

# New Zealand Weekly Data Wrap

26 November 2021



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See [page 4](#).

## Forecast updates

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

- [NZ Property Focus: Risks building](#)
- [NZ Weekly Data Wrap: The tightest labour market on record](#)
- [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 may derail broader momentum.



The housing market has peaked. Momentum could fade faster as rates rise, or have more significant economic impacts.



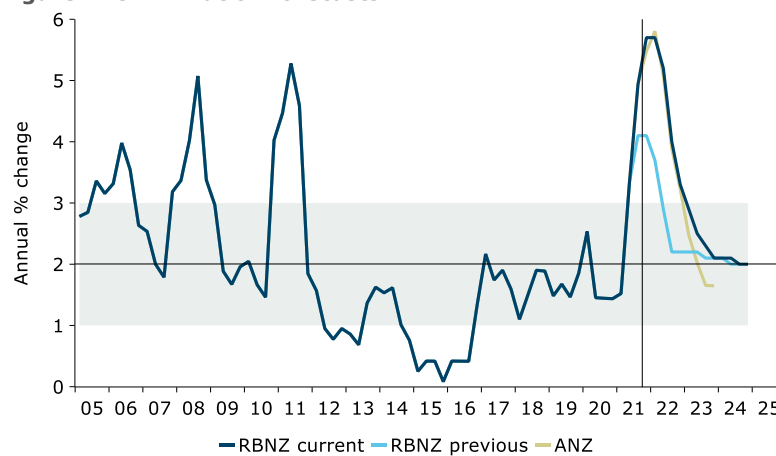
Surging costs, inflation expectations, and highly inflationary labour market could be hard to rein in.

## What happened this week?

The RBNZ delivered a [second interest rate hike](#) on Wednesday – lifting the OCR 25bps to 0.75% as we expected. While markets had priced a significant chance of a 50bp hike, on the day the RBNZ went 25bps, and noted that continuing in “considered steps” is “most appropriate”. Indeed, the tone of the document was pretty balanced overall – with the RBNZ noting that while there are upside risks to inflation, households are particularly sensitive to interest rate rises, given the accumulation of housing debt over the past 18 months, and a lot of tightening has been delivered already via future expectations. All up, that suggests they will continue moving in 25bp increments until they are satisfied that monetary policy settings are consistent with employment at its maximum sustainable level, and inflation at 2% over the medium term.

Inflation at 4.9% is currently well above the 2% midpoint of the RBNZ’s target range of 1-3%, and both we and the RBNZ expect it’ll get pretty close to 6% before it starts to ease (figure 1). The RBNZ is projecting it’ll need to raise the OCR to around 2.6% over the next few years to meet the inflation side of its target – but we think 2% will probably do the job, especially given the [sensitivity of the housing market](#) to higher interest rates.

Figure 1. CPI inflation forecasts



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

The RBNZ’s job is going to be made harder by the fact that the lockdown will make GDP data very difficult to interpret. We got a taste of that with Q3’s [Retail Trade Survey](#), which showed sales volumes down 8.1% q/q. The lesson from 2020 is that the rebound is key, not the size of the fall. Housing won’t provide the same boost as in 2020, but an extremely tight labour market should be a more sustainable driver of retail spending from here.

## Key data summary

**Retail Trade Survey – Q3.** Retail sales volumes fell 8.1% q/q (seasonally adjusted) – not quite as bad as the 10% fall we had pencilled in.

**RBNZ Monetary Policy Statement – November.** As expected, the RBNZ lifted the OCR 25bps to 0.75%. See our [Review](#).

**Overseas Merchandise Trade – October.** The monthly merchandise trade deficit shrank to NZD1.29bn (NZD2.20bn previously) as exports rose sharply.

**ANZ Roy Morgan Consumer Confidence – November.** Consumer confidence was little changed but the future conditions index fell.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: The Reopening](#)
- [NZ Property Focus: Risks building](#)
- [NZ Insight: NZ-UK Free Trade Agreement](#)
- [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](#)

Click [here](#) for more.

