

New Zealand Weekly Data Wrap

25 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](#).

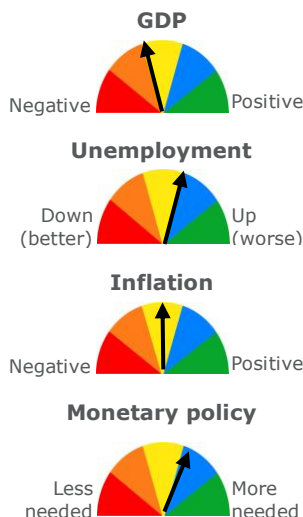
What's the view?

- 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?

- The Monetary Policy Review this week yielded **few surprises**: the RBNZ left policy unchanged, reiterated their OCR forward guidance, and will continue tactical purchases under the Large-Scale Asset Purchase (LSAP) programme. They reiterated that they favour a negative OCR and Funding for Lending Programme (FLP) combo for providing more stimulus if required. But they indicated that they may choose to deploy an FLP by year end, and could do so quite separately from the decision to implement a lower or negative OCR. The idea of an FLP is to reduce bank funding costs and encourage lending (for more, check out our [recent FAQ](#)).
- To us, this speaks to the RBNZ maintaining optionality. While the RBNZ was dovish, a negative OCR is not guaranteed, and the RBNZ will be influenced by developments as they unfold, with a front-loaded, least-regrets approach. To be clear, we do think that the OCR will go negative, with a cut of 50bps in April next year true to the RBNZ's forward guidance. In our view, risks are skewed towards more cuts eventually, but a successful FLP is more likely to push out the next cut than bring it forward. But there's water to flow under the bridge yet, and the November MPS marks an important milestone. At that time, we think the RBNZ may signal a negative OCR is likely with a downward slope in the OCR projection conditional on their baseline view and strategic response. Implementation of an FLP at that time is also possible.

Figure 1. Key policy milestones ahead

Oct/Nov	Nov 11	Year-end	Feb 24	Mar 16	April 24
Wage subsidy ends, closed border impacts	November Monetary Policy Statement	Operational readiness for negative OCR.	February Monetary Policy Statement	Forward guidance ends	April Monetary Policy Review

Key info:	Possible action:	Key info:	Possible action:	Key info:	Possible action:
Inflation (Q3), labour market (Q3), business sentiment data	Increase LSAP to \$120bn, introduce FLP, lower OCR in projections	GDP (Q3), inflation (Q4)	Foreshadow negative OCR, lower OCR in projections	GDP (Q4), labour market (Q4), business sentiment data	Negative OCR deployed in accordance with previous signalling

Source: ANZ Research

What happened this week?

NZGB Bond Tender Schedule for October. The \$350m reduction in the run rate of issuance (from an average of \$975m/week in September to \$625m in October) was more than the market expected, swinging the supply/demand balance to being driven by the demand side. This swing has been exacerbated by the RBNZ continuing to front-load LSAP purchases, which is welcome from the perspective that it will put more pressure on the yield curve to flatten.

RBNZ OCR Review – September. There were no major surprises. The key news was the possible implementation of an FLP by year end.

Merchandise Trade – August. Strong exports of dairy & fruit and weak imports resulted in a trade deficit of \$353 million, aligned with expectations.

NZGB Bond Tender. Extremely strong demand was seen at this last \$1bn tender for the year, underscoring the “lower and flatter” yield curve thematic.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [RBNZ Monetary Policy Review - Few surprises; FLP before year end](#)
- [ANZ NZ Insight: Negative OCR and Funding for Lending Programme FAQ](#)
- [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](#)

Click [here](#) for more.

