ANZ Research

New Zealand Weekly Data Wrap

14 January 2022

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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.

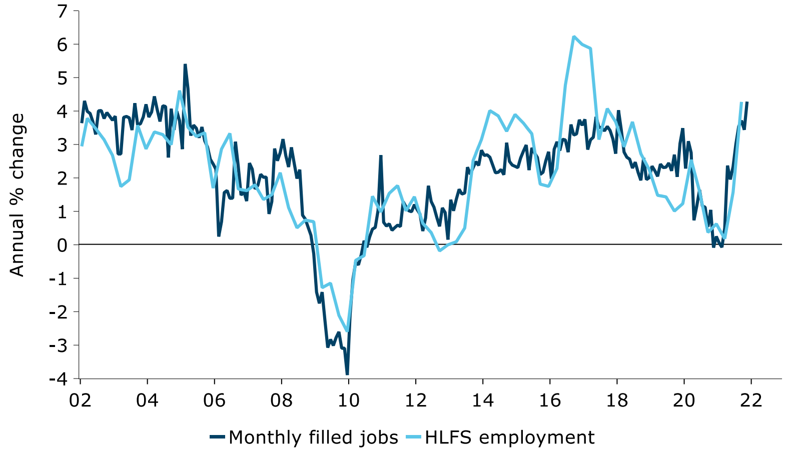
Key risks to our view

- 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.

Inflation risks are worsening

We've barely been back in the office for a week and it's already looking like there are significant upside risks building to our labour market and inflation forecasts for New Zealand. In particular, monthly jobs data for November showed that firms were adding jobs at an accelerating rate towards the end of the year (figure 1). That's in stark contrast to our initial expectation that the Delta outbreak would cause hiring to temporarily stall, seeing unemployment nudge up to 3.5% in Q4 (3.4% in Q3).

Figure 1. Employment and filled jobs growth



Source: Stats NZ, Macrobond, ANZ Research

Q4 labour market data aren't released until 2 February – but it's looking increasingly likely that the New Zealand economy will, once again, surprise to the upside. To illustrate the risk, if we take the current growth in filled jobs at face value and flow it through directly into HLFS employment, that would yield an unemployment rate of about 3% – and it would be even lower if the labour force participation rate declined in Q4. That might sound like an almost unfeasibly low level of unemployment. But in 2021, the working-age population grew at the slowest rate since 2012, while filled jobs rose faster than any time since 2005. So while it's not our forecast, it's entirely feasible that the unemployment rate even has a *two* handle in the next few quarters (assuming no unforecastable shocks derail the economy).

Even in normal times, a 3% or lower unemployment rate would be considered pretty inflationary. But labour supply is still highly disrupted by COVID, and that's likely supressing the level of maximum sustainable employment, meaning a given unemployment rate could be even more inflationary than before. In short, the current labour market is not consistent with low and stable inflation. And that's a concern for the RBNZ, who have already seen CPI inflation surge well-beyond their 1-3% target range, with no signs of slowing. They've been ahead of the curve relative to other central banks, including the Fed who are now expected to carry out their first hike in March. But inflation risks have continued to leapfrog even the most bullish expectations.

And inflation risks are not limited to the domestic economy – globally, inflation continues its inexorable march upwards. US consumer prices rose an eye-watering 7% in the year to December 2021, driven by a broad-based surge in core goods and services, and inflation is likely to remain around 7-8% for some months yet. As a small open economy, New Zealand's inflation rate often

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?

