely look through it.
- Our medium-term view remains broadly unchanged, with the lesser forecast fall in Q2 meaning the rebound in Q3 will be smaller too. For Q3, we are now pencilling in a bounce of 8.5%, rather than 16%. This includes an expectation that renewed restrictions will weigh on activity.
- Further out, we continue to believe that the economy will undergo a serious test as we enter the summer months, with the [impacts of a closed border](#) becoming more evident and the economy coming off fiscal life support.
- The housing market remains resilient – and [that's a good thing](#). House price falls often happen in downturns and their implications can be severe. However, we still expect to see a wobble into next year.

Figure 1. GDP growth



Source: Statistics NZ, ANZ Research

What happened this week?

ANZ Truckometer – August. The [Light Traffic Index](#) fell 13.1%, while the Heavy Traffic fell 6.5% as renewed restrictions weighed.

Economic Survey of Manufacturing – Q2. Volumes fell 12.2% q/q.

ANZ Business Outlook Flash – September. [Improved](#). Firms appear to be largely looking through the re-emergence of COVID-19 in the community.

Electronic Card Transactions – August. Down 7% m/m reflecting renewed restrictions.

Food Prices – August. Up 0.7% m/m, a touch stronger than we expected.

Rental Price Index – August. Remained resilient, up 0.2% m/m.

REINZ House Sales – August. The housing market remained resilient, with prices up and tightness continuing. But challenges remain.

Week-ahead LSAP schedule. The RBNZ left the pace of QE bond purchases next week unchanged.



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

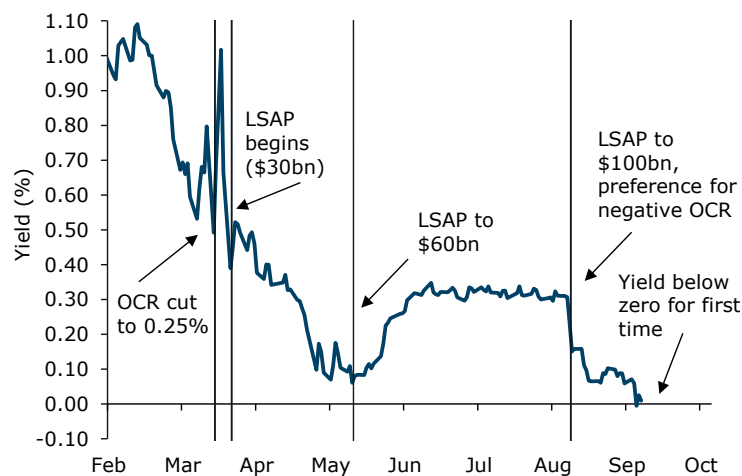
Date	Data/event
Mon 14 Sep (10:30am)	Performance Services Index Aug
Mon 14 Sep (10:45am)	Net Migration - Jul
Wed 16 Sep (10:45am)	Balance of Payments - Q2
Wed 16 Sep (1:00pm)	PREFU 2020
Thu 17 Sep (10:45am)	GDP - Q2
Thu 17 Sep (2:05pm)	NZGB Bond Tender
Mon 21 Sep (3:00pm)	RBNZ Credit Card Spending - Aug
Wed 23 Sep (2:00pm)	RBNZ OCR
Thu 24 Sep (10:45am)	Merchandise Trade -Aug
Thu 24 Sep (2:05pm)	NZGB Bond Tender
Thu 24 Sep (3:00pm)	RBNZ New Mortgage Lending - Aug
Wed 30 Sep (1:00pm)	ANZ Business Outlook - Sep F
Mon 31 Aug (3:00pm)	RBNZ Sectoral Lending - Aug
Fri 2 Oct (10:00am)	ANZ-RM Consumer Confidence - Sep
Mon 5 Oct (1:00pm)	ANZ Commodity Price Index - Sep
Tue 6 Oct (10:00am)	NZIER QSBO - Q3

What are we watching?

This week we will get a peek at the Government's books ahead of the election with the [Pre-election Economic and Fiscal Update \(PREFU\)](#). Changes to the fiscal outlook are expected to be more about allocation and timing than altering the overall fiscal stance. Separate from this, policy commitments continue to roll in as we head towards the election. Fiscal policy will eventually need to pivot to initiatives that support activity and job creation, so these announcements have added meaning in the current environment.

A key thing we will be watching from the PREFU will be any updated guidance for bond issuance. We think the outlook will be broadly unchanged, with NZ Debt Management happy to maintain a healthy cash buffer. For markets, we could see some volatility around data and the PREFU next week, but in a trend sense, expectations of a negative OCR are solidifying and ultimately setting the tone. This saw yields on New Zealand Government Bonds (NZGBs) trade below zero for the first time this week, even if it was short lived. But it is the first salvo in a broader theme that we think will become more entrenched across the entire yield curve as April draws near, at which point we think the RBNZ will cut the OCR by 50bps to -0.25% and introduce a Funding for Lending Programme (see [Markets Outlook](#)). A possible tactical move towards more aggressive longer-end LSAP purchases in September, and an extension of the programme to \$120bn in November, would help spur the market along.

