

New Zealand Weekly Data Wrap

17 December 2021



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See [page 4](#).

Forecast updates

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

- [NZ Property Focus: Coming back to earth](#)
- [NZ Economic Outlook: Red light/green light](#)
- [NZ Forecast Update: Farmgate milk price forecast revised up](#)

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.



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.

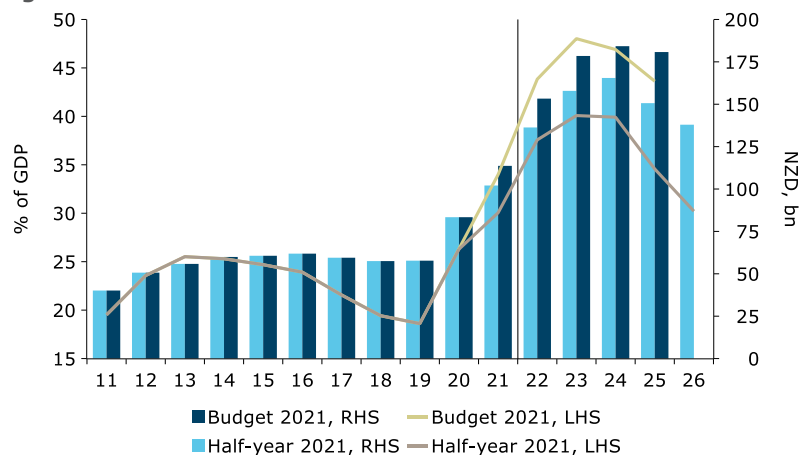


Omicron variant proves hard to control, requiring tighter restrictions.

Ending on a high note

The Treasury has [opened up the Government's books](#), incorporating a sizable boost to Government spending, but also a lower debt forecast than in May. Looking through the impacts of the latest lockdown, the economy has a far stronger and more inflationary starting point than anyone predicted earlier in the year, providing an almost NZD80bn boost to Treasury's nominal GDP forecast out to June 2025 – and that translates into a big lift in forecast tax revenue. The Government is planning to use some of that extra headroom to increase operational spending and fund reforms (including of the health system and DHBs). Despite higher spending, net core Crown debt as a share of GDP is forecast to decline to 30.2% in the 2026 fiscal year, versus a low of 43.6% previously expected in Budget 2021 (figure 1). With COVID disruption ongoing, there is clearly a need for targeted fiscal support. But there are also strong arguments in favour of fiscal restraint – the economy is highly capacity constrained (meaning more spending may just go up in inflation smoke), and there are big issues on the long-term horizon, including population aging and climate change, which will not come cheap for future generations.

Figure 1. Net core Crown debt



Source: New Zealand Treasury, Macrobond, ANZ Research

Stats NZ also released Q3 GDP – showing the economy 'only' contracted 3.7% due to the latest lockdown. That's a [much smaller hit](#) than you would estimate using the last big lockdown as a guide, showing businesses have gotten a lot better at operating through lockdown. Any contraction in the economy still hurts though – and as we saw in 2020, some industries have been harder hit than others. In particular, accommodation and food services fell 23.8% in Q3.

Nonetheless, the better-than-expected Q3 read means there is less rebounding to do in Q4 and Q1. Accordingly, we have downgraded our expectations for quarterly growth over these quarters (Q4: 2.5% vs 3% q/q; Q1: 1.2% q/q vs 2.0% q/q), leaving our GDP level forecasts little changed thereafter. Indeed, with capacity constraints biting as hard as they are, any upwards revision to economic momentum can be expected to boost inflation more than activity.

All up, we saw nothing in the Q3 GDP data to suggest the RBNZ should stray from its current path of withdrawing stimulus in considered steps.



This is our last *Weekly Data Wrap* for the year. Our first edition for 2022 will be released on January 14. We would like to wish our readers a safe and enjoyable festive season. *Meri Kirihimete.*



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: Endemic COVID-19 and labour supply](#)
- [NZ Property Focus: Coming back to earth](#)
- [NZ Agri Focus: Higher prices for Christmas](#)
- [NZ Insight: The real cost of inflation](#)
- [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?](#)
Click [here](#) for more.

