

New Zealand Weekly Data Wrap

18 December 2020



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Contact us

See [page 4](#).

Forecast updates

Recent ANZ NZ Forecast Updates can be found [here](#).

- [NZ Insight: Some cheer heading into Christmas – further OCR cuts becoming less likely](#)
- [ANZ NZ Insight: Weighing it up – possible OCR paths](#)
- [MPS Review and OCR call](#)
- [ANZ NZ Quarterly Economic Outlook – A delicate balance](#)

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

What's the view?

- GDP returns sustainably to pre-COVID level end-2021.
- Unemployment peak: ~7%
- Inflation decelerates 2021
- Upside risks building.
- Negative OCR next year looking less likely.

Our forecasts are on [page 3](#).

Balance of risks

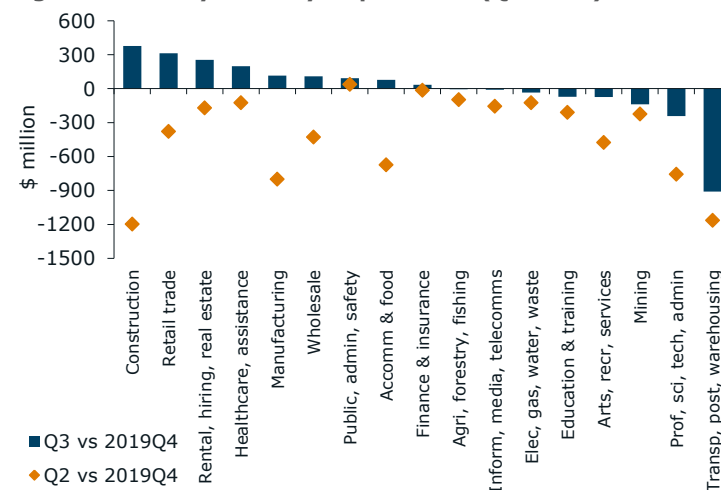
Risks remain skewed to the downside.



How has the view changed?

Economic activity bounced back **sharply** in Q3, adding to the recent broader picture of resilience in the economy, supported by fiscal and monetary stimulus. It has been an unprecedented – and very uneven – downturn and subsequent rebound. Some industries are likely to see a pull-back in activity as we end the year. But overall, the recent data flow has been more positive, supporting a stronger **fiscal outlook** and suggesting further monetary stimulus may not be needed. A number of key themes will set the tone for the year ahead (See [What are we watching?](#)), with some longer-term challenges increasingly in the public eye. Worsening housing affordability, in particular, needs urgent attention. Bold **action to achieve an orderly stabilisation or decline** in house prices is fundamentally necessary.

Figure 1. GDP by industry vs pre-crisis (Q4 2019)



Source: Stats NZ, ANZ Research

What happened this week?

Performance Services Index – November. Slipped to 46.7 from 51.4.

Net Migration – October. Net inflow super low with the border closed (880).

Global Dairy Trade. Up 1.3%, having outperformed over the past six months. Demand remains strong; higher prices are now encouraging a supply response.

Current Account Balance – Q3. Improvement to -0.8% of GDP as imports fall.

Half-Year Economic and Fiscal Update. A better economic and fiscal outlook, but all as expected. See our [review](#).

GDP – Q3. Up 14% q/q, to above pre-crisis levels. See our [review](#).

ANZ Roy Morgan Consumer Confidence – December. **Lifted 5 points** to 112, edging closer to its historical average of around 120.

Overseas Merchandise Trade – November. The \$252m monthly surplus was around \$1bn better than a year ago. But import delays aren't good news.

ANZ Business Outlook – December. **Up a whopping 16 points** and back in the black for the first time since August 2017.



This is our last *Weekly Data Wrap* for the year. Our first edition for 2021 will be released on January 15. We would like to wish our readers a safe and enjoyable festive season. *Meri Kirihimete.*



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Property Focus: Housing affordability – unlocking the solution
- ANZ NZ Insight: The intergenerational divide
- ANZ NZ Agri Focus: Freight challenges abound
- ANZ NZ Insight: Vaccines, volatility and eventualities
- ANZ NZ Insight: FLP to enter the toolkit
- ANZ NZ Insight: Negative OCR and Funding for Lending Programme FAQ

Click [here](#) for more.