Figure 2. Yield on 2023 NZGB bond



Source: Bloomberg, ANZ Research

The week ahead

Performance Services Index – August (Monday 14 September, 10:30am). Renewed restrictions are likely to weigh on the August read.

Net Migration – July (Monday 14 September, 10:45am). Closed borders are keeping net inflows contained.

Global Dairy Trade (Wednesday 16 September, early). Milk powders are expected to show little change, but milkfat products could lift slightly.

Current Account Balance – Q2 (Wednesday 16 September, 10.45am). Poised to narrow as goods imports fall by a lot more than exports – a typical recessionary move.

Pre-election Economic and Fiscal Update (Wednesday 16 September, 1:00pm). Changes to the forecasts are likely to be immaterial compared to the degree of forecast uncertainty that surrounds them. See our [preview](#).

GDP – Q2 (Thursday 17 September, 10.45am). Q2 will mark the largest q/q contraction we're likely to ever see (touch wood). See our [preview](#).



Markets and forecasts

Markets outlook

Volatility returned to global markets this week, with equities being no exception. Central bank liquidity is abundant, so there is some buyer confidence to buy on dips, but it's too soon to say that the volatility is over. Domestically, the focus remains squarely on the expectation that a negative OCR and Funding for Lending Programme are coming. Almost 50bps of cuts are now priced in by the middle of next year, and bond yields have moved lower. LSAP purchases were met by a reluctance to sell, with the associated rally seeing NZGB 23 yields dip temporarily below zero, before retreating in the lead up to the NZGB tender. Short-term rates continue to ebb and flow around this broad downward trend, and this is expected to continue, with events next week likely to contribute. But long-end yields have not narrowed anywhere near as much as we think they eventually will, and there is a case to be made for a tactical increase in purchases at the long end of the curve when the RBNZ meets in September. Despite all the talk about rate cuts, kiwi remains elevated. This contributes to our view that a negative OCR will be a dampening force on kiwi, not a catalyst for sudden adjustment.



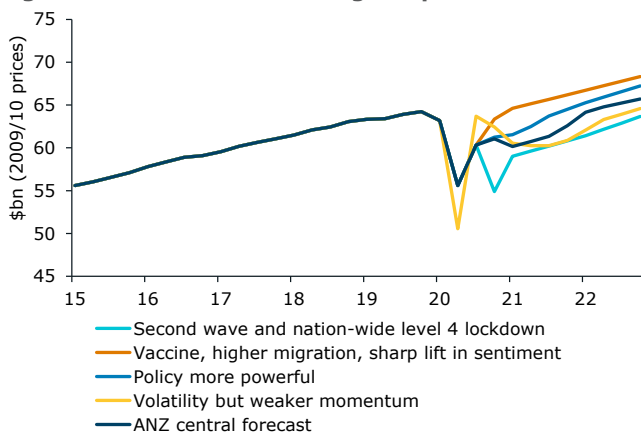
FX rates	Actual					Forecast (end month)			
	Jul-20	Aug-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.663	0.673	0.666	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.928	0.915	0.916	0.93	0.89	0.87	0.87	0.87	0.87
NZD/EUR	0.563	0.565	0.563	0.55	0.54	0.54	0.55	0.55	0.57
NZD/JPY	70.1	71.3	70.7	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.507	0.505	0.520	0.50	0.50	0.49	0.49	0.48	0.47
NZ\$ TWI	72.5	72.4	72.0	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	-12.0	8.5	1.2	-1.5	1.0	1.0	2.0	2.5
GDP (% yoy)	-0.2	-12.3	-5.6	-4.9	-4.8	9.2	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

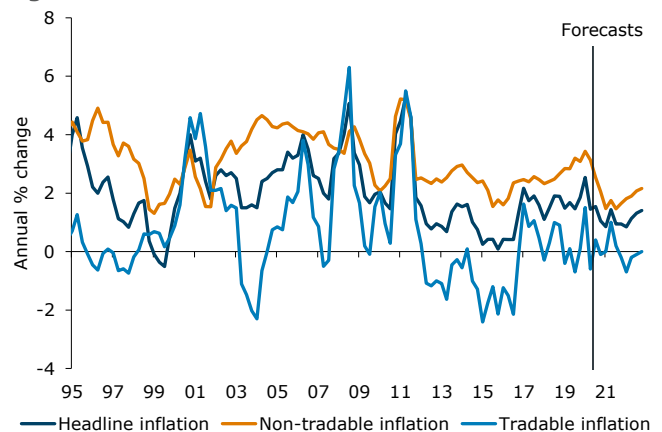
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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