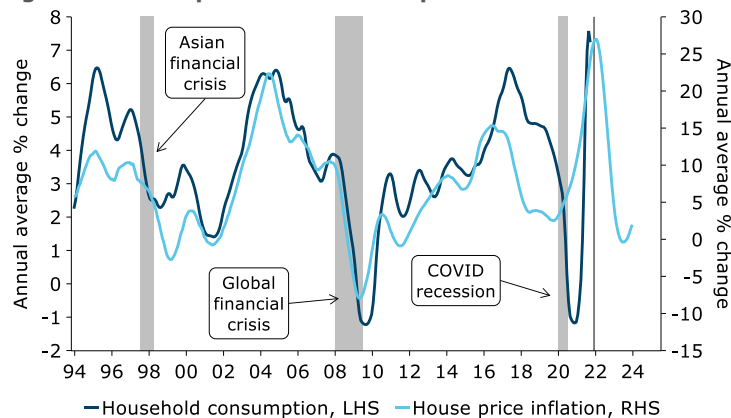
Data calendar

Date	Data/event
Mon 20 Dec (10:45am)	Merchandise Trade – Dec
Wed 22 Dec (10:00am)	ANZ-RM Consumer Confidence – Dec
Wed 5 Jan (early am)	GlobalDairyTrade auction
Wed 12 Jan (1:00pm)	ANZ Commodity Price Index – Dec
Thu 13 Jan (10:45am)	Building Permits – Nov
Wed 19 Jan (early am)	GlobalDairyTrade auction
Wed 19 Jan (10:45am)	Electronic Card Transactions – Dec
Thu 20 Jan (10:00am)	ANZ Truckometer – Dec
Thu 20 Jan (10:45am)	Food Price Index – Dec
Thu 20 Jan (10:45am)	Rental Price Index – Dec

Of course, there are significant headwinds that could threaten the economic recovery. One of those is a slowdown in the housing market. Recent tweaks to consumer protections legislation and LVR restrictions have seen lending conditions for housing tighten considerably – and we've consequently revised down our [house price outlook](#) a touch. We now expect house prices will fall about 4% from their current levels over the first half of 2022. Usually, falling house prices are associated with economic recessions (figure 2). But with the labour market the tightest it's ever been, we think the economy will get through a period of moderate house price declines without too much fuss.

That's all folks – enjoy the break.

Figure 2. House prices and consumption



Source: Stats NZ, REINZ, Macrobond, ANZ Research

Key data summary

REINZ House Prices – November. Monthly [house price inflation](#) slowed, with prices up 1.3% m/m following Oct's solid 2.5% m/m gain (sa, ANZ estimate).

Performance Services Index – November. Ticked up slightly to 46.5 (44.9 previously) – still contractionary.

Net Migration – October. With the border closed, remained very low at 814.

Food Prices – November. Fell 0.6% m/m as we expected.

Rental Price Index – November. Rose 0.3% m/m.

Current Account Balance – Q3. The deficit expanded to 4.6% of GDP, as imports continue to surge, while exporters miss tourism revenue.

Half-Year Economic and Fiscal. The economy is capacity constrained and the [Government has chosen to add additional fiscal stimulus](#) to the mix. All else equal, that speaks to higher-than-otherwise interest rates and inflation.

GDP – Q3. GDP fell 3.7% in Q3 – a slightly smaller decline than the 4.5% we'd pencilled in. But there were [no surprises here](#).

ANZ Business Outlook – December. Headline [business confidence](#) fell 7 points in December, while own activity fell 3 points.

The week ahead

Overseas Merchandise Trade – November (Monday 20 December, 10:45am). Weekly Stats NZ data shows the monthly merchandise trade deficit should shrink to NZD0.9bn, from NZD1.3bn previously, on strong exports.

Global Dairy Trade – (Wednesday 22 December). Global milk supply is very tight, but with prices already high, an increase of just 1.5% is anticipated.

ANZ Roy Morgan Consumer Confidence – December (Wednesday 22 December, 10:00am).



Markets and forecasts

What's happening in financial markets

It has been a busy end to the year in global financial markets, with a plethora of central bank meetings this week rounding out an incredible year of change (from markets generally expecting more easing a year ago to tightening now well underway). But while the broad theme of this week's central bank meetings was that of a hawkish pivot, markets have generally taken it all in their collective strides very well. Few would argue that it was inappropriate for the Bank of England to hike after the earlier reported surge in inflation (to 5.1%), or that the Fed was being heavy-handed by doubling the pace of tapering and signalling that hikes could come sooner. On the contrary – markets have welcomed these moves, viewing them as likely to signal less tightening overall, and reduced odds of the boom-bust dynamics of old. Those decisions have, in turn, helped keep long end bond yields very contained. Short end rates in many countries including the US have scope to continue rising (as New Zealand showed this year). But as they have already moved a long way here, we see much less scope for them to go further. We expect long end rates to eventually rise in the US and locally, but that is expected to be a gradual 2022 story and not an immediate threat. Markets seem eager to verify that the major economies can handle a string of hikes before they assume that they are a foregone conclusion, leaving the policy outlook for 2022 in the hands of data, and the risks of something going wrong are non-trivial. In FX markets, the NZD has regained composure, and found solid support in the low 0.67s. We continue to expect a gradual appreciation into 2022, boosted initially by December seasonality, and carried into 2022 by higher interest rates and still buoyant commodity prices.

