ANZ Research

New Zealand Weekly Data Wrap

5 November 2021

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See page 4.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Property Focus: The tide is turning
- NZ OCR call change and CPI forecast update
- NZ farmgate milk price forecast revised over $8

Our other recent publications are on page 2.

What's the view?

- GDP constrained by supply more than demand
- Labour market tighter than ever
- Inflation well above target
- Further OCR hikes towards 2.0% by end of 2022 needed to contain inflation.

Our forecasts are on page 3.

Key risks to our view

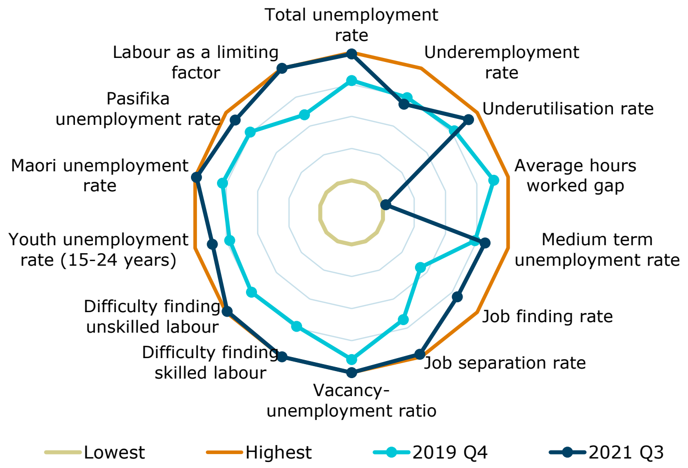
- Falling consumer and business sentiment derail momentum even as COVID restrictions ease.
- Housing is at a turning point. Momentum could fade faster as rates rise, or have more significant economic impacts.
- An overheated economy, surging inflation expectations, and highly inflationary labour market could be hard to rein in.

What happened this week?

All indications are that the NZ labour market is now the tightest it's been since the official HLFS data started in 1986. The unemployment rate has fallen to a joint-record low of 3.4%, even though the participation rate has surged to 71.2% (also a joint-record high). A massive 2.0% q/q rise in employment has driven this improvement in the labour market, suggesting that firms are having a lot of success at attracting people into the labour force with better wage offers. There are still just under 1.2 million working-age people who are counted as not in the labour force – and with wages set to rise steeply over the next year (and living costs rising), it's likely we see even more of them tempted into the labour force.

The unemployment rate figure was impressive, but even that number doesn't get across how tight the labour market currently is. Figure 1 plots the RBNZ's suite of labour market indicators that they monitor, showing how we're tracking relative to outcomes since 2000. Almost every indicator is either the best since 2000, or pretty close to it. The only weak spot is average hours worked, and that's actually a good sign. It means locked down firms have adjusted hours instead of headcount – so employment relationships remain intact, enabling a rapid recovery from any damage caused by being elevated Alert Level restrictions for so long. But so far, the labour market is showing no signs of slowing down – and given the unusual circumstances, unemployment could drop as low as 3.0% in 2022 as COVID restrictions keep easing (see next page).

Figure 1. RBNZ maximum sustainable employment indicators



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

Note: Yellow (inner) circle = worst outcome since 2000, Orange (outer) circle = best outcome since 2000, Dark blue = current outcomes, Light blue = 2019 Q4, when the RBNZ saw employment as "at or slightly above" maximum sustainable employment.

Key data summary

Building Permits – September. Consents ticked down 1.9% m/m due to lockdown disruption, but on an annual basis, 47,331 consents have been issued.

GlobalDairyTrade auction. The GDT index posted an impressive 4.3% lift.

RBNZ Financial Stability Report. The RBNZ is concerned about stretched asset prices – which have been pumped up by super-low interest rates.

Labour Market Statistics – Q3. Unemployment fell to its previous record low of 3.4%. See our Review.

ANZ Commodity Price Index – October. The world index rose 2.1% m/m.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: The 'great resignation' in New Zealand
- NZ Insight: States of the world
- NZ Property Focus: The tide is turning
- 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

Click here for more.