Data calendar

| Date | Data/event |
|----------------------|---|
| Wed 23 Dec (3:00pm) | RBNZ New Mortgage Lending – Nov |
| Wed 23 Dec (3:00pm) | RBNZ Sectoral Lending – Nov |
| Wed 13 Jan (10:00am) | ANZ Truckometer – Dec |
| Wed 13 Jan (1:00pm) | ANZ Commodity Price Index – Dec |
| Fri 15 Jan (10:45am) | Building Permits – Nov |
| Fri 15 Jan (10:45am) | Electronic Card Transactions – Dec |
| Fri 15 Jan (10:45am) | Food Prices – Dec |
| Fri 15 Jan (10:45am) | Rental Price Index – Dec |
| Thu 21 Jan (10:45am) | Net Migration – Nov |
| Fri 22 Jan (10:45am) | CPI – Q4 |
| Tue 26 Jan (10:45am) | Performance Services Idx – Dec |
| Thu 28 Jan (10:45am) | Merchandise Trade – Dec |
| Fri 29 Jan (10:00am) | ANZ Consumer Confidence – Jan |
| Wed 3 Feb (10:45am) | Labour Market – Q3 |
| Wed 3 Feb (1:00pm) | ANZ Commodity Price Index – Jan |
| Thu 4 Feb (10:45am) | Building Permits – Dec |
| Thu 4 Feb (1:00pm) | ANZ Business Outlook – Feb P |

What are we watching?

As the year comes to an end, there are a number of key themes that will shape the path forward in 2021:

1. **The path back to normality.** It's not expected to be quick or smooth sailing, but mass inoculation and eventual border re-opening lies ahead. The stakes are huge given the continuing enormous human toll of the pandemic, and risks remain abundant in the meantime. Globally, New Zealand is a relative outperformer, but we are a small open economy with a chunky amount of national income susceptible to fluctuations in global demand.
2. **The housing market.** Recent strength in the housing market is spurring economic activity and providing an offset to weakness in other areas, but it's not all good news. Housing unaffordability is highly problematic. Will we see policy change next year – the sort that can [actually make a meaningful difference](#)? We hope so.
3. **Our lost summer of tourism.** It's definitely not all good news on the economic front, partly because the effect of the closed border has highly seasonal effects – and Q1 is the crunch point, with the path to recovery expected to become more challenging next year.
4. **The nuanced OCR outlook.** It's fair to say that the time for big-bang stimulus is over, with the outlook for policy more complex, especially with the housing market hotter than anyone anticipated. That means our call that the OCR will go negative next year hangs in the balance. Watch this space.
5. **Business resilience.** It's possible that resilience in the broader economy can provide an offset to the loss of international visitors, and much will depend on how business activity and intentions hold up in the likes of our ANZ Business Outlook. We will be watching this closely.
6. **Credit conditions.** Deposit growth has been very strong in the wake of QE and the wage subsidy, supporting lending growth, but such strong growth is unlikely to continue. That, alongside loan-to-value restrictions and broader credit and affordability constraints may start to bite for the housing market.
7. **Inflation.** Cost pressures may see pockets of inflation emerge, given supply disruptions and rising freight costs. The RBNZ will look through transitory inflation, but it could feed through to inflation expectations (a good thing, given they are too low) or weigh on business sentiment (not so good).
8. **Volatility.** With inflation no longer a one-way bet and the economic outlook and policy response more nuanced, market pricing for super-easy policy and ever-low interest rates may start to be challenged. Plus, with global economic risks still abundant but not priced, bouts of volatility seem likely.
9. **Fiscal policy.** The Government has held off outlining a detailed path back to "prudent" debt levels, but we'll get more clarity early next year. Regulatory reform, including to the RMA, and tweaks to migration may be on the cards.
10. **Long-term challenges.** Not only will we have to pay back debt associated with this crisis; other pressing issues haven't gone away. Climate change, an ageing population, [housing unaffordability](#) and [intergenerational equality](#) will get more attention. Difficult decisions eventually need to be made.

The week ahead

RBNZ New Mortgage Lending - November (Wednesday 23 December, 3:00pm). We know housing market momentum was strong in November, but we expect credit and affordability constraints will weigh eventually.

RBNZ Sectoral Lending - November (Wednesday 23 December, 3:00pm). Strong new mortgage lending will flow through to continued growth in overall household credit, but expect business lending to remain weak for now.



Markets and forecasts

Markets outlook

Interest rates and the NZD have continued to rise, fuelled by the strong Q3 GDP out-turn and backward revisions, optimism in the US that a fiscal deal can be reached, rallying commodity prices, and generally improving market risk appetite. While we are cautious not to extrapolate the trend in GDP given that the pace of the rebound simply can't be sustained, for now the good news vibe has the market's attention and upbeat sentiments are likely to carry on into early 2021. And with that comes the risk that bond yields, interest rates and the NZD go higher over the festive season. The market has been debating the need for OCR cuts for a couple of weeks now, and with GDP above pre-crisis levels (for now), housing booming and a vaccine roll-out timetable in place in New Zealand and elsewhere, the risks have clearly shifted. But we think it's a bridge too far to take a binary view of the world and declare that if the RBNZ isn't easing, it must be hiking soon. Notwithstanding the upside risks to our call for cuts in 2021, at worst (for interest rate markets) we see an elongated period of policy stability. Bond yields can go higher in that environment as the curve steepens, but that's a very consensus view, and we are mindful that we are not out of the woods yet with COVID. Things are unlikely to feel as rosy as they are now in early 2021, so some pull-back is likely. In past years, thin liquidity conditions have given rise to heightened volatility and flash crashes over the holiday period. Given the strength of views in both directions, we could see a repeat this year.