### Data calendar

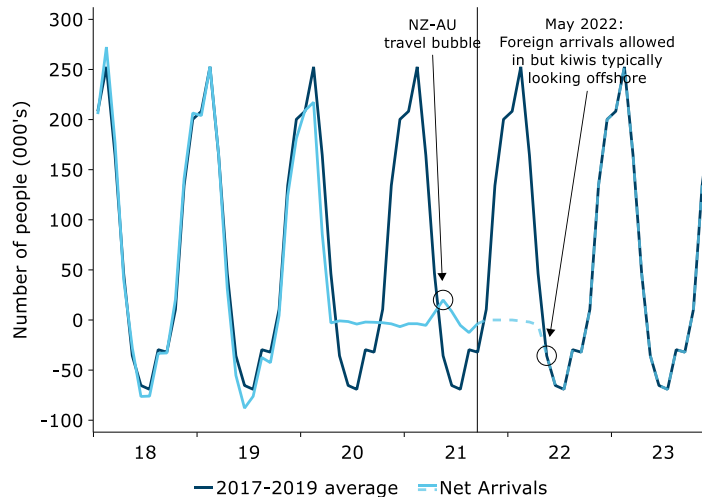
Date	Data/event
Tue 30 Nov (1:00pm)	<a href="#">ANZ Business Outlook – Nov F</a>
Tue 30 Nov (3:00pm)	RBNZ Sectoral Lending – Oct
Wed 1 Dec (10:45am)	Building Permits – Oct
Thu 2 Dec (10:45am)	Terms of Trade – Q3
Mon 6 Dec (10:45am)	Building Work Put in Place – Q3
Mon 6 Dec (1:00pm)	<a href="#">ANZ Commodity Price Index – Nov</a>
Wed 8 Dec (early am)	Global Dairy Trade auction
Thu 9 Dec (10:00am)	<a href="#">ANZ Truckometer – Nov</a>
Thu 9 Dec (10:45am)	Manufacturing Activity – Q3
Fri 10 Dec (10:30am)	BusinessNZ Manuf PMI – Nov
Fri 10 Dec (10:45am)	Electronic Card Transactions – Nov
Mon 13 Dec (10:30am)	Performance Services Index Nov

### What are we watching?

Looking ahead as we transition towards endemic COVID and begin to open up again, it's highly uncertain how the economy will respond. The RBNZ discussed this at length in the MPS – they highlighted a range of scenarios where they could either end up removing stimulus even faster than currently projected, or else where demand falls away sharply (eg due to consumer confidence sagging), meaning a "slower removal of, or an increase in, monetary stimulus may be required." We've [previously noted](#) that there are many possible paths the economy could take next year – and these paths may require drastically different policy responses, ranging from a negative OCR, to something closer to 4%. It's very difficult to identify in real time which state of the world we're in, especially given the volatility in the macroeconomic data. That means policy mistakes will be easy to make – and in that light, continued caution by the RBNZ remains appropriate (ie moving in 25bp hikes, and retaining optionality should the trajectory of the economy change). There is, after all, infinite space to lift the OCR if that's what's eventually required – not that that would be risk-free or a pleasant experience for the economy.

A big part of this transition will be the gradual [reopening of the border](#), which has been sealed shut since March 2020. But we are staring down the barrel of another summer without international visitors, followed by a winter with Kiwis free to travel abroad (figure 2). But things could get harder for NZ tourism before they get better – especially if self-isolation requirements put some visitors off coming. The summer of 2022/23 is a light at the end of the tunnel, but is it too far away for many firms?

Figure 2. Net visitor arrivals: 2017-2019 average vs actual



### The week ahead

**ANZ Business Outlook – November (Tuesday 30 November, 1:00pm).**

**RBNZ sectoral lending data – October (Tuesday 30 November, 3:00pm).**

Housing and business lending continued to increase through August and September, despite lockdown. Housing lending seems likely to start to slow as tighter lending conditions and higher mortgage rates weigh on borrowing.

**Building Permits – October (Wednesday 1 December, 10:45am).** Dwelling consents ticked down 1.9% in September, but issuance is still holding up at very high levels (with growth in housing stock far exceeding new demand). Lockdown disruption and the prospect of rising rates may become a drag, but there is still a very lengthy pipeline for the industry to work through.

**Overseas Trade Indices – Q3 (Thursday 2 December, 10:45am).** Export price increases continue to outpace the lift in import prices. Accordingly, we anticipate a 2.1% increase in the Q3 terms of trade.



