

New Zealand Weekly Data Wrap

11 February 2022



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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.

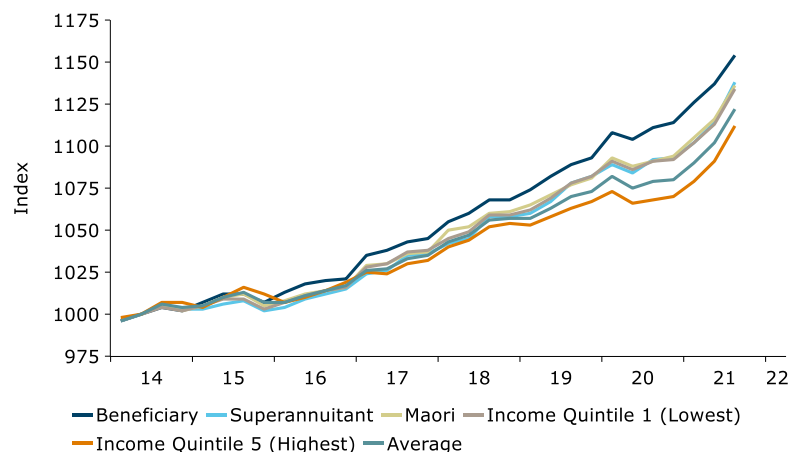


Omicron outbreak causes severe disruption and shortages.

What happened this week?

This week Stats NZ released the Q4 reading for the Household Living-costs Price Indexes (HLPis). These data are similar to the Consumer's Price Index (CPI), which is the official measure of inflation in New Zealand, but the HLPis provide details on how the rising cost of living is **impacting different households** (rather than just the "average" consumer). The data show that while all households have seen a significant increase in living costs in recent years, it's been particularly challenging for beneficiaries, superannuitants, and lower-income households (figure 1). Māori households have also seen significant cost increases, over and above the average for New Zealand.

Figure 1. Household living-costs price indexes



Source: Stats NZ, Macrobond, ANZ Research

In the December quarter 2021, overall living costs were up 5.2% y/y for the average household (that's less than the 5.9% CPI inflation print due to **methodological differences**). But in an interesting reversal of the trend in figure 1, the largest cost of living increase has been experienced by the 20% of households on the highest incomes, with costs up 5.4% y/y. That partly reflects a 7.8% quarterly increase in the cost of interest payments in the December quarter. For higher-income households, interest payments represent a larger share of expenditure (eg if they have a mortgage on an owner-occupied and/or investment property). This means that as the OCR rises in an effort to dampen rising inflation pressures, the interest burden will weigh significantly on those households. While higher interest rates won't be pleasant for highly indebted households, they are needed to dampen broader inflation pressure and protect the purchasing power of all Kiwis' incomes.

Key data summary

ANZ Truckometer – January. The [heavy traffic index](#) ticked down 0.5% m/m.

Performance of Manufacturing Index – January (Friday 11 February, 10:30am). Slipped 1.7 points to a still-expansive 52.1.

Electronic Card Transactions – January (Friday 11 February, 10:45am). Total card spending lifted 2.1% with a solid 3% gain in retail spending. Volatility is beginning to settle down, but underlying momentum is still difficult to gauge, particularly when high inflation is likely to be boosting values but suppressing volumes.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Agri Focus: heating up](#)
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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?](#)

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Data calendar

Date	Data/event
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 (09:00am)	REINZ Housing Data - 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
Thu 24 Feb (10:45am)	Merchandise Trade – Jan
Fri 25 Feb (10:45am)	Retail Sales – Q4
Mon 28 Feb (1:00pm)	ANZ Business Outlook - Feb

