


New Zealand Weekly Data Wrap

19 March 2021



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Forecast updates

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

- [Farmgate milk price forecast revised up](#)
- [ANZ NZ Quarterly Economic Outlook – The journey back](#)
- [RBNZ MPS Preview - Stay the course](#)
- [Labour Market Preview and Forecast Update](#)

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

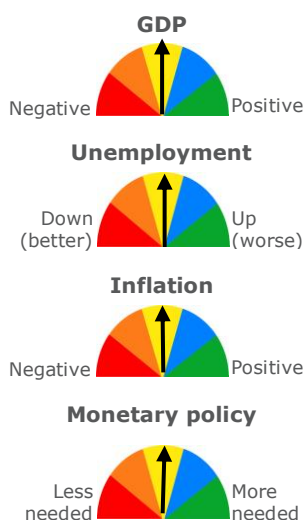
What's the view?

- 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

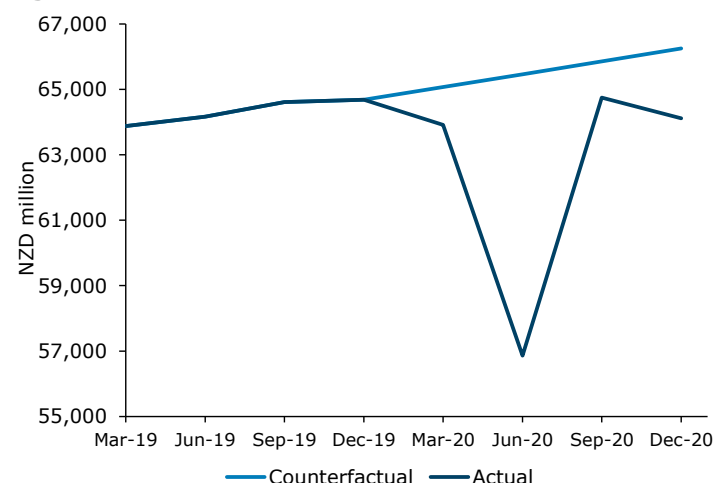


How has the view changed?

This week Stats NZ released GDP data for Q4. It was always a toss-up whether we would see the economy expand or contract. On the day, **GDP declined** 1.0% q/q against our expectation of a 0.5% rise. That's definitely a sizeable negative surprise, but it's not enough to change our overall view of the economic outlook.

The real challenge is trying to work out how much of a signal to take from this data. The data is still pretty noisy under the hood, and it looks like some of the drop in Q4 came from industries experiencing a technical retracement from their record rises in Q3. But it's also true that the headline numbers are probably understating the degree to which the economy was hurting over 2020. When we compare what actually happened in 2020 with a counterfactual scenario in which COVID never happened (figure 1), we estimate that the economy is around 5% smaller than it would have been.

Figure 1. Real GDP vs a non-COVID counterfactual



Source: Stats NZ, ANZ Research

Looking through the noise, we think the Q4 GDP release actually points towards stronger quarterly growth in Q1 than we previously had pencilled in. We've revised up our forecast from -0.5% q/q to 0.0%. A key driver of this revision is construction, which fell a whopping 8.7% in Q4. Given the signals we're getting from the property market (and elsewhere), it's a difficult sell to characterise the construction industry as 'weak'. We're expecting a pretty solid bounce-back for this industry in Q1 (alongside a few other industries). That should somewhat offset the peak quarterly impact of MIA tourists.

What happened this week?

Performance Services Index – February. Ticked up to 49.1.

Net Migration – January. Net migration was 631 in January as border closures and travel restrictions continued to stymie international travel.

Global Dairy Trade. The GDT index fell 3.8%, but WMP prices are still above USD4000/tonne.

Current Account Balance – Q4. Steady at 0.8% of nominal GDP.

GDP – Q4. **GDP declined** 1.0% q/q in the December quarter. Weaker than expected, but not a challenge to our view.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Property Focus: Nothing lasts forever
- NZ Insight: Climate change and the path ahead
- ANZ NZ Property Focus: Off the beaten track
- ANZ NZ Insight: The path to normal
- ANZ NZ Agri Focus: Reaping the rewards
- ANZ NZ Property Focus: On the horizon – Key themes for 2021
- NZ Forecast Update: Farmgate returns to soften further
- ANZ NZ Insight: The intergenerational divide

Click [here](#) for more.

