

New Zealand Weekly Data Wrap

2 October 2020



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Forecast updates

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- [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](#).

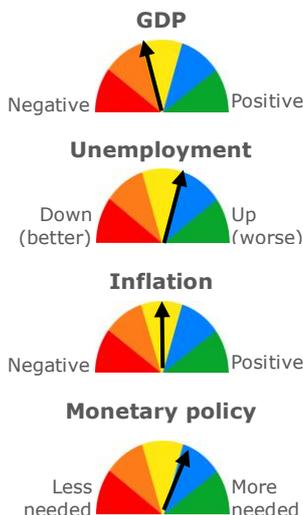
What's the view?

- 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

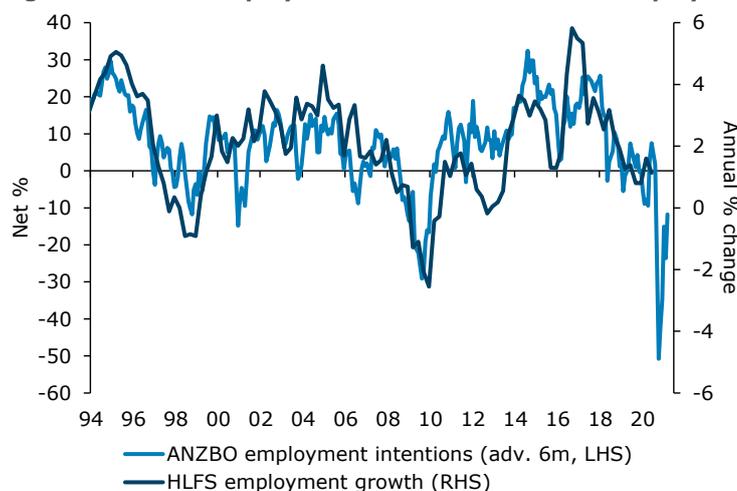
Risks remain skewed to the downside.



How has the view changed?

- Through the winter months housing demand has been strong, while new listings have been low, making the market very tight (see our [ANZ Property Focus](#) for more details). This week, data showed that the usual spring flurry of listings has begun, which may see tightness start to dissipate, though no catch up is evident. Heat through winter has been on the back of fast-acting supports. But dampening factors – like rising unemployment and weaker net migration – are expected to weigh more gradually, and a summer chill could emerge in time, though the outlook remains highly uncertain.
- We have long said that the test for the economy is coming as we enter the summer months, and that time is fast approaching, with fiscal supports now starting to dissipate. The labour market has been resilient on account of the wage subsidy, but we expect that job losses will rise in time – it is simply a question of how much. Our ANZ Consumer Confidence Survey out this morning showed that households are worried – and that's understandable, with firms intending to reduce headcount. Our ANZ Business Outlook shows that firms intend to shed workers overall, though less so than in previous months, with particular weakness in retail and services industries.

Figure 1. ANZBO employment intentions and HLFS employment growth



Source: Statistics NZ, ANZ Research

What happened this week?

Building consents – August. New dwelling consents are sitting about 6% down from pre-COVID levels. That's still a pretty high level overall.

ANZ Business Outlook – September. Activity indicators lifted a little further from their preliminary reads, but remain recessionary (own activity: -5.4%).

RBNZ sectoral lending data – August. Housing credit growth remains stable (+0.7% m/m), and consumer and business credit are weak (-1.2% m/m and -1.0% m/m). Deposit growth remains strong, a natural consequence of QE.

ANZ Roy Morgan Consumer Confidence – September. Stable at 100, recessionary. Perceptions of current financial situations are slipping.

RBNZ Week-ahead LSAP Schedule. The RBNZ lowered the volume of next week's purchases to \$1080m, down from \$1.2bn this week. We expected a small tweak; while it is a reduction, LSAP purchases of NZGBs will still exceed issuance by \$400m next week, helping keep yields lower than otherwise.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [ANZ NZ Property Focus: Lend me a hand](#)
- [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](#)

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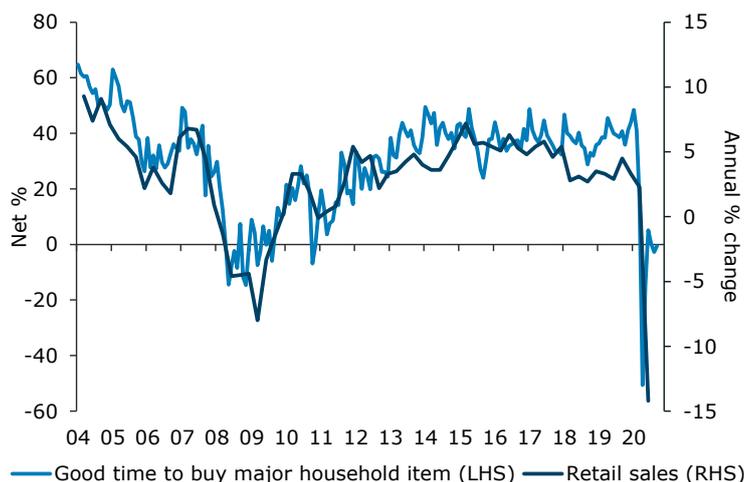
Data calendar

Date	Data/event
Mon 5 Oct (1:00pm)	ANZ Commodity Price Index – Sep
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)	BNZ Manufacturing PMI – Aug
Sat 17 Oct	NZ Election
Mon 19 Oct (10:30am)	Performance Services Index Sep
Tue 20 Oct (10:00am)	NZIER QSBO – Q3
Wed 21 Oct (15:00)	Credit Card Spending – Sep
Fri 23 Oct (10:45am)	CPI – Q3

What are we watching?

