ANZ Research

New Zealand Weekly Data Wrap

24 September 2021

Contact us

See page 4.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Economic Outlook: Rolling with the punches
- 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.

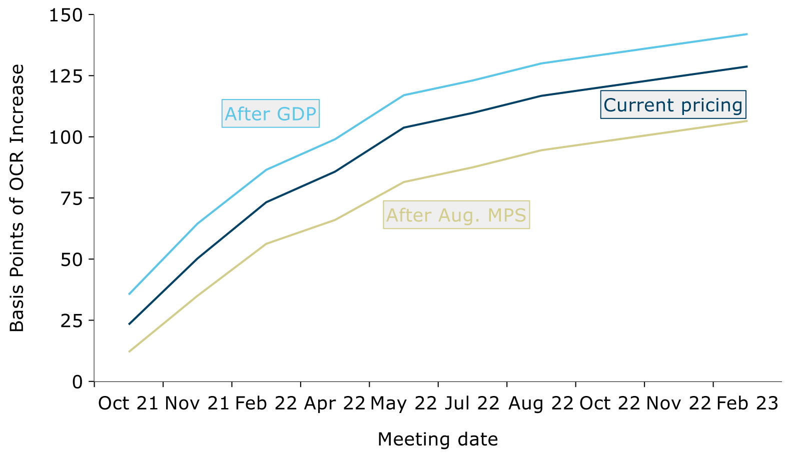
What happened this week?

The domestic data calendar was fairly light this week. Of note was the August read of the Services PMI, which fell sharply to 35.6 (55.9 previously). Combined with the Manufacturing PMI, which fell to 40.1 (from 62.2), it's another reminder of the heavy cost of lockdowns. There's been some progress, with Auckland moving to Alert Level 3 and Level 2 restrictions being relaxed slightly for the rest of the country. But with daily cases still in double digits, it's uncertain how quickly we can keep moving down levels.

The RBNZ managed to spice up a quiet data week with a change to LVR policy (see next page) and a speech on conducting monetary policy during times of uncertainty. The RBNZ highlighted the importance of an adaptable, measured policy approach – following the lead of the white heron (kōtuku). The speech noted that in early 2020, the risks were "heavily skewed in one direction". And the RBNZ at the time believed it was likely to fail to meet its employment and inflation objectives without immediate and substantial action. So the "path of least regrets" was to provide as much stimulus as soon as possible. But now, things are much less one-sided – and that calls for a more measured approach, "inching in the right direction" rather than making large and sudden adjustments.

This is not a new approach – central banks often act quickly to provide stimulus during a crisis, but withdrawing it only gradually. Markets were quick to price in a significant probability of a 50bp hike in October after Q2 GDP came in far stronger than expected (figure 1). But we never thought that 50bps should be the RBNZ's first move. True, the risk of exacerbating boom-bust dynamics by not hiking in a timely fashion are undeniable, but significant downside risks remain, and normalising monetary policy only gradually remains prudent. Markets clearly got that message from the RBNZ's speech, with market pricing easing to imply a roughly 90% chance of a 25bp hike in October – that's more in line with our assessment of the risks.

Figure 1. Market pricing for OCR hikes



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

Key data summary

Performance of Services Index – August. Dropped to 35.6 (55.9 previously) – well into contractionary territory due to lockdown.

GlobalDairyTrade auction. The GDT index rose 1.0% in the latest auction. Whole milk powder (WMP) rose 2.2% to USD3777/tonne.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: RBNZ Speech Review
- 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

Click here for more.

Data calendar

Date	Data/event
Thu 30 Sep (10:45am)	Building Permits – Aug
Thu 30 Sep (1:00pm)	ANZ Business Outlook – Sep F
Thu 30 Sep (3:00pm)	RBNZ Sectoral Lending – Aug
Fri 1 Oct (10:00am)	ANZ-RM Consumer Confidence – Sep
Tue 5 Oct (10:00am)	NZIER QSBO – Q3
Tue 5 Oct (1:00pm)	ANZ Commodity Price Index – Sep
Wed 6 Oct (2:00pm)	**RBNZ OCR**
Tue 12 Oct (10:00am)	ANZ Truckometer - Sep
Tue 12 Oct (10:45am)	Net Migration – Aug
Tue 12 Oct (10:45am)	Electronic Card Transactions – Sep

