

# New Zealand Weekly Data Wrap

17 September 2021



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Contact us

See [page 4](#).

## Forecast updates

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

- [NZ Economic Outlook: Two steps forward, one step back](#)
- [NZ Property Focus: Turning point](#)
- [NZ Forecast Update: Inflation with a 4-handle](#)

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 Oct 2021

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

## Key risks to our view



The tail of the outbreak won't die out, damaging consumer and business sentiment.



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

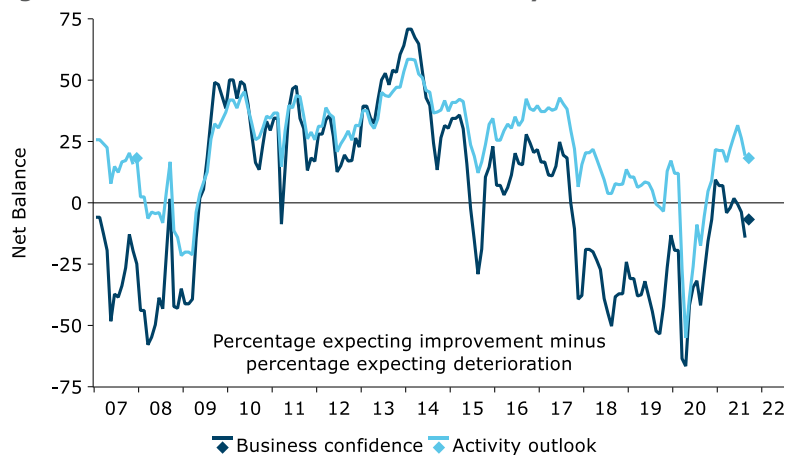


Conversely, an overheated economy and surging inflation expectations could be hard to rein in.

## What happened this week?

The economy has continued to demonstrate resilience in the face of the current lockdown. This week, the flash estimate of our September [Business Outlook](#) saw business confidence increase 7 points to -7.0, despite Auckland remaining in Level 4 lockdown over this time. Business confidence is holding up at very high levels compared with the years immediately before COVID, and a net 18% of firms are expecting to increase their activity over the next 12 months (figure 1). Unsurprisingly, firms did report a significant reduction in activity versus this time a year ago – but employment was still up compared with August 2020, and employment intentions for the next 12 months were also positive. All up, these data highlight that while the headline hit to GDP will be significant and painful for businesses (see next page), employment and overall economic sentiment have remained resilient so far. And that's what will ultimately matter for the medium-term economic outlook.

Figure 1. Business confidence and own activity outlook



Source: Macrobond, ANZ Research

House prices have also managed to comfortably shrug off the impacts of lockdown – [increasing](#) 1.9% m/m in August (propped up by continued declines in available listings). News stories of people snapping up million-dollar properties during lockdown (without physically even viewing them) show that FOMO is alive and well in New Zealand's housing market. However, while we haven't seen any real slowing in monthly house price inflation, we still expect that we're somewhere near a turning point. Headwinds continue to accumulate, with LVR restrictions likely to be tightened, mortgage rates rising, affordability constraints biting, and building activity continuing at high levels. House prices can only push so long against these headwinds before running out of steam.

## Key data summary

**Food Prices – August.** Food prices rose 0.3% m/m, marking five consecutive months of price rises.

**Rental Price Index – August.** Rents increased 0.2% m/m.

**REINZ House Prices – August.** [Rose](#) 1.9% m/m (ANZ seasonal adjustment).

**ANZ Business Outlook Flash – September.** [Business confidence](#) rose 7 points to -7.0.

**Current Account Balance – Q2.** Deficit grew to -3.3% of GDP.

**GDP – Q2.** Increased 2.8% q/q – much higher than expected. See our [Review](#).



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- NZD: what's happening in FX markets - Spring bounce
- Not just rugby: NZ beating Australia on wage growth
- NZ Insight: Increasing the contingency fund
- NZ Insight: What would it take to derail OCR hikes?
- NZ Insight: A quick look at the high-frequency data
- NZ Property Focus: Turning point
- NZ Insight: Lockdown and the economic outlook
- NZ Insight: Finding neutral
- NZ Agri Focus: Springing into action
- NZ Insight: Carbon markets 101
- 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 last days of the LSAP

Click [here](#) for more.

