

# New Zealand Weekly Data Wrap

14 May 2021



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## Forecast updates

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- [ANZ NZ Data Wrap - A stronger outlook for employment](#)
- [ANZ NZ Data Wrap - CPI: Petrol and housing pump up prices](#)
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- [ANZ NZ Quarterly Economic Outlook: The journey back](#)

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

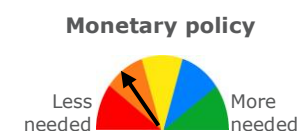
## What's the view?

- GDP moves broadly sideways over 2021
- Unemployment peak: 4.7%
- Inflation picks up
- OCR on hold

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

## Balance of risks

Risks skewed to higher inflation

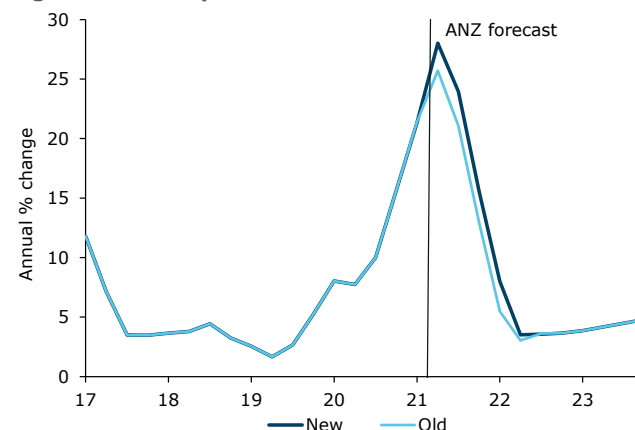


## What happened this week?

Yesterday's April house price data was the first chance to see the impacts on the red-hot housing market of the Government's housing policy changes. As it happened, [house prices rose](#) 1.7% m/m, down from 2.8% previously (ANZ seasonal adjustment). And the number of houses sold dropped 12.8% m/m. Overall, that points to some softening in housing activity, but prices (which lag sales) have a bit more momentum than we had pencilled in.

That doesn't mean that the impact of the policy announcements is smaller than we had expected. A single data point is just the opening bid. There's a lot going on, and we'll need to keep our finger on the housing pulse for a while yet. But we have tweaked our house price forecast to take into account the stronger starting point (figure 1). The fundamentals of the housing market continue to suggest a moderation in house price growth from here: affordability constraints, mortgage rates that are more likely to go up than fall further, loan-to-value ratio restrictions back and bigger than ever, building consents at historical highs, and population growth that's severely curtailed by the border closure.

Figure 1. House price forecast



Source: REINZ, ANZ Research

In other data, food prices rose 1.1% m/m in April – a much stronger reading than is normal for this time of year. Part of the increase reflected the most recent bump to the minimum wage, to \$20/hr, which took effect on 1 April. But higher global food commodity prices and shipping disruptions are also having an impact on the prices Kiwis pay at the checkout.

## Key data summary

**RBNZ Inflation Expectations – Q2.** 2-year-ahead inflation expectations ticked up to 2.05% y/y (1.89% previously) – the sweet spot for the RBNZ.

**ANZ Truckometer – April.** Light traffic was up 0.6% m/m, heavy traffic down 1.2% m/m, but overall the [traffic indexes show](#) a busy economy.

**REINZ House Prices – April.** [House prices rose](#) 1.7% m/m (ANZ sa).

**Food Prices – April.** Food prices rose 1.1% m/m.

**Rental Price Index – April.** Rents increased 0.3% m/m – in line with usual seasonal patterns.

**BusinessNZ Manufacturing PMI – April.** The PMI was 58.4, down from a record high of 63.6 in March, but still solidly in expansionary territory.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Property Focus: Policy plethora](#)
- [NZ Agri Focus: Slow boat to China](#)
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- [ANZ NZ Insight: Bubbling over with excitement](#)
- [ANZ NZ Insight: The road to full employment](#)
- [NZ Housing Policy Changes: Recalibrating the demand pulse](#)
- [NZ Insight: Climate change and the path ahead](#)
- [ANZ NZ Insight: The path to normal](#)

Click [here](#) for more.

