Quarterly Economic Outlook Chartpack

Through the looking glass

January 2020

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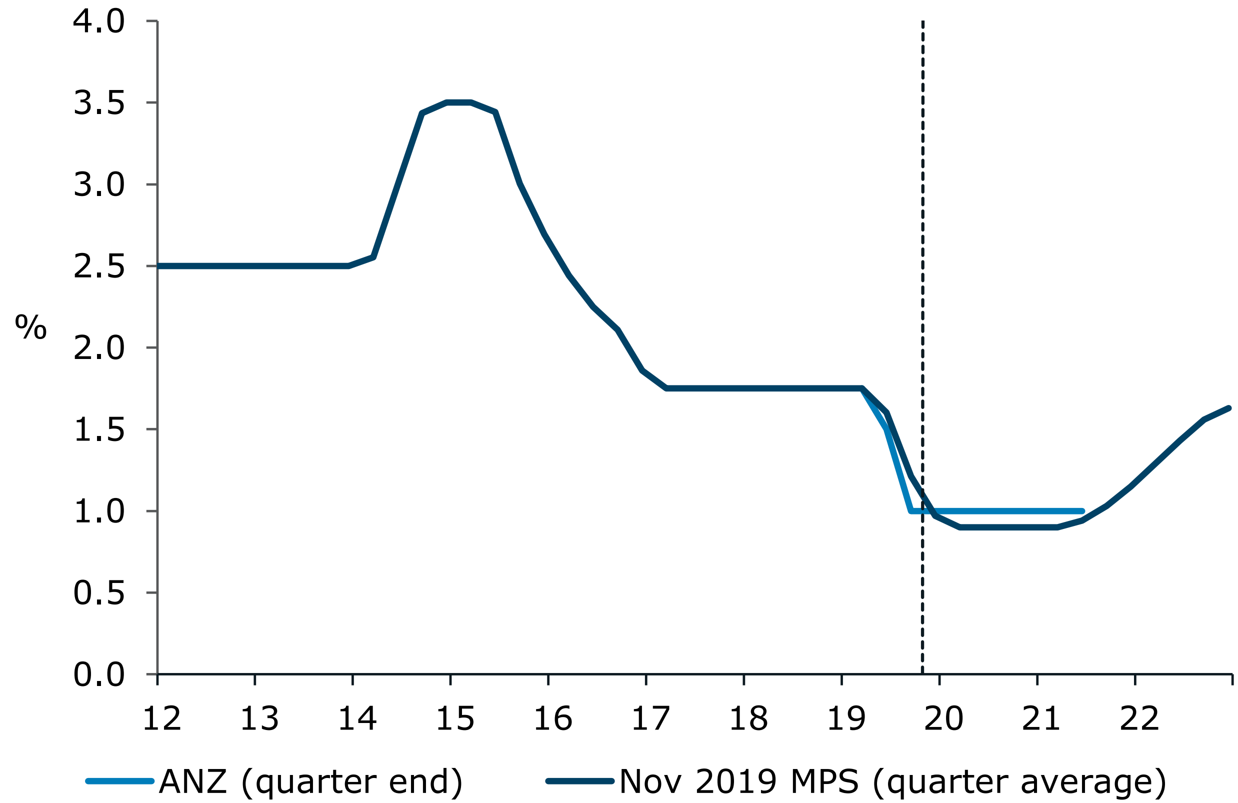
ANZ

Summary of the New Zealand economic outlook

- Economic momentum faded last year, but drivers are in place for a gradual improvement in growth over the next two years, despite headwinds.
- Housing market strength, fiscal spending, high terms of trade, the tight labour market and low interest rates are expected to provide support.
- We assume the coronavirus outbreak will weigh a little on our export prices and volumes in the near term, but impacts are highly uncertain at this stage.
- GDP growth is expected to sit around trend on average, with inflation close to target.
- The RBNZ can afford to be patient. We suspect they will be on hold for quite sometime.
- We see significant downside global risks, particularly from the devastating new coronavirus.

