

# New Zealand Weekly Data Wrap

6 August 2021



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See [page 4](#).

## Forecast updates

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

- [NZ Labour Market Stats 2021Q2 and OCR call change](#)
- [NZ Forecast Update: Inflation with a 4-handle](#)
- [RBNZ MPR Review and OCR Call Change: LSAP ended, hike to come in August](#)
- [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 very tight
- Inflation above target
- OCR to lift from Aug 2021

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

## Key risks to our view



A Delta outbreak is a constant risk and could require a very aggressive and costly health response.



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.

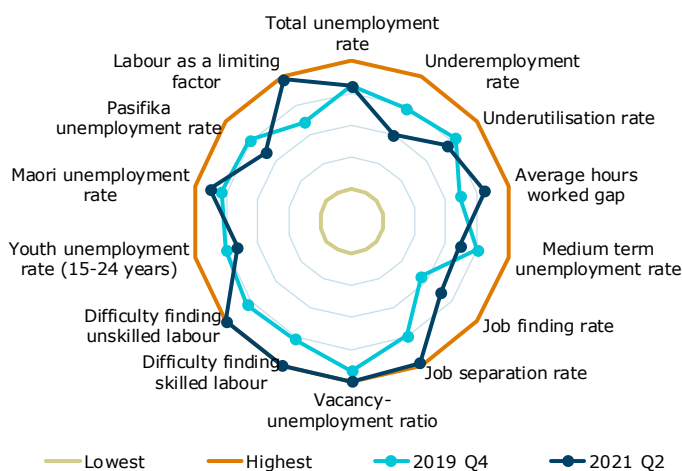
## What happened this week?

The big news this week was the **surprise drop** in the unemployment rate from a revised 4.6% in Q1 to just 4.0% in Q2 2021, driven by a 1.0% q/q rise in total employment. Wage growth was impressive, with labour costs up 0.9% q/q (2.2% y/y) – a steep rise in what's normally a very slow-moving series. Given the sheer tightness in the labour market and rising living costs, we see wage pressures building from here. The balance of power in the labour market has shifted markedly in favour of workers, and that's also reflected in efforts to retain workers. The job-separation rate is now the second lowest it's ever been, and more firms are reporting increasing wages to keep their staff.

If there were any doubts that the RBNZ could tick the labour market box, they're gone after this week's jobs report. By the RBNZ's own measures of labour market slack (figure 1), the labour market is now likely above the current level of maximum sustainable employment. And, given the strength in **underlying inflation** in Q2, it's clear that the RBNZ is now over-achieving on both its mandates. In order to smooth the economic cycle and lean against boom-bust dynamics (which disproportionately impact minorities, women, and the young), the RBNZ needs to rapidly remove its emergency stimulus measures.

Consequently, we **now expect** the RBNZ to hike the OCR in 25 basis point increments at the August, October, and November meetings, bringing the OCR to 1.00% at the end of 2021 – back to where we started in early 2020. We expect two more hikes at the February and May 2022 meetings will then bring the OCR to a terminal rate of 1.5% by the middle of next year. That's slightly lower than our previous assumption of a 1.75% OCR endpoint, reflecting this week's announcement of tighter loan-to-value ratio restrictions and debt to income limits for borrowers. Going earlier with OCR hikes may also mean that the OCR won't need to go as high to achieve the RBNZ's targets. That's a low endpoint, reflecting that OCR hikes will get traction quickly, given debt levels.

