

New Zealand Weekly Data Wrap

19 February 2021



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See [page 4](#).

Forecast updates

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

- [RBNZ MPS Preview - Stay the course](#)
- [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](#).

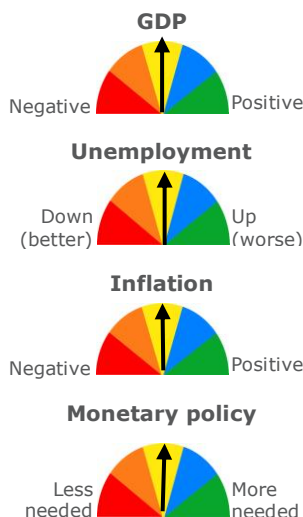
What's the view?

- 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

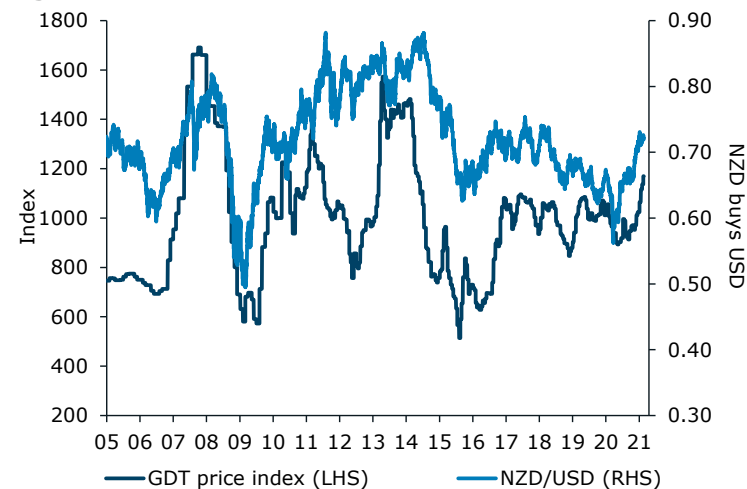
Risks now more balanced



How has the view changed?

Hold the line. That's been the theme within our internal discussions as we've worked to digest the data flow and separate noise from signal. Higher house prices remain a massive driver of domestic momentum at present, but sales have shown some signs of returning to more normal levels, albeit from a pretty nutty place last year. That's in line with our assumption that house price inflation will [slow this year](#) to something around average, as policymakers try to engineer a soft landing and as affordability and credit constraints bite. A weak PSI number this week confirmed all is not well in services industries, and soft migration data once again reminded us that we cannot rely on population-led growth to support GDP. But another strong GlobalDairyTrade result offered some relief and added further justification for the elevated NZD. Then there's the renewed lockdown measures. A short, sharp lockdown like we've seen shouldn't cause too much of a loss in broader activity, but some (namely Auckland hospitality) will certainly feel it more than others. And another round remains an ever-present risk. None of the new news above challenges our broader macro view, but it all goes to show that this crisis is pushing and pulling the economy in many directions – and it's not over yet.

Figure 1. GDT Price Index and NZD/USD



Source: Bloomberg, ANZ Research

What happened this week?

Performance of Services Index – January. Fell further into contractionary territory. The downtrend remains in place, pointing to soft underlying momentum in services industries.

REINZ housing market data – January. Prices rose 1.8% m/m following a record-breaking December quarter, but sales fell 31% m/m (seasonally adjusted). The market remains tight, but turnover in the market has started the year at much more normal levels. This moderation could see price pressures normalise in coming months, particularly if listing lift.

Net Migration – December. A seasonally adjusted net inflow of just 451 people.

GlobalDairyTrade auction. The GDT Price Index lifted 3.0% – outperforming expectations once again. Whole milk powder was the main driver of the lift, gaining 4.3%.