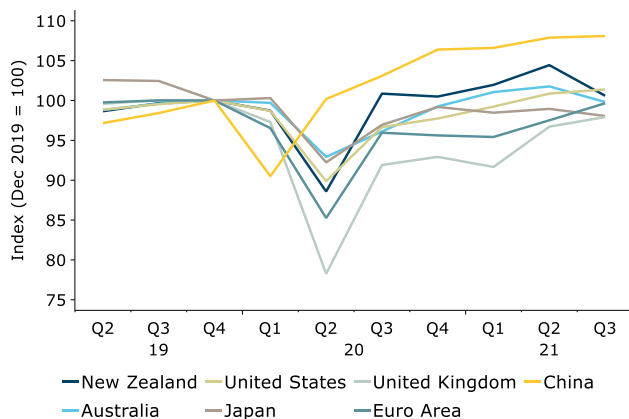
FX rates	Actual			Forecast (end month)					
	Oct-21	Nov-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZD/USD	0.717	0.682	0.680	0.720	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.954	0.956	0.947	0.960	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.620	0.600	0.600	0.637	0.637	0.637	0.632	0.626	0.626
NZD/JPY	81.7	76.9	77.3	83.5	83.5	83.5	83.5	83.5	83.5
NZD/GBP	0.524	0.510	0.510	0.537	0.533	0.533	0.529	0.526	0.526
NZ\$ TWI	75.9	73.2	73.0	76.6	76.5	76.4	76.1	75.9	75.8
Interest rates	Oct-21	Nov-21	Today	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
NZ OCR	0.50	0.75	0.75	0.75	1.00	1.50	2.00	2.00	2.00
NZ 90 day bill	0.80	0.81	0.93	1.02	1.52	2.02	2.10	2.10	2.10
NZ 10-yr bond	2.64	2.49	2.31	2.50	2.60	2.70	2.70	2.80	2.80

Economic forecasts

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
GDP (% qoq)	-3.7	2.5	1.2	0.5	0.5	0.7	1.0	0.6	0.6
GDP (% yoy)	-0.3	2.6	2.3	0.4	4.8	2.9	2.7	2.8	2.9
CPI (% qoq)	2.2	1.0	1.2	0.6	1.0	0.4	0.4	0.2	0.6
CPI (% yoy)	4.9	5.5	5.8	5.1	3.9	3.2	2.5	2.0	1.7
Employment (% qoq)	2.0	0.0	0.6	0.6	0.6	0.5	0.4	0.3	0.3
Employment (% yoy)	4.3	3.6	3.7	3.2	1.8	2.3	2.1	1.8	1.5
Unemployment Rate (% sa)	3.4	3.5	3.4	3.2	3.1	3.0	3.0	3.0	3.1

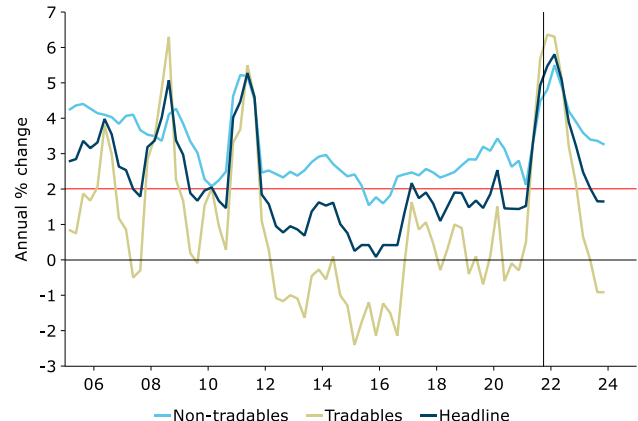
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, ANZ Research

Figure 4. CPI inflation components



Source: Stats NZ, Macrobond, ANZ Research



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



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