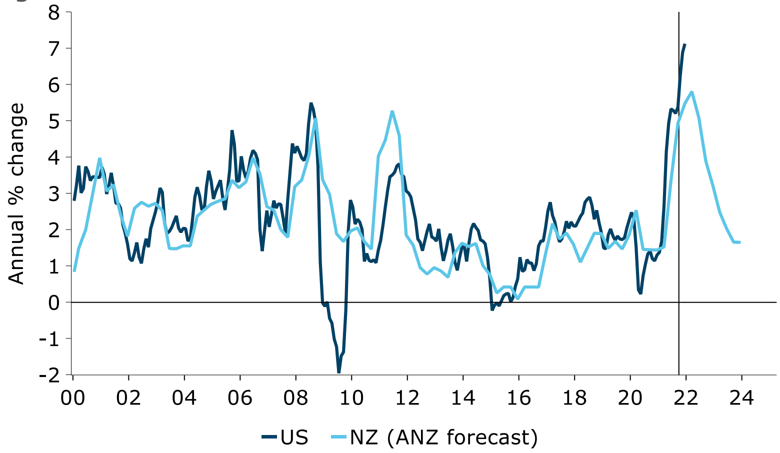
Click here for more.

Data calendar

Date	Data/event
Tue 18 Jan (09:00am)	REINZ Housing Data – Dec
Tue 18 Jan (10:00am)	NZIER QSBO – Q4
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
Fri 21 Jan (10:30am)	BusinessNZ Manuf PMI – Dec
Fri 21 Jan (10:45am)	Net Migration – Nov
Tue 25 Jan (10:30am)	Performance Services Index Dec
Wed 26 Jan (10:45am)	Merchandise Trade - Dec

(but not always) follows movements in the US pretty closely. If that continued over the summer, then New Zealand inflation could come in significantly above our forecast for a 5.8% peak in Q1 of 2022 (figure 2).

Figure 2. US and New Zealand CPI inflation



Source: BLS, Stats NZ, Macrobond, ANZ Research

Turning back to the RBNZ, if these upside risks to inflation and the labour market do materialise, then their job will get a whole lot harder – and it's likely that the February MPS would contain an even higher OCR track than the 2.6% peak in the November MPS. The only silver lining of all this is that the policy prescription is at least clear – when both elements of the dual mandate are well-beyond target, tighter monetary policy is needed. The challenge is to achieve a return to target for inflation and employment, without overdoing it. History proves that that's a difficult task, made more so in the COVID era by the mammoth increase in house prices we've seen over the past two years. There are a lot of very interest rate sensitive households out there.

Key data summary

ANZ Commodity Price Index – December. The world index declined 0.2%.

Building Permits – November. Rose 0.6%, after a 2.1% decline in October.

The week ahead

REINZ House Sales – December (Tuesday 18 January, 9:00am). We expect to see the steam gradually coming out of the housing market.

NZIER Quarterly Survey of Business Opinion – Q4 (Tuesday 18 January, 10:00am). Should confirm findings from our own Business Outlook – price pressures continue to surge, while confidence wanes.

GlobalDairyTrade auction (Wednesday 19 January, early am). A 3% rise is expected as milk supply remains tight. Fonterra revised down its milk production forecast but says this won't impact the volume of product offered on GDT.

Electronic Card Transactions – December (Wednesday 19 January, 10:45am). Our internal cards spending data points to around a 2-3% m/m rise.

ANZ Truckometer – December (Thursday 20 January, 10:00am).

Food Prices – December (Thursday 20 January, 10:45am). We've pencilled in a 0.3% m/m decline, reflecting usual seasonality.

Rental Price Index – December (Thursday 20 January, 10:45am). We're expecting a 0.2-0.3% m/m rise - but October and November were both strong.

Performance of Manufacturing Index – December (Friday 21 January, 10:30am). Manufacturing has remained in expansionary territory since the initial impact of the Delta lockdown in August – but only just at 50.6 in November.

Net Migration – November (Friday 21 January, 10:45am). Staying low.

