

New Zealand Weekly Data Wrap

20 August 2021



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See [page 4](#).

Forecast updates

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

- [RBNZ MPS Review: Case sensitive](#)
- [NZ Data Wrap: Labour market power shift](#)
- [NZ Forecast Update: Inflation with a 4-handle](#)
- [NZ Property Focus: A slow ship to turn](#)

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

What's the view?

- GDP constrained by supply more than demand
- Labour market very tight
- Inflation above target
- OCR to lift from Aug 2021

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

Key risks to our view



The outbreak takes longer to eliminate, and doubts rise that we can do it, leading to sharp drops in consumer and business sentiment.



Housing is at a turning point. Momentum could fade faster as rates rise, or have more significant economic impacts.

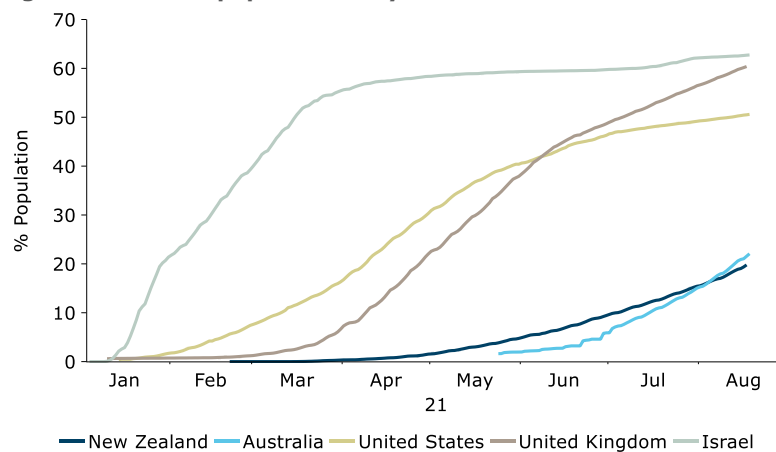


Conversely, an overheated economy and surging inflation expectations could be hard to rein in.

Lockdown stymies OCR hike

It was bound to happen at some point. Delta, the extremely infectious variant of COVID-19, has finally found its way into the New Zealand community. The majority of the population is yet to have one Pfizer jab, and only 23% are fully vaccinated. We are lagging well behind international peers on vaccination, including Australia now (figure 1), and an aggressive public health response is needed to protect us. So we find ourselves back in lockdown. We hope that the early response means that we can avoid a drawn-out lockdown like in New South Wales, and mitigate the worst health and economic effects of COVID (with help from fiscal policy). Another disturbing feature of figure 1 is that vaccination rates have flattened off markedly even in Israel – an early star of the vaccination effort. Clearly reaching anything close to herd immunity is going to be a challenge if global take-up of vaccines is anything to go by.

Figure 1. Share of population fully vaccinated



Source: Our World In Data, Macrobond, ANZ Research

Of course, the main headline this week was meant to be the RBNZ raising the OCR for the first time since 2014. The debate amongst most economists was not whether the RBNZ would hike interest rates, but rather by how much (we were expecting a 25bp hike, followed by four more to bring the OCR to 1.5% in mid-2022). The economy has seen a spectacular recovery since we first went into lockdown in 2020, and even the most optimistic forecasters saw their predictions for GDP, unemployment, and inflation blown out of the water over the past few months. It is clear that the RBNZ has met its employment and inflation objectives, and the New Zealand economy is overheated.

On the day, because it was the first day at Alert Level 4, RBNZ decided to not rattle the cage, given an already rattled population, and kept the OCR on hold. But it's very clear both from the Monetary Policy Statement and subsequent comments by Governor Orr that the plan had been to hike – and that in their minds, this is only a slight delay to OCR lift-off. As we noted in our Review, this was a [hawkish hold](#). The RBNZ has a very similar outlook for near-term inflation and unemployment to us – with inflation set to rise above 4% (albeit briefly), and unemployment set to decline to levels not seen since before the GFC. And the RBNZ was expecting that they would need to lift the OCR all the way to 2.1% by 2024 to bring us to neutral (ie neither contractionary nor stimulatory).

But even if this outbreak is successfully eliminated relatively quickly, we think that [they'll struggle](#) to get the OCR that high. Currently, their suite of neutral interest rate models suggests that the neutral rate is just under 2% (compared



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: Lockdown and the economic outlook](#)
- [NZ Insight: Finding neutral](#)
- [NZ Agri Focus: Springing into action](#)
- [NZ Insight: Carbon markets 101](#)
- [NZ Property Focus: Headwinds gathering](#)
- [NZ Insight: Quarterly income GDP](#)
- [NZ Insight: Māori employment during COVID / Hunga Māori Kore whai-mahi i te wā Mate Urutā](#)
- [NZ Insight: RBNZ vs RBA policy divergence – inflation persistence key](#)
- [NZ Insight: The RBNZ can tick the labour market box](#)
- [NZ Insight: The last days of the LSAP](#)
- [NZ Insight: Freight challenges](#)
- [NZ Insight: How does immigration affect the NZ economy?](#)
- [NZ Agri Focus: When it rains it pours](#)

Click [here](#) for more.