### Data calendar

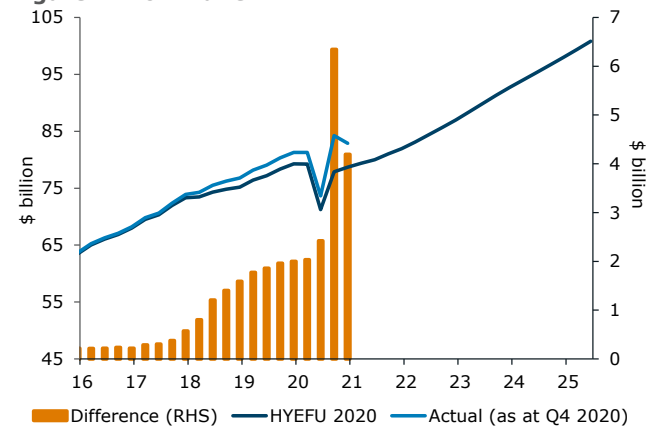
Date	Data/event
Mon 17 May (10:30am)	Performance Services Index Apr
Mon 17 May (10:45am)	Net Migration - Mar
Wed 19 May (early am)	GlobalDairyTrade auction
Wed 19 May (10:45am)	PPI - Q1
Thu 20 May (2:00pm)	<b>NZ Budget</b>
Mon 24 May (10:45am)	Retail Sales - Q1
Wed 26 May (10:45am)	Merchandise Trade - Apr
Wed 26 May (2:00pm)	<b>RBNZ MPS</b>
Fri 28 May (10:00am)	<a href="#">ANZ-RM Consumer Confidence - May</a>
Mon 31 May (1:00pm)	<a href="#">ANZ Business Outlook - May F</a>
Mon 31 May (3:00pm)	RBNZ Sectoral Lending - Apr
Tue 1 Jun (10:45am)	Building Permits - April
Wed 2 Jun (early am)	GlobalDairyTrade auction
Wed 2 Jun (10:45am)	Terms of Trade - Q1
Thu 3 Jun (1:00pm)	<a href="#">ANZ Commodity Price Index - May</a>
Fri 4 Jun (10:45am)	Building Work Put in Place - Q1

### Budget week

Budget 2021 is the main event next week, and it's looks like it'll aim to carefully balance the need to rebuild fiscal buffers with addressing some of NZ's biggest issues (such as housing affordability and child poverty). In our view, big inroads can be made on the social side of the ledger by going hard to address the housing crisis, but we're sceptical that throwing money at the problem will have much impact. Construction is already running at capacity, so the Government's focus really needs to be on addressing supply-side constraints. There's no quick fix to the lack of building supplies, but freeing up a lot of land for development and cutting red tape are probably the most powerful tools in the Government's arsenal. Going hard in this space can be challenging from a political perspective when many voters' retirement plans include a capital gain on their house(s). But it's also likely that unless change is radical and house prices actually fall relative to incomes, the nasty social outcomes accompanying the housing crisis will never fully abate.

We're also expecting a solid upgrade to the economic and fiscal outlook from the Treasury, with the stronger economy supporting a lower forecast peak in net core Crown debt from 52.6% of GDP at December's Half-Year Update to something in the late 40s at Budget 2021.

Figure 2. Nominal GDP



Source: Stats NZ, the Treasury, ANZ Research

In terms of additional spending, the stronger starting point should provide the Government a little extra wriggle room – but this is unlikely to be a game changer. After all, the Government has to consider the almost \$120 billion increase in projected net debt (to 2023/24) between HYEFU 2019 and HYEFU 2020. And while that amount of debt accumulation represents a lot of saved jobs and livelihoods, it also represents a need to remain focused on fiscal consolidation so that the Government has the ammunition it will need to respond to the next inevitable crisis, whatever and whenever that may be.

### The week ahead

**Performance of Services Index – April (Monday 17 May, 10:30am).** The PSI was in expansionary territory in March – further gains would be welcome.

**Net Migration – March (Monday 17 May, 10:45am).** The trans-Tasman travel bubble opened in April, so low migration would have continued in March.

**GlobalDairyTrade auction (Wednesday 19 May, early am).** Dairy prices look set to lift a further 1.5%, driven by increased dairy consumption in China.

**NZ Budget 2021 (Thursday 20 May, 2:00pm).** See our [Preview](#) for details.



## Markets and forecasts

### Markets outlook

US 10-year bond yields have moved higher this week in the wake of stronger-than-expected CPI data, dragging long-term interest rates across the globe up with them. While US rates have receded a touch from intra-week highs, such was the scale of the upside surprise that markets are understandably questioning for how long the Fed can sit on its hands. Fed officials have, for the most part, reacted calmly, reiterating that they'll need more than one month of strong data before declaring victory on their inflation target. However, market participants remain nervous, and we doubt the debate on whether the Fed needs to hike earlier than 2024 will die down anytime soon. Wobbles in equities have limited the impact on interest rates (based on the idea that if we were to see a cooling in asset prices and general market froth, the Fed may not tighten too early for fear of undermining the recovery), but we still expect a gradual lift in US interest rates over coming quarters. Local markets are engaged in the same debate, and market expectations for OCR hikes are rising too, and that's pushed NZ long-term interest rates back up towards February highs. With Crown finances in better shape, forecast government bond (NZGB) issuance is likely to be scaled back over coming years in next week's Budget, which we expect to help contain bond yields. By contrast, we see scope for swap rates to rise more rapidly. With business confidence improving and the yield curve steepening, the risk is that we see more corporate interest rate hedging, adding to upward pressure on swap rates. The Kiwi has dipped on USD strength this week. However, with local markets also warming to the idea of earlier RBNZ OCR hikes, and the local economy strong, domestic factors provide a base of support for the NZD.