Down the rabbit hole

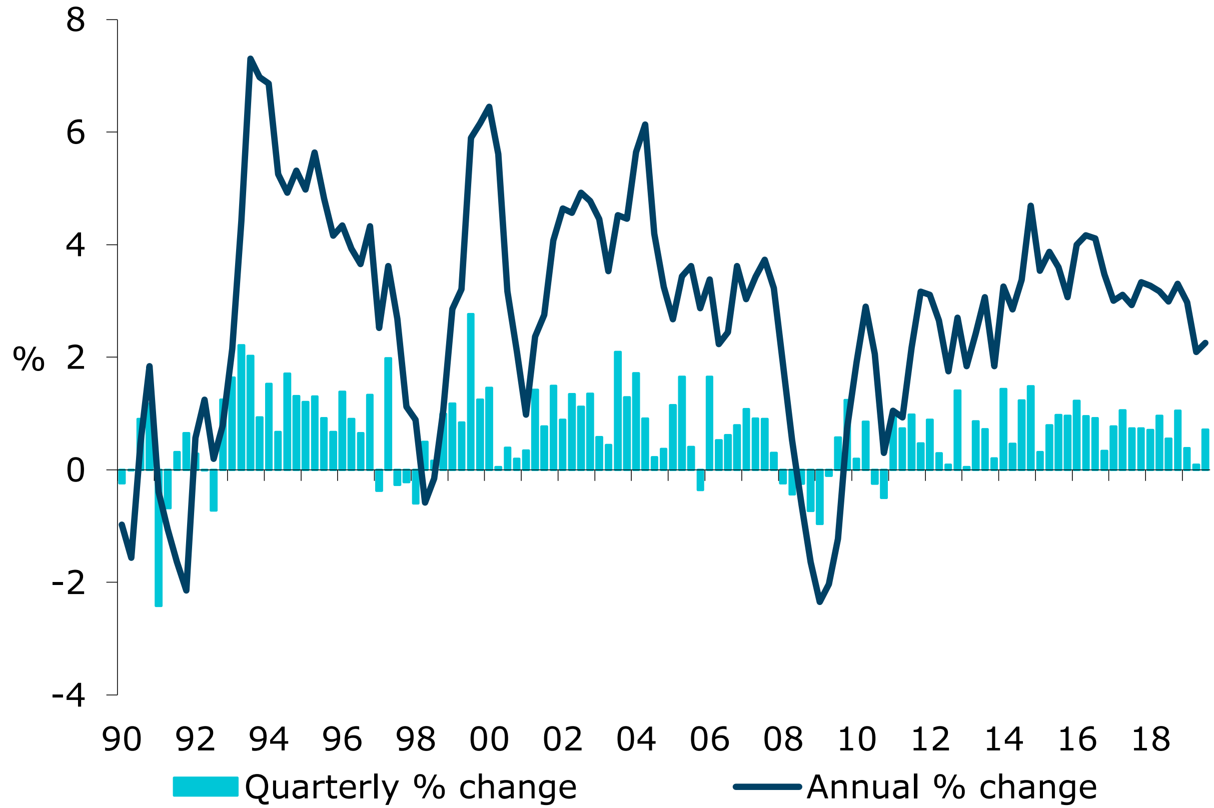
Official Cash Rate



- The OCR was slashed 75bps last year and the decision to hold at the November MPS was a line-ball call.
- The outlook has improved and we now see the OCR on hold for the foreseeable future, though downside global risks remain.

