

New Zealand Weekly Data Wrap

1 October 2021



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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: Rent is due](#)
- [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.



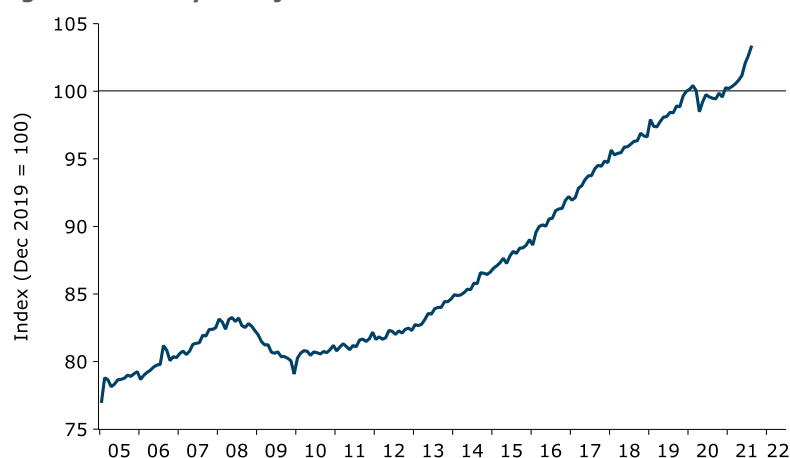
Conversely, an overheated economy and surging inflation expectations could be hard to rein in.

What happened this week?

This week we got some encouraging news from the labour market. Stats NZ's monthly filled jobs data showed that there was a 0.7% m/m (3.9% y/y) increase in jobs over August, despite the country being in Level 4 lockdown for half the month (figure 1). That contrasts with April 2020, when jobs fell 1.6% m/m. The data captures only two weeks of the current lockdown, but it suggests that once again the fiscal response is proving effective at keeping employees attached to jobs. And of course, the labour market was very tight before lockdown (with several indicators [hitting record highs](#) in Q2 2021) – so firms will be very reluctant to let any workers go unless absolutely necessary.

We expect that, as in 2020, most of the impact on the labour market will be through reduced hours and higher underemployment. Labour markets tend to recover much quicker from downturns when firms adjust hours worked instead of headcount – and that's something that should be front of mind for the Monetary Policy Committee as they weigh up their policy options. We're not expecting the current outbreak to have a persistent impact on the labour market, and if anything, August's filled jobs data implies upside risk to our already [optimistic assumption](#) that the labour market will quickly shrug off fresh lockdown impacts.

Figure 1. Monthly filled jobs



Source: Stats NZ, Macrobond, ANZ Research

This week we also published our latest [Property Focus](#). In this month's Feature Article we look at whether significant rent rises are on the horizon. In the rental market right now there are factors that are both adding pressure on rents (eg the removal of interest deductibility for investors) and reducing it (new housing supply finally exceeding new demand). All up, we don't think that rental inflation can exceed growth in household incomes for very long – people still need to eat after all. We're forecasting pretty robust, but not spectacular, wage growth over the next few years – and that means while rents will probably rise, we won't see the same crazy increases that we've seen in house prices.

Key data summary

Building Permits – August. Rose 3.8% m/m to yet another record level.

ANZ Business Outlook – September. Confidence [remains robust](#).

RBNZ sectoral lending data – August. Personal consumer lending fell 3.3% m/m (ANZ sa) due to lockdown, as business and housing lending growth slowed.

ANZ Roy Morgan Consumer Confidence – September. Fell 5 points to 110.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Property Focus: Rent is due](#)
- [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](#)
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- [NZ Insight: Finding neutral](#)
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- [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](#)

Click [here](#) for more.

