

# New Zealand Weekly Data Wrap

11 March 2022



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See [page 4](#).

## Forecast updates

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

- **NZ Forecast Update:** Farmgate milk price forecast revised up
- **NZ OCR Call Change:** back-to-back 50bp hikes in April and May
- **NZ CPI Forecast Update:** inflation now forecast to peak at 7.4% in Q2
- **NZ Property Focus:** At your service
- **NZ Quarter Economic Outlook:** Turning points

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
- Aggressive OCR hikes towards 3.5% in 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 commodity prices cause inflation expectations to become unanchored.



Omicron outbreak causes severe disruption, shortages, and yet more inflation.

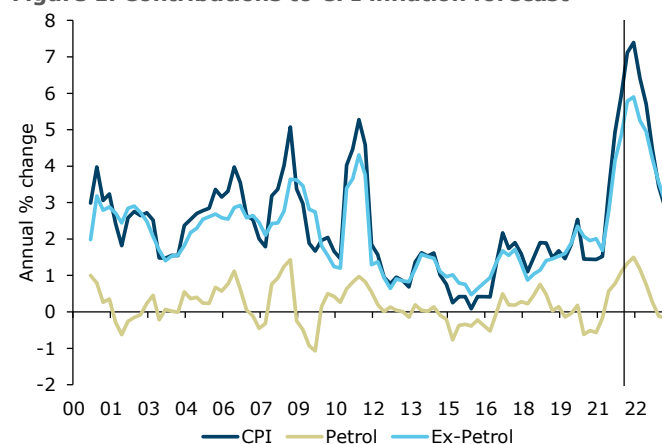
## Surging inflation and expectations to bring 50bp OCR hikes

It's been less than three weeks since a fairly hawkish February Monetary Policy Statement. The RBNZ lifted the OCR 25bp, announced quantitative tightening, and made it clear that many Monetary Policy Committee (MPC) members had seriously considered a 50bp hike. If it was a line call back then, we think recent developments will be more than sufficient to tip the MPC in favour of moving more aggressively. **We now expect** the RBNZ will lift the OCR by 50bps at *both* the April and May decisions, and from there will keep lifting the OCR in 25bp increments to a peak of 3.5% in April 2023 (previously 3.0%).

So what's happened to change our OCR outlook? Essentially, we think a dangerous cocktail of ever-increasing inflation expectations and surging commodity prices in the wake of the tragic events in Ukraine will force the MPC's hand. The main impact of the Russian invasion on New Zealand is through the **price channel**. Since the invasion started, key global commodity prices have surged due to concerns about disruptions to supply chains, as well as the possible impact of sanctions that have been levied against Russia.

One of the most visible of these commodities has been oil. On futures markets, the price of a barrel of oil has surged from about USD75/barrel at the start of the year, to as high as USD130/barrel this week – and volatility is extreme. It's not just oil prices though. Other commodity prices are surging too – dairy prices have hit new records, and the 2021-22 season looking like **an absolute ripper** for Kiwi farmers. Commodity prices can have large and surprisingly persistent impacts on CPI inflation – **we're now forecasting** inflation will peak at 7.4% in Q2 2022 (versus the RBNZ's February forecast, made before the Russian invasion, for a 6.6% peak in Q1). It's highly uncertain what will happen to commodity prices from here, but even excluding the impact of petrol prices, it's looking like inflation over the first half of 2022 will be too strong to be comfortable for the RBNZ. And remember – our forecast in figure 1 includes our higher and steeper OCR forecast – it would be higher for longer if it weren't for that.

**Figure 1. Contributions to CPI inflation forecast**



Source: Stats NZ, ANZ Research

Normally, a spike in commodity prices is a textbook case of a factor the RBNZ should 'look through' when deciding the appropriate path of monetary policy. That's because it's innately bad for growth via its impact on household budgets. But domestic inflation expectations are already dangerously elevated, and petrol prices have a disproportionate impact on household inflation expectations. So for the RBNZ, there's a real risk that this commodity price shock is the catalyst for a more serious wage-price spiral. Acting decisively is essential to keep expectations consistent with the inflation target.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: how is NZ's agri sector impacted by the Russian invasion](#)
- [NZ Insight: The Reopening II – shifting economic sands](#)
- [NZ Property Focus: At your service](#)
- [NZ Insight: Terms of trade: risks and opportunities](#)
- [NZ Agri Focus: heating up](#)
- [NZ Insight: Endemic COVID-19 and labour supply](#)
- [NZ Property Focus: Coming back to earth](#)
- [NZ Agri Focus: Higher prices for Christmas](#)
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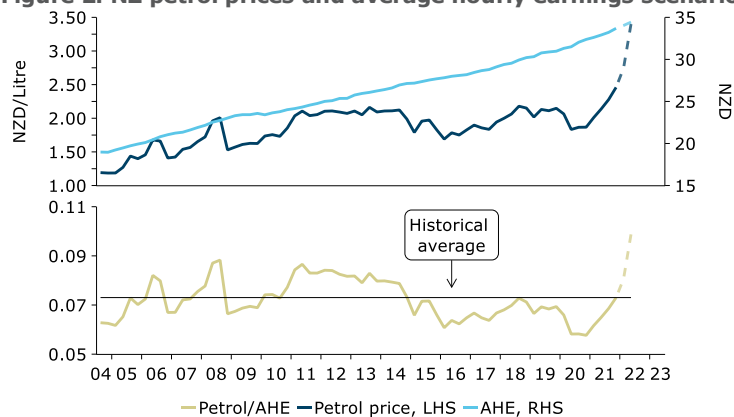
Click [here](#) for more.

