

# New Zealand Weekly Data Wrap

9 July 2021



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See [page 4](#).

## Forecast updates

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

- [RBNZ MPR Preview and OCR Call Change: When the facts change](#)
- [NZ Forecast Update: Rapidly approaching full employment](#)
- [NZ Property Focus: A slow ship to turn](#)
- [ANZ NZ Quarterly Economic Outlook: Finding potential](#)

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

## What's the view?

- GDP constrained by supply more than demand
- Labour market tight
- Inflation picking up
- OCR to lift by Nov 2021

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

## Balance of risks

Risks skewed to higher inflation



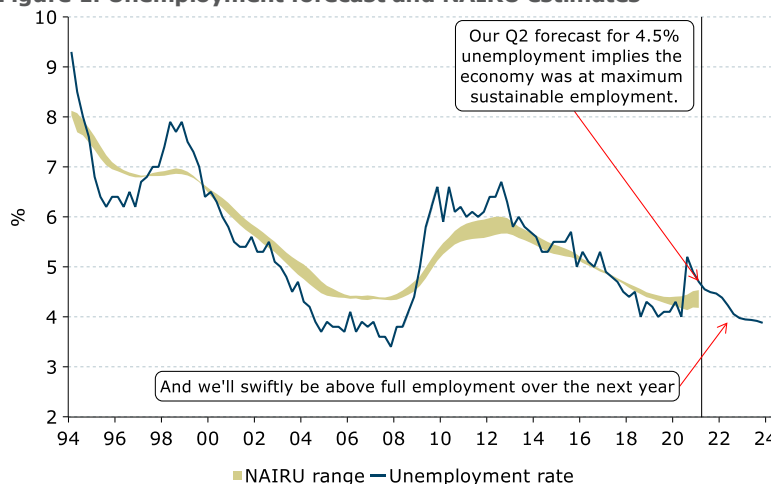
## Higher interest rates are needed, and soon

This week we brought forward our expectation for interest rate hikes. We **now expect** the OCR to be increased to 0.50% in the November 2021 meeting, with further hikes at each MPS until we reach a terminal OCR of 1.75% in early 2023.

In recent weeks we have **been talking** about the risk that the OCR will need to be hiked in November, since low interest rates are counterproductive when the economy is running this hot (ie one risks overheating the economy, causing a painful correction on the other side). The evolution of market pricing has certainly smoothed the path to hikes, and **remarkably strong** QSBO data in Q2 confirmed for us that hikes are needed, and soon. The QSBO reinforced what we've seen in our monthly [Business Outlook](#) – the economy is running red hot, the labour market is tight, and businesses are passing on higher costs to consumers (a behavioural change that is required to get a sustainable increase in inflationary pressures). This gives us more confidence that we'll see some pretty strong inflation prints over this year (currently we expect a high of 3.0% y/y in Q3).

We also took some time this week to [revisit our models and indicators](#) for the labour market. These are now showing that the labour market is pretty much where the RBNZ needs it to be – ie at or close to maximum sustainable employment. Our estimates suggest that because of all the dysfunction in the labour market, we should see more inflationary pressure coming from a higher unemployment rate (ie the economy has a higher NAIRU – figure 1). Given the strength in labour demand, we think we'll see unemployment drop further over 2021, contributing to significant [wage pressures](#). Q2 strength in the labour market indicators the RBNZ monitors shows that it's become hard to justify ongoing monetary stimulus on the grounds that the labour market needs support. In fact, of the three (out of 14) RBNZ indicators for which we have Q2 data, all are at or beyond previous historical highs. And as the [RBNZ notes](#) in their own explanation of these indicators, seeing these indicators meeting (or breaking through) historic highs is actually consistent with 'an overheated labour market'. This suggests that keeping interest rates at their current historic lows actually risks doing more harm than good at this point. That's another point in favour of OCR hikes being needed ASAP.

**Figure 1. Unemployment forecast and NAIRU estimates**



Source: Stats NZ, Macrobond, ANZ Research

Looking ahead, the Monetary Policy Review and Q2 CPI data next week, and Q2 labour market data on 4 August, will be key to assessing the likelihood of imminent OCR hikes. We expect a significant change in tone in the RBNZ's



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: The RBNZ can tick the labour market box](#)
- [NZ Insight: Freight challenges](#)
- [NZ Insight: How does immigration affect the NZ economy?](#)
- [NZ Property Focus: A slow ship to turn](#)
- [NZ Insight: Where to now for interest rates?](#)
- [NZ Agri Focus: When it rains it pours](#)
- [NZ Property Focus: Making headway \(for now\)](#)
- [ANZ NZ Insight: Where to now for the LSAP?](#)
- [ANZ NZ Insight: Bubbling over with excitement](#)

