

New Zealand Weekly Data Wrap

9 October 2020



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See [page 4](#).

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](#).

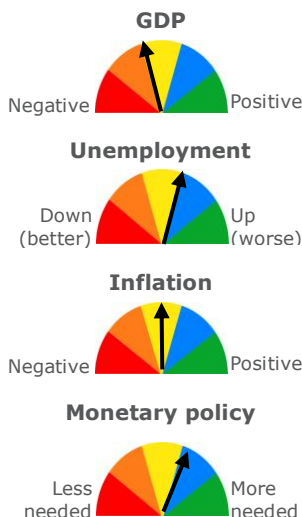
What's the view?

- 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

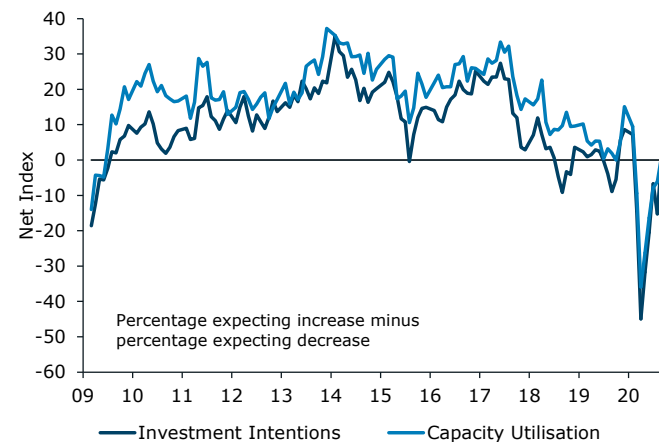
Risks remain skewed to the downside.



How has the view changed?

- The RBNZ has confirmed that more details about a possible [Funding for Lending Programme \(FLP\)](#) will be released with the November MPS. These details will determine take-up of the funds by banks and ultimately the scheme's effectiveness. Another key determinant of the scheme's impact will be [credit demand](#), which may be constrained as the impact of the current downturn becomes clearer in coming months.
- Prior to the November MPS, CPI data will be released for Q3 (October 23). We see upside risk forming to our current pick of 0.8% q/q. See 'What are we watching?' for more details. Overall, we expect to see a solid bounce, but that follows a super-weak Q2 outturn, and the RBNZ will remain focused on the subdued medium-term outlook and low inflation expectations.
- In comments to the press this week, the RBNZ reinforced its dovish, least-regrets approach, which has not wavered in the face of [a resilient housing market](#) and an encouraging improvement in [business sentiment](#) and activity indicators (figure 1). We remain of the view that while an FLP would be stimulatory, the RBNZ will still deem it necessary to take the OCR negative in April next year – particularly with the economy expected to enter a more challenging period ahead.

Figure 1. ANZBO capacity utilisation and investment intentions



Source: ANZ Research

What happened this week?

ANZ Commodity Price Index – September. The ANZ World [Commodity Price Index](#) fell just 0.2% but the stronger NZD put pressure on local currency index, which fell 1.3%.

GlobalDairyTrade auction. The GDT Price Index gained 2.2%, versus expectations of a lift closer to 1%. Whole milk powder gained 1.7% despite offer volumes near their seasonal peak.

ANZ Business Outlook Flash – October. [Business confidence](#) lifted to -15%, while own activity lifted to +4%. Many activity indicators are now back in their 2019 ranges.

ANZ Truckometer – September. The [Heavy Traffic Index](#) lifted 4.1% and the [Light Traffic Index](#) 12.3% m/m as Alert Levels eased.

RBNZ Week-ahead LSAP Schedule. The volume of purchases next week will fall to \$980m. While it is a reduction, we expected it and it still exceeds issuance.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Insight: Households understandably wary
- 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
- 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

[Click here](#) for more.