Data calendar

Date	Data/event
Wed 24 Mar (10:45am)	Merchandise Trade – Feb
Tue 30 Mar (10:45am)	Building Consents – Feb
Wed 31 Mar (1:00pm)	ANZ Business Outlook – Mar F
Thu 1 Apr (10:00am)	ANZ-RM Consumer Confidence – Mar
Wed 7 Mar (early am)	GlobalDairyTrade auction
Wed 7 Apr (1:00pm)	ANZ Commodity Price Index – Mar
Thu 8 Apr (1:00pm)	ANZ Business Outlook – Apr P
Fri 9 Apr (10:00am)	ANZ Truckometer – Mar
Tue 13 Apr (10:45am)	Electronic Card Transactions – Mar
Wed 14 Apr (10:45am)	Net Migration – Feb
Wed 14 Apr (2:00pm)	RBNZ OCR
Thu 15 Apr (10:45am)	Food Price Index – Mar
Thu 15 Apr (10:45am)	Rental Price Index – Mar
Fri 16 Apr (10:30am)	BusinessNZ Manuf PMI – Mar
Mon 19 Apr (10:30am)	Performance Services Index Mar
Wed 21 Apr (early am)	GlobalDairyTrade auction

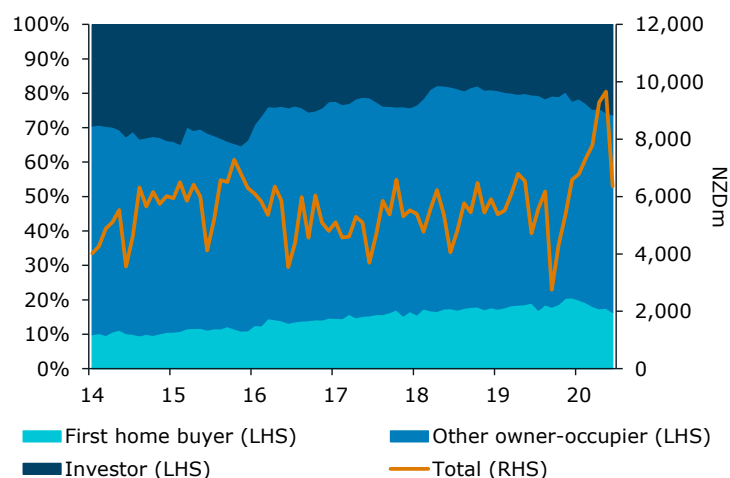
What are we watching?

The housing market remains firmly on our radar. Housing momentum lifted over H2 2020 and into early 2021, with house prices rising 3.7% m/m in February. As we detailed in our recent [Property Focus](#), this momentum has led us to revise up our near-term house price forecast. We expect annual house price inflation to peak at almost 27% y/y in mid-2021 before easing.

Ongoing pressures in the housing market stand in stark contrast to the soft outturn (-8.7% q/q) for construction in the Q4 GDP data. At one level, quarterly volatility in the GDP data is still taking time to settle down. That is, some industries came out of lockdown so aggressively it was never going to be possible to maintain that pace of expansion (that is, Q4 is part of the transition to more sustainable levels of activity). But it also looks like capacity constraints and supply disruptions are really taking a toll on actual building activity. Importantly, demand for residential building remains very strong, but with construction costs rising, difficulty sourcing building materials, and builders rushed off their feet, it seems that it's taking longer for the pipeline of building activity to be completed. That's likely to lead to further increases in construction costs in the near term. But the big Q4 quarterly growth surprise in this industry is no reason to think the overall Q4 GDP read is a threat to estimated underlying economic momentum, or something to which the RBNZ will need to respond. They can afford to sit back and see how the data evolve.

Next week the Government is expected to announce housing policies designed to address the increasingly unsustainable rises in house prices. We don't know the details, but the Minister of Finance has asked the RBNZ to look into caps on interest-only mortgages, as well as debt-to-income ratios – policies that could be applied to property investors. While investors are only a small proportion of total new mortgage lending (figure 2), restrictions on property investment would only add to other factors that are expected to mitigate pressures in the market, including elevated building activity (in the pipeline), recent tightening of macro-prudential policies, and expected eventual rises in mortgage rates. In the longer run, however, the only sustainable solution to the fundamental problem is increasing supply. And a good place to start on that front is freeing up more land for development and cutting red tape.

Figure 2: Composition of new mortgage borrowing



Source: RBNZ, ANZ Research

The week ahead

Overseas Merchandise Trade – February. Exports are expected to increase to NZD4.5bn, and imports to slow to NZD4.3bn, leaving a trade surplus of NZD0.2bn. In annual terms, the trade surplus is expected to fall to NZD2.4bn.