Source: RBNZ, ANZ Research

Production GDP

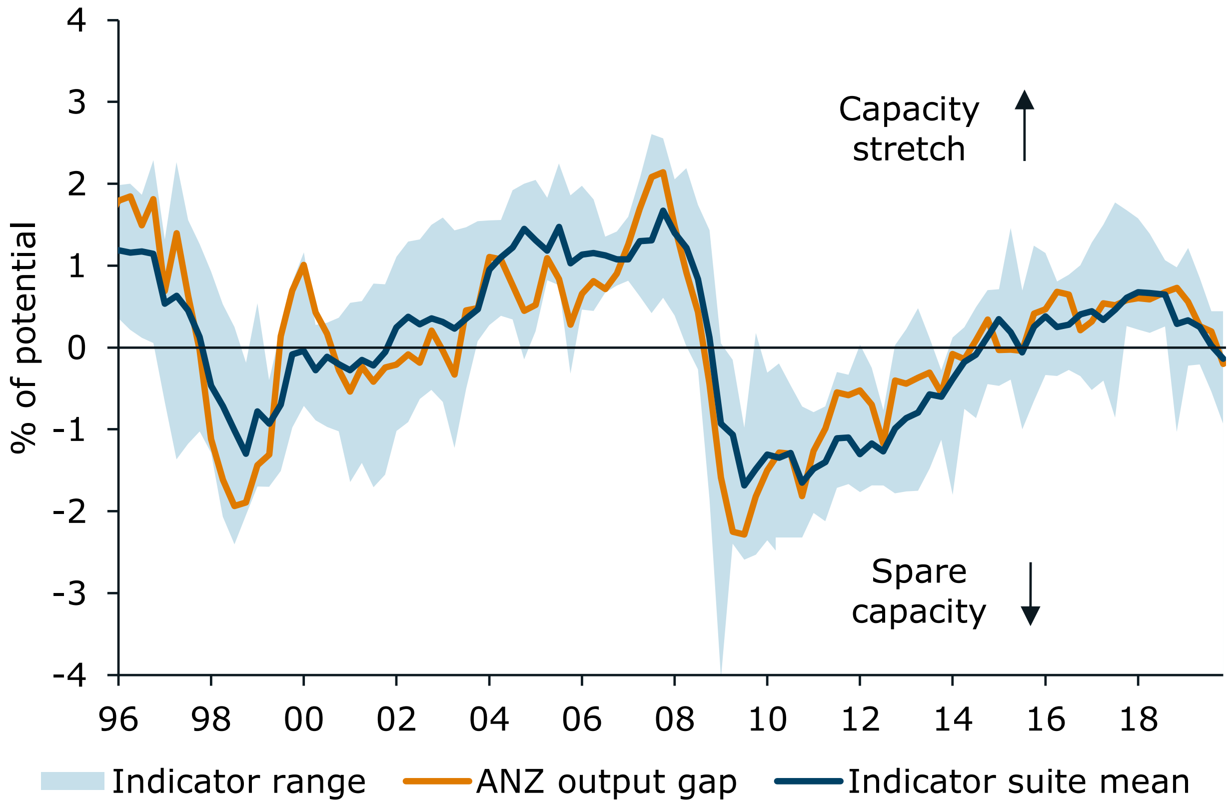


- Due to GDP revisions, we now know that GDP growth slowed more markedly over 2019.
- GDP growth is expected to have troughed at 1.7% y/y in December 2019.

Source: Statistics NZ

Lost in the woods

ANZ output gap and indicator suite

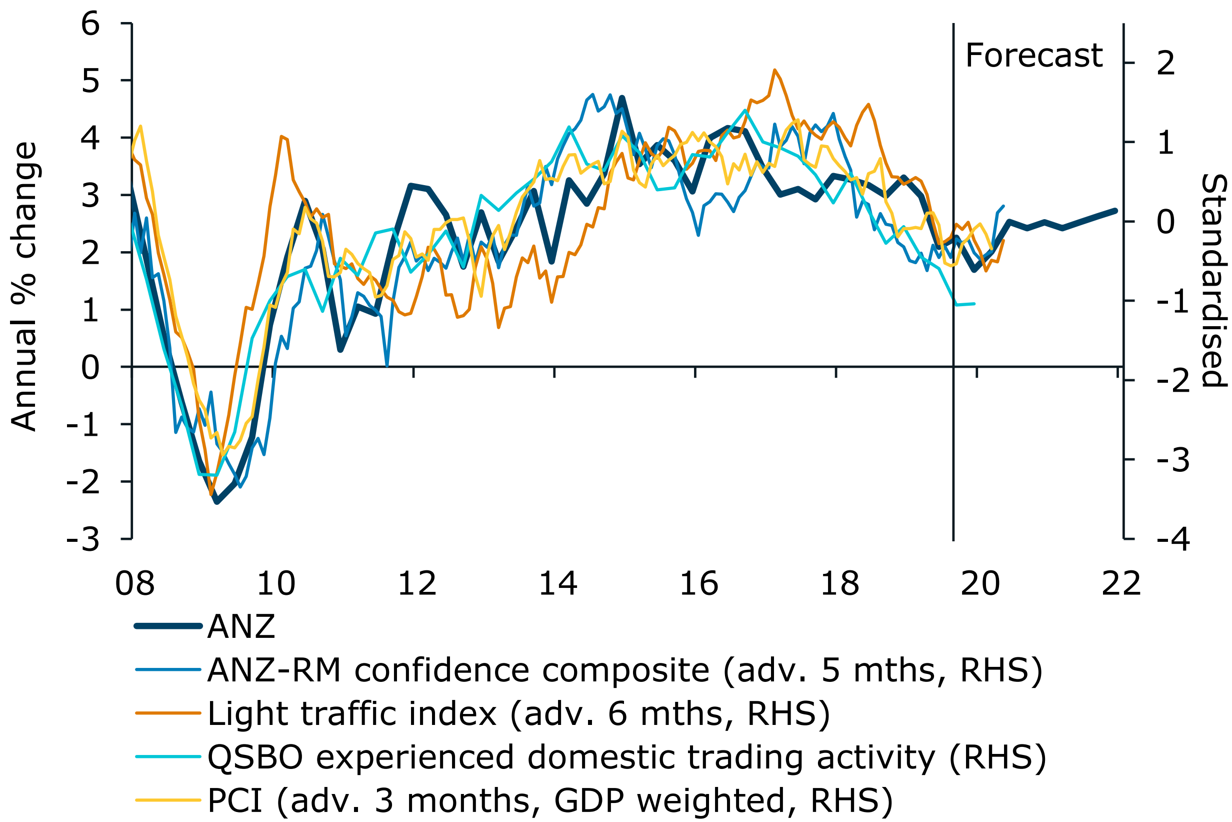


- On the back of the recent deceleration in growth, some spare capacity in the economy has emerged.