### Data calendar

Date	Data/event
Mon 20 Sep (10:30am)	Performance Services Idx – Aug
Wed 22 Sep (early am)	GlobalDairyTrade auction
Fri 24 Sep (10:45am)	Merchandise Trade – Aug
Thu 30 Sep (10:45am)	Building Permits – Aug
Thu 30 Sep (1:00pm)	<a href="#">ANZ Business Outlook – Sep F</a>
Thu 30 Sep (3:00pm)	RBNZ Sectoral Lending – Aug
Fri 1 Oct (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Sep</a>
Tue 5 Oct (10:00am)	NZIER QSBO – Q3
Tue 5 Oct (1:00pm)	<a href="#">ANZ Commodity Price Index – Sep</a>
Wed 6 Oct (2:00pm)	<b>RBNZ OCR</b>

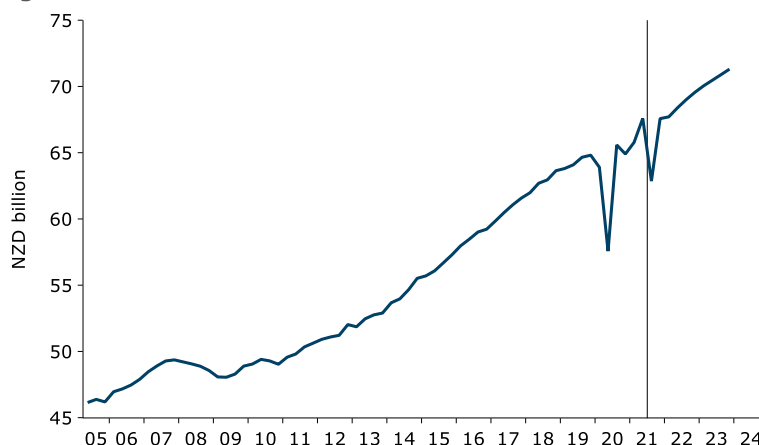
### GDP surprises again

Stats NZ released Q2 GDP data this week, and as with pretty much every major data release during the June quarter, it massively [surprised to the upside](#). The economy grew 2.8% q/q – an impressive number when you consider the economy only eked out a 2.2% expansion over the entire year to June 2019. In annual terms, the economy expanded 17.4% – but that’s mostly down to lockdown in Q2 2020. The economic expansion was broad-based, with primary industries up 5% q/q, goods-producing industries up 1.3% q/q, and services up 2.8% q/q. This kind of broad momentum is what we (and importantly the RBNZ) want to see to be confident that the economic expansion can keep going even if the housing market softens (as we expect it will). Unfortunately, there are still some industries doing it tough due to the closed border – highlighting that while the headline figure was extraordinary, it’s not going to get better for some until border restrictions are eased. That’s going to depend on the pace of the vaccine rollout (which has been a lot quicker since COVID made its unwelcome return).

While yesterday’s data was good news, the outbreak of the Delta variant has brought the economy’s winning streak to an abrupt end. GDP is expected to decline significantly in Q3, reflecting the impact of lockdown on the economy. We remain optimistic that this hit to national production will prove as temporary as it was in 2020, but lockdowns do come with a cost. We expect a roughly 7% fall in GDP in Q3 (figure 2). Businesses are getting more adept at operating during higher Alert Levels – and we’ve seen that in our own ANZ card spending data. True, spending has dropped significantly – but it has dropped by less than in 2020, and has already started to rebound significantly. So we are hopeful that the economy will rebound at least as quickly as it did over the past year.

Aside from the QSBO on 5 October, Q2 GDP was the last big data print before the RBNZ’s 6 October OCR decision. All the signs so far point to the RBNZ starting the hiking cycle that they were ready to kick off in August. There’s [plenty that could go wrong](#) over the next few years that might pause or even reverse hikes, but as we sit here without the benefit of hindsight, there’s nothing in the data to suggest that the RBNZ should hold off on their widely expected October hike. We’re expecting a 25bp hike that will bring the OCR to 0.5%.

Figure 2. GDP forecast



Source: Stats NZ, Macrobond, ANZ Research

### The week ahead

**Performance of Services Index – August (Monday 20 September, 10:30am).** A lockdown-induced dip is expected.

**GlobalDairyTrade auction (Wednesday 22 September, early am).** Prices are expected to stabilise at current levels as offer volumes are unchanged.

**Overseas Merchandise Trade – August (Friday 24 September, 10:45am).** A monthly deficit of 2.14bn is expected as imports lift and exports dip.