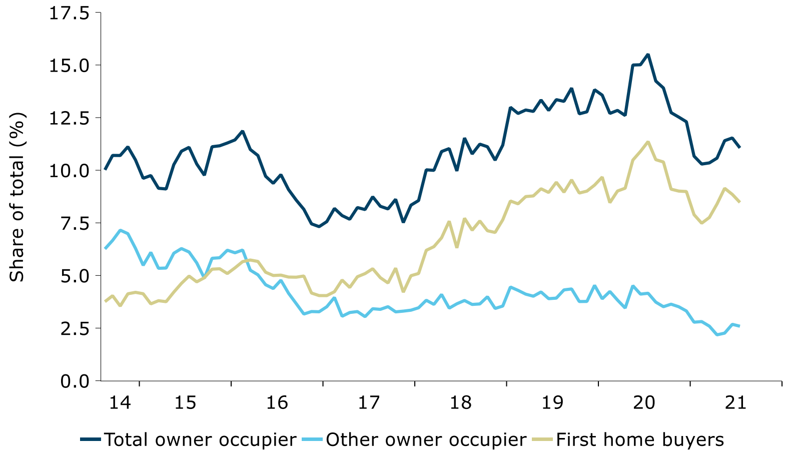
LVR restrictions tightened again

The RBNZ announced a further tightening of loan-to-value ratio (LVR) restrictions this week. Despite affordability constraints, very low net immigration, record levels of building activity, mortgage rate rises (with more expected), tax policy changes, and previous LVR tightening, the housing market has refused to take the hint. We are yet to see a significant reduction in price growth – prices rose 1.9% m/m in August (ANZ seasonal adjustment). That's up an eye-watering 30.6% y/y (3m moving average).

The RBNZ's latest tightening of LVR restrictions targets owner-occupier borrowers (including first home buyers). Currently, 20% of new lending to owner-occupiers can be at an LVR greater than 80%, but as of 1 November, just 10% can be. The settings for investors are unchanged – only 5% of new lending to investors can be at LVRs greater than 60%.

So how much steam will these changes take out of the housing market? For some context, figure 2 shows the proportion of new owner-occupied borrowing that's currently over 80% LVR. That figure is 11.1% - already well below the current speed limit of 20%, and it would only take a small pullback in lending to get it under 10% (though banks will allow a decent buffer). Lending could drop by slightly more if lenders want to ensure there's a healthy buffer between actual lending and the speed limit. So while tighter restrictions will be binding to a small degree, they are unlikely to be a game changer for the housing market. However, it does add to the pile of housing headwinds listed above that have accumulated over 2021. The fundamentals of the housing market simply don't support more of the kind of price rises we've seen over the past year – and we think house price inflation is close to a turning point. At the margin, this policy change strengthens our conviction in that assessment.

Figure 2. Share of new owner-occupied borrowing over 80% LVR



Source: RBNZ, Macrobond, ANZ Research

The week ahead

Building Permits – August (Thursday 30 September, 10:45am). Likely dropped in August with the country in Level 4 for half the month.

ANZ Business Outlook – September (Thursday 30 September, 1:00pm).

RBNZ sectoral lending data – August (Thursday 30 September, 3:00pm). Expect disruption from lockdown. In 2020, business and consumer lending both tanked – with business lending only recently starting to recover, and consumer lending trending still lower over the past year. Housing lending is on another planet – barely falling in April 2020, and surging since.

ANZ Roy Morgan Consumer Confidence – September (Friday 1 October, 10:00am).