**Figure 1. RBNZ labour market indicators**



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

## Key data summary

**GlobalDairyTrade auction.** The GDT Price Index unexpectedly fell 2.9%.

**Labour Market Statistics – Q2.** Unemployment fell to 4.0%. See our [review](#).

**ANZ Commodity Price Index – July.** The World [Commodity Price Index](#) has come off its record level, having eased 1.4% in July.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- [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 10 Aug (10:00am)	<a href="#">ANZ Truckometer – Jul</a>
Tue 10 Aug (10:45am)	Electronic Card Transactions – Jul
Thu 12 Aug (09:00am)	REINZ House Prices – Jul
Thu 12 Aug (10:45am)	Food Prices – Jul
Thu 12 Aug (10:45am)	Rental Price Index – Jul
Thu 12 Aug (3:00pm)	RBNZ 2Yr Inflation Expectations – Q3
Fri 13 Aug (10:30am)	BusinessNZ Manuf PMI – Jul
Fri 13 Aug (10:45am)	Net Migration - Jun
Mon 16 Aug (10:30am)	Performance Services Index Jul
Wed 18 Aug (early am)	GlobalDairyTrade auction
Wed 18 Aug (2:00pm)	<b>RBNZ MPS</b>
Tue 24 Aug (10:45am)	Retail Sales – Q2

### Where do we go from here?

So what's next? This labour market has continuously surprised with its resilience, and with the border remaining closed, it's plausible that unemployment could drop into the mid-to-low 3s, even with below-average employment growth. We expect to see the labour market tighten further in coming quarters, with unemployment forecast to trough at just 3.8% in mid-2022 before rising to around 4% by the end of 2023, reflecting a cooler economy (figure 2). Recent strength in employment suggests there's been a little more labour supply in the GDP mix than we had previously been expecting, and that's led us to revise our expectation for Q2 GDP from 0.4% q/q to 0.8%. In coming weeks, partial indicators for Q2 GDP will start rolling in and will provide a firmer indication of how activity held up over Q2.

Labour demand is still extremely high, while supply is pretty much limited to existing job-seekers and people entering the labour force from inactivity. So alongside continued falls in unemployment, we also expect that wage inflation will increase rapidly over the next year (figure 2). We forecast growth in labour costs to peak at 3.2% y/y in 2022 Q1. That's a remarkable improvement on the lacklustre wage growth we saw in the decade after the GFC.

Figure 2. Unemployment and wage forecasts



Source: Stats NZ, Macrobond, ANZ Research

### The week ahead

#### ANZ Truckometer – July (Tuesday 10 August, 10:00am).

**Electronic Card Transactions – July (Tuesday 10 August, 10:45am).** We expect a solid increase, with our card data showing robust spending across apparel, consumables, durables and fuel during July. Some is higher prices.

**Food Prices – July (Thursday 12 August, 10:45am).** A 0.5%-1.0% m/m increase wouldn't be unusual. Upside risk from tight labour market.

**Rental Price Index – July (Thursday 12 August, 10:45am).** Rent prices usually increase 0.2% m/m in July.

**RBNZ Inflation Expectations – Q3 (Thursday 12 August, 3:00pm).** Likely to be strong given results in our own [Business Outlook](#).

**Performance of Manufacturing Index – July (Friday 13 August, 10:30am).** The earliest read we'll get on economic activity in Q3.

**Net Migration – June (Friday 13 August, 10:45am).** Still very low with the border remaining firmly shut to most countries.

**REINZ House Prices – July (Thursday 12 August, 9:00am).** With higher interest rates looming, the house price cycle looks close to its peak.



## Markets and forecasts

### Markets outlook

Short-end interest rates moved sharply higher in the wake of strong NZ Q2 labour market data this week as RBNZ rate-hike expectations lifted. As noted on page 1, the data were so strong and broad-based that we have front-loaded our expectations for OCR hikes, with three 25bp hikes now expected by year-end. On the other hand, we also lowered our OCR endpoint by 25bp, given new macroprudential measures. Market pricing still sits slightly shy of our forecasts, with around 65bps of hikes priced in by November. However, we think this circa 10bp gap is reasonable this far out, especially given global risks surrounding COVID and question marks hanging over the economy's ability to withstand higher interest rates. As such, we don't expect short-end rates to drift higher from here before the MPS, and if anything there is some scope for them to correct lower. Local long-end rates remain tied to global rates – and in particular the bellwether US 10yr Treasury bond, which had had a volatile week. Bond investors are cautious about the prospect of the Fed tapering the pace of its asset purchases, which could start this year, as all else equal that is likely to result in higher yields. However, global markets are also cautious about the trajectory of Delta and other COVID variants and the US economy's ability (not to mention the stock market's ability) to withstand higher rates, and that is keeping a lid on yields. Bringing it all together, we are wary of counting on bond yields rising ahead of what is likely to be a very slow and gradual transition towards policy tightening in the US. The Kiwi has not benefitted from higher local short-end interest rates and with so much positivity already priced in, we're cautious near term despite our more optimistic longer-term outlook.

