

New Zealand Weekly Data Wrap

12 November 2021



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Forecast updates

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

- [NZ Weekly Data Wrap: The tightest labour market on record](#)
- [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.

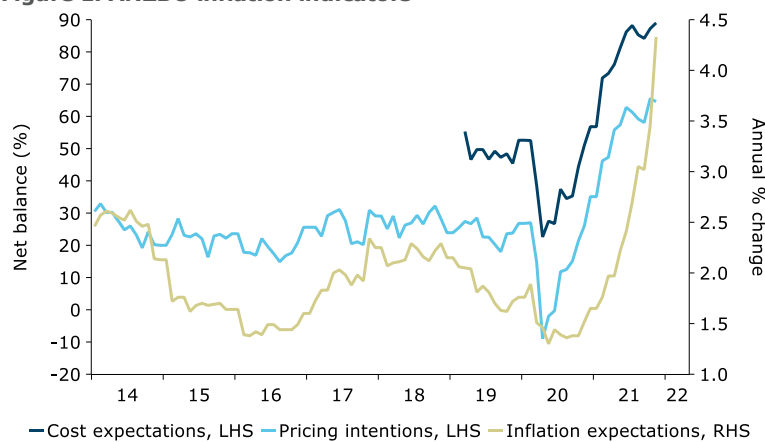


An overheated economy, surging inflation expectations, and highly inflationary labour market could be hard to rein in.

What happened this week?

Inflation stole the limelight back from the labour market this week, with the preliminary read of our [ANZ Business Outlook](#) showing a steep increase in Kiwi businesses' inflation expectations. Cost expectations and pricing intentions remain very high as well (figure 1). Food prices fell 0.9% m/m in October, but that was merely a return to normal seasonality, and was the first monthly decline in food prices since February. Rent prices rose by 0.3% m/m in October – slightly stronger than usual. So far the data supports our [forecast](#) that annual CPI inflation will continue to rise, reaching 5.5% in Q4, and 5.8% in Q1 – and firms are clearly expecting prices to surge as well.

Figure 1. ANZBO inflation indicators



Source: Macrobond, ANZ Research

With the economy already overheated (with 4.9% inflation in Q3, and record-low unemployment), the RBNZ will be keenly focussed on measures of inflation expectations as we head towards the November MPS. Inflation expectations can be self-fulfilling, adding further fuel to the inflationary fire that the RBNZ is trying to put out with interest rate rises. The RBNZ's own Survey of Expectations is released next week – they'll be watching the 5- and 10-year inflation expectations measures closely for any sign that the credibility of the inflation target is being threatened by the unanticipated strength in underlying inflation.

Key data summary

ANZ Truckometer – October. The [Light Traffic Index](#) fell 6.4% in October, while the Heavy Traffic lifted 1.0% m/m.

ANZ Business Outlook Flash – November. All forward-looking activity indicators except employment intentions fell in the preliminary [November Business Outlook](#) survey. Inflation expectations soared after the strong CPI data.

REINZ House Prices – October. Rose 2.3% m/m (sa, ANZ estimate) – but on an annual basis house price inflation [looks to have peaked](#), and we expect gradual cooling to continue over into 2022.

Food Prices – October (Thursday 11 November, 10:45am). Food prices fell 0.9% m/m – their first monthly decline since February, and consistent with usual October movements.

Rental Price Index – October. Rent prices rose 0.3% m/m – now up 3.3% on an annual basis.

Performance of Manufacturing Index – October. Rose to 54.3 (51.6 previously) – continuing to recover from lockdown. All sub-indexes rose.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: NZ-UK Free Trade Agreement](#)
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- [NZ Insight: Lockdown and the economic outlook](#)
- [NZ Insight: Finding neutral](#)
- [NZ Agri Focus: Springing into action](#)

Click [here](#) for more.

