

New Zealand Weekly Data Wrap

6 November 2020



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See [page 4](#).

Forecast updates

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- [Weekly Data Wrap – 16 October 2020](#)
- [GDP 2020Q2 Preview](#)
- [GDP and labour market: Renewed restrictions will hamper recovery](#)
- [Current account outlook](#)

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

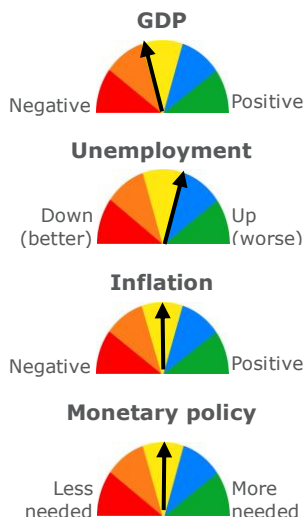
What's the view?

- GDP returns to pre-COVID level mid-2022
- Unemployment peak: 7½%
- Inflation decelerates 2021
- Risks 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.

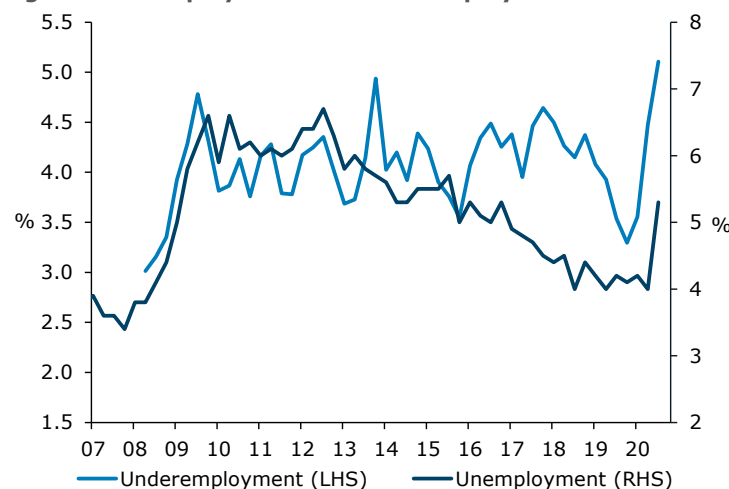


How has the view changed?

The unemployment rate for Q3 was **as expected**, at 5.3%. This is a much better picture than many had feared as the crisis was unfolding and better than the RBNZ forecast at the August MPS. Nonetheless, job losses are rising (**especially amongst women**), while an increasing number of workers would like to work more but can't. Slack in the labour market is expected to worsen as the economy enters the **challenging period ahead**. Certain pockets remain vulnerable, but the impact is also expected to broaden in time. We remain of the view that the unemployment rate will peak at 7.5% late next year.

This week's data adds to a recent string of more positive domestic news, including the buoyant housing market, where a **speculative dynamic appears to be emerging**. Next week the RBNZ is **expected** to announce a Funding for Lending Programme (FLP) to provide more stimulus. But the MPS will need to acknowledge that conditions are better than they feared. Over time the outlook for policy will become more nuanced, with the case for more support becoming less obvious. Recent developments reduce the odds that we'll see a negative OCR, though at this stage on balance we still think it will occur.

Figure 1. Unemployment and underemployment



Source: Stats NZ, ANZ Research

What happened this week?

RBNZ sectoral lending data – September. As expected, with housing strong and business and agri weak.

Building Permits – September. Up 3.6% m/m (7.7% y/y). Momentum in residential construction appears to be following the housing market.

GlobalDairyTrade auction. Surprised to the downside, falling 2.0% against expectations for a modest rise.

Labour Market Statistics – Q3. The labour market **has deteriorated**, with unemployment rising, employment very weak, and wage inflation decelerating from already low levels.

ANZ Commodity Price Index – October. World Price Index up 1.9% m/m, led by dairy.

ANZ Business Outlook Flash – November. **Broadly unchanged.**



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Property Focus: Riding high
- ANZ NZ Quarterly Economic Outlook – A delicate balance
- ANZ NZ Insight: FLP to enter the toolkit
- ANZ NZ Agri Focus: Pick me please
- 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

Click [here](#) for more.