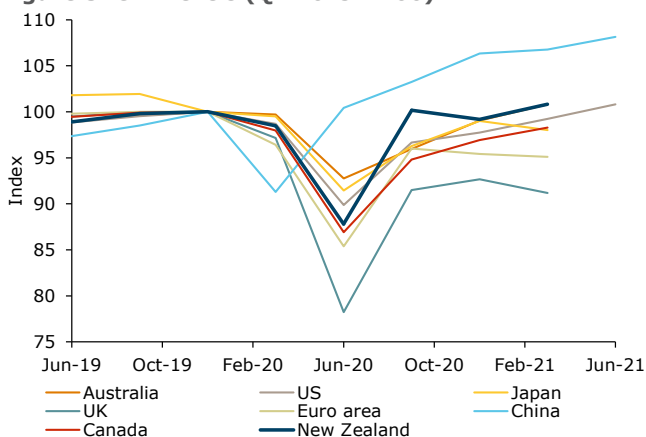
FX rates	Actual			Forecast (end month)					
	Jun-21	Jul-21	Today	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
NZD/USD	0.699	0.697	0.705	0.720	0.740	0.750	0.750	0.750	0.750
NZD/AUD	0.931	0.949	0.952	0.947	0.949	0.962	0.962	0.962	0.962
NZD/EUR	0.587	0.588	0.596	0.610	0.607	0.605	0.600	0.600	0.600
NZD/JPY	77.2	76.5	77.4	79.9	82.9	84.0	84.0	84.0	84.0
NZD/GBP	0.504	0.502	0.506	0.514	0.507	0.510	0.500	0.500	0.500
NZ\$ TWI	73.7	74.2	74.7	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	0.50	1.00	1.25	1.50	1.50	1.50
NZ 90 day bill	0.35	0.48	0.65	1.00	1.31	1.57	1.65	1.65	1.65
NZ 10-yr bond	1.77	1.65	1.73	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	<b>0.8</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>15.7</b>	<b>2.2</b>	<b>4.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.8</b>	<b>3.9</b>	<b>3.6</b>
CPI (% qoq)	0.8	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>
CPI (% yoy)	1.5	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>
Employment (% qoq)	0.6	1.0	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
Employment (% yoy)	0.3	1.7	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>
Unemployment Rate (% sa)	4.6	4.0	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>

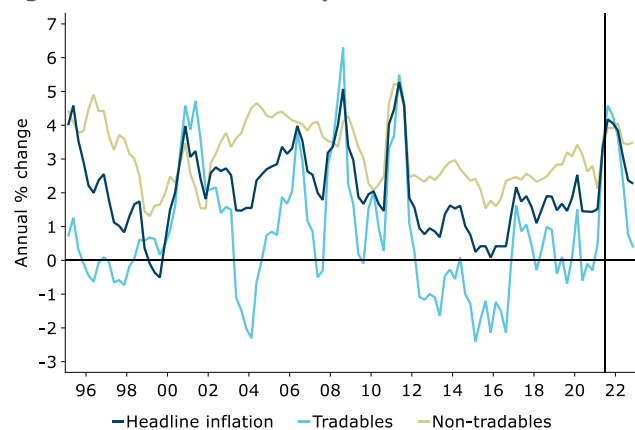
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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