ANZ Research

# New Zealand Weekly Data Wrap

18 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.

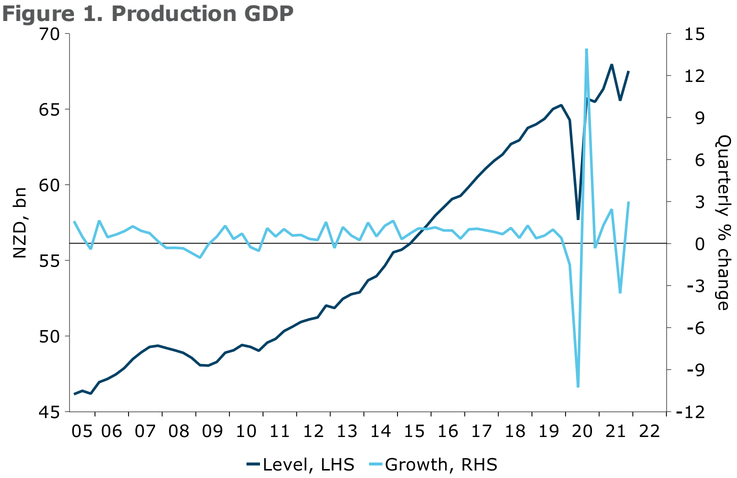
## Key risks to our view

- 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.

## What happened this week?

Q4 GDP data this week shows that the economy grew 3.0% q/q – retracing most of the 3.6% lockdown-induced fall over Q3 (figure 1). Services and goods producing industries saw a decent bounce, while primary industries declined – but that's as much to do with weather as it is supply disruptions.

**Figure 1. Production GDP**




Source: Stats NZ, Macrobond, ANZ Research

The partial rebound in GDP over Q4 may be the only good news we get on the activity front for some time. It's increasingly looking like the vicious combination of Omicron disruption and surging inflation will make it difficult for the economy to post strong growth numbers over 2022. There's a bit more rebound to come, but looking through the noise, 2022 is shaping up to be a softer year for growth. We've revised down our GDP forecast a touch (see page 3), and will publish more details next week. Activity indicators in our Business Outlook were deeply negative in February, and the deliveries sub-index of the February services PMI dropped to a deeply contractionary 34.4 (50 being par), indicating that Omicron is seriously hampering the ability of Kiwi firms to operate. Inflation is also likely to weigh on real activity, as households have to tighten their belts in order to afford the basics. This was brought into stark relief earlier in the week as last week's spike in oil prices briefly saw petrol prices rise above $3/litre. On Monday, the Government announced a temporary 25c/litre reduction in fuel taxes (among other measures) to ease the burden of the skyrocketing cost of living. And while that could shave about 0.5% pts off the 7.4% peak in inflation we expect in Q2, it won't do much to resolve the surge in underlying inflation. For that, aggressive (if painful) interest rates from the RBNZ are needed.

## Key data summary

**REINZ House Prices – February.** As expected, house prices fell for a third month in a row, down 0.8% m/m (sa, ANZ estimate). Prices are still up 18.7% y/y (3mma), but we expect continued declines over 2022.

**Net Migration – January.** Remains close to zero. With the border open from May, we assume net migration should rise gradually over H2 2022 and beyond.

**Performance of Services Index – February.** Lifted to 48.6 (46 previously).

**GlobalDairyTrade auction.** Prices eased 0.9%, versus our expectation for a 3% lift. However, prices are still up significantly compared with the start of this year, and global supply remains under pressure, limiting the downside.

**Current Account Balance – Q4.** Deficit grew to 5.8% of GDP (4.6% previous).

**GDP – Q4.** Rebounded 3.0% q/q, after falling 3.6% in Q3.

# Looking ahead

## Recent Publications

ANZ produces a range of in-depth insights.

- NZ temp fuel tax changes knock 0.5% off Q2 CPI
- 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 2021 HYEFU: Wind change
- 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

Click here for more.