Markets and forecasts

What's happening in financial markets

Global bond yields moved sharply higher in the first few days of 2022, led by the bellwether US 10-year Treasury bond, the yield on which rose from around 1.5% to 1.80%. It has since retreated to around 1.7%, but with US CPI now at 7% and the Fed talking about hiking in March and considering a more rapid run-down of its QE portfolio, it is difficult to envisage a world where yields can move sustainably lower. Real US 10-year yields are at record lows (at around -5¼%) and our fear is that they bounce sharply as markets contemplate the possibility of an extended period of above-target inflation. Low/negative real yields are tolerable during periods of temporarily high inflation. However, if central banks remain behind the curve (or can't rein in inflation soon), the risk is that markets start to discount where policy rates are headed, and instead start to worry about inflation becoming persistent, and start demanding compensation. That could in turn see longer term interest rates rise to well above where policy rates are assumed to top out (and stay high as policy rates rise, instead of peaking sooner as in past cycles), leading to much steeper yield curves. In the FX space, the NZD failed to fire as 2021 drew to a close, and did not exhibit the usual seasonal rally that many expected. It has rallied in recent days, and that may be a delayed seasonal run up, but we do wonder whether risk appetite – and by extension, the NZD – might run into headwinds over 2022, with inflation rampant and most central banks transitioning from easing to tightening. Transitions usually bring volatility with them, but it could also challenge valuations on risky asset prices, particularly if the Fed elects to actively run down its QE portfolio, rather than simply let the bonds it owns mature.

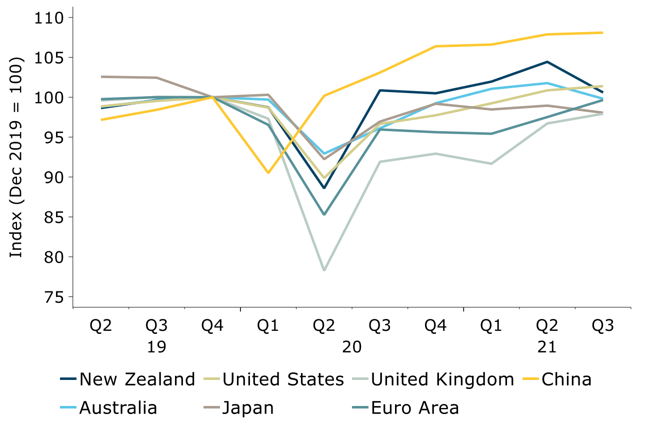
		Actual				Forecast (end month)			
FX rates	Nov-21	Dec-21	Today	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
NZD/USD	0.682	0.683	0.686	0.720	0.720	0.720	0.720	0.720	0.720
NZD/AUD	0.956	0.942	0.943	0.960	0.960	0.960	0.960	0.960	0.960
NZD/EUR	0.600	0.600	0.599	0.637	0.637	0.632	0.626	0.626	0.621
NZD/JPY	76.9	78.6	78.3	83.5	83.5	83.5	83.5	83.5	83.5
NZD/GBP	0.510	0.506	0.501	0.533	0.533	0.529	0.526	0.526	0.522
NZ$ TWI	73.2	73.2	73.3	76.5	76.4	76.1	75.9	75.8	75.5
Interest rates	Nov-21	Dec-21	Today	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
NZ OCR	0.75	0.75	0.75	1.00	1.50	2.00	2.00	2.00	2.00
NZ 90 day bill	0.81	0.97	0.97	1.52	2.02	2.10	2.10	2.10	2.10
NZ 10-yr bond	2.49	2.39	2.52	2.60	2.70	2.70	2.80	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**

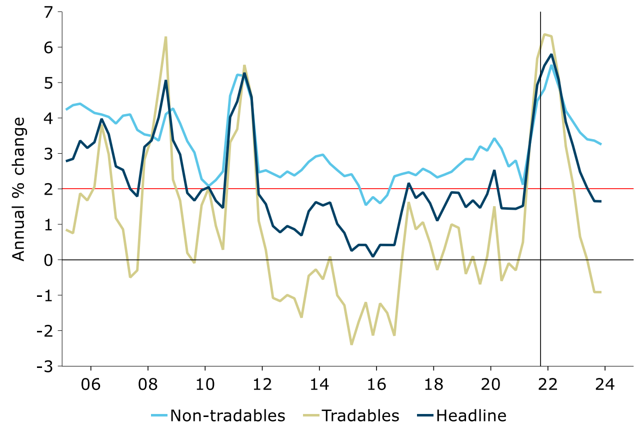
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, ANZ Research

Figure 4. CPI inflation components



Source: Stats NZ, Macrobond, ANZ Research

Contact us

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We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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