Data calendar

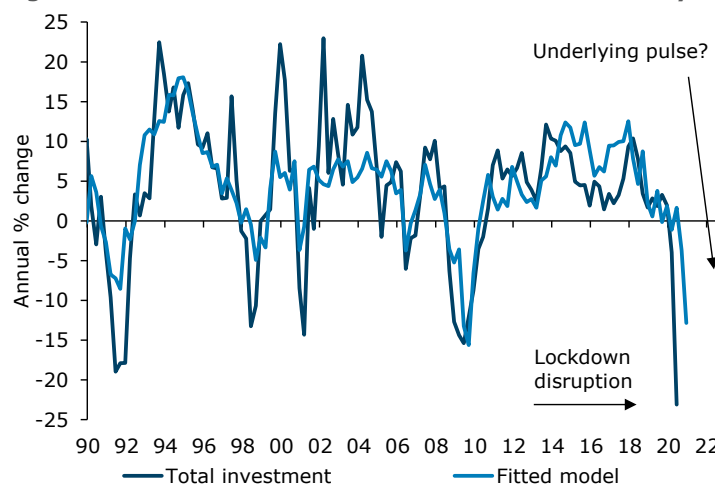
Date	Data/event
Wed 30 Sep (10:45am)	Building Consents - Aug
Wed 30 Sep (1:00pm)	ANZ Business Outlook - Sep F
Mon 30 Sep (3:00pm)	RBNZ Sectoral Lending - Aug
Fri 2 Oct (10:00am)	ANZ-RM Consumer Confidence - Sep
Mon 5 Oct (1:00pm)	ANZ Commodity Price Index - Sep
Tue 6 Oct (10:00am)	NZIER QSBO - Q3
Wed 7 Oct (early am)	GlobalDairyTrade auction
Thu 8 Oct (1:00pm)	ANZ Business Outlook - Oct P
Fri 9 Oct (10:00am)	ANZ Truckometer - Sep
Mon 12 Oct (10:45am)	Net Migration - Aug
Tue 13 Oct (10:45am)	Food Price Index - Sep
Tue 13 Oct (10:45am)	Rental Price Index - Sep
Tue 13 Oct (10:45am)	Electronic Card Transactions - Sep
Fri 16 Oct (10:30am)	BusinessNZ Manuf PMI - Aug
Sat 17 Oct	NZ Election

What are we watching?

Currently, the economy is dealing with an enormous amount of uncertainty. It is not clear what the state of underlying economic momentum will be as we navigate the challenges ahead. Business surveys (like our ANZ Business Outlook) remain key indicators of the economic pulse. The end of the wage subsidy and removal of other supports mark one milestone. These measures have been propping up spending, but are not sustainable, and the end of these schemes will be a pressure point for some firms. Added to that, near-zero net migration flows and non-existent international tourism during the usually busy summer months are expected to have a material impact in the period ahead.

For businesses, a number of factors determine willingness to invest, but two key ones are capacity pressures (or not) and confidence about the outlook. Both of these are under pressure in the current uncertain environment. Firms are looking to reduce investment and business credit is contracting despite low interest rates. To the extent that policy – both fiscal and monetary – can provide assurance about the outlook, this will be helping. But ultimately, it will take a while for stimulus to provide a boost to business investment, given it tends to lag the cycle. With that in mind, the recovery in investment is expected to be protracted, even with stimulus providing a much-needed boost.

Figure 2. Total investment and indicator based on surveyed intentions



Source: Statistics NZ, NZIER, ANZ Research

The week ahead

Building consents – August (Wednesday 30 September, 10:45am).

Residential consents were sitting 5.5% below pre-COVID levels last month (10% below for standalone houses). That's still a high level historically and the recent rebound in the housing market is supportive. But offsetting that, uncertainty is expected to weigh, especially as job losses rise. Caution will become more apparent on the non-residential side too, with investment intentions weak.

ANZ Business Outlook – September (Wednesday 30 September, 1:00pm).

RBNZ sectoral lending data – August (Wednesday 30 September, 3:00pm).

Housing credit growth has been supported by a resilient housing market but business, consumer and agricultural lending have been weak. Meanwhile, deposit growth has been strong, with RBNZ LSAP purchases driving a surge in liquidity in the banking system. Expect these broad themes to continue.

ANZ Roy Morgan Consumer Confidence– September (Friday 2 October, 10:00am).