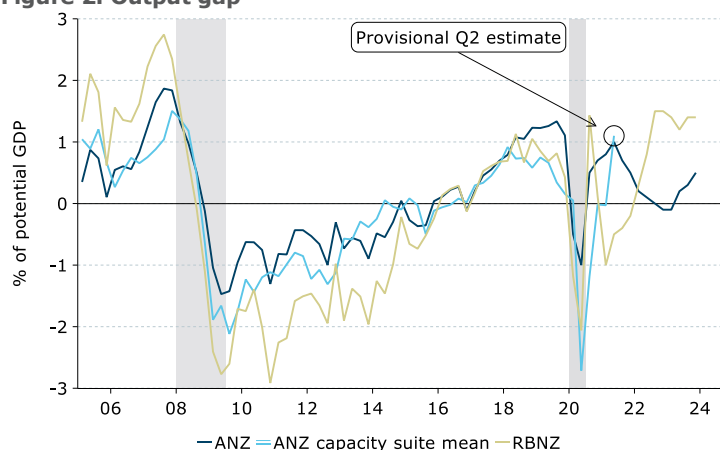
[Click here](#) for more.

### Data calendar

Date	Data/event
Mon 12 Jul (10:45am)	Electronic Card Transactions – May
Tue 13 Jul (9:00am)	REINZ House Prices – Jun
Tue 13 Jul (10:45am)	Food Price Index – Jun
Tue 13 Jul (10:45am)	Rental Price Index – Jun
Wed 14 Jul (10:45am)	Net Migration – May
Wed 14 Jul (2:00pm)	RBNZ OCR – Jul
Fri 16 Jul (10:30am)	BusinessNZ Manuf PMI – Jun
Fri 16 Jul (10:45am)	<b>CPI – Q2</b>
Mon 19 Jul (10:30am)	Performance Services Index Jun
Wed 21 Jul (early am)	GlobalDairyTrade auction
Mon 26 Jul (10:45am)	Merchandise Trade – Jun
Thu 29 Jul (1:00pm)	<a href="#">ANZ Business Outlook – Jul</a>
Fri 30 Jul (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Jul</a>
Fri 30 Jul (10:45am)	Building Permits – Jun
Fri 30 Jul (3:00pm)	RBNZ Sectoral Lending – Jun

Record of Meeting, acknowledging the strength in the recovery, and the intense capacity pressures building across the economy. But the real tell will be the hard data. We haven't published a Preview for next Friday's Q2 CPI data yet, as we get food and rent price data for June on Tuesday (and given that these are ~30% of the CPI basket, a big surprise could change our pick). We're currently forecasting 2.8% annual CPI inflation in Q2. The RBNZ will be looking out for core inflation measures in the CPI data next Friday, which should indicate whether underlying inflation is building. Before the August MPS we also get Q2 labour market data. It's very possible that unemployment could rise, given the volatility in the HLFS (although we expect a 0.2ppt drop to 4.5%). But it would take a significantly higher unemployment rate (something closer to 5% or higher) to change our view on labour market tightness. Timely indicators from our capacity pressure suite show that pressures are building in line with what we predicted in our [Quarterly Economic Outlook](#) (figure 2). All up, it's time for the RBNZ to start removing stimulus.

Figure 2. Output gap



Source: MBIE, NZIER, RBNZ, Stats NZ, Macrobond, ANZ Research

### Key data summary

**ANZ Commodity Price Index – June.** [World prices](#) up 0.8% m/m.

**NZIER Quarterly Survey of Business Opinion – Q2.** Business confidence up 18 points to a net 10% of firms [optimistic about the outlook](#).

**GlobalDairyTrade auction.** The GDT price index fell 3.6%.

**ANZ Truckometer – June.** The heavy traffic [index rose](#) 1.2% m/m.

### The week ahead

**Electronic Card Transactions – May (Monday 12 July, 10:45am).** We expect the strong run of recent spending to continue in June ECT data.

**REINZ House Prices – June (Tuesday 13 July, 9:00am).** Expecting slowing house price inflation, but low listings may pump up prices.

**Food Prices – June (Tuesday 13 July, 10:45am).** A 0.4%-0.5% m/m increase would be consistent with seasonal patterns.

**Rental Price Index – June (Tuesday 13 July, 10:45am).** Usually increases 0.2%-0.4% m/m, but May was very strong. A second larger-than-usual increase could suggest that landlords are hiking rents in response to housing policy changes.

**Net Migration – May (Wednesday 14 July, 10:45am).** Will remain low.

**RBNZ OCR Review – July (Wednesday 14 July, 2:00pm).** See our [Preview](#).

**CPI – Q2 (Friday 16 July, 10:45am).** Currently forecasting 2.8% y/y, with rent and food prices on Tuesday still to go.



