

New Zealand Weekly Data Wrap

15 October 2021



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See [page 4](#).

Forecast updates

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

- [NZ CPI Preview: Close to the peak?](#)
- [NZ farmgate milk price forecast revised over \\$8](#)
- [RBNZ MPR Review: Lift off into a stormy flight path](#)
- [NZ Economic Outlook: Two steps forward, one step back](#)
- [NZ Property Focus: Rent is due](#)

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
- Further OCR hikes towards a terminal rate of 1.5% by end of 2022 expected.

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.

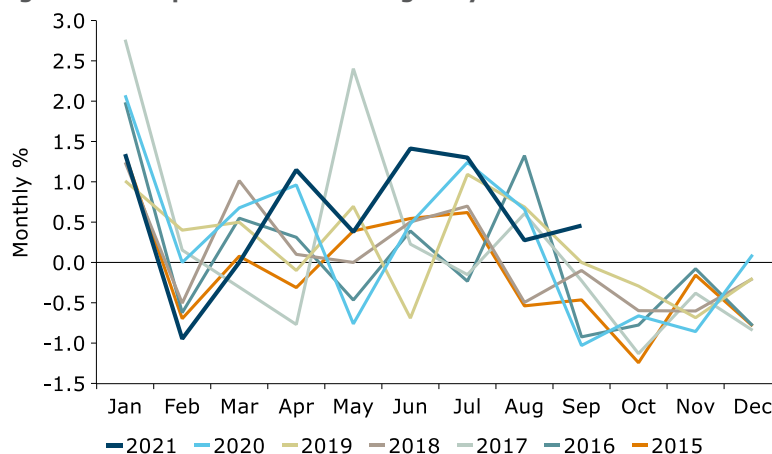


Conversely, an overheated economy and surging inflation expectations could be hard to rein in.

What happened this week?

This week, a broad array of timely data for September continued the theme that COVID restrictions are, on balance, a supply shock. Measures of actual activity were soggy. Our [Truckometer](#) showed below-par activity in September; electronic card spending eked out only a 1.6% m/m gain (after falling 21.8% in August); and while the results are still robust overall, firms in our Business Outlook survey [continue to report](#) declines in activity compared with this time last year. At the same time, price pressures continued to worsen. House prices rose 1.4% m/m (ANZ sa), rents rose 0.2% m/m, and food prices lifted for the sixth month in a row - up 0.5% in a month when they usually experience seasonal falls (figure 1). And firms continue to expect inflation pressures to get worse, with 84.9% of firms expecting higher costs in our October ANZBO. All up, data released this week highlight that downside risks to growth and employment are building the longer lockdown restrictions are required, while lockdown disruption continues to see cost pressures build. [We're expecting](#) that inflation reached 4.5% y/y in Q3 - and may have some way to go before it settles down (see next page).

Figure 1. Food price inflation during the year



Source: Stats NZ, Macrobond, ANZ Research

Key data summary

ANZ Truckometer – September. The [Light Traffic Index](#) lifted 6.4% in September, while the Heavy Traffic rebounded 13.4% m/m.

Net Migration – August. Still close to zero with the border closed.

Electronic Card Transactions – September. Total spending edged up 1.6% m/m, barely recovering from the 21.8% fall in August.

Food Prices – September. Up 0.5% m/m (4.0% y/y) in a month when prices usually experience seasonal falls. Higher costs are being passed on to consumers.

Rental Price Index – September. Rose 0.2% m/m.

ANZ Business Outlook Flash – October. The preliminary [Business Outlook](#) continued a story of remarkable resilience. Business confidence eased 2 points to -9, but own activity jumped 6 points to 26.

REINZ House Prices – September. Up 1.4% m/m (ANZ sa), with days to sell ticking up and sales falling as lockdown [weighed on activity](#).

Performance of Manufacturing Index – September. Rose sharply to 51.4 in September - back in expansionary territory after dropping sharply to 39.7 in August. Production and deliveries were still in contractionary mode though.



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](#)
- [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](#)

[Click here](#) for more.