Data calendar

Date	Data/event
Tue 5 Oct (10:00am)	NZIER QSBO – Q3
Tue 5 Oct (1:00pm)	ANZ Commodity Price Index – Sep
Wed 6 Oct (early am)	GlobalDairyTrade auction
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
Wed 13 Oct (10:45am)	Food Price Index – Sep
Wed 13 Oct (10:45am)	Rental Price Index – Sep
Wed 13 Oct (1:00pm)	ANZ Business Outlook – Oct P
Fri 15 Oct (10:30am)	BusinessNZ Manuf PMI – Sep
Mon 18 Oct (10:45am)	CPI – Q3

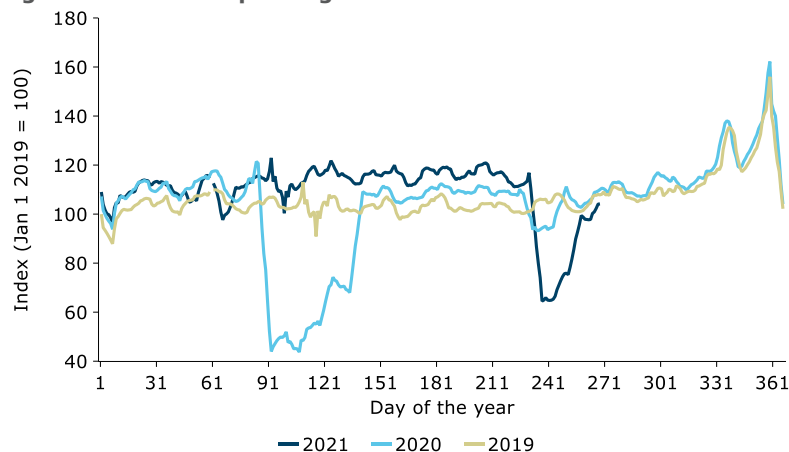
What are we watching?

The RBNZ meets Wednesday next week for the October Monetary Policy Review. We're expecting that, after postponing in August, the RBNZ will lift the OCR 25bps to 0.5%. And we hold that view **with some conviction**. A 50bp hike does not seem likely, given that there are both upside and downside risks to the outlook. As the [RBNZ noted](#) in a speech published last week, when facing that kind of uncertainty, their approach is to follow the lead of the kōtuku (white heron) and take a steady and adaptable approach to hiking interest rates.

But despite the degree of uncertainty out there, a no-change decision also seems unlikely. Prior to lockdown, it became increasingly clear that the RBNZ had already (over) achieved on its goals – the risks had shifted towards inflation being too high. With unemployment already down to 4%, wage pressures building rapidly, and core inflation surging, and tapping the brakes would smooth boom-bust dynamics to put growth on a more sustainable path. The RBNZ made it very clear in comments after August that it would take a lot to dissuade them from the hikes that they were clearly intending to deliver prior to the latest outbreak – and since then, the data has been surprisingly robust.

The current lockdown has dragged on longer than in 2020 – and that does mean a large hit to output is expected in Q3. But we've also seen the economy weathering this storm far better than last time. Jobs were up in August, building consents rose, and our card spending data shows that overall spending has actually nearly recovered (figure 2), despite Auckland still being in Level 3. And as we've learned over the past year, COVID is a supply shock – meaning even more price pressures could come from this lockdown (not to mention surging global energy prices right now). If these pressures seep into price and wage-setting behaviour in a more persistent way, then inflation could easily get out of hand. So for the RBNZ, their least regret is to nip any potential wage-price spiral in the bud by gradually raising the OCR to a level that is no longer stimulatory, while being prepared to change tack, as the picture could change abruptly.

Figure 2. ANZ card spending



Source: Macrobond, ANZ Research

The week ahead

NZIER Quarterly Survey of Business Opinion – Q3 (Tuesday 5 October, 10:00am). The Q3 QSBO should confirm what we've seen in our ANZBO – the economy has been resilient in lockdown, but inflation pressures remain intense.

ANZ Commodity Price Index – September (Tuesday 5 October, 1:00pm).

GlobalDairyTrade auction (Wednesday 6 September, early am). Prices are expected to stabilise as demand and supply are evenly matched.

RBNZ OCR Review – October (Wednesday 6 October, 2:00pm). We expect a 25bp hike will bring the OCR to 0.5% – see our [preview](#).



