

New Zealand Weekly Data Wrap

5 February 2021



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See [page 4](#).

Forecast updates

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

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

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

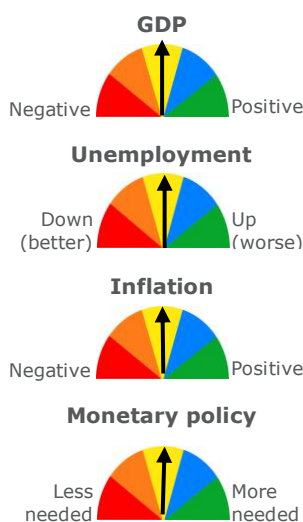
What's the view?

- GDP moves broadly sideways over 2021
- Unemployment peak: 5½%
- Inflation picks up
- OCR on hold
- LSAP extended to Dec-22

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

Balance of risks

Risks now more balanced



How has the view changed?

We **no longer expect** the RBNZ to cut the OCR again this cycle, with the economy more resilient than previously believed. This view reflects a range of factors, but especially a better starting point for the labour market.

- The unemployment rate **unexpectedly fell** in Q4 to 4.9%, and broader indicators of labour market underutilisation likewise improved.
- Measures of employment, hours and earnings point to continued economic momentum into Q4, after Q3's solid lift. Although some industries are struggling, policy support has seen other industries fill the gap so far.
- Businesses are in **good stead** on the back of recent strong activity, despite cost pressures, and are increasingly keen to employ and invest.
- Inflation has also been **stronger than expected** and the outlook is better, with less spare capacity in the economy than previously thought.
- **Commodity prices** have continued to rise and New Zealand's export demand remains supported, despite the challenging global backdrop.

Recent developments take further monetary stimulus off the table, provided downside risks do not materialise, with the outlook for inflation and the labour market looking even more assured (see [Economic Forecasts](#)). The RBNZ will want a high degree of certainty about sustainably reaching its goals, which speaks to policy being on hold for a long while (including an extension to the timeframe of the LSAP programme – which implies a slower pace of asset purchases, but importantly, also gives the RBNZ optionality). But for now, the RBNZ has done enough.

Figure 1. Unemployment rate forecast



Source: Statistics NZ, RBNZ, ANZ Research

What happened this week?

GlobalDairyTrade auction. Up 1.8%, stronger than expected.

Labour Market Statistics – Q4. Unambiguously **better than expected**.

ANZ Commodity Price Index – January. Up 3.6% m/m.

Building Permits – December. Going strong, more needed.

ANZ Business Outlook Flash – February. Activity indicators rose; inflation indicators did too.



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](#)
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- [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
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
Fri 26 Feb (10:00am)	ANZ Consumer Confidence – Feb
Fri 26 Feb (10:45am)	Merchandise Trade – Jan
Tue 1 Mar (10:45am)	Terms of Trade – Q1
Wed 3 Feb (early am)	GlobalDairyTrade auction
Wed 3 Feb (10:45am)	Building Permits – Jan

What are we watching?

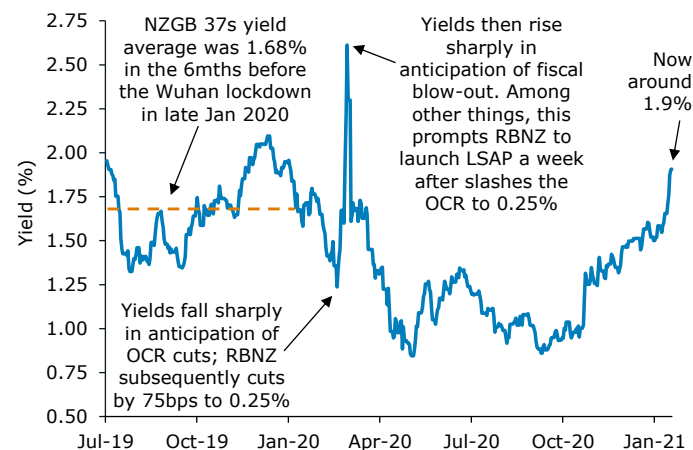
We **now expect** that the RBNZ will sit tight on the current OCR, but that doesn't mean they don't have policy and communication challenges ahead. Recent data points to a more resilient economy and the RBNZ will acknowledge this in this month's MPS, even if their optimism is tinged with a touch of caution. But the RBNZ will want to be sure that their employment and inflation mandates are sustainably achieved, not just forecast. Risks to the outlook are balanced, but with limited monetary ammo from this starting point, downside risks are still more problematic than upside ones.

Our current forecast is that the RBNZ will keep monetary conditions easy until at least the end of 2022, and we expect that removal of stimulus will be slow when it does happen, so as to not scare the horses. But markets have a tendency to be impatient to price future moves, which means speculation of policy tightening will ebb and flow well before then. Already, the increases that we have seen in long-end bond yields may be overdone, given the outlook.

The RBNZ will not want to see interest rates rise too far just yet, as that could hinder the recovery and undermine their goals. But likewise, they will not necessarily want to paint themselves into a corner by committing to keep policy where it is for far longer than necessary, given upside risks exist too.

For now, we think this speaks to an extension of the LSAP timeframe at the February MPS to the end of December 2022, consistent with maintaining their \$100bn cap in the face of lower bond issuance – signalling to markets and commentators that they will maintain easy conditions for at least that long. At some point, further clarity will be needed regarding how eventual policy tightening may occur and be sequenced in practice, given the suite of tools that have been deployed. But for now, the RBNZ will keep its options open.

Figure 2. Long-dated NZGB yields are above where they were before COVID



Source: Bloomberg

The week ahead

ANZ Truckometer – January (Tuesday 9 February, 10:00am).