Source: ANZ Research

Turning a page

Forward GDP indicators



- Economic momentum has found a floor.
- GDP is expected to gradually improve in the year ahead.

Source: Statistics NZ, BNZ-BusinessNZ, NZIER, RBNZ, ANZ Research

International context

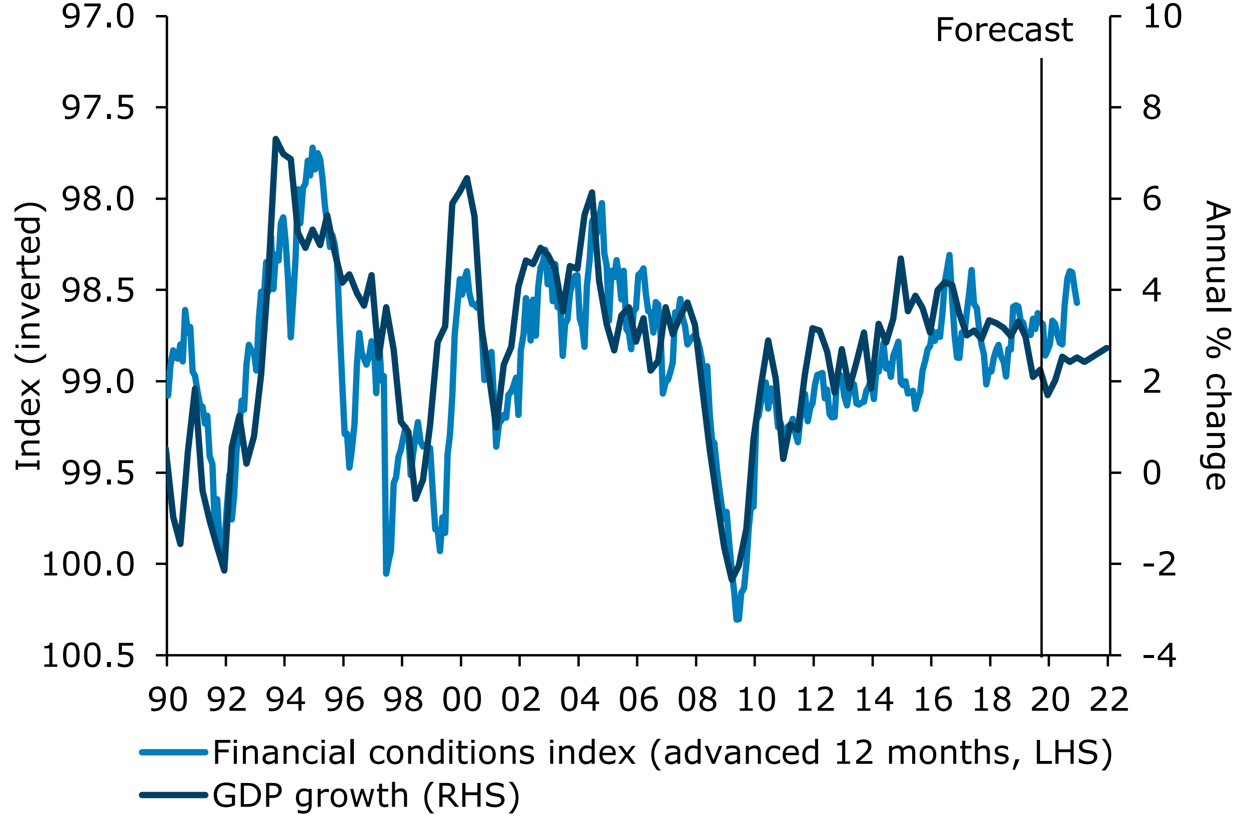
- Growth among New Zealand’s trading partners deteriorated over 2019, but 2020 is looking up – for now.
- 2020 should bring a mild improvement in growth, but for many economies this won’t be sufficient to see inflation lift sustainably to target.
- The hurdle for further easing isn’t high, but with many central banks running low on ammo, it could be time for fiscal policy to up the ante. Nonetheless, recent easing by global central banks is putting a floor under the slowdown, which alongside a more conciliatory tone between the US and China is a welcome development.
- Global risks remain tilted to the downside, with the Wuhan coronavirus a new, and potentially devastating, addition.