### Data calendar

| Date                  | Data/event                                       |
|-----------------------|--|
| Mon 14 Mar (09:00am)  | REINZ Housing Data - Feb                         |
| Mon 14 Mar (10:45am)  | Net Migration - Jan                              |
| Tue 15 Mar (10:30am)  | Performance Services Idx – Feb                   |
| Wed 16 Mar (early am) | GlobalDairyTrade auction                         |
| Wed 16 Mar (10:45am)  | Current Account – Q3                             |
| Thu 17 Mar (10:45am)  | <b>GDP – Q3</b>                                  |
| Mon 21 Mar (10:45am)  | Merchandise Trade – Feb                          |
| Wed 30 Mar (10:45am)  | Building Permits – Feb                           |
| Wed 30 Mar (1:00pm)   | <a href="#">ANZ Business Outlook – Mar</a>       |
| Fri 1 Apr (10:00am)   | <a href="#">ANZ-RM Consumer Confidence – Mar</a> |
| Wed 6 Apr (early am)  | GlobalDairyTrade auction                         |
| Wed 6 Apr (1:00pm)    | <a href="#">ANZ Commodity Price Index – Mar</a>  |
| Thu 8 Apr (10:00am)   | <a href="#">ANZ Truckometer– Mar</a>             |

While so far we have just updated our house price forecasts (to a 10% fall) and not yet crunched the activity numbers, there's no doubt households will feel the pinch of higher inflation and interest rates over 2022 (before inflation starts to come back down again). To illustrate, figure 2 shows petrol prices relative to average hourly earnings, and what might happen if global oil prices surged to USD150/bbl over Q2 (well within the realms of possibility). Assuming no impact on demand, households would be spending an historic share of their wages on simply going to and fro in this scenario. And [confidence](#) is already low. The growth picture isn't looking too flash ([Q4 rebound](#) notwithstanding).

**Figure 2. NZ petrol prices and average hourly earnings scenario**



Source: MBIE, Stats NZ, Bloomberg, Macrobond, ANZ Research

### Key data summary

**Building Work Put in Place – Q4.** Building activity rebounded 8.9% q/q in Q4.

**ANZ Truckometer – February.** [Continued to normalise.](#)

**Economic Survey of Manufacturing – Q4.** Manufacturing volumes bounced 8.2% q/q in Q4, retracing their 6.6% decline in Q3.

**Electronic Card Transactions – February.** Card spending dropped 7.8% m/m, coinciding with the exponential increase in COVID cases.

**Performance of Manufacturing Index – February.** Up at 53.6 (prev. 52.3).

**Food Prices – February.** Dropped 0.1% m/m on usual seasonality – but food prices are now 6.8% higher than this time last year.

**Rental Price Index – February.** The stock measure of rents was up 0.3% m/m (3.6% y/y).

### The week ahead

**REINZ House Prices – February (Monday 14 March, 9:00am).** The shine has well and truly come off the housing market, and we expect to see another monthly fall in house prices in February.

**Net Migration – January (Monday 14 March, 10:45am).** Flat at zero.

**Performance of Services Index – February (Tuesday 15 March, 10:30am).** Services haven't been expansionary since before the August lockdown.

**GlobalDairyTrade auction (Wednesday 16 March, early am).** Market momentum has eased slightly but we are still expecting a 3% lift in prices.

**Current Account Balance – Q4 (Wednesday 16 March, 10.45am).** Poised to [widen](#) to 5.9% of GDP – a post 2009 high.

**GDP – Q4 (Thursday 17 March, 10.45am).** After falling 3.7% q/q in Q3 due to lockdown, we think [GDP rebounded](#) 3.5% in Q4. Further expansion in Q1 is looking less likely, given Omicron and surging costs are weighing on spending.



## Markets and forecasts

### What's happening in financial markets

Volatility remains elevated in global financial markets, with US crude oil oscillating between USD105 and USD130, NZ 2-year swap rates back at 3% for the first time in 7 years, and the yield on the bellwether US 10-year Treasury bond traversing a 35bp range over the week en route a move back to 2%. The Ukraine crisis has been a significant driver of volatility (particularly for commodities) but it has also pitted flight-to-safety considerations (which tend to drive bond yields lower) against inflation concerns, which clearly push the other way. All of this makes for difficult trading conditions. With [inflation here on track for almost 7½%](#) and the [RBNZ set to respond with vigour](#), we still see considerable further upside risks to interest rates. Following our OCR call change this week, we have raised all of our interest rate forecasts. The most obvious impact will be at the short end, which tends to move in lock step with the OCR and forward expectations. With the OCR set to double from its current level of 1% to 2% by May, and more hikes to come at every other RBNZ meeting this year, we now see the 90-day bill rate rising to around 2½% by June and to around 3¼% by year-end. 2-year swap rates (currently ~3%) are expected to rise to around 3.4% by June and 3.6% by year-end. New Zealand 10-year bond yields generally track US bond yields more closely than the OCR, but with the RBNZ on track to “out-hike” the Fed over 2022, we now see the NZ/US 10yr bond spread widening over 2022, taking 10-year bond yields to 3.65% by year-end and to 4% by mid-2023. In the FX space, the NZD remains subjected to crosswinds, with interest rates and commodities higher, but house prices and confidence lower, and the Omicron wave adding to uncertainty.