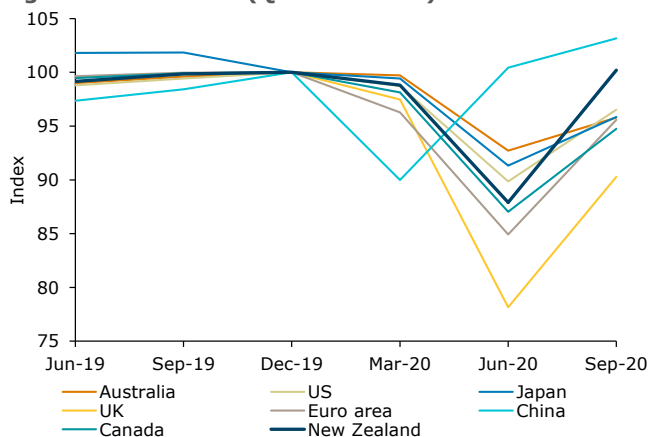
| FX rates | Actual | | | Forecast (end month) | | | | | |
|-------------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
| | Oct-20 | Nov-20 | Today | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 |
| NZD/USD | 0.662 | 0.705 | 0.715 | 0.71 | 0.72 | 0.73 | 0.74 | 0.74 | 0.74 |
| NZD/AUD | 0.941 | 0.954 | 0.939 | 0.95 | 0.94 | 0.94 | 0.93 | 0.93 | 0.93 |
| NZD/EUR | 0.568 | 0.588 | 0.583 | 0.58 | 0.58 | 0.58 | 0.58 | 0.58 | 0.57 |
| NZD/JPY | 69.2 | 73.3 | 73.7 | 73.8 | 74.2 | 74.5 | 75.5 | 75.5 | 75.5 |
| NZD/GBP | 0.511 | 0.529 | 0.527 | 0.52 | 0.52 | 0.53 | 0.53 | 0.52 | 0.52 |
| NZ\$ TWI | 71.7 | 74.4 | 74.6 | 74.3 | 74.2 | 74.8 | 75.0 | 75.0 | 74.6 |
| Interest rates/QE | Oct-20 | Nov-20 | Today | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 |
| NZ OCR | 0.25 | 0.25 | 0.25 | 0.25 | 0.10 | -0.25 | -0.25 | -0.25 | -0.25 |
| LSAP (\$bn) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| NZ 90 day bill | 0.28 | 0.25 | 0.25 | 0.20 | -0.02 | -0.25 | -0.25 | -0.25 | -0.25 |
| NZ 10-yr bond | 0.53 | 0.85 | 0.96 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 |

Economic forecasts

| | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 |
|--------------------------|--------|--------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| GDP (% qoq) | -11.0 | 14.0 | -0.5 | -1.0 | 0.5 | 0.5 | 0.8 | 1.5 | 1.0 |
| GDP (% yoy) | -11.3 | 0.4 | -0.3 | -0.1 | 12.9 | -0.5 | 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 | 6.3 | 6.6 | 6.9 | 7.2 | 6.8 | 6.4 |

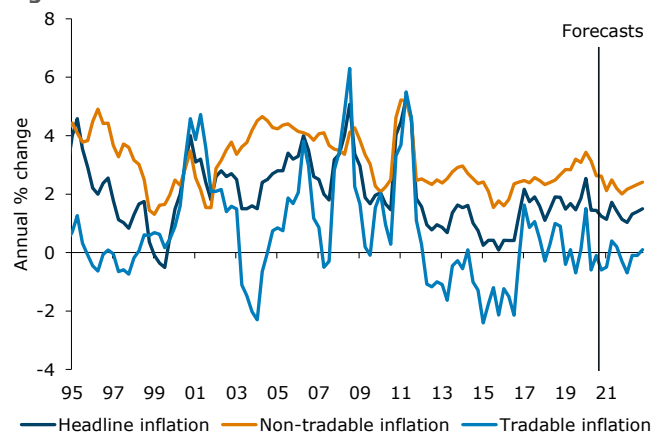
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Statistics NZ, ANZ Research

Figure 4. ANZ inflation forecasts



Source: Statistics NZ, ANZ Research



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Meet the team

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