Data calendar

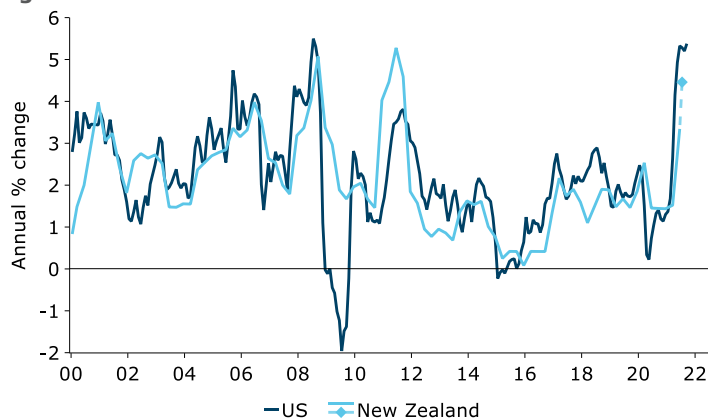
Date	Data/event
Mon 18 Oct (10:30am)	Performance Services Index Sep
Mon 18 Oct (10:45am)	CPI – Q3
Wed 20 Oct (early am)	GlobalDairyTrade auction
Wed 27 Oct (10:45am)	Merchandise Trade – Sep
Wed 27 Oct (1:00pm)	ANZ Business Outlook – Oct F
Fri 29 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Tue 2 Nov (10:45am)	Building Permits – Sep
Wed 3 Nov (early am)	GlobalDairyTrade auction
Wed 3 Nov (10:45am)	Labour Market – Q3
Thu 4 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Tue 9 Nov (10:00am)	ANZ Truckometer – Oct
Thu 11 Nov (10:45am)	Food Price Index – Oct

Inflation likely to get worse before it gets better

Stats NZ release Q3 CPI inflation data on Monday next week. [We're expecting](#) that prices rose 1.8% q/q (4.5% y/y), up from 1.3% q/q (3.3% y/y) in the June quarter. Inflation is being pushed higher by rising oil and food prices, construction costs, council rates rises, and ongoing supply disruptions that have added delays and cost overruns across much of the economy. Underlying all this is a very strong core inflation impulse, supported by a tight labour market and wage inflation finally picking up. While the RBNZ generally looks through factors like oil price spikes (so long as they don't cause longer-term inflation expectations to drift away from 2%), strong underlying inflation requires a policy response to keep a lid on price pressures – and the [RBNZ is delivering](#).

Looking ahead, what's becoming increasingly apparent is that the disruptions that have plagued global supply chains over the past 18 months aren't going anywhere in a hurry, and that means we may not see inflation peak until the New Year. As we head into the Christmas period, retailers are rushed off their feet trying to secure inventory, but with containers piling up at ports around the world, it's looking unlikely that all orders will be filled – and that will only exacerbate price pressures in the domestic economy. This is a global supply chain struggles to meet demand amid COVID restrictions and intense labour shortages. In the US, inflation was running at 5.4% y/y in September (figure 2).

Figure 2. CPI inflation in New Zealand and the US



Source: BLS, Stats NZ, Macrobond, ANZ Research

We have put our inflation forecasts beyond Q3 under review, and will update them in light of Monday's inflation data, and our expectation that inflation will get worse over the Christmas period. While a headline print of 4.5% inflation does sound alarming (and it will likely be stronger in Q4), supply disruptions won't last forever. Indeed, as the global supply chain eventually moves to a post-COVID normal, we could see tradables inflation weaken, or even turn negative for a time, as prices adjust. And interest rate hikes from the RBNZ should help contain domestic inflation pressures as well – although as lockdown drags on, downside risks to activity raise the chances that the RBNZ may face an ugly trade-off between dampening inflation or supporting employment.

The week ahead

Performance of Services Index – September (Monday 18 October, 10:30am). Was in deeply contractionary territory in August, may improve slightly in September with more of New Zealand in lower Alert Levels.

CPI – Q3 (Monday 18 October, 10:45am). We expect inflation was 1.8% q/q (4.5% y/y) in Q3. It's likely to get worse over the Christmas rush - but higher interest rates should help to calm things down. See our [preview](#).

GlobalDairyTrade auction (Wednesday 20 October, early am). The index should be little changed, but with a few mixed moves under the hood.