Looking ahead



Recent Publications

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Data calendar

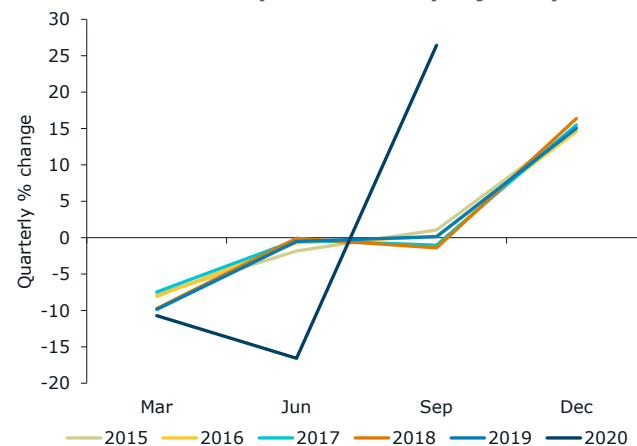
Date	Data/event
Tue 23 Feb (10:45am)	Retail Sales – Q4
Wed 24 Feb (2:00pm)	RBNZ Monetary Policy Statement
Thu 25 Feb (1:00pm)	ANZ Business Outlook – Feb F
Fri 26 Feb (10:00am)	ANZ Consumer Confidence – Feb
Fri 26 Feb (10:45am)	Merchandise Trade – Jan
Tue 1 Mar (10:45am)	Terms of Trade – Q1
Wed 3 Mar (early am)	GlobalDairyTrade auction
Wed 3 Mar (10:45am)	Building Permits – Jan
Wed 3 Mar (1:00pm)	ANZ Commodity Price Index– Feb
Fri 5 Mar (10:45am)	Building Work Put in Place – Q4
Tue 9 Mar (10:00am)	ANZ Truckometer – Feb
Tue 9 Mar (10:45am)	Economic Survey of Manuf – Q4
Tue 9 Mar (1:00pm)	ANZ Business Outlook – Mar P
Wed 10 Mar (10:45am)	Electronic Card Transactions – Feb
Thu 11 Mar (10:45am)	Food Price Index – Feb

What are we watching?

The RBNZ's MPS is out at 2pm next Wednesday. So much has happened since the last MPS in November, meaning there's going to be a lot to digest on the day. The starting point for the economy is significantly better than the RBNZ was forecasting back in November. **We expect** they will welcome the fact they are closer to their inflation and employment targets than they thought they would be, but they will continue to highlight the significant risks, headwinds and temporary factors that are yet to be traversed. They will likely signal that removal of stimulus is a long way off – something they may wish to do through additional forward guidance, potentially even putting a (highly conditional) date on possible OCR hikes (we think 2023 at the earliest). We also expect the time-frame of the LSAP programme to be extended to the end of 2022. **Normalisation** is going to be a lengthy process.

On the data side, retail trade, the first of the Q4 GDP partials, is out next week – exciting! This one could end up sending a more bearish signal about seasonally adjusted Q4 growth than the partials that what will follow. Why? Mostly the very high starting point in Q3 (figure below), but also still-soggy services activity as well as difficulty getting product into New Zealand. These factors point to a recoil in Q4 (sa) that may extend into Q1. Conversely, some pockets of the economy are expected to hold up better, but it may not be enough to prevent headline GDP from slipping in Q4 and Q1 (as per our current forecast, which is likely to change with the partials). But even if New Zealand enters a technical double-dip recession, that shouldn't detract from just how impressive the recovery thus far has been. Recession is a growth concept, and with unprecedented volatility in the levels, the word contains little meaning in the current context.

Retail sales volumes (non-seasonally adjusted)



Source: Stats NZ, ANZ Research

The week ahead

Retail Trade Survey – Q4 (Tuesday 23 February, 10:45am). Q3's spike was gargantuan! Demand has held up since then, but supply hasn't. We've pencilled in a seasonally adjusted retracement in volumes of -4% q/q. But the unadjusted level should be OK for a December quarter.

RBNZ Monetary Policy Statement – February (Wednesday 24 February, 2:00pm). A better starting point, but ongoing support required. See our [Preview](#).

ANZ Business Outlook – February (Thursday 25 February, 1:00pm).

ANZ Roy Morgan Consumer Confidence – February (Friday 26 February, 10:00am).