Implications for New Zealand

- Food commodities have held their value despite the slowing in global economic growth. Supply-side factors have largely been supportive of meat and dairy prices and these factors are not expected to change. However, mounting risks on the demand side are reducing the likelihood of a fairy-tale ending to the current production season.
- Economic effects of the devastating coronavirus could be significant though are highly uncertain at this stage. We expect to see a temporary dampening impact on export volumes and prices, with the hope that the spread can be contained quickly.
- Over the medium term, global economic conditions are expected to remain favourable for growth. Continued high export returns are expected but we don’t expect the high terms of trade to pass through as strongly as it might have in previous cycles.
- Exports are expected to see modest growth, while imports remain supported by domestic demand.

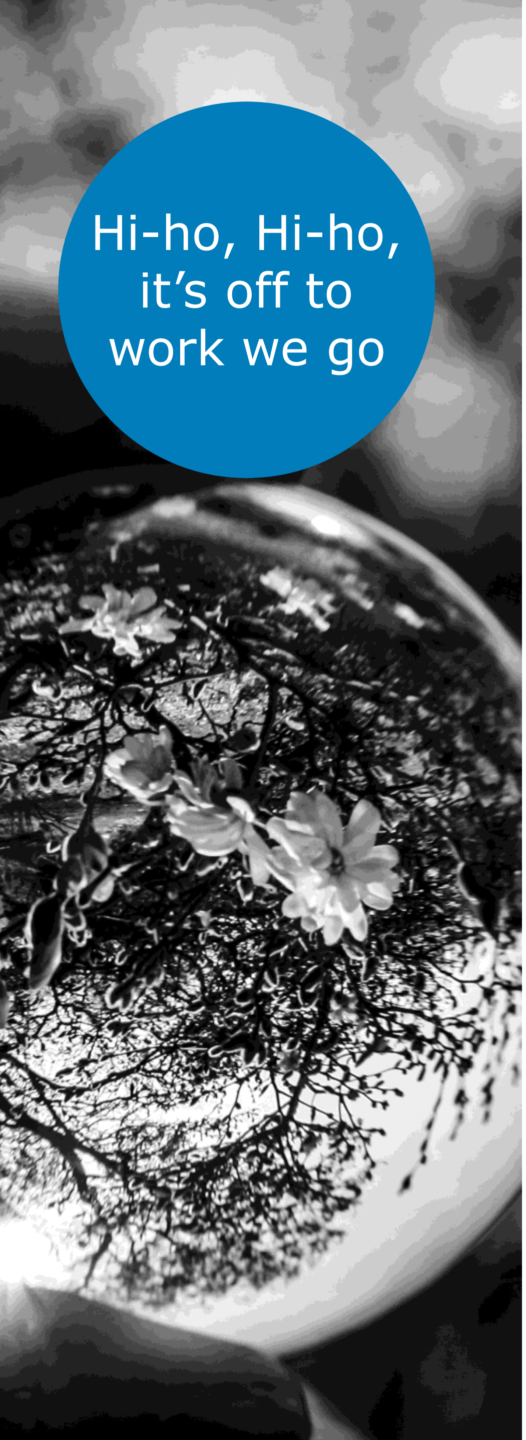
Monetary policy is working

ANZ Financial Conditions Index and GDP



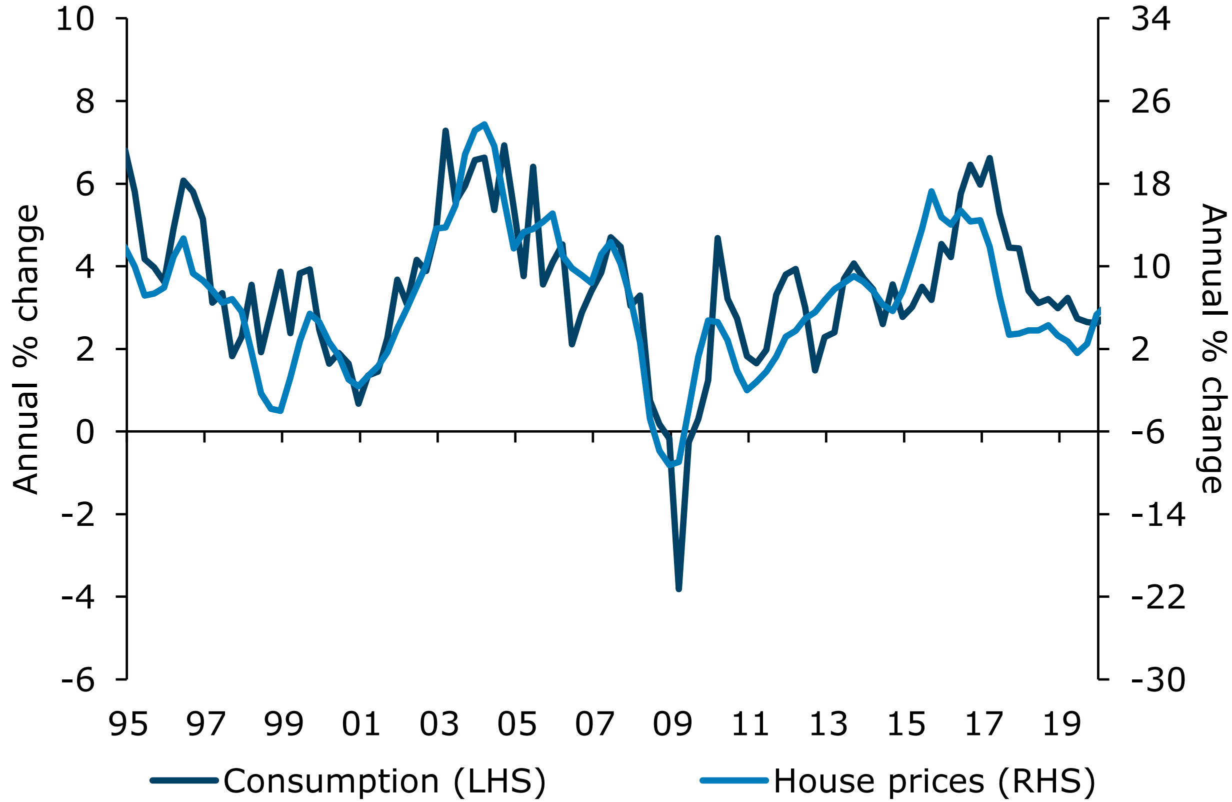
- Monetary policy is doing its job, passing through more effectively to the housing market and business sentiment than we previously expected.
- Financial conditions are expansionary – supporting growth – though the response of business investment is expected to be sluggish.

