

New Zealand Weekly Data Wrap

1 April 2021



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Forecast updates

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

- [ANZ NZ Data Wrap: House price outlook slightly weaker](#)
- [Farmgate milk price forecast revised up](#)
- [ANZ NZ Quarterly Economic Outlook – The journey back](#)
- [RBNZ MPS Preview - Stay the course](#)

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

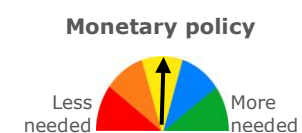
What's the view?

- GDP moves broadly sideways over 2021
- Unemployment peak: 5½%
- Inflation picks up
- OCR on hold

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

Balance of risks

Risks now more balanced



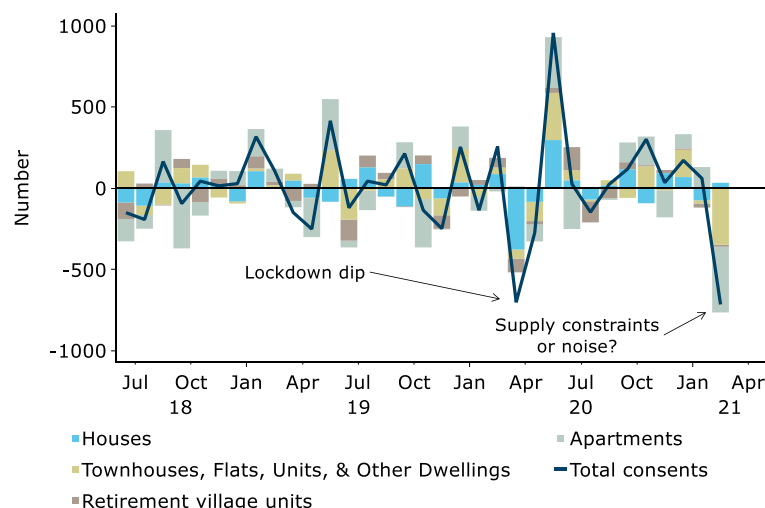
How has the view changed?

This week we've been keeping an eye on indicators of activity in the construction sector. While timely indicators for this sector can be pretty noisy, we're seeing an emerging risk that residential building has been more constrained by supply and capacity pressures than we previously thought.

The construction sector has been the star performer of New Zealand's post-lockdown economy, driving economic momentum forwards. But with the sector running into serious capacity headwinds, there's a question around whether this momentum can be sustained. To start with, our recent [Business Outlook](#) showed that pricing intentions and cost expectations in the construction sector continued to grind higher in March, whilst confidence, activity, employment, investment, and profit all declined – clear signs of hitting some kind of constraints. It's not unusual for construction sector firms to get into trouble during very busy times due to stretching themselves too thin, but the supply shortages we're seeing – and in particular, the associated project delays – could cause considerable cash-flow pain. Once capacity constraints start to grip the sector, rising costs can seriously impact the bottom line, especially for larger multi-unit developments.

If big developers see the sector struggling to keep up with demand, with costs and delays mounting, they may put off planned developments to a later, less-risky date, even if pre-sales aren't a problem. This story could already be playing out – consents data for February showed unseasonable weakness, leading to an 18.2% m/m drop. This drop was led by falls in apartments and townhouses (figure 1) – the bread and butter of large developers.

Figure 1. Monthly change in consent issuance



Source: Stats NZ, Macrobond, ANZ Research

What happened this week?

Building consents – February. Down 18.2% m/m (sa).

ANZ Business Outlook – March. Business's [own activity expectations](#) came in at 16.6 versus a preliminary March read of 17.4.

RBNZ sectoral lending data – February. As expected - housing lending holding up, while business and agricultural lending remain muted.

