


New Zealand Weekly Data Wrap

13 November 2020



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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](#).

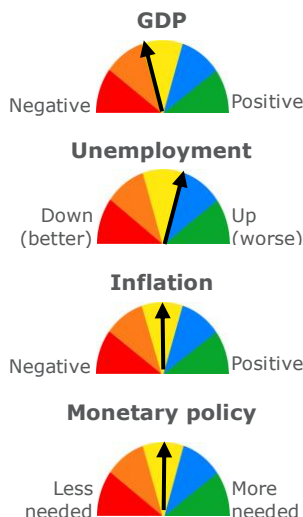
What's the view?

- 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

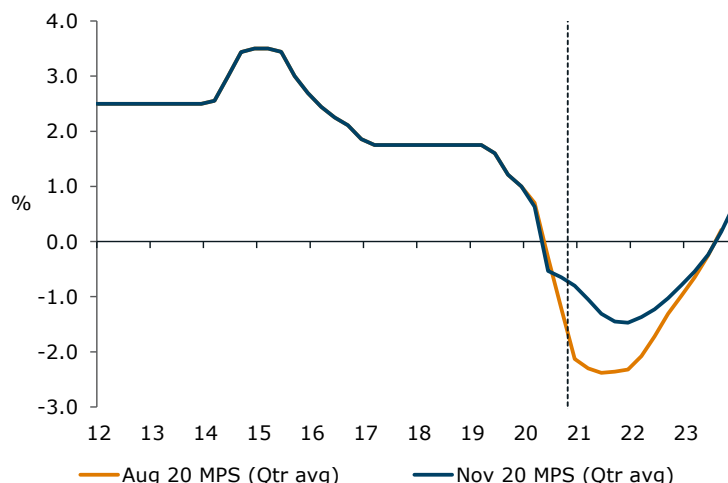
Risks remain skewed to the downside.



How has the view changed?

We are **now expecting** a more gradual path lower for the OCR, and whether a negative OCR will be deployed at all is much more of a line-ball call. At the November MPS the RBNZ provided more stimulus via the Funding for Lending Programme (FLP), but acknowledged more recent positive domestic news. The RBNZ's forecast for the unconstrained OCR – the level of stimulus needed to achieve the RBNZ's objectives, achieved through the Bank's suite of alternative policy tools – is now significantly higher. From a current level of -0.65% to -0.8%, it now reaches a low of -1.5% versus -2.4% previously – an upward revision of almost 100bps. The market took this as a strong signal that a negative OCR would no longer be required (see [Markets Overview](#) for more), but this move appears overdone to us. It is entirely possible that a negative OCR will not be needed, but on balance, the outlook is still consistent with a bit more stimulus in time, especially since the FLP is not expected to go the whole hog (see [What are we watching?](#)).

Figure 1. Unconstrained OCR forecast



Source: RBNZ

What happened this week?

RBNZ Inflation Expectations Survey – Q4. 2-year 1.59% but falling short.

ANZ Truckometer – October. [Settling down.](#)

Electronic Card Transactions – October. Up another 8% m/m, as we recover from lockdown #2, with strong growth in hospitality and apparel.

RBNZ Monetary Policy Statement – November. Broadly as expected, with a more gradual easing profile now looking [more likely](#).

REINZ Housing market data – October. Gangbusters; prices up 3% m/m.

Net Migration – September. Still very low with upside contained by quarantine capacity.

Food Prices – October. Down 0.7% on seasonally weaker fruit and veg.

Rental Price Index – October. Up 0.2% m/m for the fifth consecutive month.



