

New Zealand Weekly Data Wrap

4 February 2022



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See [page 4](#).

Forecast updates

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

- [NZ Labour Market Forecast Update: applying pressure](#)
- [NZ Update: Farmgate milk price forecast revised up](#)
- [NZ Weekly Data Wrap: core conundrum](#)
- [NZ OCR Call Change: 3% by April 2023](#)
- [NZ Property Focus: On the house](#)

Our other recent publications are on [page 2](#).

What's the view?

- GDP constrained by supply more than demand
- Labour market tighter than ever, and very inflationary
- Inflation way above target
- Further OCR hikes towards 3.0% by April 2023 needed to contain inflation

Our forecasts are on [page 3](#).

Key risks to our view



Falling consumer and business sentiment derail momentum.



Falling house prices could have a more significant impact on the economy than expected.



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



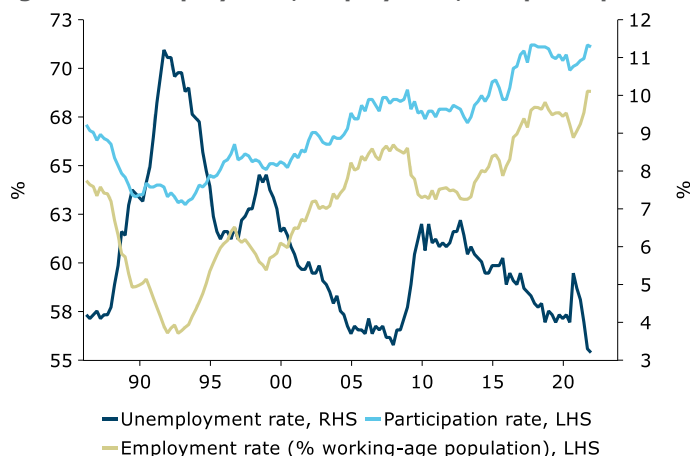
Omicron outbreak causes severe disruption and shortages.

What happened this week?

Who'd have thought that a record low 3.2% unemployment rate would see pricing for OCR hikes ease! Yet that was [what happened on Wednesday](#), with the unemployment rate coming in a touch above our bottom-of-market 3% forecast (figure 1), but in line with the RBNZ's November forecast. The real disappointment was wage growth, with the Labour Cost Index rising 0.7% q/q, versus expectations (from us, market consensus, and the RBNZ) of a 0.9% lift. That saw pricing for a 50bp hike by the RBNZ in February ease a touch, as the string of massive upside data surprises in the labour market finally ended.

But in absolute terms, this is an incredibly tight and inflationary labour market, which we think will tighten a bit further still this year as labour demand remains strong while supply is constrained (see next page). This supports our call that, barring unforeseen negative shocks, the OCR will need to be lifted in steady 25bp increments to 3% in April 2023. The RBNZ needs to realign demand with the actual supply capacity of the economy – especially given that measures of core inflation are now [above the top](#) of the 1-3% target band.

Figure 1. Unemployment, employment, and participation rates



Source: Stats NZ, Macrobond, ANZ Research

This week wasn't all about the labour market though. January's Commodity Price Index showed prices [off to a flying start](#) in 2022, with the World Price Index up 1.0%, helped along by a 2.5% m/m lift in dairy prices. And there's more to come there, with the latest GDT auction showing a 5.8% lift in whole milk powder prices. Unfortunately, costs for container ships have lifted again due to delays at ports – particularly as China continues its zero tolerance policy for COVID. So that could eat into otherwise healthier margins.

Key data summary

RBNZ sectoral lending data – December. Agricultural and personal consumer lending continued to decline, while housing and business lending rose.

Overseas Merchandise Trade – December. The monthly deficit fell to NZD477m as exports rose and imports ticked down.

GlobalDairyTrade auction. The GDT price index rose 4.1%.

Labour Market Statistics – Q4. See our [Review](#).

ANZ Commodity Price Index – January. The [World Price Index](#) climbed 1%.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Agri Focus: heating up](#)
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- [NZ Agri Focus: Higher prices for Christmas](#)
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- [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.