ANZ Roy Morgan Consumer Confidence – March. [Down 2pts](#) to 111.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- ANZ NZ Insight: The road to full employment
- NZ Housing Policy Changes – Recalibrating the demand pulse
- ANZ NZ Property Focus: Nothing lasts forever
- NZ Insight: Climate change and the path ahead
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- ANZ NZ Agri Focus: Reaping the rewards
- ANZ NZ Property Focus: On the horizon – Key themes for 2021
- ANZ NZ Insight: The intergenerational divide

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Data calendar

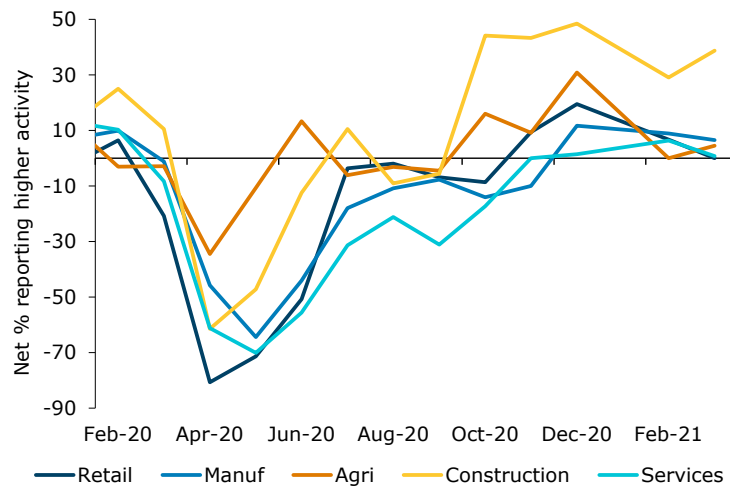
Date	Data/event
Wed 7 Apr (early am)	GlobalDairyTrade auction
Wed 7 Apr (1:00pm)	ANZ Commodity Price Index – Mar
Thu 8 Apr (1:00pm)	ANZ Business Outlook – Apr P
Fri 9 Apr (10:00am)	ANZ Truckometer – Mar
Tue 13 Apr (10:00am)	NZIER QSBO – Q1
Tue 13 Apr (10:45am)	Electronic Card Transactions – Mar
Wed 14 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
Wed 21 Apr (10:45am)	CPI – Q1
Thu 29 Apr (10:45am)	Merchandise Trade – Mar

What are we watching?

Our view has been that construction is likely to continue at relatively high activity levels over 2021, albeit struggle to deliver much more growth due to capacity constraints. As long as the border is closed, strong construction is key to preventing the economy slipping backwards as the tourism pain accumulates, the housing market cools, and fiscal stimulus wanes.

The March read of the [Business Outlook](#) suggests that construction activity has held up above where it was this time last year, whereas other sectors are only just breaking even with previous levels (figure 2). But the sector's forward-looking indicators fell noticeably. And the weakness in the February consents data also highlights a risk that residential construction activity could decline in mid-2021. Whether due to capacity constraints or any other reason, this could see overall economic momentum stall. It's a risk that we are watching closely, but it's too early to revise our forecasts at this point. And there are upside risks too – a travel bubble with Australia could step in to support the economy.

Figure 2: Activity vs. same month a year earlier



Source: ANZ Research

Overall, for now we're still comfortable with our current view. One reason for a measured approach is that economic data has been volatile since lockdown began a year ago, and it's very possible that the consents data could bounce back as sharply as they fell in February. But we're watching this sector very closely – it's the economy's shining light and if its prospects dim, it matters.

Issues in the construction sector will also be on the RBNZ's radar. In the near term, the capacity pressures building in construction are likely to see headline inflation numbers print higher (we're picking 2.3% y/y inflation in Q2 2021). But if a struggling construction sector knocks the wind out of the economy's sails, this could make it harder for the RBNZ to achieve its inflation and employment goals over the next few years. This risk in the construction sector will only reinforce the RBNZ's view that they need to see sustained strength in the data before thinking about tightening monetary policy settings.

The week ahead

GlobalDairyTrade auction (Wednesday 7 April, early am). Prices forecast to ease a further 3% as the market absorbs extra volume on offer.

Commodity Price Index – March (Wednesday 7 April, 1:00pm).

ANZ Business Outlook Flash – April (Thursday 8 April, 1:00pm).

ANZ Truckometer – March (Friday 9 April, 10:00am).