RBNZ Inflation Expectations Survey – Q1 (Tuesday 9 February, 3:00pm). This will continue to lift, with all forecasts for inflation on the up.

Food Prices – January (Friday 12 February, 10:45am). Expect a solid lift on pricier fruit and veg, as is usual to start the year.

Rental Price Index – January (Friday 12 February, 10:45am). A modest monthly lift across the housing stock of 0.3% m/m would be usual.

REINZ House Sales – January (9-15 February). Anecdotes suggest that the housing market has maintained its heat into 2021.



Markets and forecasts

Markets outlook

Long-end interest rates have moved sharply higher in the wake of the boomer labour market data. The data indicate that the economy has enough of a fire in its belly to justify leaving the OCR on hold for the foreseeable future. A lot of water is yet to flow under the bridge as regards the inflation and employment targets before normalisation is likely to be considered a serious option around the MPC table. Based on our forecasts, normalisation could be a mid-2023 story, but if upside risks materialise, it could be earlier. The vibe is euphoric right now, but the recovery will naturally finish slower than it has started. But markets wait for no one, and if the next move isn't down then surely it's up; and it is this vibe, and the (logical) sense that the RBNZ will likely taper asset purchases before it begins to lift interest rates that has seen long-end interest rates spike higher. Our revised interest rate forecasts (see table) assume a small pullback after what has been an outsized move this week, but we expect dips to be shallow with the market now of a mind to sell/pay rallies, as opposed to buy/receive spikes higher. This vibe was evident in less-spirited bidding interest in this week's NZGB 2026 syndication, which saw the bond issued at a wider spread to fair value than bonds syndicated last year. Higher interest rates and steeper yield curves speak to ongoing NZD strength, with hard economic data now backing the view that the RBNZ will be an early mover (even though that's a story for well down the track).

FX rates	Actual			Forecast (end month)					
	Dec-20	Jan-21	Today	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
NZD/USD	0.724	0.719	0.716	0.71	0.72	0.73	0.74	0.74	0.74
NZD/AUD	0.936	0.941	0.942	0.92	0.91	0.91	0.90	0.90	0.90
NZD/EUR	0.589	0.593	0.598	0.58	0.58	0.58	0.58	0.58	0.57
NZD/JPY	74.6	75.3	75.5	73.8	74.2	74.5	75.5	75.5	75.5
NZD/GBP	0.529	0.525	0.524	0.52	0.52	0.53	0.53	0.52	0.52
NZ\$ TWI	75.2	74.7	74.9	73.5	73.6	73.9	74.2	74.1	73.7
Interest rates/QE	Dec-20	Jan-21	Today	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-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	0.27	0.29	0.28	0.30	0.30	0.30	0.30	0.30	0.30
NZ 10-yr bond	0.99	1.12	1.37	1.25	1.50	1.50	1.75	1.75	1.75

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	0.6	0.5	0.0	0.4	0.5	0.6
CPI (% yoy)	1.4	1.4	1.2	2.3	2.2	1.7	1.6	1.5	1.5
Employment (% qoq)	-0.8	0.6	-0.1	0.0	0.2	0.4	0.8	0.7	0.7
Employment (% yoy)	0.2	0.7	-0.4	-0.2	0.7	0.5	1.4	2.1	2.6
Unemployment Rate (% sa)	5.3	4.9	5.2	5.5	5.5	5.3	4.9	4.7	4.5

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

Figure 3. GDP levels (Q4 2019= 100)

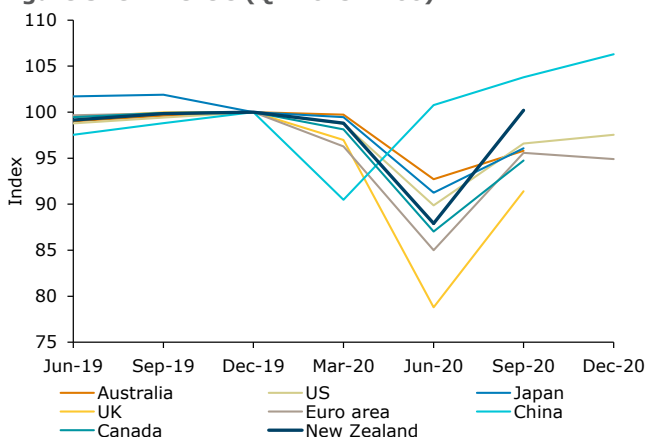
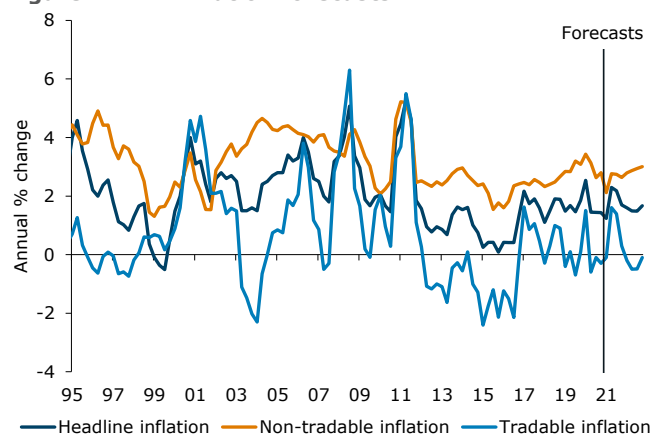


Figure 4. ANZ inflation forecasts





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Source: Statistics NZ, ANZ Research

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We welcome your questions and feedback. Click [here](#) for more information about our team.



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[1 February 2021]

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