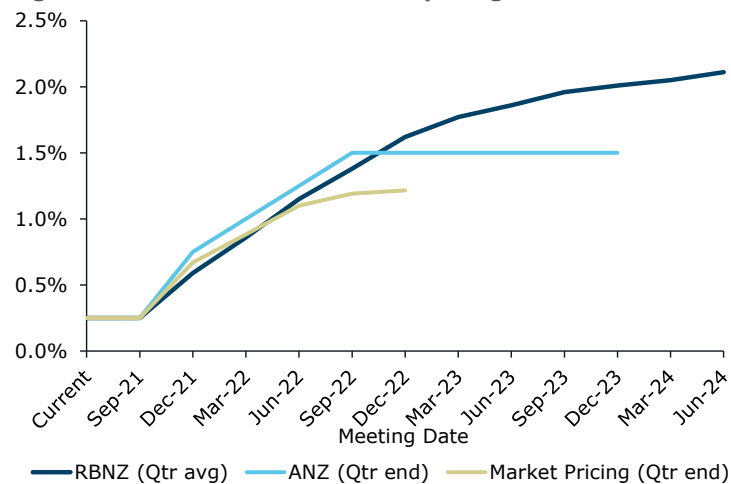
Data calendar

Date	Data/event
Tue 24 Aug (10:45am)	Retail Sales – Q2
Wed 25 Aug (10:45am)	Merchandise Trade – Jul
Fri 27 Aug (10:00am)	ANZ-RM Consumer Confidence – Aug
Tue 31 Aug (10:45am)	Building Permits – Jul
Tue 31 Aug (1:00pm)	ANZ Business Outlook – Aug
Tue 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Thu 2 Sep (10:45am)	Terms of Trade – Q2
Mon 6 Sep (10:45am)	Building Work Put in Place – Q2
Mon 6 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Thu 9 Sep (10:00am)	ANZ Truckometer – Aug
Thu 9 Sep (10:45am)	Manufacturing Activity - Q2

with an actual OCR of 0.25% right now). But there are long-run global trends that have pushed neutral interest rates down for decades. These include population aging and declining potential GDP growth. The piles of debt taken on to tackle the COVID crisis only make the economy more vulnerable to future interest rate hikes. These drivers of declines in neutral interest rates are not likely to reverse any time soon (note we assume that central banks successfully anchor inflation expectations). As a result, we expect that by the time we get to the end of the OCR hiking cycle, 1.5% is probably the highest we'll get (although there's always a lot of uncertainty when talking about unobservable things like neutral interest rates!). This might all sound very academic given that we're currently sitting in lockdown – but the economy has proven remarkably resilient to lockdown before (with the significant help of fiscal support). So this discussion will be relevant – it's just a question of when.

So what happens now? If this lockdown proves short, we doubt it will have much of an impact on the aggregate economy, and we'll soon be in a similar place to before – an overheating economy in need of a normalisation in monetary policy to ensure we return to a more sustainable growth path. That's the assumption underlying our current projection – with OCR hikes assumed to start from October (figure 2). But **everything is in flux** at this point, and the health and fiscal responses now take centre stage. The Delta variant has proven to be extremely aggressive and hard to contain – just look at New South Wales, which is getting hundreds of cases a day, and rising exponentially, despite lockdown measures that are broadly equivalent to NZ Alert Level 3. If New Zealand sees a similarly persistent outbreak, it's likely consumer and business sentiment would tank, with impacts on spending and investment.

Figure 2. OCR forecast and market pricing



Source: RBNZ, Bloomberg, ICAP, Macrobond, ANZ Research

Key data summary

Performance of Services Index – July. Remained high at 57.9.

GlobalDairyTrade auction. Index up 0.3%, but whole milk powder fell 1.5%.

RBNZ Monetary Policy Statement – August. See our [Review](#).

The week ahead

Retail Trade Survey – Q2 (Tuesday 24 August, 10:45am). We've pencilled in a 1.5% q/q rise, but some indicators suggest there is upside to this.

Overseas Merchandise Trade – July (Wednesday 25 August, 10:45am). Weekly trade data suggests a small deficit due to strength in imports.

ANZ Roy Morgan Consumer Confidence – August (Friday 27 August, 10:00am).