Markets and forecasts

Markets outlook

Global bond yields rounded out the week on a high note, led by the bellwether US 10-year Treasury bond, the yield on which is currently at 3-month high. This move came around 24 hours after the Fed signalled that tapering is coming. While the belated nature of the reaction was unexpected (bonds held steady in the immediate aftermath of the Fed meeting), that they eventually rose was not surprising. The Fed lifted its "dot plot" projections for the Fed funds rate, and hinted strongly that tapering could be announced even next month (to begin in November), and be complete by mid-2022, clearing the way for rate hikes from late 2022. There's clearly a lot of water to flow under the proverbial bridge yet, but the Fed's end-2024 median dot plot of 1.75% raised a few eyebrows. That is not just well higher than where the US 10-year bond now sits (1.43%); it also implies an accelerating pace of Fed tightening over 2023 and 2024. Yield corrections lower from here can't be ruled out (and are likely, even), but market appetite for US bonds is waning, and if their yields go higher, that'll put upward pressure on long-end yields here. Locally, this week was all about the RBNZ's speech clarifying its "least regrets" approach to setting policy. Of note, the RBNZ noted that its preference at this time is to be "inching in the right direction" and that "central banks globally tend to follow a smoothed path and keep their policy rate unchanged or move in 25bp increments". This has all but put to bed fears that the RBNZ might deliver a 50bp "catch-up" hike next month. But markets are still pricing in almost certain odds of 75bps of hikes by February. While that's likely, it's not assured, and somewhat dependent on how the Delta outbreak and vaccination progress evolves.

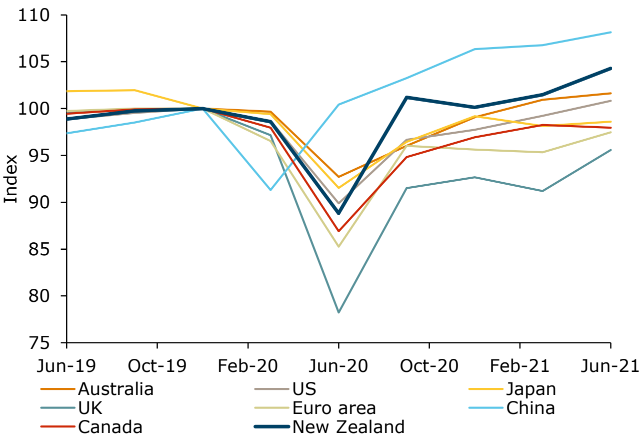
	Actual			Forecast (end month)					
FX rates	Jul-21	Aug-21	Today	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
NZD/USD	0.697	0.706	0.707	0.710	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.949	0.964	0.969	0.959	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.588	0.597	0.602	0.597	0.600	0.585	0.576	0.576	0.576
NZD/JPY	76.5	77.6	78.0	78.8	80.6	80.6	80.6	80.6	80.6
NZD/GBP	0.502	0.513	0.515	0.511	0.507	0.493	0.480	0.480	0.480
NZ$ TWI	74.2	74.9	75.3	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	1.96	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	**-7.0**	**7.5**	**0.2**	**1.0**	**0.9**	**0.8**	**0.7**	**0.6**
GDP (% yoy)	17.4	**-4.2**	**4.1**	**2.9**	**1.2**	**9.8**	**2.9**	**3.4**	**3.0**
CPI (% qoq)	1.3	**1.5**	**0.4**	**0.6**	**0.5**	**0.8**	**0.3**	**0.3**	**0.4**
CPI (% yoy	3.3	**4.2**	**4.1**	**3.8**	**3.0**	**2.4**	**2.3**	**1.9**	**1.8**
Employment (% qoq)	1.0	**-0.1**	**0.7**	**0.7**	**0.5**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	1.7	**2.2**	**2.3**	**2.4**	**1.8**	**2.3**	**2.0**	**1.7**	**1.6**
Unemployment Rate (% sa)	4.0	**4.0**	**4.0**	**3.9**	**3.9**	**3.8**	**3.8**	**3.9**	**3.9**

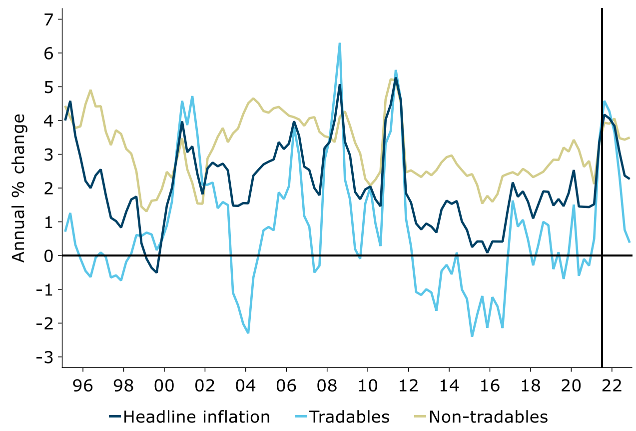
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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