## Markets and forecasts

### What's happening in financial markets

The entire term structure of interest rates is lower than it was a week ago, with the short end leading the way in the wake of the RBNZ's decision to hike by "only" 25bps. Markets went into the decision tied up in knots, highly fearful that we may see a 50bp hike and a much higher set of OCR projections from the RBNZ, and against those expectations, it is natural that we have seen interest rates retrace lower. This latest move has seen the bellwether 2-year interest rate swap fall to around 2.22%, down from around 2.40% before the RBNZ decision. But even at that level, we see scope for further downside, with markets still pricing in around 86bps of hikes over the next three RBNZ meetings, which of course implies some chance of a 50bp hike at some point. That's not only incongruous with the RBNZ's cautious tone and "considered steps" verbiage; it also leaves OCR expectations vulnerable should the tempo of data start to turn in the new year. The long end has seen a much shallower retracement, with higher (and rising) US bond yields limiting scope for downward adjustment. That theme – of the short end being fully priced but the long end still being vulnerable to global bond yields moving higher – is likely to continue into next year, especially as the market brings forward expectations for Fed tightening and/or an accelerated Fed tapering profile. In FX markets, the Kiwi is a lot lower, having dropped by around 2.1% this week as interest rates fell. It is now a long way from our year-end forecast of 0.72, and while historic seasonality usually sees it rally in December, as markets move to price in more measured expectations for the OCR and the prospect of earlier normalisation elsewhere, that poses downside risks to Kiwi achieving our year-end forecast.

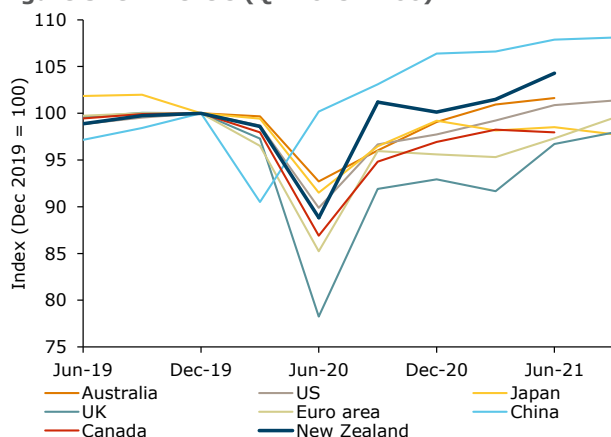
FX rates	Actual			Forecast (end month)					
	Sep-21	Oct-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZD/USD	0.686	0.717	0.686	0.720	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.955	0.954	0.953	0.960	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.593	0.620	0.612	0.637	0.637	0.637	0.632	0.626	0.626
NZD/JPY	76.9	81.7	79.1	83.5	83.5	83.5	83.5	83.5	83.5
NZD/GBP	0.511	0.524	0.515	0.537	0.533	0.533	0.529	0.526	0.526
NZ\$ TWI	73.7	75.9	73.8	76.5	76.4	76.3	76.1	75.8	75.7
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	0.75	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	2.57	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	<b>-7.0</b>	<b>7.5</b>	<b>0.2</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>
GDP (% yoy)	17.4	<b>-4.2</b>	<b>4.1</b>	<b>2.9</b>	<b>1.2</b>	<b>9.8</b>	<b>2.9</b>	<b>3.4</b>	<b>3.0</b>
CPI (% qoq)	1.3	2.2	<b>1.0</b>	<b>1.2</b>	<b>0.6</b>	<b>1.0</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>
CPI (% yoy)	3.3	4.9	<b>5.5</b>	<b>5.8</b>	<b>5.1</b>	<b>3.9</b>	<b>3.2</b>	<b>2.5</b>	<b>2.0</b>
Employment (% qoq)	1.1	2.0	<b>0.0</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>
Employment (% yoy)	1.6	4.2	<b>3.6</b>	<b>3.7</b>	<b>3.2</b>	<b>1.8</b>	<b>2.3</b>	<b>2.1</b>	<b>1.8</b>
Unemployment Rate (% sa)	4.0	3.4	<b>3.5</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>

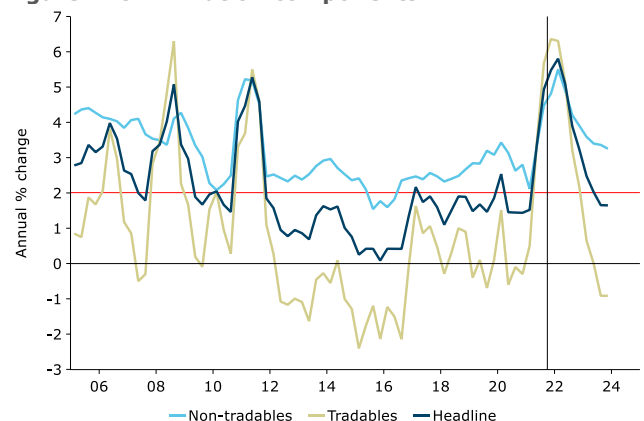
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, Statistics NZ, ANZ Research

Figure 4. CPI inflation components



Source: Statistics NZ, Macrobond, ANZ Research



## Contact us

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### Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



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