

New Zealand Weekly Data Wrap

29 January 2021



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See [page 4](#).

Forecast updates

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

- [Labour Market Preview and Forecast Update](#)
- [CPI Preview and Forecast Update](#)
- [RBNZ OCR call change](#)
- [Farmgate milk price forecast revised up](#)
- [ANZ NZ Insight: Weighing it up – possible OCR paths](#)

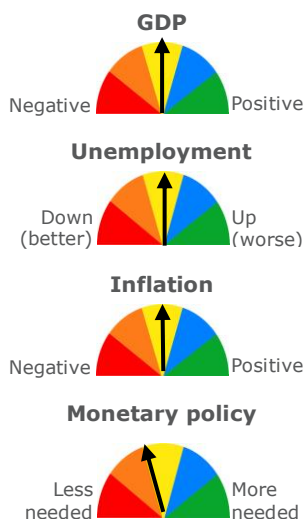
Our other recent publications are on [page 2](#).

What's the view?

- GDP recovery to slow, and even wobble short term
 - Unemployment peak: 6%
 - Inflation picks up gradually
 - We see a little more stimulus on balance.
 - But risk of OCR on hold.
- Our forecasts are on [page 3](#).

Balance of risks

Risks now more balanced



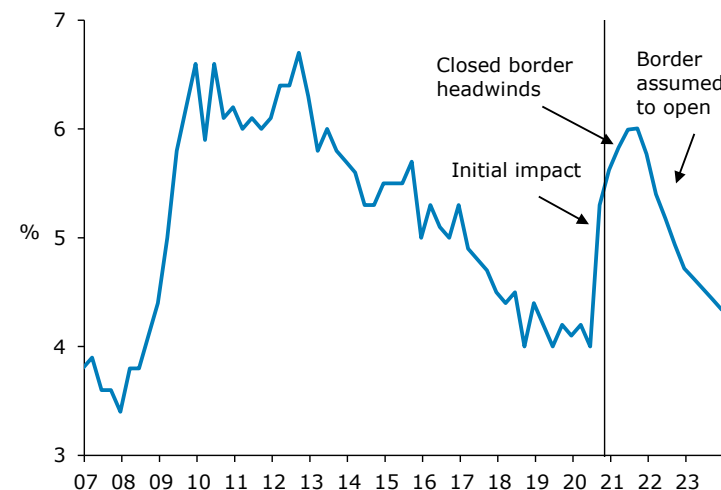
How has the view changed?

Recently we [updated our forecasts](#) to reflect stronger economic momentum into 2021, which means a better [outlook for the labour market](#) too. Better prospects for inflation and the labour market tilt risks away from further monetary policy easing. But we haven't seen the peak in unemployment yet, and continued caution is warranted.

Headwinds to the economic outlook, especially related to the closed border, are expected to weigh on employment this year, with the unemployment rate expected to peak near 6% in mid-2021. We expect the RBNZ will extend the LSAP guidance in February, affirming forward guidance that monetary conditions will remain expansionary for some time. Although the data is yet to show it, we are assuming these headwinds will become more evident in time, motivating the RBNZ to cut the OCR once more 'for luck' to 0.1% in May. However, this may not be deemed necessary if the strong data run continues.

Improvement in the labour market is expected to be gradual until herd immunity is reached and the border opens, with faster declines in the unemployment rate possible once economic activity normalises and the recovery accelerates and evens out. Down the track, once the RBNZ's targets are in sight, policy normalisation will be on the cards. There is significant uncertainty when looking that far into the future, but tightening in monetary conditions may be able to start by mid-2023 based on our current forecasts, and upside risks could see this happen sooner.

Figure 1. Unemployment rate forecast



Source: Statistics NZ, ANZ Research

What happened this week?

Performance Services Index – December. Still contractionary (49.2), but lifted (from 46.7), consistent with the broader pulse for Q4.

Merchandise Trade – December. The annual trade surplus remained buoyed at \$2.9bn. But it's not a good-news story. Supply disruption has contributed to a \$7.4bn decline in annual imports compared to the year to December 2019.