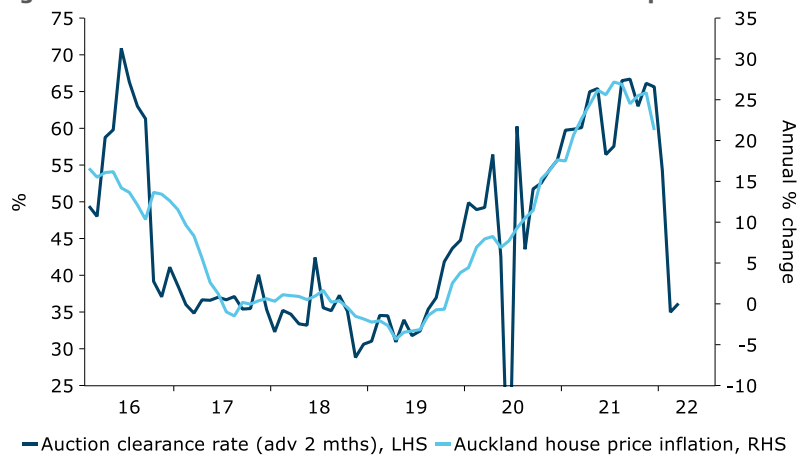
What are we watching?

Next week we'll get January data for food, rent, and house prices – our first major domestic inflation readings for 2022. All three were key drivers of the [5.9% rise in consumer prices](#) over 2021 (not to mention oil prices, which also continued to rise in January). Global and domestic supply chain pressures and labour shortages helped push food prices up 4.5% y/y last year. Even in December, when food prices usually fall, we saw a 0.6% m/m lift. In recent years, food prices have tended to rise about 1.5% m/m in January – and with inflation around every corner, the chance of an upside surprise seems high.

Rents were also up strongly in 2021. The stocks measure (which is what feeds through to the CPI) was up 3.7% in the year to December, but rents for new tenancies were up an even-stronger 5.8% y/y, and that suggests there is plenty of rental inflation in the pipeline. Rents usually increase 0.3% m/m in January, but again, risks seem skewed to the upside.

Renting is becoming increasingly expensive, but home ownership is on another level altogether! House prices, which are not directly measured in the CPI, have lifted 45% since December 2019. And given the [housing market and construction activity tend to move together](#), it's no wonder we've seen very strong construction cost inflation (up 15.7% over 2021 as measured in the CPI). But now the housing market is slowing and that should eventually take some heat out of the CPI. We expect to see annual house price inflation decelerate further in the January REINZ data next week. And falling auction clearance rates in Auckland suggest there's more softening to come (figure 2).

Figure 2. Auckland auction clearance rates and house price inflation



— Auction clearance rate (adv 2 mths), LHS — Auckland house price inflation, RHS

Source: REINZ, Barfoot & Thompson, interest.co.nz, Macrobond, ANZ Research

The week ahead

RBNZ Inflation Expectations – Q1 (Friday 11 February, 3:00pm). Near-term measures should rise, but the key test for the RBNZ are the 5 and 10-year.

Performance of Services Index – January (Monday 14 February, 10:30am). Has struggled to gain momentum since August.

Food Prices – January (Monday 14 February, 10:45am). Usual seasonal movements suggest around a 1.5% m/m increase – but risks are to the upside.

Rental Price Index – January (Monday 14 February, 10:45am). Rents usually lift 0.3% m/m in January – but rents were up strongly at the end of 2021.

REINZ House Prices – January (Tuesday 15 February, 9:00am). We expect another small decline following December's -0.5% m/m read (sa, ANZ estimate).

Net Migration – December (Tuesday 15 February, 10:45am). Flat at zero.

GlobalDairyTrade auction (Wednesday 16 February, early am). A further 5% lift in the GDT Price Index is anticipated as supply constraints bolster prices.