Overseas Merchandise Trade – January (Friday 26 February, 10:45am). Exports are expected to moderate (as is typical in Jan) to \$4.2bn; imports dip to \$4.8bn, leaving a trade deficit of around \$0.6bn. That should see the annual surplus narrow a touch.



Markets and forecasts

Markets outlook

Global long-end interest rates have continued to climb this week, taking local interest rates with them. With the OCR on hold for some time yet, these moves have steepened the yield curve further, with the 10-year NZGB at around 1.5%. The bear market in global bonds has marched on, and while higher yields have contributed to a mild correction in equity markets, it has not yet led to radical re-assessment of the outlook for growth assets. We expect global yields to continue grinding higher as the year progresses, and while we do expect respite after swift moves like those seen last week, we believe these pullbacks ought to be viewed in the context of the overall up-trend in rates. Given the timetable of eventual monetary policy normalisation, it will be some time before OCR hikes are delivered, but that won't stand in the way of bond yields going higher in anticipation of further LSAP tapering. We don't expect a significant reaction to next week's MPS. While we expect the RBNZ to acknowledge recent better data, downside risks remain, the growth impulse is slowing, and financial conditions have already tightened significantly. The NZD is in consolidation mode ahead of the MPS and while we expect further upside as the year progresses, near term we see further consolidation.

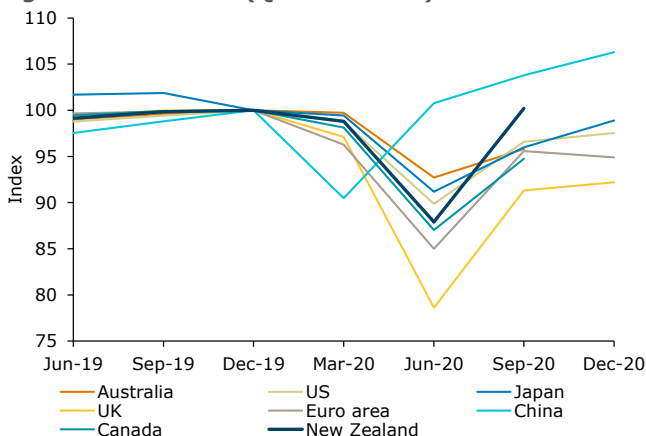
FX rates	Actual			Forecast (end month)					
	Dec-20	Jan-21	Today	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
NZD/USD	0.724	0.719	0.722	0.71	0.72	0.73	0.74	0.74	0.74
NZD/AUD	0.936	0.941	0.929	0.92	0.91	0.91	0.90	0.90	0.90
NZD/EUR	0.589	0.593	0.597	0.58	0.58	0.58	0.58	0.58	0.57
NZD/JPY	74.6	75.3	76.3	73.8	74.2	74.5	75.5	75.5	75.5
NZD/GBP	0.529	0.525	0.517	0.52	0.52	0.53	0.53	0.52	0.52
NZ\$ TWI	75.2	74.7	75.1	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	1.50	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

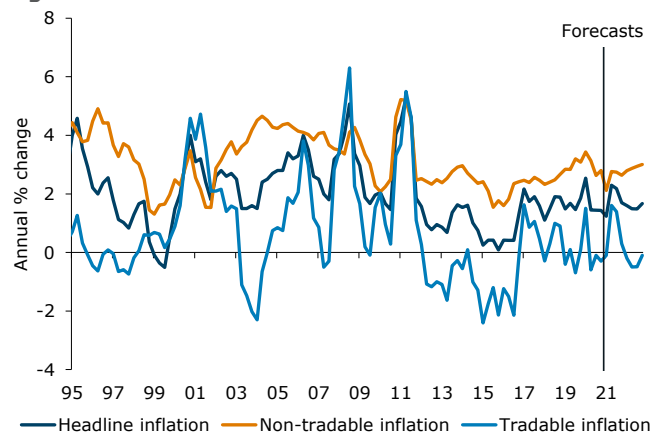
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. ANZ inflation forecasts



Source: Statistics NZ, ANZ Research



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Liz Kendall
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com



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[1 February 2021]

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