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
Mon 16 Nov (10:30am)	Performance Services Index Oct
Wed 18 Nov (early am)	GlobalDairyTrade auction
Wed 18 Nov (10:45am)	PPI – Q3
Fri 20 Nov (15:00)	Credit Card Spending – Oct
Mon 23 Nov (10:45am)	Retail Sales – Q3
Wed 25 Nov (09:00am)	RBNZ Financial Stability Report
Thu 26 Nov (10:45am)	Merchandise Trade – Oct
Thu 26 Nov (3:00pm)	RBNZ New Mortgage Lending – Oct
Fri 27 Nov (10:00am)	ANZ Consumer Confidence – Nov
Mon 30 Nov (1:00pm)	ANZ Business Outlook – Nov F
Mon 30 Nov (3:00pm)	RBNZ Sectoral Lending – Oct
Wed 2 Dec (10:45am)	Terms of Trade – Q3

What are we watching?

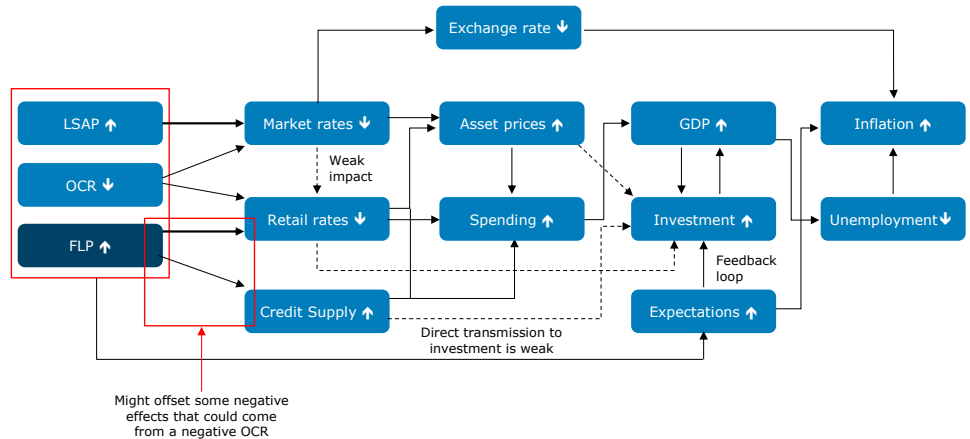
The path forward for monetary policy now appears highly conditional. Developments over the next three to six months will be crucial. Much will depend on the economic data flow, of course, but the effectiveness of the soon-to-be-implemented FLP will also be really important.

The FLP will work in two key ways. First, by lowering bank funding costs, with the RBNZ providing marginal funding at a very cheap rate and providing a backstop that means other funding sources can be priced lower. This, combined with the ongoing LSAP, should ultimately lead to lower retail lending and deposit rates. Second, banks are currently well funded through deposits, but the FLP will allay fears of future funding constraints, making banks feel more confident to lend, reinforced by a lending incentive where the availability of funds is linked to loan growth.

The RBNZ is confident the scheme will be effective, and its measure of success will be the impact on retail rates, but how much they will move is really hard to say. A further move lower in retail rates of say 25-50bps would make a decent, but not complete, dent in the amount of further stimulus the RBNZ currently think they need to achieve (roughly 70-80bps based on their unconstrained OCR, though perhaps more now given the increase seen in market yields).

There are some differences in our exact forecasts, but we are broadly of the same mind as the RBNZ that the outlook will be challenging, perhaps a bit more so than they are assuming. There are many risks in either direction, but weighing it all up, we think that the FLP won't do quite enough for the RBNZ to be comfortable with the medium-term outlook, tipping the balance of risks slightly in favour of the OCR going gradually lower next year.

Figure 2. The FLP enters the monetary policy toolkit



Source: ANZ Research

The week ahead

Performance Services Index – October (Monday 16 November, 10:30am). Should remain expansionary reflecting the rebound out of lockdowns.

GlobalDairyTrade auction (Wednesday 18 November, early am). Little change in dairy prices is anticipated at the next event but over the longer-term prices may ease due to increased global milk supply.

PPI – Q3 (Wednesday 18 November, 10:45am). Possibly due a rebound from Q2, but these data typically don't provide a good signal for pipeline CPI inflation.