As unemployment rises, we will be watching how households respond. During economic downturns when incomes are under pressure, it is quite natural for households to be cautious in their spending. And we are seeing that, with consumer confidence at recessionary levels. Problem is, if everyone saves at once, that isn't great for growth and the economic recovery. Someone's spending is another person's income, and so the money roundabout slows down. Government support through the wage subsidy was effective in ensuring that people could stay in their jobs – and spend. But the policy is not sustainable, and fiscal policy now needs to pivot to support the recovery. Meanwhile, the RBNZ's monetary stimulus is aimed at improving confidence and cash flow and getting people spending too, providing a kick-start to generate a virtuous cycle in incomes and spending. But this will take some time to percolate through. And going up against that is the potential impact of rising unemployment, which could lead to even greater retrenchment. With the extent of that unknown, it's no wonder households are feeling a bit cautious.

Figure 2. ANZ Consumer Confidence "Good time to buy a major household item" and retail sales



Source: Roy-Morgan, Statistics NZ, ANZ Research

The week ahead

ANZ Commodity Price Index – September (Monday 5 October, 1:00pm).

GlobalDairyTrade auction (Wednesday 7 October, early am). A modest lift of <1% in the GDT Price Index is expected. WMP volumes are nearing seasonal peak but remain lighter than last season.

ANZ Business Outlook Flash – October (Thursday 8 October, 1:00pm).

ANZ Truckometer – September (Friday 9 October, 10:00am).



Markets and forecasts

Markets outlook

Global bond market volatility picked up this week on the back of uncertainty around the US fiscal package, month-end rebalancing, broadly better US data, but the still difficult COVID-19 outlook. New Zealand 10-year government bond yields fell to an all-time low of 0.45% earlier in the week. They have retreated higher as global yields have lifted, but are likely to remain well contained, with RBNZ LSAP purchases on track to exceed NZDM issuance for the foreseeable future. That said, 10-year yields are around a quarter what they were at the end of 2019, and while we see scope for slight further declines, the bulk of the move is now complete. It's more a case of remaining low than going lower. Short-end interest rates have increased as the market has "faded" the odds of OCR cuts, consistent with RBNZ forward guidance that the OCR is on hold for *at least* 12 months from March this year. The market is also wary that early deployment of an FLP could buy time to either delay an OCR cut or stop at zero en route to a negative OCR. Higher short-end yields have contributed to NZD strength, with an additional boost provided by the rebound in risk appetite. Looking ahead, we expect the NZD to broadly hold around current levels, but further strength can't be ruled out if the OIS market continues to price out chances of easing in 2021, which is the trend at the moment.



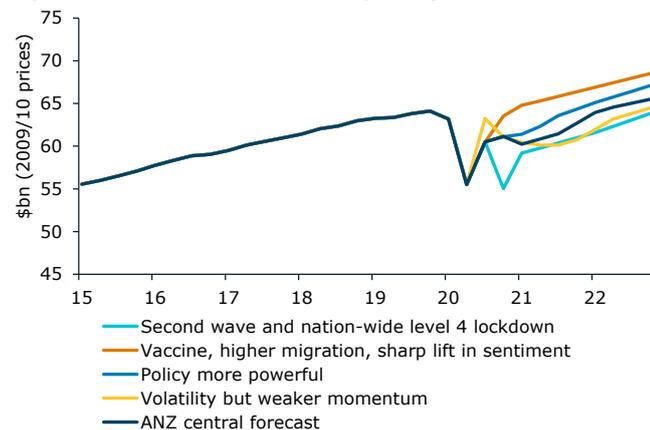
FX rates	Actual				Forecast (end month)				
	Aug-20	Sep-20	Today	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
NZD/USD	0.673	0.658	0.665	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.915	0.924	0.926	0.89	0.87	0.87	0.87	0.87	0.87
NZD/EUR	0.565	0.562	0.566	0.54	0.54	0.55	0.55	0.57	0.57
NZD/JPY	71.3	69.6	70.1	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.505	0.513	0.516	0.51	0.52	0.53	0.53	0.52	0.52
NZ\$ TWI	72.4	71.4	71.9	69.7	69.5	69.9	70.0	70.4	70.4
Interest rates/QE	Aug-20	Sep-20	Today	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
NZ OCR	0.25	0.25	0.25	0.25	0.25	-0.25	-0.25	-0.25	-0.25
LSAP (\$bn)	100	100	100	120	120	120	120	120	120
NZ 90 day bill	0.29	0.31	0.29	0.25	-0.08	-0.25	-0.25	-0.25	-0.25
NZ 10-yr bond	0.63	0.50	0.50	0.30	0.30	0.30	0.40	0.50	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

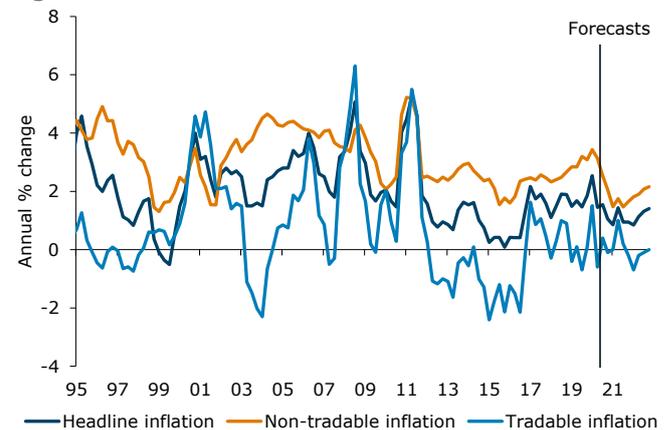
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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