Data calendar

Date	Data/event
Mon 15 Nov (10:30am)	Performance Services Index Oct
Mon 15 Nov (10:45am)	Net Migration – Sep
Wed 17 Nov (early am)	GlobalDairyTrade auction
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
Tue 30 Nov (1:00pm)	ANZ Business Outlook – Nov F
Wed 1 Dec (10:45am)	Building Permits – Oct
Thu 2 Dec (10:45am)	Terms of Trade – Q3
Mon 6 Dec (10:45am)	Building Work Put in Place – Q3

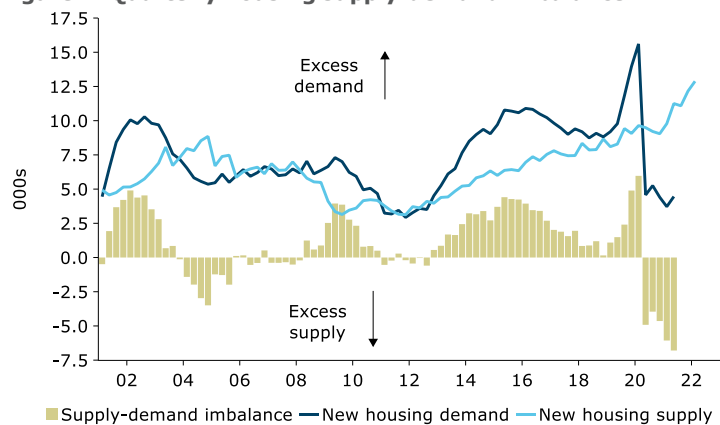
Housing headwinds are blowing

The October report from REINZ showed monthly house price inflation increased to 2.3% from 1.4% in September (sa, ANZ estimate). That was a considerably stronger print than the 1.0% m/m rise we were forecasting. But it looks like a result of supply-demand mismatch, as ongoing Alert Level restrictions clog things up. Stepping back, the outlook for house price inflation is looking soft. In fact, it looks like we've [seen the peak](#) in annual house price inflation – it should decline from here.

There's a long laundry list of headwinds blowing against further strong house price inflation. These include steeply rising mortgage rates, affordability constraints, LVR restrictions being tightened, tax policy changes, anaemic population growth (with Auckland's population shrinking slightly in the year to June), record levels of building activity, and a very solid pipeline of dwellings that have been consented but not yet built. All up, these factors point to a sustained moderation in house price inflation. However, while we can't rule it out, we're not forecasting a sudden house price correction. That would require an income shock (eg significant job losses) forcing people to put their houses up for sale. With the labour market looking like it's the [tightest it's been](#) since the official data began in 1986, it would be difficult to justify forecasting such a correction.

It's also hard to overstate how quickly we're catching up on the housing supply deficit. Population growth has been very weak since the border was shut, while we've consented a record 47,000 new dwellings in the past 12 months. Estimates of how quickly we're eroding the housing shortage are highly sensitive to assumptions around the number of people per dwelling and the completion rate of consented dwellings, but roughly speaking in the past year, new housing supply has outstripped new demand (from population growth) by about 4-6000 dwellings per quarter (figure 2). Low interest rates, FOMO, and COVID disruption may have given the housing market a final boost over the past few months, but there's only so long prices can push against the fundamentals of supply and demand.

Figure 2. Quarterly housing supply-demand imbalance



Source: Stats NZ, Macrobond, ANZ Research

The week ahead

Performance of Services Index – October (Monday 15 November, 10:30am). Services are more impacted by COVID restrictions – and we won't see the benefit of retail reopening in Auckland until we get November data.

Net Migration – September (Monday 15 November, 10:45am).

GlobalDairyTrade auction (Wednesday 17 November, early am). Dairy prices are forecast to lift a further 3%, supported by stable offer volumes and relatively tight global milk supply.

RBNZ Inflation Expectations – Q4 (Thursday 18 November, 3:00pm). Likely to see near-term expectations spike after Q3's 4.9% inflation print. The RBNZ will be wanting to see longer-term expectations anchored at 2%.