Source: Statistics NZ, ANZ Research



Hi-ho, Hi-ho, it's off to work we go

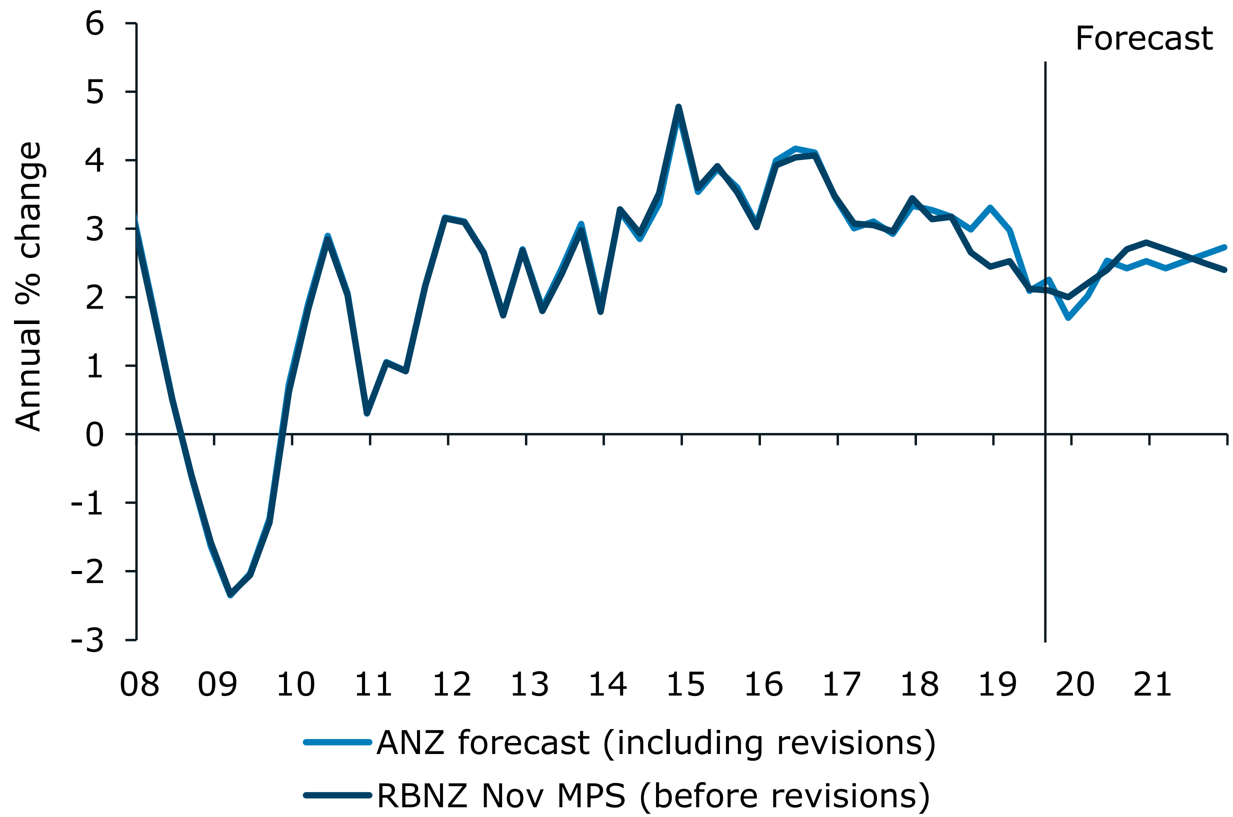
House prices and consumption



- The housing market has strengthened, with house prices rebounding (6%) over the second half of 2019.
- We expect some further near-term strength. This will provide a boost to both consumption and residential investment.