Markets and forecasts

What's happening in financial markets

Bond markets remain the key focus heading into the end of the week, with the bellwether US 10-year Treasury bond yield at around 2.05% as we go to print. That's almost 25bps above where it was this time a week ago, with about half of that rise occurring overnight, in the wake of the surge in US annual headline CPI to a staggering 7.5%. Higher bond yields are clearly justified given that backdrop, unless one thinks a hard landing (which would likely curtail rate hikes and inflation) is inescapable. All of this has had, and is likely to continue to have a significant impact long end rates here, with the NZ 10-year swap rate back above 3% for the first time since late 2018 this morning, and the 5-year (the key driver of 5-year mortgage rates) not far behind at ~2.9%. Markets have also been rocked by talk of 50bp hikes in the US and elsewhere, with several Fed officials calling for it in speeches, and as we saw last week, four out of the nine committee members on the Bank of England's MPC actually voting for it. That has put the fear of a potential 50bp RBNZ hike back into the local market, with the vibe changing from "why would they when they can signal it in their track, and it could spook the market" to "why wouldn't they if it's largely priced in and they feel the need to rein in stimulus anyway". On balance, we still think a 25bp hike will get delivered, but the market won't back away from 50 any time soon, and balanced expectations of course mean we will see volatility on decision day. FX markets have become more volatile of late too. While the NZD has benefitted from higher commodity prices, softer equities and flagging risk appetite are weighing. It's difficult to take a strong directional view on the Kiwi right now, but easy to see volatility remaining elevated.

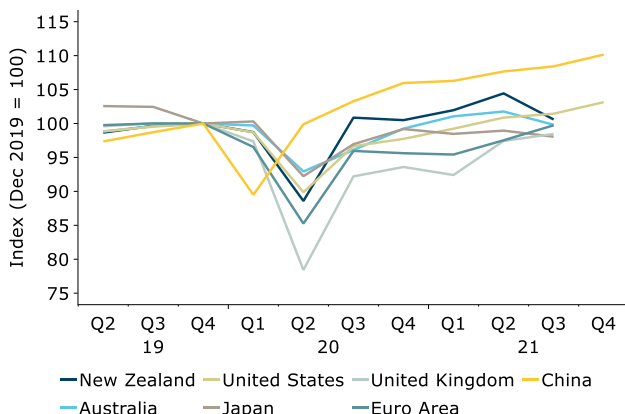
FX rates	Actual			Forecast (end month)					
	Dec-21	Jan-22	Today	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
NZD/USD	0.683	0.657	0.667	0.650	0.660	0.680	0.700	0.700	0.700
NZD/AUD	0.942	0.935	0.931	0.929	0.930	0.932	0.933	0.933	0.933
NZD/EUR	0.600	0.589	0.584	0.580	0.579	0.591	0.598	0.593	0.588
NZD/JPY	78.6	75.9	77.4	73.5	75.2	78.2	81.2	81.2	81.2
NZD/GBP	0.506	0.490	0.492	0.474	0.478	0.486	0.490	0.483	0.483
NZ\$ TWI	73.2	71.0	71.6	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	1.21	1.52	2.02	2.52	2.77	3.10	3.10
NZ 10-yr bond	2.39	2.60	2.82	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

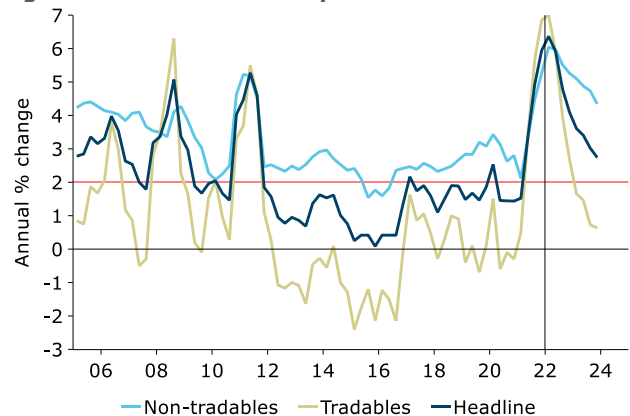
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

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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Last updated: 27 January 2022

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