Data calendar

Date	Data/event
Mon 12 Oct (10:45am)	Net Migration – Aug
Tue 13 Oct (09:00am)	REINZ Housing Data – Sep
Tue 13 Oct (10:45am)	Electronic Card Transactions – Sep
Tue 13 Oct (10:45am)	Food Price Index – Sep
Tue 13 Oct (10:45am)	Rental Price Index – 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
Tue 27 Oct (10:45am)	Merchandise Trade – Sep
Tue 27 Oct (3:00pm)	RBNZ New Mortgage Lending – Sep
Thu 29 Oct (1:00pm)	ANZ Business Outlook – Oct F

What are we watching?

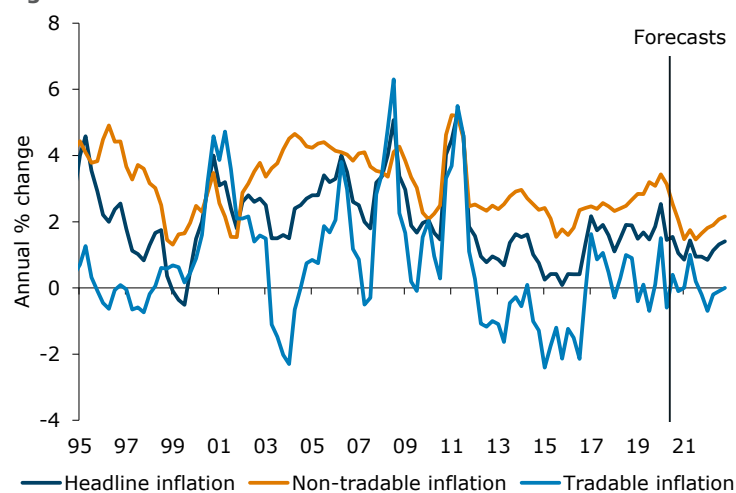
CPI data will be released on October 23. The Q3 quarterly increase is expected to be strong, reflecting a rebound after the very weak print seen in Q2 (-0.5% q/q) when annual inflation slowed from 2.5% y/y to 1.5%. It was difficult to measure prices at that time due to lockdown disruption, and the data remains clouded by greater-than-usual uncertainty.

From what we do know so far, there is some upside risk forming to our current pick for Q3 (+0.8% q/q; 1.5% y/y). However, we will firm up our view next week following the release of food prices and rents data for September, and our own price monitoring.

The RBNZ will look through noise in the inflation data, and be more concerned with where underlying inflation will sit in the future, especially on the non-tradable side. That will partly be determined by economic momentum as we enter year end, and developments on that front remain a key area of focus.

We see a challenging time ahead and continue to expect that the underlying inflation pulse will be weak (figure 2) – with spare capacity in the economy, the TWI elevated and global price pressures weak. The RBNZ’s view is even more subdued than our own, with their most recent forecasts showing CPI inflation troughing at just 0.3% y/y and not reaching 2% until late 2023.

Figure 2. ANZ inflation forecasts



Source: Statistics NZ, ANZ Research

The week ahead

Net Migration – August (Monday 12 October, 10:45am). Net migration dipped into negative territory last month for the first time since 2012. Closed borders have stopped population-led growth in its tracks.

REINZ House Sales – September (Tuesday 13 October, 9:00am). The housing market has remained on a robust footing, with prices finding support from low listings. We continue to question the sustainability of this given the economic fundamentals, but September data is unlikely to challenge the vibe.

Electronic Card Transactions – September (Tuesday 13 October, 10:45am). Should remain subdued as regional lockdown measures continue to weigh.

Food Prices – September (Tuesday 13 October, 10:45am). September is usually a relatively stable month for food prices.

Rental Price Index – September (Tuesday 13 October, 10:45am). Monthly rent inflation has been stable at 0.2% for the past three months, which is a touch weaker than its historical average of 0.3%.