Markets and forecasts

Markets outlook

Global bond yields have generally drifted sideways this week, with the bellwether US 10yr Treasury bond yield contained within a 1.2% to 1.3% range. Minutes from the Fed's July 29th meeting released earlier this week hint of tapering, but like here and in Australia, COVID remains a concern and that's making central banks cautious. Earlier in the week, most in the markets were expecting both Norway's Norges Bank and the RBNZ to embark on rate hikes, but in the event neither did, and instead they both flagged the likelihood of hikes in the future. On balance, we thought the case for a hike was still there, and it is clear that the RBNZ see the need for hikes quite urgently, with the OCR forecast – updated for COVID – still showing two hikes by year-end. But the RBNZ felt the first day of lockdown was not the right timing for the spooked public to deliver a hike, and fair enough. Six weeks is neither here nor there. Much uncertainty remains, but the rapid implementation of strict lockdown is a good start. We expect the picture to be much clearer by October, whereupon we expect the first hike (assuming the outbreak is well under control by then). So while we have had to amend our forecasts for Wednesday's pause, we have an almost identical profile, just delayed by 6 weeks. We have made technical adjustments to our bill and short-term rate forecasts too, but these are not significant, and our 10yr bond forecasts have not changed. In FX markets, the Kiwi is caught in a tug-of-war between what most assume will be good news and rate hikes (which will put carry back on the table) once we are through lockdown, versus global growth fears, plus likely very negative short-term local news as virus cases mount and markets second-guess prospects for an October hike.

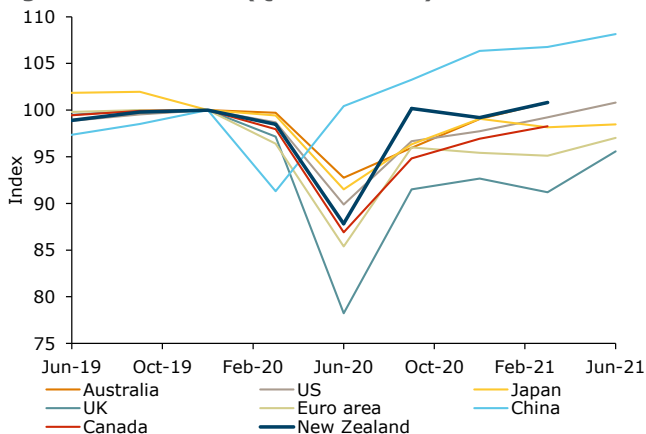
FX rates	Actual					Forecast (end month)			
	Jun-21	Jul-21	Today	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
NZD/USD	0.699	0.697	0.682	0.720	0.740	0.750	0.750	0.750	0.750
NZD/AUD	0.931	0.949	0.955	0.947	0.949	0.962	0.962	0.962	0.962
NZD/EUR	0.587	0.588	0.584	0.610	0.607	0.605	0.600	0.600	0.600
NZD/JPY	77.2	76.5	74.9	79.9	82.9	84.0	84.0	84.0	84.0
NZD/GBP	0.504	0.502	0.501	0.514	0.507	0.510	0.500	0.500	0.500
NZ\$ TWI	73.7	74.2	73.2	76.0	76.9	77.5	77.1	76.8	76.6
Interest rates	Jun-21	Jul-21	Today	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
NZ OCR	0.25	0.25	0.25	0.25	0.75	1.00	1.25	1.50	1.50
NZ 90 day bill	0.35	0.48	0.37	0.75	1.04	1.31	1.57	1.65	1.65
NZ 10-yr bond	1.77	1.65	1.72	1.80	2.00	2.20	2.40	2.50	2.50

Economic forecasts

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
GDP (% qoq)	1.6	0.8	0.7	0.8	0.9	1.0	1.0	0.9	0.7
GDP (% yoy)	2.4	15.7	2.2	4.0	3.2	3.4	3.8	3.9	3.6
CPI (% qoq)	0.8	1.3	1.5	0.4	0.6	0.5	0.8	0.3	0.3
CPI (% yoy)	1.5	3.3	4.2	4.1	3.8	3.0	2.4	2.3	1.9
Employment (% qoq)	0.6	1.0	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Employment (% yoy)	0.3	1.7	2.8	2.6	2.5	1.9	1.8	1.8	1.7
Unemployment Rate (% sa)	4.6	4.0	3.9	3.9	3.9	3.9	3.8	3.8	3.8

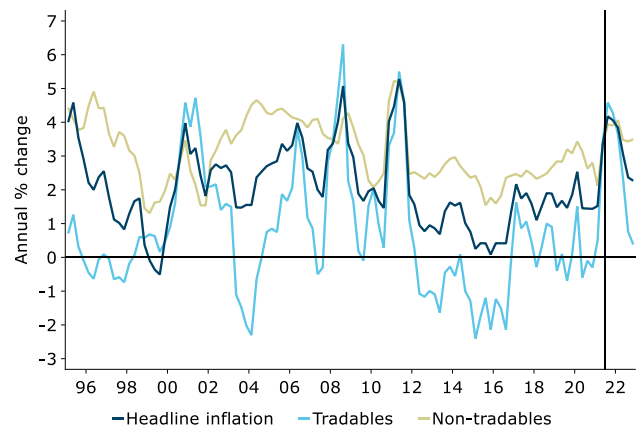
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. CPI inflation components



Source: Statistics NZ, Macrobond, ANZ Research



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