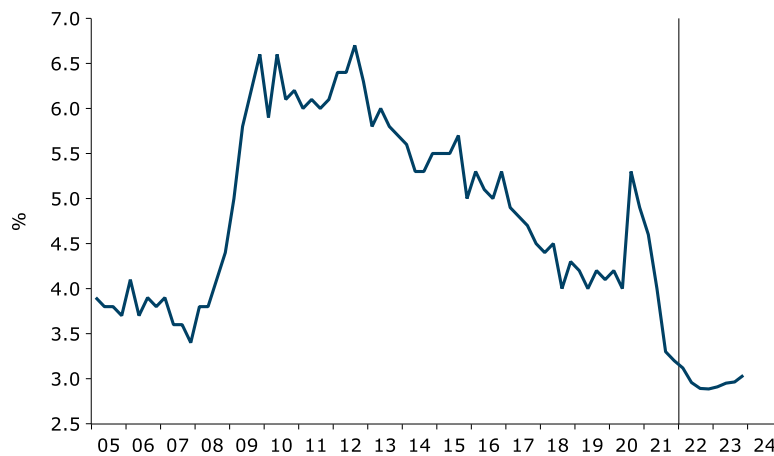
Data calendar

| Date | Data/event |
|-----------------------|--|
| Wed 9 Feb (10:00am) | ANZ Truckometer – Jan |
| Wed 9 Feb (3:00pm) | RBNZ 2Yr Inflation Expectations – Q1 |
| Fri 11 Feb (10:30am) | BusinessNZ Manuf PMI – Jan |
| Fri 11 Feb (10:45am) | Electronic Card Transactions – Jan |
| Mon 14 Feb (10:30am) | Performance Services Index Jan |
| Mon 14 Feb (10:45am) | Food Price Index – Jan |
| Mon 14 Feb (10:45am) | Rental Price Index – Jan |
| Tue 15 Feb (10:45am) | Net Migration – Dec |
| Wed 16 Feb (early am) | GlobalDairyTrade auction |
| Fri 18 Feb (10:45am) | PPI – Q4 |
| Wed 23 Feb (2:00pm) | RBNZ MPS |

What are we watching?

We've updated our [labour market forecasts](#) to account for Wednesday's data, but also the stronger-than-expected domestic inflation pulse that came through in Q4's [CPI data](#). The labour market is currently characterised by a very high level of excess demand. Essentially, given the border closure (although that won't be around for much longer, touch wood) and already very high participation rate, it's unlikely that the domestic labour supply will be sufficient to match demand. Job vacancies remain way above pre-pandemic levels, and employment indentions are still positive. So that speaks to a further fall in the unemployment rate to a low of 2.9% in the September quarter of this year, before it gradually lifts back to 3% over 2023 (figure 2).

Figure 2. Unemployment rate forecast



Source: Stats NZ, Macrobond, ANZ Research

However, there's a great deal of uncertainty about the outlook for the labour market (and just about everything else right now). For one, we don't know how the border reopening will actually flow through into capacity pressures in the economy. Being able to bring workers in could ease the labour shortages for key industries that rely, for example, on seasonal labour. But at the same time, there's an unknown quantum of people who have been waiting for the border reopening to take off overseas without the risk of the MIQ lottery. And it's not like we're the only country in the world experiencing a tight labour market – firms may find that even on the global labour market, workers are a scarcer commodity than they were when the border closed back in 2020.

And then there's the fact that the RBNZ is hiking interest rates at a time when the growth outlook is softening (albeit largely due to supply constraints), consumer and business confidence has weakened, and house prices are [expected to decline](#). It could easily go pear-shaped, so steady 25bp steps to 3% in April 2023 remain appropriate, given the balance of risks.

The week ahead

ANZ Truckometer – January (Wednesday 9 February, 10:00am).

RBNZ Inflation Expectations – Q1 (Wednesday 9 February, 3:00pm). 1- and 2-year-ahead measures will likely rise after Q4's 5.9% CPI print – but the key test for the RBNZ is that the 5- and 10-year-ahead measures remain anchored to the 2% midpoint.

Performance of Manufacturing Index – January (Friday 11 February, 10:30am). The manufacturing index has been expanding since September, while services continue to struggle with COVID restrictions.

Electronic Card Transactions – January (Friday 11 February, 10:45am). We expect a reasonably flat ECT outturn for January.



Markets and forecasts

What's happening in financial markets

Global financial market volatility ratcheted up another notch this week, with the bellwether US 10yr Treasury bond back above 1.8% and key broad equity indices wobbling again as tech stocks falter. While individual stocks have reacted to earnings reports, broader market sentiment has been upset by a ramping up of central bank rhetoric, and it's this "awakening of sleeping giants" that is creating volatility. This week saw several key developments on that front: of note, the ECB distanced itself from its long-standing dovish stance in favour of a more hawkish tone, hinting that low inflation might not be transitory and that inflation was now "much closer" to its target. Across the channel, the BOE delivered its second hike and committed to running down its QE portfolio. Closer to home, the RBA said it would end QE this month, but said it will be patient in raising rates. But that didn't hold markets back, and they are now pricing in a return of the RBA cash rate to 0.25% by about June (they are at 0.10% so markets expect the first hike to be "just" a 15-pointer). With so much tightening already priced in locally (the market is pricing in 29bps for later this month and a terminal OCR of around 3.1%), there isn't much scope for short-end rates to rise, but what's happening globally has generated volatility and put upward pressure on longer-term interest rates, and this will likely continue. It has also taken some of the shine off the NZD. When viewed from a purely domestic perspective, the NZD seemingly shines (strong growth, high interest rates and booming commodity prices). But when viewed globally, it looks less rosy (faltering risk appetite, the rest of the world catching up in the growth and policy tightening stakes, and the yet-to-be-experienced Omicron incursion).