ANZ Roy Morgan Consumer Confidence – January. [Consumer confidence lifted 2 points](#) to 114 in January, led by optimism about the future. Consumer confidence is now not far off its historical average of around 120.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Property Focus: On the horizon - Key themes for 2021
- NZ Forecast Update: Farmgate returns to soften further
- 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 3 Feb (early am)	GlobalDairyTrade auction
Wed 3 Feb (10:45am)	Labour Market – Q4
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
Tue 9 Feb (10:00am)	ANZ Truckometer – Jan
Tue 9 Feb (3:00pm)	RBNZ 2Yr Inflation Expectation – Q1
Fri 12 Feb (10:45am)	Food Price Index – Jan
Fri 12 Feb (10:45am)	Rental Price Index – Jan
Tue 16 Feb (10:45am)	Net Migration – Dec
Wed 17 Feb (early am)	GlobalDairyTrade auction
Fri 19 Feb (10:45am)	PPI – Q4
Tue 23 Feb (10:45am)	Retail Sales – Q4
Wed 24 Feb (2:00pm)	RBNZ Monetary Policy Statement
Thu 25 Feb (1:00pm)	ANZ Business Outlook – Feb F

What are we watching?

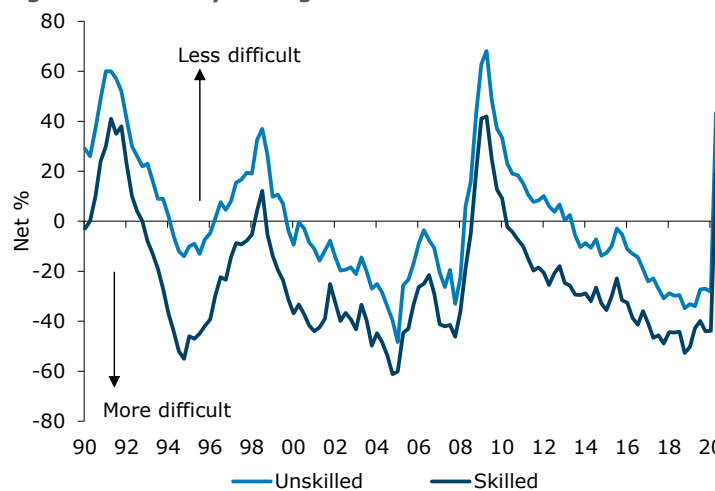
It seems that New Zealand has dodged another bullet this week, with the recent community cases of COVID-19 appearing to be contained. Downside risks to the outlook for economic activity clearly remain, especially with more transmissible strains of the virus becoming more dominant. But for now, the majority of economic data continues its strong run.

After the recent stronger-than-expected CPI print, attention now turns to the labour market outturn for Q4. We expect deterioration in the labour market will be further revealed, with a lift in the unemployment rate from 5.3% to 5.6%. On the whole, we see risks around this as tilted modestly towards a higher print. But a **wide range of outcomes** is possible.

If we are wrong, and the labour market is in a significantly better position than we expect, then that would bring the RBNZ’s targets closer into view and imply a more resilient starting point to withstand headwinds. That would further challenge our expectation for further monetary easing.

Wage inflation is expected to remain soft overall, but underlying this, pockets of wage pressure are expected. Despite a higher unemployment rate, it is more difficult than usual to match the right people to the right jobs and there are acute skill shortages in some areas, particularly construction and horticulture. This will support wage growth a little more than would typically be expected for a given level of the unemployment rate, though higher unemployment and low inflation will weigh. And of course for firms, pressures on wages only adds to cost challenges.

Figure 2. Difficulty finding skilled labour



Source: NZIER

The week ahead

GlobalDairyTrade auction (Wednesday 3 February, early am). Prices are expected to stabilise following the strong lift at the previous event.

Labour Market Statistics – Q4 (Wednesday 3 February, 10:45am). The data itself might be noisy, but **deterioration is expected** to be clear.

ANZ Commodity Price Index – January (Wednesday 3 February, 1:00pm).

Building Permits – December (Thursday 4 February, 10:45am). Demand strong, with capacity constraints the limiting factor for how far this can run.

ANZ Business Outlook Flash – February (Thursday 4 February, 1:00pm).



Markets and forecasts

Markets outlook

Recent global moves to price in more fiscal stimulus, stronger inflation and higher borrowing costs took a breather earlier in the week, but were seen again overnight as equities rebounded and measures of inflation compensation also pushed higher. US fiscal stimulus will be a key focus for markets as activity indicators for early 2021 begin to roll in – where the impact of the pandemic is expected to cast a dark shadow. This more cautious take was further reinforced by a dovish Fed statement, in which the FOMC underlined its commitment to provide stimulus for a long period, pushing back against evolving expectations of policy tightening. This also weighed on the USD, keeping NZD buoyed. We expect interest rate curves to continue to steepen in time as eventual policy normalisation is priced, but this is expected to be gradual, including here in New Zealand where a stronger economic outlook is also posing downside risks to bond issuance. But markets first need to digest the \$2-4bn 2026 NZGB syndication next week. At the short end, market expectations of no further policy easing are expected to remain fairly anchored until headwinds become more apparent. Labour market data could shift pricing at the edges.