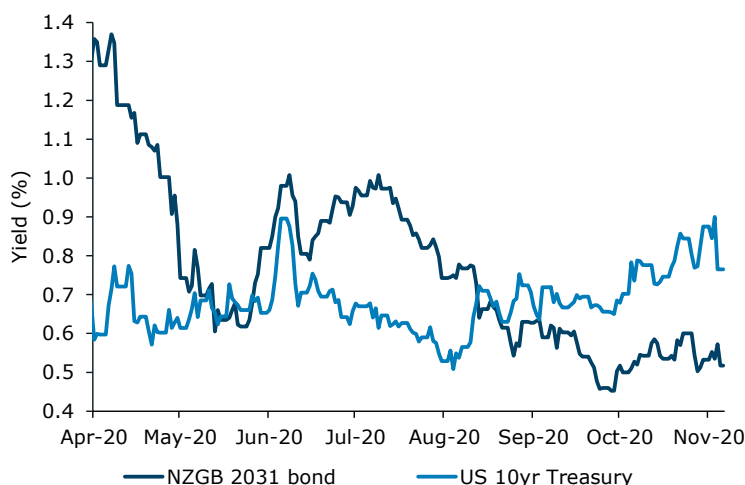
Data calendar

Date	Data/event
Fri 6 Nov (3:00pm)	RBNZ 2Yr Inflation Expectations – Q4
Tue 10 Nov (1:00pm)	ANZ Truckometer – Oct
Tue 10 Nov (10:45am)	Electronic Card Transactions – Oct
Wed 11 Nov (2:00pm)	RBNZ Monetary Policy Statement
Thu 12 Nov (10:45am)	Net Migration – Sep
Fri 13 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Fri 13 Nov (10:45am)	Food Price Index – Oct
Fri 13 Nov (10:45am)	Rental Price Index – Oct
Mon 16 Nov (10:30am)	Performance Services Index Oct
Wed 18 Nov (10:45am)	PPI – Q3
Fri 20 Nov (15:00)	Credit Card Spending – Oct
Mon 23 Nov (10:45am)	Retail Sales – Q3

What are we watching?

Locally, it's all about the November MPS next week and there could be [plenty in it for markets](#). Although emphasis will be on the FLP, any comments on the outlook for the OCR are likely to get particular attention. The US election results will also continue to reverberate through markets. A Biden win now looks the most likely outcome and equities have taken the prospect of a Republican Congress and Biden Presidency very well, even though a Senate stalemate had previously been considered an outcome to be feared. It appears that investors are seeing the positives of a financially constrained Biden – or at least that's the story for now. But without large-scale fiscal stimulus, growth will suffer, and that may dawn on markets in coming days. Plus, with the threat of contention by Trump, volatility is possible. For bond markets, the dimming prospect of imminent fiscal stimulus has weighed on yields, with the outlook expected to galvanise the Fed in coming months. This, alongside further stimulus from the RBNZ, could weigh next week, despite the positive domestic news flow. See [Markets Outlook](#) for more.

Figure 2. US and NZ 10-year bond yields



Source: Bloomberg

The week ahead

RBNZ Inflation Expectations Survey – Q4 (Friday 6 November, 3:00pm). A lift is expected from last quarter's dire read (2-year at 1.4% y/y). But it's unlikely to bring much comfort to the RBNZ, likely well away from 2%.

ANZ Truckometer – October (Tuesday 10 November, 10:00am).

Electronic Card Transactions – October (Tuesday 10 November, 10:45am). Came out of lockdown #2 in decent shape.

RBNZ Monetary Policy Statement – November (Wednesday 11 November, 2:00pm). All about the FLP. See our [preview](#).

Net Migration – September (Thursday 12 November, 10:45am). Net inflows are set to remain very low.

Food Prices – October (Friday 13 November, 10:45am). Tipped to moderate slightly (0.6%) on the back of seasonally lower fruit and veg.

Rental Price Index – October (Friday 13 November, 10:45am). We've pencilled in another 0.2% m/m lift.

REINZ House Sales – October (10-13 November). The vibe on the ground suggests strong housing momentum persisted through October.



Markets and forecasts

Markets outlook

US bond yields have retreated from highs over the course of the week. Although the US election result remains uncertain, the market is taking the view that Biden is the favourite to take the Presidency but Democrats are less likely to take a majority in the Senate, reducing the odds of more aggressive fiscal stimulus. That should, in turn, keep bond issuance and bond yields in check. But equity markets have rallied on a combination of lower yields and an expectation that political stalemate makes the roll-back of tax cuts less likely, delivering an unlikely bond/equity win-win outcome despite the uncertain Presidential race. Locally, the most striking feature of the past few weeks has been the lack of bond volatility, with the local market truly dancing to its own beat. We don't expect that to change, with the overall tone of next week's RBNZ to be dovish and the LSAP still well placed to keep the yield curve low and flat, complementing the upcoming FLP. However, the short end remains vulnerable to a correction if forward guidance is maintained, as we expect, with better recent data also giving the market cause to question how quickly the OCR needs to go lower. In FX markets, the ever-present prospect of a negative OCR should is a challenge for the NZD, but equally, the return of risk appetite speaks to further strength.