Markets and forecasts

Markets outlook

Market pricing for a follow-up OCR hike in November was little changed through the course of the week, currently sitting at just under 95% priced in. And given the broad direction of economic data this week, we find it difficult to argue with that assessment. However, pricing for the longer-dated meetings (ie H1 2023) lifted by 25bps or so, and that's arguably more questionable. Inflation pressures continue to build, but COVID restrictions are intensifying employment risks. The appropriate policy response should activity disappoint but inflation risks materialise is not straightforward. Nor is the decision to continue on the path of hiking if a return to nationwide Alert Level 3 (or higher) is required. It's notable that Auckland firms are reporting the highest cost pressures in the ANZBO survey, but one can't rule out that lingering restrictions result in a persistent hit to confidence, resulting in a net demand shock into the medium term. At the longer end, NZ 10-year yields are a few bps higher than last week, which, alongside lifting swap rates, has maintained upwards pressure on retail rates. Globally, expectations are lifting that central banks will need to start withdrawing stimulus a little earlier than previously assumed. That's particularly true in the UK, where COVID and Brexit-related supply disruptions are creating a perfect storm. In FX, NZD has now breached 0.70 against USD despite DXY performance being nothing to write home about. NZD is very much at the whims of global risk appetite (following equities sharply higher overnight), but will also be susceptible to any implications for carry as next week's NZ CPI numbers hit the wires. But it's all relative, of course, so we'll need to keep an eye out for any further hawkish shift by global central banks.

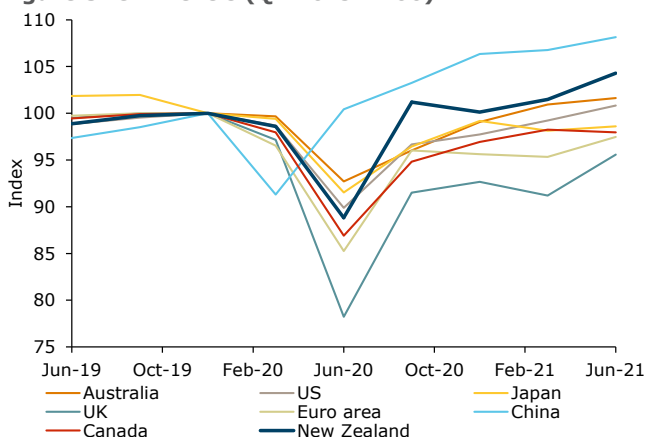
FX rates	Actual			Forecast (end month)					
	Aug-21	Sep-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZD/USD	0.706	0.686	0.704	0.720	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.964	0.955	0.949	0.960	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.597	0.593	0.607	0.610	0.600	0.585	0.590	0.590	0.590
NZD/JPY	77.6	76.9	80.0	80.6	80.6	80.6	80.6	80.6	80.6
NZD/GBP	0.513	0.511	0.515	0.518	0.511	0.503	0.493	0.486	0.483
NZ\$ TWI	74.9	73.7	74.9	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	0.50	0.75	1.00	1.25	1.50	1.50	1.50
NZ 90 day bill	0.46	0.65	0.68	1.00	1.27	1.52	1.60	1.60	1.60
NZ 10-yr bond	1.82	2.09	2.19	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	1.8	<i>Under review</i>						
CPI (% yoy)	3.3	4.5							
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

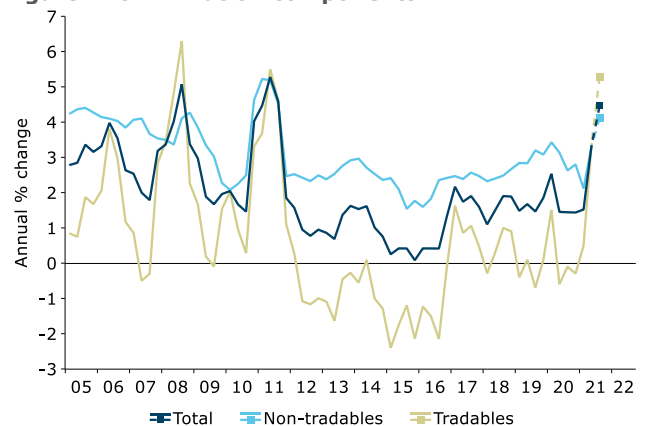
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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