Markets and forecasts

Markets outlook

Global bond yields remain at the upper end of trading ranges on optimism that the US will be able to negotiate a meaningful fiscal package, and as the market takes an optimistic view of the US political landscape post-election. And while that has created nervousness in the NZGB market, the RBNZ's reiteration of its "least regrets" and "better too much too soon than too little too late" approach will continue to contain yields here, as reflected in narrower geographic spreads. We expect NZGB yields to ultimately go a touch lower, underpinned by the prospect of a negative OCR and easy forward guidance. We expect NZGBs to outperform, but now the bond rally is mature, we are now in what we expect to be a "low" rather than "lower" rates environment at the longer end of the curve. Shorter-term rates have scope to continue falling as the RBNZ delivers on policy, but we are mindful that plenty is already priced in. If we put the path of interest rates into road-trip parlance, and ask; "are we there yet?", the answer is "no". But we are almost there. The NZD outlook is more mixed, or conflicted even. Recent weakness is clear evidence that the market has acknowledged RBNZ rhetoric, but equally, as optimism over the outlook for 2021 builds across global markets, it's susceptible to appreciating on seemingly insatiable global risk appetite.



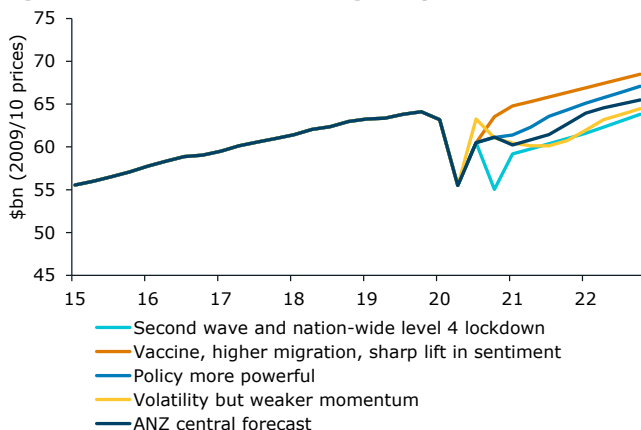
FX rates	Actual			Forecast (end month)					
	Aug-20	Sep-20	Today	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
NZD/USD	0.673	0.658	0.660	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.915	0.924	0.919	0.89	0.87	0.87	0.87	0.87	0.87
NZD/EUR	0.565	0.562	0.561	0.54	0.54	0.55	0.55	0.57	0.57
NZD/JPY	71.3	69.6	69.9	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.505	0.513	0.509	0.51	0.52	0.53	0.53	0.52	0.52
NZ\$ TWI	72.4	71.4	71.2	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	0.28	0.25	-0.08	-0.25	-0.25	-0.25	-0.25
NZ 10-yr bond	0.63	0.50	0.54	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

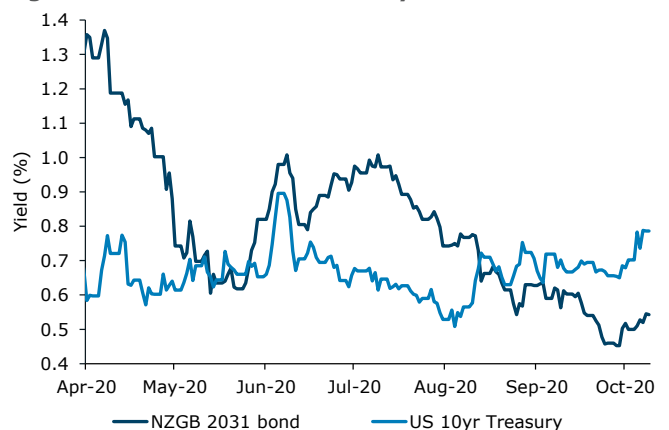
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP forecast and high-impact scenarios



Source: Statistics NZ, ANZ Research

Figure 4. Yields on US and NZ 10 year bonds



Source: Bloomberg, ANZ Research



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