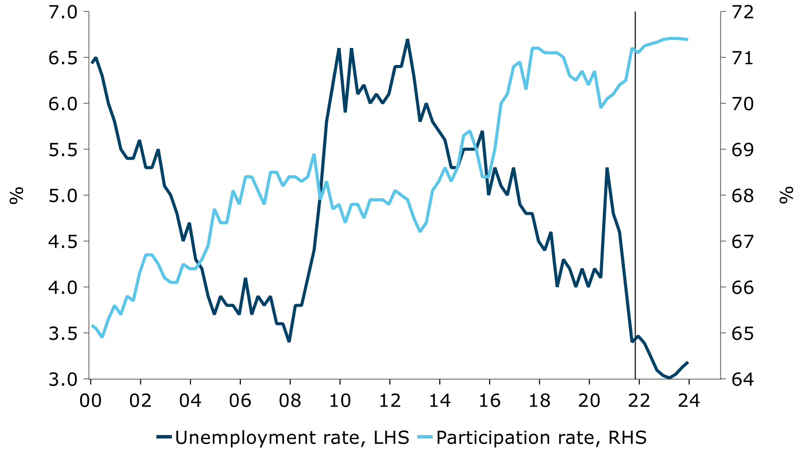
Data calendar

Date	Data/event
Tue 9 Nov (10:00am)	ANZ Truckometer – Oct
Thu 11 Nov (10:45am)	Food Price Index – Oct
Thu 11 Nov (10:45am)	Rental Price Index –Oct
Thu 11 Nov (1:00pm)	ANZ Business Outlook – Nov P
Fri 12 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Mon 15 Nov (10:30am)	Performance Services Index Oct
Mon 15 Nov (10:45am)	Net Migration – Sep
Thu 18 Nov (3:00pm)	RBNZ 2Yr Inflation Expectations – Q4
Tue 23 Nov (10:45am)	Retail Sales – Q3
Wed 24 Nov (2:00pm)	**RBNZ Monetary Policy Statement**
Thu 25 Nov (10:45am)	Merchandise Trade – Oct
Fri 25 Nov (10:00am)	ANZ-RM Consumer Confidence – Nov

Labour market to tighten further in 2022

Firms have been surprisingly successful at filling vacancies – despite record levels of reported difficulty finding labour. And with the labour market showing no signs of slowing down, we expect employment will keep rising, partly due to jobseekers finding work, and partly due to people continuing to enter the labour force from inactivity. As such, we're forecasting that the unemployment rate will fall to 3.0% in late 2022 – and it could fall even further if employment growth continues to outstrip labour force growth by big margins. That trajectory reinforces our expectation that wage growth will accelerate sharply over the next year. It's taken a little longer than we previously anticipated for wage growth to pick up – labour costs were up 2.5% y/y in Q3 (vs our expectation of 2.7%) – but wages do take a while to adjust as people go through negotiations or switch to new jobs. However, with the balance of power now so heavily tilted in the favour of workers, and the cost of living up so sharply, it's hard to see wages not taking off in the near future. Because for now, real wages are still going backwards.

Figure 2. Unemployment and participation rate forecasts



Source: Stats NZ, Macrobond, ANZ Research

The RBNZ is probably watching this data with some concern. They didn't expect unemployment to drop below 3.8% over their entire August forecast (neither did we at the time) – and the labour market is now in a highly inflationary state (ie unemployment is well below NAIRU). It makes the danger of a wage-price spiral even more pressing – meaning the RBNZ has more work to do. If the RBNZ feels they need to aggressively get ahead of the curve, they may be tempted to hike 50bps in November. But signalling a higher OCR track in the November MPS, or scheduling a January Review, could achieve much the same results with more optionality and less volatility. Consumer confidence is rolling over; the housing market is fragile, and the biggest increase in employment in the year to September was from construction. The RBNZ won't want to risk a hard landing.

The week ahead

ANZ Truckometer – October (Tuesday 9 November, 10:00am).

Food Prices – October (Thursday 11 November, 10:45am). Prices were unseasonably strong in September – if that continues for the rest of the year, it'll reinforce our expectation that inflation will increase to just under 6% in Q1.

Rental Price Index – October (Thursday 11 November, 10:45am). Usually increases 0.2% m/m in October – but the huge 3.9% m/m increase in the flow measure in September suggests upside risks over the next few months.

ANZ Business Outlook Flash – November (Thursday 11 November, 1:00pm).

Performance of Manufacturing Index – October (Friday 12 November, 10:30am). Was back in expansion mode in September – and with Auckland down to Level 3 for all of October, that should continue.