| FX rates       | Actual |        |       | Forecast (end month) |        |        |        |        |        |
|----------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
|                | Jan-22 | Feb-22 | Today | Mar-22               | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 |
| NZD/USD        | 0.657  | 0.674  | 0.686 | 0.650                | 0.660  | 0.680  | 0.700  | 0.700  | 0.700  |
| NZD/AUD        | 0.932  | 0.933  | 0.933 | 0.929                | 0.930  | 0.932  | 0.933  | 0.933  | 0.933  |
| NZD/EUR        | 0.589  | 0.600  | 0.625 | 0.580                | 0.579  | 0.591  | 0.598  | 0.593  | 0.588  |
| NZD/JPY        | 75.9   | 77.9   | 79.7  | 73.5                 | 75.2   | 78.2   | 81.2   | 81.2   | 81.2   |
| NZD/GBP        | 0.489  | 0.503  | 0.525 | 0.474                | 0.478  | 0.486  | 0.490  | 0.483  | 0.483  |
| NZ\$ TWI       | 71.0   | 72.2   | 73.7  | 69.8                 | 70.5   | 72.1   | 73.5   | 73.3   | 73.1   |
| Interest rates | Jan-22 | Feb-22 | Today | Mar-22               | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 |
| NZ OCR         | 0.75   | 1.00   | 1.00  | 1.00                 | 2.00   | 2.50   | 3.00   | 3.25   | 3.50   |
| NZ 90 day bill | 1.10   | 1.26   | 1.48  | 1.92                 | 2.52   | 3.02   | 3.27   | 3.60   | 3.60   |
| NZ 10-yr bond  | 2.60   | 2.75   | 3.00  | 3.00                 | 3.20   | 3.30   | 3.65   | 3.75   | 4.00   |

### Economic forecasts

|                          | Sep-21 | Dec-21     | Mar-22     | Jun-22     | Sep-22     | Dec-22     | Mar-23     | Jun-23     | Sep-23     |
|--------------------------|--------|------------|------------|------------|------------|------------|------------|------------|------------|
| GDP (% qoq)              | -3.7   | <b>3.5</b> |            |            |            |            |            |            |            |
| GDP (% yoy)              | -0.3   | <b>3.6</b> |            |            |            |            |            |            |            |
| CPI (% qoq)              | 2.2    | 1.4        | <b>2.0</b> | <b>1.6</b> | <b>1.2</b> | <b>0.8</b> | <b>0.8</b> | <b>0.6</b> | <b>0.8</b> |
| CPI (% yoy)              | 4.9    | 5.9        | <b>7.1</b> | <b>7.4</b> | <b>6.4</b> | <b>5.7</b> | <b>4.5</b> | <b>3.4</b> | <b>2.9</b> |
| Employment (% qoq)       | 1.9    | 0.1        | <b>0.2</b> | <b>0.2</b> | <b>0.4</b> | <b>0.4</b> | <b>0.4</b> | <b>0.4</b> | <b>0.4</b> |
| Employment (% yoy)       | 4.2    | 3.7        | <b>3.2</b> | <b>2.4</b> | <b>1.0</b> | <b>1.3</b> | <b>1.5</b> | <b>1.7</b> | <b>1.6</b> |
| Unemployment Rate (% sa) | 3.3    | 3.2        | <b>3.1</b> | <b>3.0</b> | <b>2.9</b> | <b>2.9</b> | <b>2.9</b> | <b>3.0</b> | <b>3.0</b> |

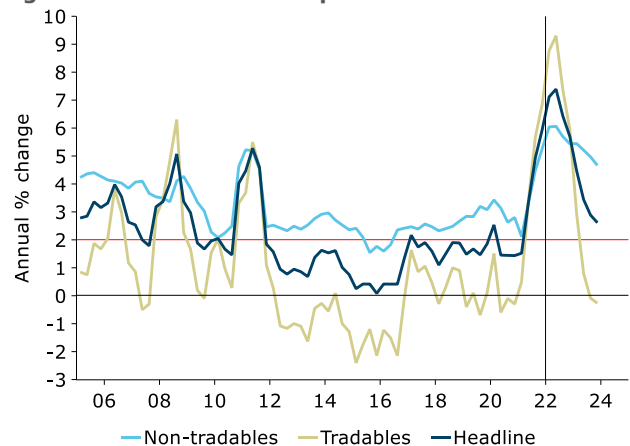
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, ANZ Research

Figure 4. CPI inflation components





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### Meet the team

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