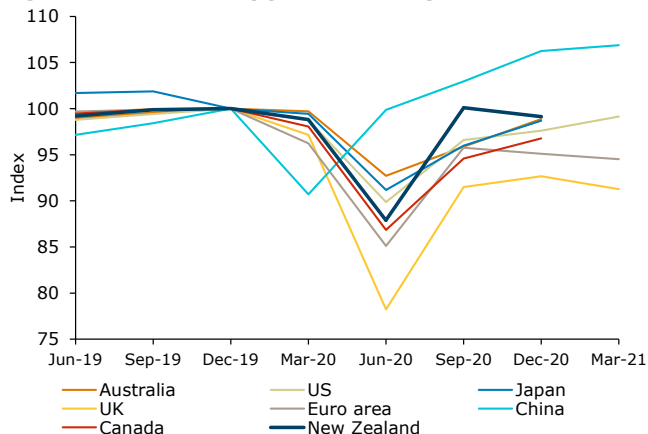
FX rates	Actual			Forecast (end month)					
	Mar-21	Apr-21	Today	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
NZD/USD	0.700	0.716	0.719	0.75	0.76	0.77	0.77	0.77	0.77
NZD/AUD	0.919	0.928	0.930	0.95	0.95	0.94	0.94	0.94	0.94
NZD/EUR	0.596	0.596	0.595	0.60	0.60	0.60	0.60	0.59	0.59
NZD/JPY	77.4	78.3	78.7	77.3	77.5	78.5	78.5	78.5	78.5
NZD/GBP	0.508	0.518	0.511	0.52	0.52	0.53	0.52	0.51	0.51
NZ\$ TWI	74.0	75.3	75.0	76.5	76.8	77.0	77.0	76.5	76.5
Interest rates/QE	Mar-21	Apr-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
NZ 90 day bill	0.35	0.36	0.36	0.32	0.33	0.34	0.34	0.34	0.34
NZ 10-yr bond	1.81	1.65	1.88	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	<b>0.0</b>	<b>0.5</b>	<b>0.5</b>	<b>0.8</b>	<b>1.5</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
GDP (% yoy)	-0.9	<b>0.3</b>	<b>13.3</b>	<b>0.0</b>	<b>1.8</b>	<b>3.3</b>	<b>3.6</b>	<b>4.0</b>	<b>4.0</b>
CPI (% qoq)	0.5	0.8	<b>0.5</b>	<b>0.5</b>	<b>0.1</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.2</b>
CPI (% yoy)	1.4	1.5	<b>2.5</b>	<b>2.4</b>	<b>2.0</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>
Employment (% qoq)	0.6	0.5	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>
Employment (% yoy)	0.8	0.3	<b>0.8</b>	<b>1.7</b>	<b>1.3</b>	<b>1.2</b>	<b>1.5</b>	<b>2.1</b>	<b>2.6</b>
Unemployment Rate (% sa)	4.9	4.7	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.6</b>	<b>4.4</b>	<b>4.2</b>	<b>4.0</b>

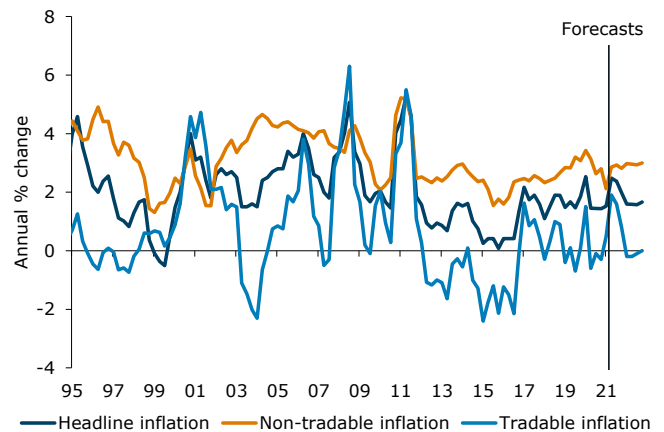
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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