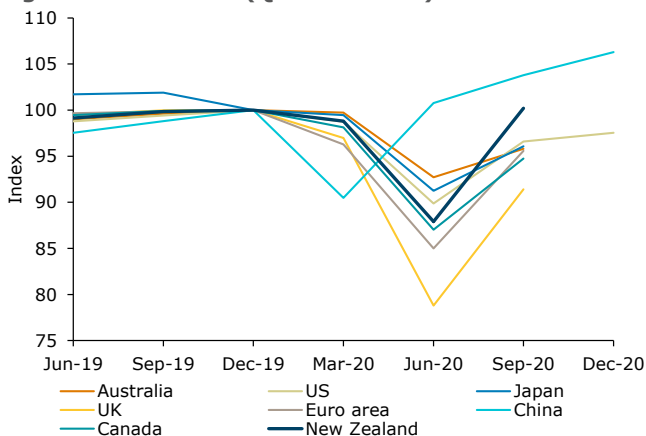
FX rates	Actual			Forecast (end month)					
	Nov-20	Dec-20	Today	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
NZD/USD	0.705	0.724	0.718	0.71	0.72	0.73	0.74	0.74	0.74
NZD/AUD	0.954	0.936	0.935	0.92	0.91	0.91	0.90	0.90	0.90
NZD/EUR	0.588	0.589	0.592	0.58	0.58	0.58	0.58	0.58	0.57
NZD/JPY	73.3	74.6	74.8	73.8	74.2	74.5	75.5	75.5	75.5
NZD/GBP	0.529	0.529	0.523	0.52	0.52	0.53	0.53	0.52	0.52
NZ\$ TWI	74.4	75.2	74.7	74.1	74.2	74.6	74.8	74.8	74.4
Interest rates/QE	Nov-20	Dec-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	0.10	0.10	0.10	0.10
LSAP (\$bn)	100	100	100	100	100	100	100	100	100
NZ 90 day bill	0.25	0.27	0.29	0.17	0.12	0.12	0.12	0.12	0.12
NZ 10-yr bond	0.85	0.99	1.11	1.10	1.20	1.20	1.40	1.40	1.40

Economic forecasts

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
GDP (% qoq)	14.0	-0.5	-0.5	0.5	0.5	0.8	1.5	0.8	0.8
GDP (% yoy)	0.4	-0.3	0.4	13.4	0.0	1.3	3.3	3.6	4.0
CPI (% qoq)	0.7	0.5	0.6	0.5	0.3	0.0	0.3	0.5	0.5
CPI (% yoy)	1.4	1.4	1.2	2.2	1.8	1.3	1.0	1.1	1.3
Employment (% qoq)	-0.8	0.1	-0.1	-0.3	0.2	0.4	0.8	0.7	0.7
Employment (% yoy)	0.2	0.0	-1.1	-1.1	-0.1	0.2	1.1	2.1	2.6
Unemployment Rate (% sa)	5.3	5.6	5.8	6.0	6.0	5.8	5.4	5.2	4.9

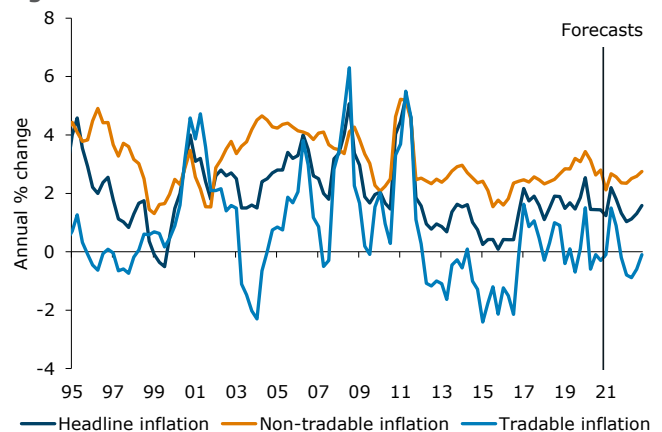
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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