Markets and forecasts

Markets outlook

Offshore central banks were the main focus for markets this week, with the US Federal Reserve (the "Fed"), the Bank of England (BoE) and the Reserve Bank of Australia (RBA) all meeting. All three made interesting decisions, with the Fed announcing tapering, the RBA abandoning its 3-year bond yield target and the BoE holding fire. Of the three, it tends to be the Fed and RBA that have the greatest impact on the New Zealand market, thanks to the high degree of correlation between their bond markets, and of note, these two have now joined the RBNZ (albeit in a different way) on the tightening journey. We think that's significant as it does suggest an overall tightening of global financial conditions, and that could impact what happens here. One of the emerging themes in markets has been the idea that NZ data has hit "peak surprise", and is now at risk of losing steam. While the starting point for the economy is solid and inflation and employment are at levels that don't need more stimulus (indeed, to be sustainable, they need reeling in, which speaks to the OCR going to at least neutral), we have sympathy for the peak surprise argument. And given what's priced into the short end (markets expect the OCR to be 2.37% by the end of 2022), these lofty expectations (which also incorporate some expectation of 50bp hikes along the way) may start to fade. To be clear, the next few OCR hikes are all but locked in, but the idea that the OCR can keep going towards 3% does seem incongruous with downside risks to housing, asset prices and global growth. This theme looks to also be playing out in FX markets, with the NZD dropping back even as OCR expectations lift. The Fed's cautious approach has found favour for the USD in markets, and that is also holding the Kiwi back.

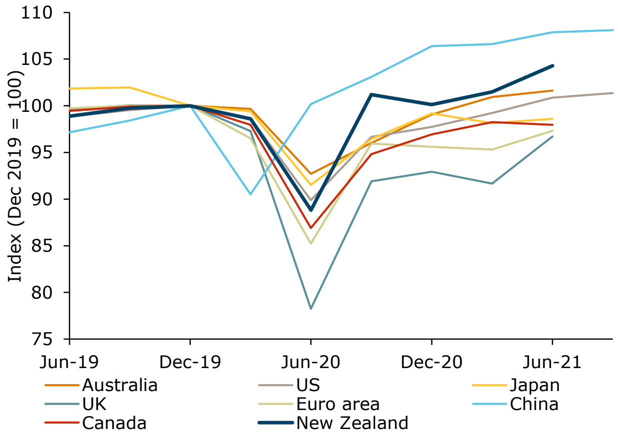
		Actual				Forecast (end month)			
FX rates	Sep-21	Oct-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZD/USD	0.686	0.717	0.710	0.720	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.955	0.954	0.960	0.960	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.593	0.620	0.615	0.610	0.600	0.585	0.590	0.590	0.590
NZD/JPY	76.9	81.7	80.8	80.6	80.6	80.6	80.6	80.6	80.6
NZD/GBP	0.511	0.524	0.526	0.514	0.511	0.503	0.493	0.486	0.483
NZ$ TWI	73.7	75.9	75.6	75.7	75.3	74.8	74.6	74.5	74.3
Interest rates	Sep-21	Oct-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZ OCR	0.25	0.50	0.50	0.75	1.00	1.50	2.00	2.00	2.00
NZ 90 day bill	0.65	0.80	0.80	1.00	1.52	2.02	2.10	2.10	2.10
NZ 10-yr bond	2.09	2.64	2.54	2.50	2.65	2.75	2.75	2.80	2.80

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	2.2	**1.0**	**1.2**	**0.6**	**1.0**	**0.4**	**0.4**	**0.2**
CPI (% yoy	3.3	4.9	**5.5**	**5.8**	**5.1**	**3.9**	**3.2**	**2.5**	**2.0**
Employment (% qoq)	1.1	2.0	**0.0**	**0.6**	**0.6**	**0.6**	**0.5**	**0.4**	**0.3**
Employment (% yoy)	1.6	4.2	**3.6**	**3.7**	**3.2**	**1.8**	**2.3**	**2.1**	**1.8**
Unemployment Rate (% sa)	4.0	3.4	**3.5**	**3.4**	**3.2**	**3.1**	**3.0**	**3.0**	**3.0**

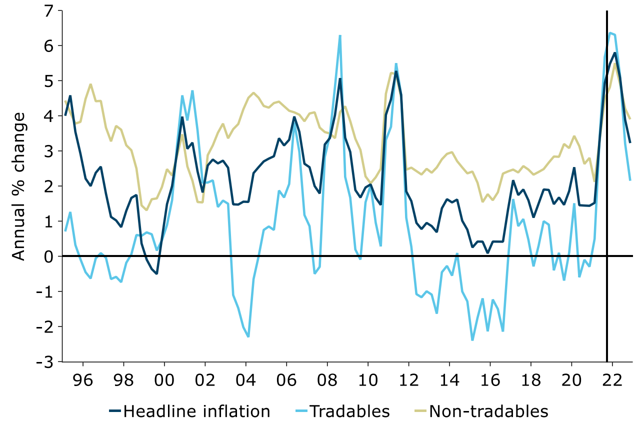
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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