Markets and forecasts

Markets outlook

The retracement lower in US 10-year Treasury bond yields off the highs discussed in last week's edition has not been sustained. Yields have resumed their upward march, taking them to new highs earlier this week. Whether they continue moving higher in coming days depends partly on US non-farm payroll and unemployment data due out on Friday night (NZ time). Any data surprise (the market expects +650k) could cause near-term volatility, but irrespective of that, we expect to see a dramatic improvement in the pace of US jobs growth over coming months, with economic growth supported by stimulus cheques and President Biden's newly unveiled USD2.25trn infrastructure plan. This does challenge our mildly bullish NZD view somewhat, but on balance, further mild appreciation remains on the cards given the rebound in risk appetite and the strength of commodity prices. We remain comfortable with our baseline forecast of gradually rising global long-end yields. However, bond-positive supply and duration considerations will go some way to offsetting global negatives here, and we expect NZ yields to rise less rapidly. With the Crown Settlement Account at \$38.4bn as at February, the economy doing better, and tax receipts continuing to surprise on the upside, the risks around bond issuance are skewed to the downside, taking pressure off yields to rise. On the duration side, the maturity of the 2021 bond will lift the duration of the index tracked by many fund managers by around 0.6 years. That should bring out buyers on any local yield spikes. Short-end yields have now fully digested recent housing announcements and we expect them to remain anchored.

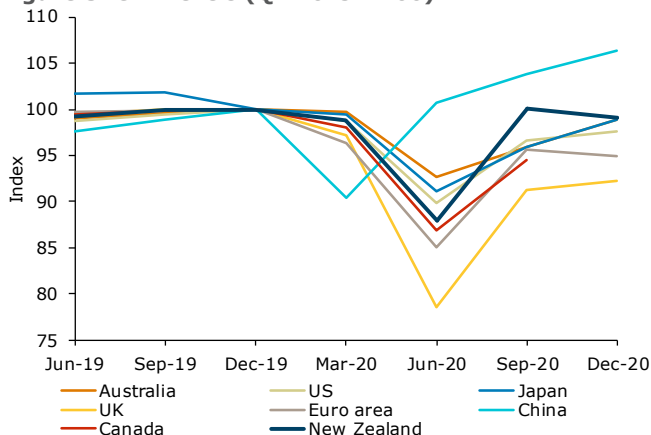
FX rates	Actual			Forecast (end month)					
	Feb-21	Mar-21	Today	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
NZD/USD	0.723	0.700	0.698	0.75	0.76	0.77	0.77	0.77	0.77
NZD/AUD	0.939	0.919	0.919	0.95	0.95	0.94	0.94	0.94	0.94
NZD/EUR	0.599	0.596	0.596	0.60	0.60	0.60	0.60	0.59	0.59
NZD/JPY	77.1	77.4	77.3	77.3	77.5	78.5	78.5	78.5	78.5
NZD/GBP	0.519	0.508	0.507	0.52	0.52	0.53	0.52	0.51	0.51
NZ\$ TWI	75.9	74.0	73.8	76.5	76.8	77.0	77.0	76.5	76.5
Interest rates/QE	Feb-21	Mar-21	Today	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-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	0.32	0.33	0.34	0.34	0.34	0.34
NZ 10-yr bond	1.12	1.90	1.81	2.00	2.10	2.20	2.30	2.30	2.50

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

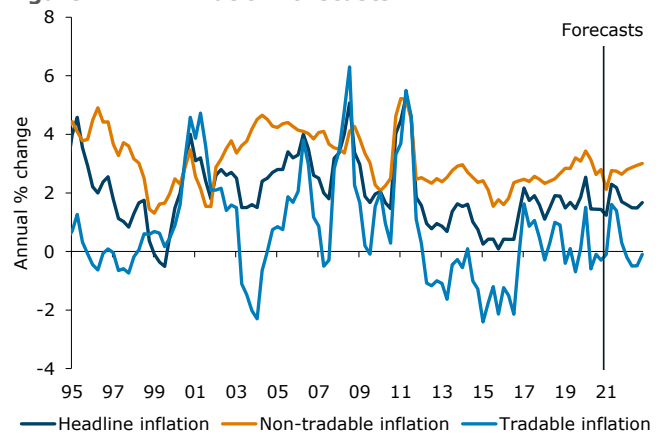
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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