Markets and forecasts

Markets outlook

US 10-year Treasury bond yields continued to edge higher this week, topping 1.55% on several occasions, before ending the quarter at around 1.49%. While that's not substantially higher than this time a week ago (~1.43%), it is around 0.25%pts higher than levels prevailing at the end of August. That's important, given that US longer-term rates are the primary driver of longer-term NZ interest rates, with the NZ 10-year bond yield ending the quarter at 2.09%, up from 1.82% at the end of August. Much of the nervousness in the US has stemmed from expectations that the Fed might begin to taper the pace of bond buying as early as next month. On its own, tapering is a clear negative for bond yields (ie less buying will see yields rise). But it has also had an impact on risk appetite, and that has seen equity markets wobble. As circular as it sounds, that could, in turn, lessen the degree of froth in asset markets and confidence in the US economy, and actually lessen the need for rate hikes there later on, and that's why we are seeing so much volatility. This volatility has also seen markets re-rate prospects for the NZD, which has been a star performer, mostly due to abundant liquidity and the strength of the domestic economic rebound. As these two factors fade, the latter potentially affected by Delta's long tail, the NZD could face more headwinds. The RBNZ MPR next week is a key event, but it's less about the universally expected rate hike decision (unless they pause again, which would be a huge surprise) and more about the tone, and forward guidance. This is crucial given that markets are pricing in 102bps of hikes by May. We expect 100bps of hikes by then, but the risks are skewed to less, and any hint of uncertainty could see short-end rates edge lower.

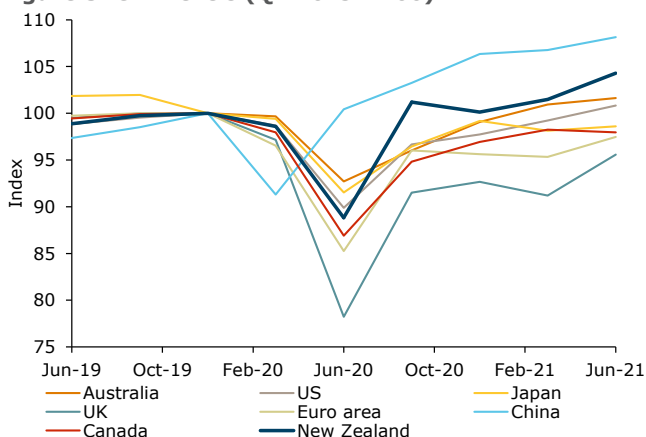
FX rates	Actual			Forecast (end month)					
	Aug-21	Sep-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZD/USD	0.706	0.686	0.690	0.720	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.964	0.955	0.955	0.960	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.597	0.593	0.596	0.610	0.600	0.585	0.590	0.590	0.590
NZD/JPY	77.6	76.9	76.8	80.6	80.6	80.6	80.6	80.6	80.6
NZD/GBP	0.513	0.511	0.512	0.518	0.511	0.503	0.493	0.486	0.483
NZ\$ TWI	74.9	73.7	73.9	75.8	75.3	74.8	74.7	74.5	74.3
Interest rates	Aug-21	Sep-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZ OCR	0.25	0.25	0.25	0.75	1.00	1.25	1.50	1.50	1.50
NZ 90 day bill	0.46	0.65	0.64	1.00	1.27	1.52	1.60	1.60	1.60
NZ 10-yr bond	1.82	2.09	2.09	2.10	2.20	2.50	2.50	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

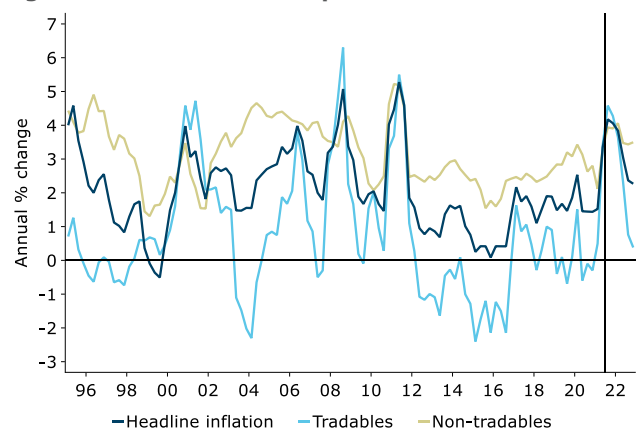
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. CPI inflation components



Source: Statistics NZ, Macrobond, ANZ Research



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Liz Kendall (maternity leave)
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com



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