Markets and forecasts

Markets outlook

Price action in global interest rate markets has been more subdued over the past week as risk appetite took a breather and markets focused on US political and fiscal risks and the ongoing COVID-19 crisis, which remains uncontained. Locally, it has been all about reduced bond supply (issuance) in the wake of the \$10bn reduction in this year's bond programme and the RBNZ's decision to continue front-loading LSAP purchases. The MPR Summary Record of Meeting noted that "the Committee endorsed staff advice to continue front-loading purchases under the LSAP programme, while maintaining flexibility to adjust purchases as market conditions dictate." We read that very positively. It suggests a continuation of the tactical approach to bond purchases, which in turn speaks to reduced volatility and a lower and flatter NZGB curve. With the intent being that the main policy signal comes from the MPC, rather than RBNZ staff, we expect to see less week-to-week variation in the volume of purchases, but for them to remain front-loaded (exceeding issuance), with minor tweaks in the composition of purchases as market conditions dictate. The reiteration of forward guidance by the RBNZ poses upside risks for the very short end, which is still pricing in ~60% odds of a cut by February, which also speaks to a flatter yield curve, albeit via the short end edging a touch higher.



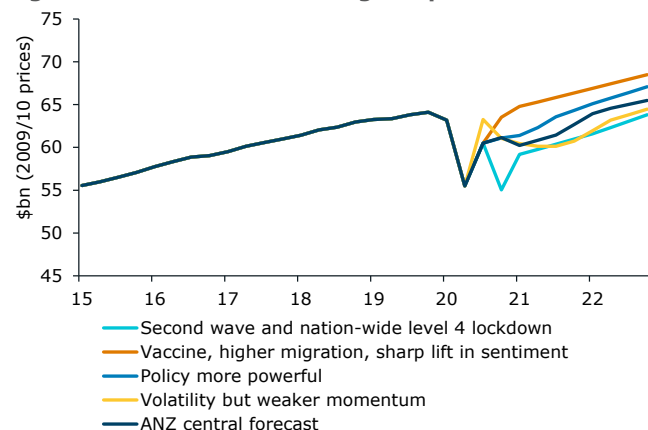
FX rates	Actual					Forecast (end month)			
	Jul-20	Aug-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.663	0.673	0.655	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.928	0.915	0.929	0.93	0.89	0.87	0.87	0.87	0.87
NZD/EUR	0.563	0.565	0.561	0.55	0.54	0.54	0.55	0.55	0.57
NZD/JPY	70.2	71.3	69.0	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.507	0.505	0.514	0.51	0.51	0.52	0.53	0.53	0.52
NZ\$ TWI	72.5	72.4	71.3	71.0	70.0	69.9	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	0.45	0.40	0.30	0.30	0.30	0.40	0.50

Economic forecasts

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
GDP (% qoq)	-1.4	-12.2	9.0	1.1	-1.5	1.0	1.0	2.0	2.0
GDP (% yoy)	-0.1	-12.4	-5.2	-4.6	-4.7	9.6	1.6	2.5	6.1
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

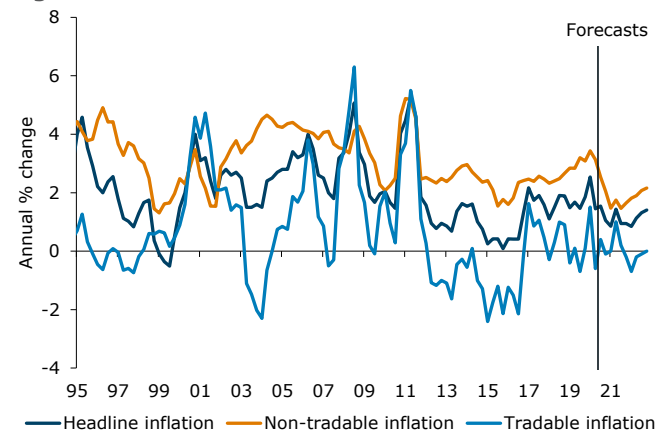
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



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