Markets and forecasts

Markets outlook

It has been a volatile week in markets, with risk appetite, global bond yields and the NZD all surging higher in the wake of upbeat vaccine news, and those moves extending further in the wake of the RBNZ MPS. The RBNZ echoed a dovish tone as it detailed the features of the FLP, downplaying vaccine developments and kept its options open with respect to a negative OCR. But the market was caught off guard by the suggestion that if we were to see much lower retail lending rates, we may not need a lower OCR. That is a logical conclusion to arrive at, but we think more stimulus will ultimately be needed. We expect the term structure of interest rates to correct lower over coming weeks, with the LSAP unchanged and bond buying exceeding issuance over the next few years. We always expected progress on a vaccine and it will still take a long time to deploy. In the meantime, the pandemic continues to mushroom. Nonetheless, bonds will be more challenged going forward even after they correct lower, so we have upgraded our bond forecasts to reflect our more gradual, conditional easing profile and global market optimism. We have also upgraded our bank bill and NZD/USD forecasts to reflect our changed OCR call. With negative rates likely delayed and more conditional, and global risk appetite improving, our old forecast of 0.65 was too low. Our new forecast of 0.68 is flat-lined, reflecting the more balanced outlook from here.

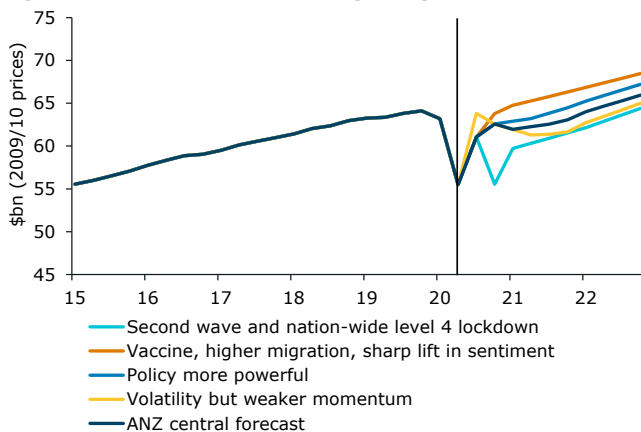
FX rates	Actual			Forecast (end month)					
	Sep-20	Oct-20	Today	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
NZD/USD	0.658	0.662	0.684	0.68	0.68	0.68	0.68	0.68	0.68
NZD/AUD	0.924	0.941	0.946	0.93	0.91	0.91	0.91	0.91	0.91
NZD/EUR	0.562	0.568	0.579	0.57	0.56	0.57	0.58	0.59	0.59
NZD/JPY	69.6	69.2	71.9	72.8	72.8	72.8	72.8	72.8	72.8
NZD/GBP	0.513	0.511	0.521	0.52	0.51	0.52	0.53	0.54	0.54
NZ\$ TWI	71.4	71.7	73.0	72.7	71.8	72.2	72.6	73.2	73.2
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	0.10	-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	0.27	0.27	0.20	-0.02	-0.25	-0.25	-0.25
NZ 10-yr bond	0.50	0.53	0.84	0.60	0.60	0.70	0.80	0.90	1.00

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

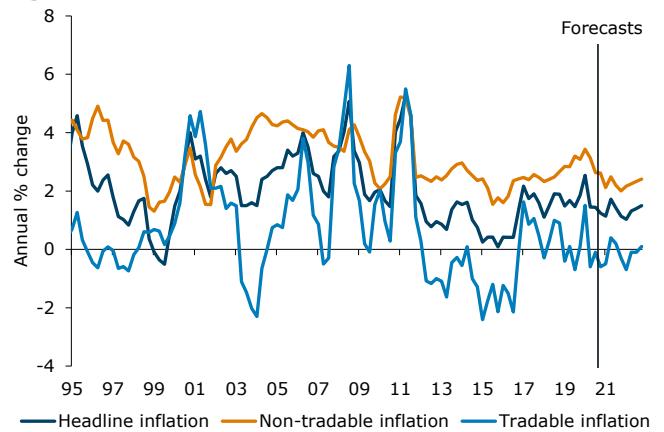
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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