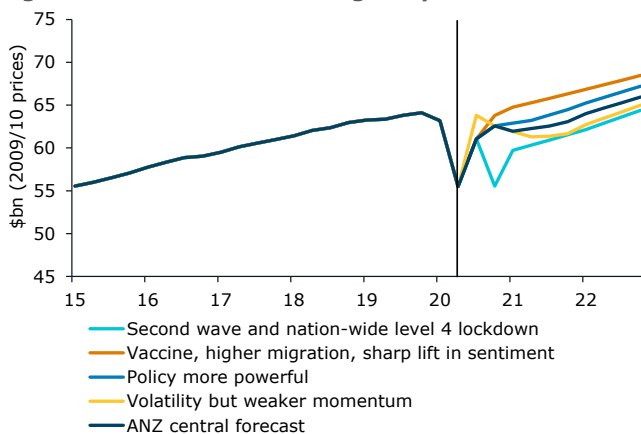
FX rates	Actual			Forecast (end month)					
	Sep-20	Oct-20	Today	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
NZD/USD	0.658	0.662	0.677	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.924	0.941	0.931	0.89	0.87	0.87	0.87	0.87	0.87
NZD/EUR	0.562	0.568	0.572	0.54	0.54	0.55	0.55	0.57	0.57
NZD/JPY	69.6	69.2	70.1	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.513	0.511	0.515	0.51	0.52	0.53	0.53	0.52	0.52
NZ\$ TWI	71.4	71.7	72.1	69.7	69.5	69.9	70.0	70.4	70.4
Interest rates/QE	Sep-20	Oct-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	100	100	100	100	100	100
NZ 90 day bill	0.31	0.28	0.29	0.25	-0.08	-0.25	-0.25	-0.25	-0.25
NZ 10-yr bond	0.50	0.53	0.53	0.30	0.30	0.30	0.40	0.50	0.50

Economic forecasts

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
GDP (% qoq)	-12.2	10.0	2.5	-1.0	0.5	0.5	0.8	1.5	1.0
GDP (% yoy)	-12.4	-4.3	-2.4	-2.0	12.2	2.5	0.8	3.3	3.9
CPI (% qoq)	-0.5	0.7	0.3	0.6	0.1	0.4	0.0	0.6	0.4
CPI (% yoy)	1.5	1.4	1.2	1.1	1.7	1.4	1.1	1.0	1.3
Employment (% qoq)	-0.3	-0.8	-0.5	-0.2	-0.5	0.0	0.2	0.8	1.0
Employment (% yoy)	1.5	0.2	-0.6	-1.8	-2.0	-1.2	-0.5	0.5	2.0
Unemployment Rate (% sa)	4.0	5.3	6.1	6.4	6.8	7.2	7.5	7.1	6.6

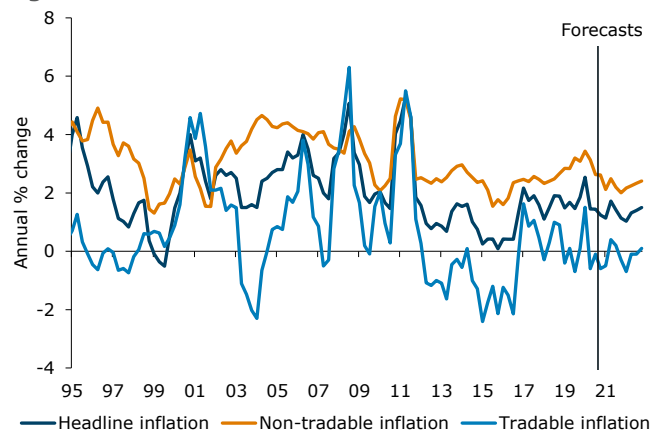
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP forecast and high-impact scenarios



Source: Statistics NZ, ANZ Research

Figure 4. ANZ inflation forecasts



Source: Statistics NZ, ANZ Research



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