## Markets and forecasts

### Markets outlook

Local bond markets continue to be pulled in opposite directions at the short and long ends of the yield curve, with the short end sharply higher on expectations of earlier OCR hikes, and the long end sharply lower in the face of falling US and global bond yields. The latter reflects a number of factors, some of which are technical, like fears that the US debt ceiling might limit future bond issuance, which has shifted the supply/demand imbalance amid still-strong money supply growth, and position squaring. But it also reflects a degree of concern about the US economy's ability to withstand higher interest rates, and fears that the reflation cycle may have peaked, with structural challenges aplenty. No matter what's driving it, long-end bond yields are not rising as many expected, and we remain cautious and open-minded. Returning to the short end – that story is much more clear-cut, and the moves seen this week have occurred as market pricing has swung in favour of a 2021 start to the tightening cycle. Having warned about the risk of earlier hikes a few weeks ago, this week we changed our [OCR call](#) and now expect the first hike in November, with follow-up hikes in February and May. Markets aren't quite there yet but they are pretty close. Indeed, markets are now pricing in ~80% odds of a hike by November, about "one and a half" hikes by February and more than two hikes by May, and the risk is that trend continues in coming weeks as CPI and labour market data comes to hand. Given our new OCR call and the fall in global interest rates, we have tweaked our interest rate forecasts, which see short-end rates rise more quickly but the long end top out lower.

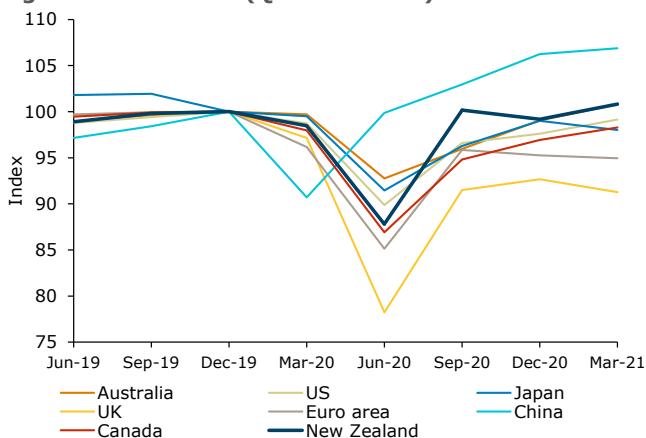
FX rates	Actual			Forecast (end month)					
	May-21	Jun-21	Today	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
NZD/USD	0.726	0.699	0.695	0.720	0.740	0.750	0.750	0.750	0.750
NZD/AUD	0.939	0.931	0.935	0.923	0.925	0.915	0.915	0.915	0.915
NZD/EUR	0.596	0.587	0.586	0.590	0.587	0.591	0.586	0.586	0.577
NZD/JPY	79.7	77.2	76.3	79.9	82.9	84.0	84.0	84.0	84.0
NZD/GBP	0.512	0.504	0.504	0.511	0.507	0.510	0.500	0.500	0.500
NZ\$ TWI	75.3	73.7	73.7	74.5	75.6	75.9	75.6	75.4	75.1
Interest rates	May-21	Jun-21	Today	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
NZ OCR	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50
NZ 90 day bill	0.32	0.35	0.35	0.51	0.79	1.07	1.32	1.57	1.82
NZ 10-yr bond	1.80	1.77	1.67	1.95	2.25	2.50	2.50	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	<b>0.4</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>
GDP (% yoy)	2.4	<b>15.3</b>	<b>1.8</b>	<b>3.6</b>	<b>2.8</b>	<b>3.4</b>	<b>3.8</b>	<b>3.9</b>	<b>3.6</b>
CPI (% qoq)	0.8	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.3</b>	<b>0.3</b>
CPI (% yoy)	1.5	<b>2.8</b>	<b>3.0</b>	<b>2.9</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>
Employment (% qoq)	0.5	<b>0.7</b>	<b>0.4</b>	<b>0.4</b>	<b>0.7</b>	<b>0.8</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>
Employment (% yoy)	0.3	<b>1.2</b>	<b>2.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>2.2</b>
Unemployment Rate (% sa)	4.7	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>	<b>4.0</b>	<b>3.9</b>

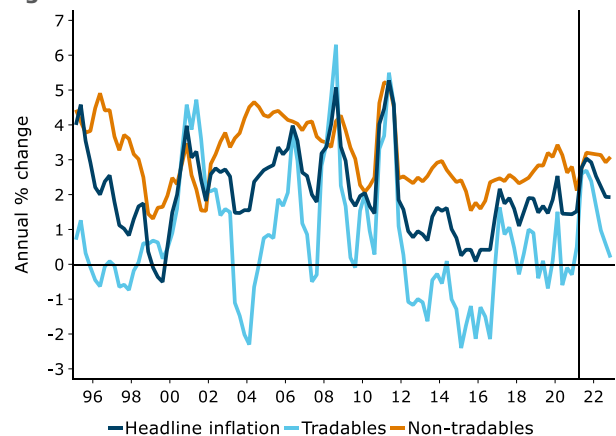
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. ANZ inflation forecasts



Source: Statistics NZ, Macrobond, ANZ Research



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