Source: Statistics NZ, REINZ, ANZ Research

Production GDP forecast

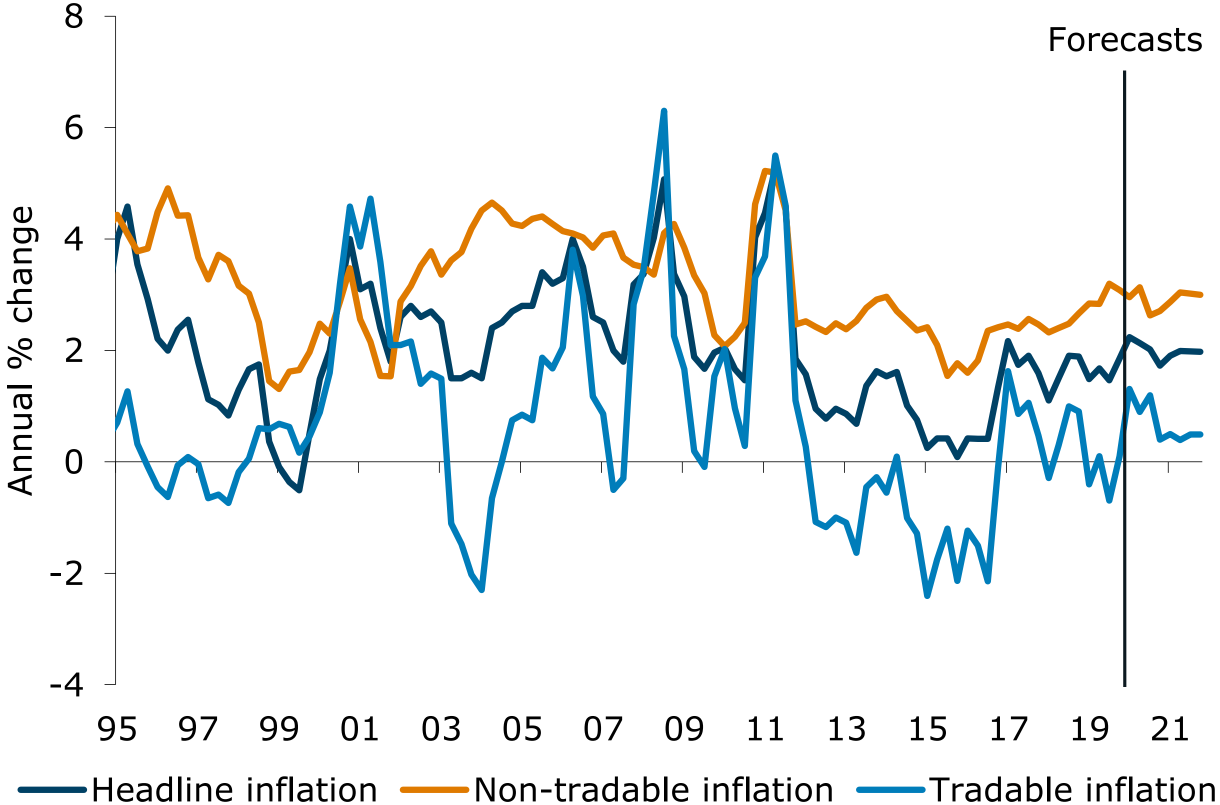


- Fiscal spending is supportive. The labour market is strong. Offsetting that, credit availability may remain a headwind and business investment is constrained.
- Growth is expected to track at 2.4% y/y on average over the next couple of years.