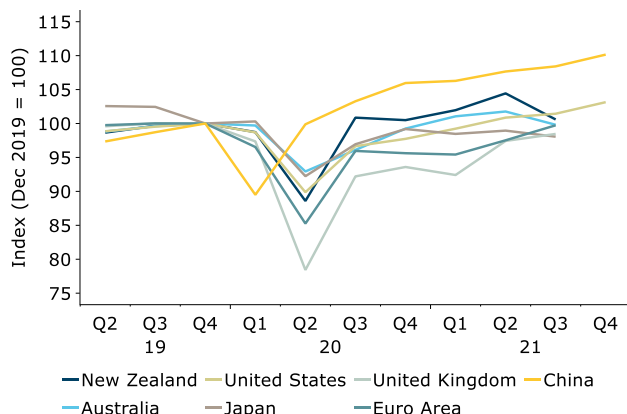
| FX rates | Actual | | | Forecast (end month) | | | | | |
|----------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
| | Dec-21 | Jan-22 | Today | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 |
| NZD/USD | 0.683 | 0.657 | 0.666 | 0.650 | 0.660 | 0.680 | 0.700 | 0.700 | 0.700 |
| NZD/AUD | 0.942 | 0.935 | 0.934 | 0.929 | 0.930 | 0.932 | 0.933 | 0.933 | 0.933 |
| NZD/EUR | 0.600 | 0.589 | 0.583 | 0.580 | 0.579 | 0.591 | 0.598 | 0.593 | 0.588 |
| NZD/JPY | 78.6 | 75.9 | 76.6 | 73.5 | 75.2 | 78.2 | 81.2 | 81.2 | 81.2 |
| NZD/GBP | 0.506 | 0.490 | 0.490 | 0.474 | 0.478 | 0.486 | 0.490 | 0.483 | 0.483 |
| NZ\$ TWI | 73.2 | 71.0 | 71.5 | 69.8 | 70.5 | 72.1 | 73.5 | 73.3 | 73.1 |
| Interest rates | Dec-21 | Jan-22 | 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 | 2.50 | 2.75 | 3.00 |
| NZ 90 day bill | 0.97 | 1.10 | 1.14 | 1.52 | 2.02 | 2.52 | 2.77 | 3.10 | 3.10 |
| NZ 10-yr bond | 2.39 | 2.60 | 2.56 | 2.70 | 2.90 | 3.10 | 3.40 | 3.50 | 3.50 |

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 | 1.4 | 1.3 | 0.9 | 1.2 | 0.8 | 0.8 | 0.7 | 0.8 |
| CPI (% yoy) | 4.9 | 5.9 | 6.4 | 5.9 | 4.8 | 4.1 | 3.6 | 3.4 | 3.0 |
| Employment (% qoq) | 1.9 | 0.1 | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Employment (% yoy) | 4.2 | 3.7 | 3.2 | 2.4 | 1.0 | 1.3 | 1.5 | 1.7 | 1.6 |
| Unemployment Rate (% sa) | 3.3 | 3.2 | 3.1 | 3.0 | 2.9 | 2.9 | 2.9 | 3.0 | 3.0 |

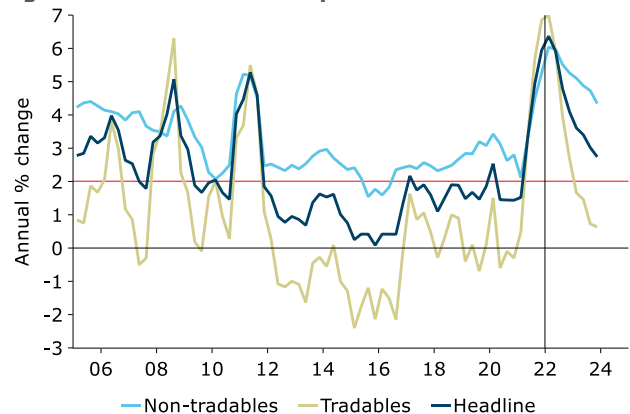
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, ANZ Research

Figure 4. CPI inflation components



Source: Stats NZ, Macrobond, ANZ Research



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