Markets and forecasts

Markets outlook

Global bond yields continue to rise, fuelled by a strong recovery and reflation thematic. Of note, the bellwether US 10-year Treasury yield reached a high of 1.75% overnight, almost 20bps higher than a week ago. Readers may be surprised by this, given the Fed's dovish tone and its commitment to leave policy on hold until data outturns (as opposed to forecasts) show sustained inflation and full employment (across a range of more inclusive measures). That desire for certainty is understandable, but as the US economy re-opens, the risk is we see a flood of upside data surprises that will challenge the Fed's rhetoric. Even if the Fed is right in the end, the market likely has a lot of good news to look through in coming months. Last night's boomer Philly Fed was an example, and the debate is likely to morph into one of how acceptable is it for the Fed to remain so far behind the curve – how far should it let growth and inflation run before it hikes?). Given the contrast between improving data and the Fed's relaxed rhetoric, the pace of the rise in yields will likely slow from here, and be more volatile. But we still see them grinding higher. By contrast, the local vibe is pointing in the other direction in the wake of yesterday's GDP miss. While it hasn't changed our overall narrative, market expectations for RBNZ hikes were already too aggressive (particularly compared to the US and Australia) and this is likely to see more rate hike risk priced out in the near term, which will in turn anchor the short end, steepen the curve, and weigh on the NZD (especially against the AUD).

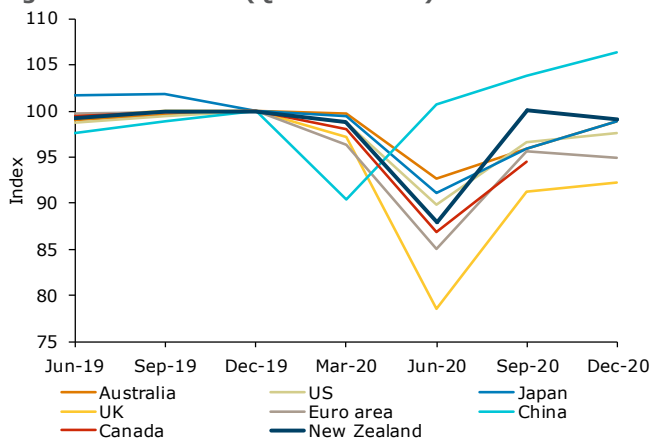
FX rates	Actual			Forecast (end month)					
	Jan-21	Feb-21	Today	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
NZD/USD	0.719	0.723	0.717	0.75	0.75	0.76	0.77	0.77	0.77
NZD/AUD	0.941	0.939	0.923	0.97	0.95	0.95	0.94	0.94	0.94
NZD/EUR	0.593	0.599	0.601	0.61	0.60	0.60	0.60	0.60	0.59
NZD/JPY	75.3	77.1	78.0	78.0	77.3	77.5	78.5	78.5	78.5
NZD/GBP	0.525	0.519	0.514	0.52	0.52	0.52	0.53	0.52	0.51
NZ\$ TWI	74.7	75.9	75.1	78.0	77.1	77.5	77.7	77.6	77.1
Interest rates/QE	Jan-21	Feb-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	0.29	0.31	0.34	0.30	0.32	0.33	0.34	0.34	0.34
NZ 10-yr bond	1.12	1.90	1.83	1.80	2.00	2.10	2.20	2.30	2.30

Economic forecasts

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
GDP (% qoq)	-1.0	0.0	0.5	0.5	0.8	1.5	0.8	0.8	0.8
GDP (% yoy)	-0.9	0.3	13.3	0.0	1.8	3.3	3.6	4.0	4.0
CPI (% qoq)	0.5	0.6	0.6	0.5	0.0	0.4	0.5	0.6	0.2
CPI (% yoy)	1.4	1.2	2.3	2.2	1.7	1.6	1.5	1.5	1.7
Employment (% qoq)	0.6	-0.1	0.0	0.2	0.4	0.8	0.7	0.7	0.7
Employment (% yoy)	0.7	-0.4	-0.2	0.7	0.5	1.4	2.1	2.6	2.9
Unemployment Rate (% sa)	4.9	5.2	5.5	5.5	5.3	4.9	4.7	4.5	4.2

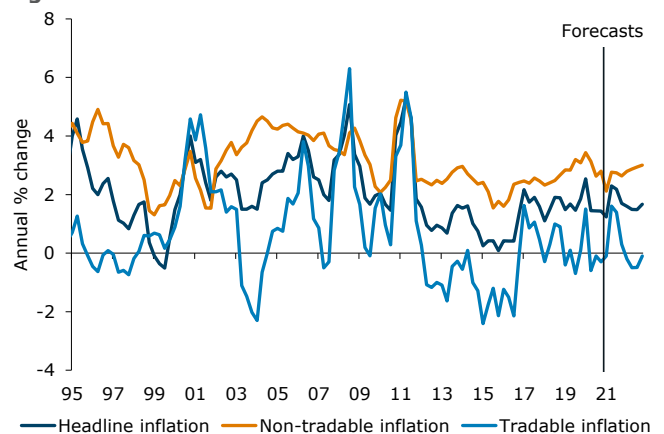
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. ANZ inflation forecasts



Source: Statistics NZ, ANZ Research



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