Markets and forecasts

Markets outlook

Local interest rates have edged higher across the board this week, with short-end rates like the 2-year swap back up towards earlier highs at around 2.30%, and long-end rates like the yield on the NZGB 2032 bond up to a high for the year, at around 2.70%. Different drivers have been at play at each end of the yield curve, with the short end under pressure on fears that the RBNZ might deliver a 50bp hike on November 24th, and the long end following global yields higher in the wake of the surge in US inflation (which is at a 30-year high of 6.2%). These moves have been exacerbated by thin liquidity and bond investor unease, which is clearly evident in falling and/or low bid cover ratios at government bond tenders and auctions across the globe, including in NZ. This unease is understandable ahead of what is set to be a wave of global policy tightening in 2022, and we don't expect investor attitudes to normalise until the tightening cycle is well underway and buyers are able to take a more confident stab at the likely peak in policy rates. While that clarity is likely to be months away for the long end, some end is in sight for unease at the short end, especially if the RBNZ deliver "only" a 25bp hike on the 24th, as we expect. While we can't rule out a 50bp hike, we do think it would create significant volatility. While conceptually there's some policy urgency, term swap rates and mortgage rates are already significantly higher and that's ultimately the aim of OCR hikes. In FX markets, the NZD has struggled in the face of a stronger USD. Higher short-end rates have benefitted the Kiwi, but as markets look to rising policy rates elsewhere, the Kiwi's relative appeal may start to fade over the course of 2022. Notably, of late, NZD/USD has struggled to sustain above our year-end forecast of 0.72.

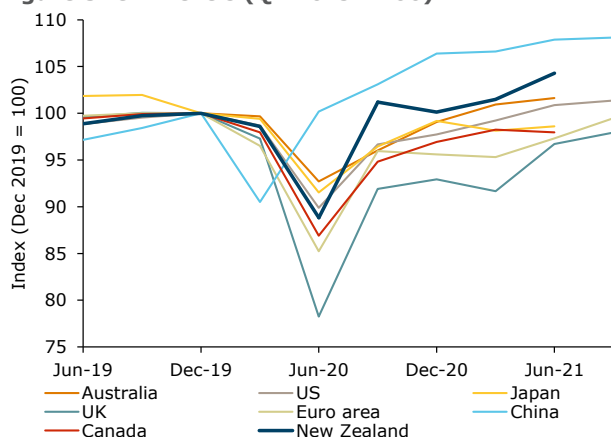
FX rates	Actual			Forecast (end month)					
	Sep-21	Oct-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZD/USD	0.686	0.717	0.702	0.720	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.955	0.954	0.963	0.960	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.593	0.620	0.613	0.610	0.600	0.585	0.590	0.590	0.590
NZD/JPY	76.9	81.7	80.1	80.6	80.6	80.6	80.6	80.6	80.6
NZD/GBP	0.511	0.524	0.525	0.514	0.511	0.503	0.493	0.486	0.483
NZ\$ TWI	73.7	75.9	75.0	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	0.84	1.00	1.52	2.02	2.10	2.10	2.10
NZ 10-yr bond	2.09	2.64	2.69	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

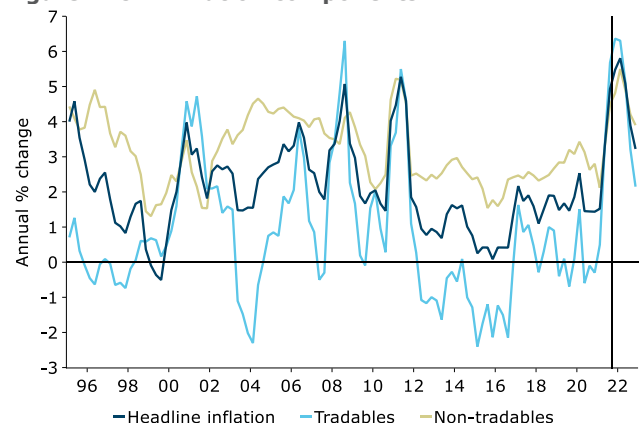
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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