Source: Statistics NZ, RBNZ, ANZ Research

The way home

CPI forecast



- Growth around trend should support inflation over the medium term. We no longer expect that OCR cuts will be needed in the short term.
- Risks are looking more balanced, and the RBNZ can afford to sit pretty and see how developments unfold from here.

Source: Statistics NZ, ANZ Research

Risks

- Housing market strength could be greater and/or more persistent than we currently expect.
- More fiscal spending could be on the cards, with the Government relaxing its debt targets and election campaigning heating up.
- Credit availability could be more of a headwind than currently assumed.
- Drought conditions may be developing
- Global risks remain salient. The Wuhan coronavirus is clearly causing concern.

In the foreseeable future, an on-hold RBNZ seems the most likely outcome. We see some modest downside risk on balance and market pricing of a small chance of OCR cuts is entirely appropriate.

Financial market implications

- We now expect the OCR to remain on hold at 1% for the foreseeable future.
- One of the factors adding to an improving economic outlook is the Government's announcement to lift infrastructure spending, and that means more NZGBs on issue over the medium term.
- Globally, central banks are in wait-and-see mode after delivering additional stimulus last year. Unless something untoward comes along, it's looking increasingly like the Fed has now entered an on-hold phase, but the bias elsewhere is that further easing is more likely than not.
- NZD rallied into the end of 2019. Some retracement has occurred since then, but the improved outlook should keep further downside contained.

ANZ macroeconomic forecasts

Calendar Years	2015	2016	2017	2018	2019(f)	2020(f)	2021(f)
NZ Economy (annual average % change)							
Real GDP (production)	3.5	3.9	3.1	3.2	2.3	2.4	2.6
Private Consumption	3.6	5.6	5.2	3.2	2.8	2.9	2.1
Public Consumption	2.4	2.1	2.9	3.7	3.8	3.6	3.0
Residential investment	5.6	11.2	-0.8	0.1	3.8	-0.7	0.8
Other investment	3.4	0.8	7.2	7.1	2.7	3.0	4.1
Stockbuilding[1]	-0.3	0.1	0.2	0.4	-0.6	0.6	0.0
Gross National Expenditure	3.0	4.5	5.0	4.1	2.3	3.8	2.7
Total Exports	7.7	2.3	2.3	2.5	1.8	-0.8	1.9
Total Imports	4.0	3.4	6.8	5.9	1.6	3.2	2.7
Employment (annual %)	1.3	5.5	3.1	1.9	1.2	1.7	1.6
Unemployment Rate (sa; Dec qtr)	4.9	5.2	4.5	4.3	4.2	4.1	3.8
Labour Cost Index (annual %)	1.6	1.6	1.9	2.0	2.3	2.2	2.4
Terms of trade (OTI basis; annual %)	-3.1	6.7	7.9	-4.8	4.3	1.8	0.5
Current Account Balance ($bn)	-6.8	-5.4	-7.7	-11.3	-10.3	-11.8	-12.5
as % of GDP	-2.7	-2.0	-2.7	-3.8	-3.3	-3.6	-3.7
Prices (annual % change)							
CPI Inflation	0.1	1.3	1.6	1.9	1.9	1.7	2.0
Non-tradable Inflation	1.8	2.4	2.5	2.7	3.1	2.7	3.0
Tradable Inflation	-2.1	-0.1	0.5	0.9	0.1	0.4	0.5
REINZ House Price Index	14.8	14.5	3.5	3.3	5.3	4.6	3.0

[1] Percentage point contribution to growth

Source: Statistics NZ, REINZ, ANZ Research

Key market forecasts

FX Rates	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
NZD/USD	0.67	0.66	0.66	0.65	0.65	0.65	0.65
NZD/AUD	0.97	0.97	0.97	0.97	0.97	0.97	0.97
NZD/EUR	0.62	0.60	0.60	0.58	0.58	0.57	0.57
NZD/JPY	74.4	73.9	73.9	72.8	72.8	72.8	72.8
NZD/GBP	0.51	0.50	0.49	0.48	0.47	0.47	0.46
NZD/CNY	4.74	4.69	4.70	4.65	4.65	4.67	4.67
NZ$ TWI	74.6	73.4	73.3	72.0	71.8	71.6	71.4
Interest Rates	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
NZ OCR	1.00	1.00	1.00	1.00	1.00	1.00	1.00
NZ 90 day bill	1.20	1.20	1.20	1.20	1.20	1.20	1.20
NZ 2-yr swap	1.36	1.29	1.29	1.20	1.23	1.23	1.23
NZ 10-yr bond	1.95	1.67	1.65	1.30	1.30	1.25	1.25

Forecasts are end of quarter

Source: Bloomberg, ANZ Research

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