## Markets and forecasts

### Markets outlook

Global bond yields remained fairly stable over the course of the week, with the bellwether US 10-year Treasury bond trading water around the 1.30% mark. However, local long-end yields declined, having already moved higher ahead of the launch of the new 30-year (May 2051) NZGB this week. Demand for the new bond was extraordinarily high (with in excess of \$12bn of bids for the \$3bn that were issued), and as a consequence, yields fell after it was issued. However, it was the short end that really stole the show this week, with yields spiking dramatically higher in the wake of strong Q2 GDP data (as discussed on page 2). That has, in turn, seen the market move to price in roughly 40/60 odds of a 50bp, rather than 25bp OCR hike in October. As a consequence, market expectations now stand glaringly above our forecasts. A 50bp hike certainly can't be ruled out given the unprecedented times we are in. But in our view, monetary policy is more about the journey (the direction are we heading in) than the destination (the assumed end-point for the OCR). As tempting as it is to think that the RBNZ has some catching up to do, they get seven opportunities a year to hike, and what they signal is as important as what they do. So on balance, we still expect a 25bp hike, but markets won't shake off the fear till the debate is settled with the actual decision. In FX markets, the Kiwi jumped on the GDP news, but gains weren't sustained as the USD itself rebounded. It seems that all the good news is already priced into the NZD, and reality now needs to live up to expectations. Talking of foreign exchange, we launched a new publication this week aimed at retail clients. It can be found here: [NZD: What's happening in FX Markets – Spring Bounce](#).

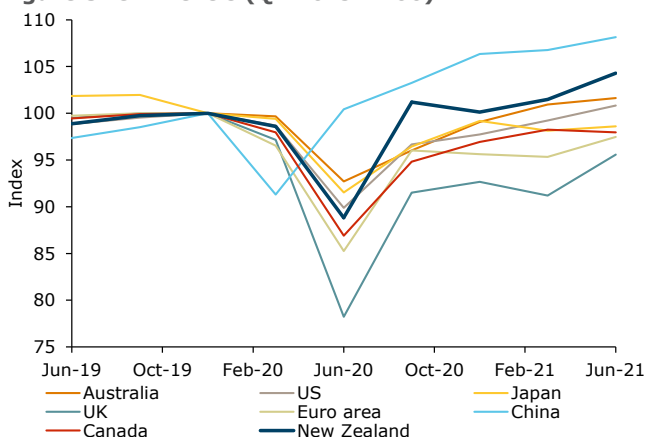
FX rates	Actual					Forecast (end month)			
	Jul-21	Aug-21	Today	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
NZD/USD	0.697	0.706	0.707	0.710	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.949	0.964	0.970	0.959	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.588	0.597	0.601	0.597	0.600	0.585	0.576	0.576	0.576
NZD/JPY	76.5	77.6	77.6	78.8	80.6	80.6	80.6	80.6	80.6
NZD/GBP	0.502	0.513	0.513	0.511	0.507	0.493	0.480	0.480	0.480
NZ\$ TWI	74.2	74.9	75.2	75.3	75.6	75.0	74.5	74.3	74.1
Interest rates	Jul-21	Aug-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	0.48	0.46	0.61	0.75	1.04	1.31	1.57	1.65	1.65
NZ 10-yr bond	1.65	1.82	1.90	1.80	2.00	2.20	2.40	2.50	2.50

### Economic forecasts

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
GDP (% qoq)	2.8	<b>-7.0</b>	<b>7.5</b>	<b>0.2</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>
GDP (% yoy)	17.4	<b>-4.2</b>	<b>4.1</b>	<b>2.9</b>	<b>1.2</b>	<b>9.8</b>	<b>2.9</b>	<b>3.4</b>	<b>3.0</b>
CPI (% qoq)	1.3	<b>1.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.5</b>	<b>0.8</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>
CPI (% yoy)	3.3	<b>4.2</b>	<b>4.1</b>	<b>3.8</b>	<b>3.0</b>	<b>2.4</b>	<b>2.3</b>	<b>1.9</b>	<b>1.8</b>
Employment (% qoq)	1.0	<b>-0.1</b>	<b>0.7</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>
Employment (% yoy)	1.7	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>1.8</b>	<b>2.3</b>	<b>2.0</b>	<b>1.7</b>	<b>1.6</b>
Unemployment Rate (% sa)	4.0	<b>4.0</b>	<b>4.0</b>	<b>3.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.8</b>	<b>3.9</b>	<b>3.9</b>

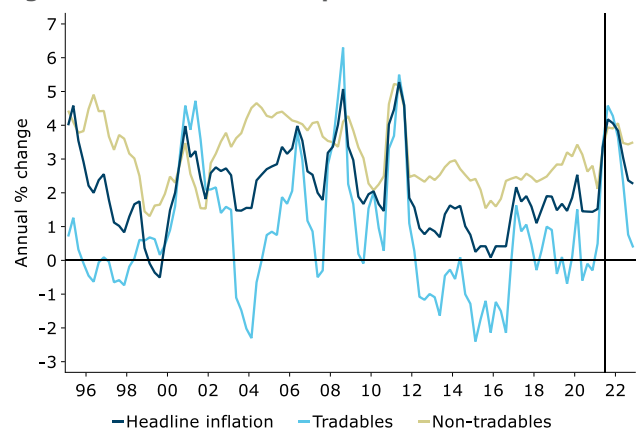
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. CPI inflation components



Source: Statistics NZ, Macrobond, ANZ Research



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