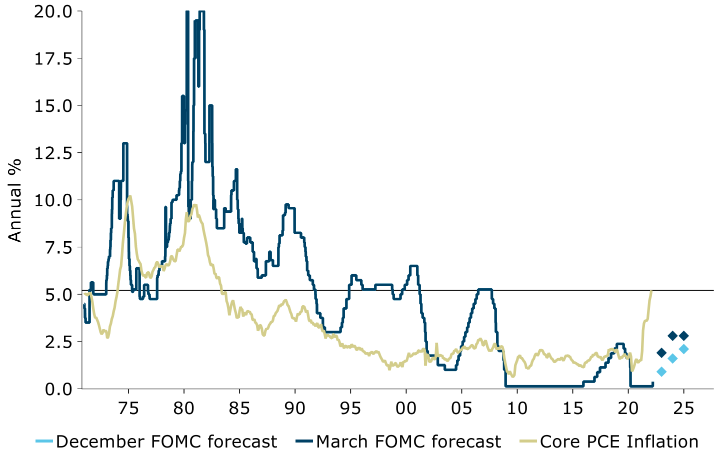
## Data calendar

| Date | Data/event |
|---|---|
| Mon 21 Mar (10:45am) | Merchandise Trade – Feb |
| Wed 30 Mar (10:45am) | Building Permits – Feb |
| Wed 30 Mar (1:00pm) | ANZ Business Outlook – Mar |
| Wed 30 Feb (3:00pm) | RBNZ Sectoral Lending – Feb |
| Fri 1 Apr (10:00am) | ANZ-RM Consumer Confidence – Mar |
| Wed 6 Apr (early am) | GlobalDairyTrade auction |
| Wed 6 Apr (1:00pm) | ANZ Commodity Price Index – Mar |
| Fri 8 Apr (10:00am) | ANZ Truckometer– Mar |
| Mon 11 Apr (10:45am) | Electronic Card Transactions – Mar |
| Tue 12 Apr (10:45am) | Net Migration- Feb |
| Wed 13 Apr (10:45am) | Food Price Index – Mar |

## US Fed kicks off hiking cycle

The US Federal Reserve raised the Federal Funds Rate (FFR) by 25bps on Thursday, kicking off their hiking cycle. Inflation pressures have been intense in New Zealand – but they're even more so in the US, where February CPI inflation came in at 7.9% y/y, and could easily rise further in coming months. Projections from members of the Federal Open Market Committee (FOMC) showed that the median expectation is for the FFR to reach 1.9% at the end of the year, which implies they anticipate hiking interest rates by 25bp at each of the remaining six meetings this year. Another four 25bp hikes are implied over 2023 – bringing the FFR to a peak of 2.8% by end-2023 (figure 2).

**Figure 2. Fed Funds Rate median projection and core inflation**




Source: Fed, BEA, Macrobond, ANZ Research

FFR hikes couldn't come soon enough in the US. The Fed's preferred measure of core inflation was at 5.1% y/y in February, and shows no signs of slowing down yet. In fact, the last time core inflation was this high in the US, the FFR was over 800bps higher at 8.5%. The Fed is now in inflation-fighting mode – and that could include running down the size of the balance sheet (quantitative tightening) from as soon as May.

Something that Chair Powell made particularly clear is that price stability is a necessary condition for achieving any sustained period of maximum employment. That is, unless the Fed restores price stability, then the currently "extremely tight" labour market Powell sees will not be sustained. Hence the Fed's higher and steeper interest rate forecast.

The same principle applies to New Zealand. Our labour market is the tightest it's ever been in the official data – and February job ads data from MBIE show that there's been no let-up in domestic labour demand. But inflation is surging – we're currently forecasting it to peak at 7.4% in Q2 (although uncertainty is very high given recent volatility in global commodity prices). Out-of-control inflation is devastating for economies and the people within them – so in order to sustain the current high level of employment over the longer run, it's really important that the RBNZ gets on top of domestic inflation pressures.

And that involves a series of aggressive OCR hikes over the next year. Assuming no unforecastable shocks hit the economy, we think the RBNZ will lift the OCR 50bps at the April *and* May meetings, and continue lifting in 25bp increments until they reach a peak of 3.5% in April 2023. It will be painful for heavily indebted households, and will dent economic growth. But sky-high inflation is a far bigger danger to the long-run economic wellbeing of Kiwis.

## The week ahead

**Overseas Merchandise Trade – February (Monday 21 March, 10:45am).** A trade surplus of $700m is anticipated as both exports and imports ease.

# Markets and forecasts

## What's happening in financial markets

The US Federal Reserve's long-awaited decision to raise rates rolled around this week, and while in the end they elected to hike by just 25bps (as opposed to 50bps), they dramatically lifted their "dot plot" projections for the Fed funds rate, with the median rate for the end of 2023 raised from 1.6% to 2.8%. Despite this anticipated tightening, the Fed raised its inflation forecasts – sending a hawkish message to the market that more tightening may be necessary than what's projected. Markets continue to price in the risk of 50bp hikes, and the bellwether US 10-year Treasury bond yield is now at 2.2% (up from 2% this time a week ago). Given that US bonds are the benchmark for all global bonds, that's an important development for the local market, and it is the main reason why local longer-term interest rates here have moved up – and in our view, will remain biased higher in coming weeks. The Government's cut to fuel excise taxes and decision by the Fed (and the Bank of England) to hike by just 25bps has seen expectations for 50bp hikes ease back locally. But amid still-elevated oil prices and growing public awareness of inflation, we continue to expect back-to-back 50bp OCR hikes in April and May, and for that reason, we see limited scope for short-end rates to ease back far. The NZD has performed well this week as risk appetite has improved (US equities have had their best 3-day run since November) and as commodity prices have rebounded. But the risk of a hard landing remains, and Omicron is clearly impacting consumer behaviour; against a backdrop of mixed signals, volatility is likely to continue to trump directionality in currency markets.

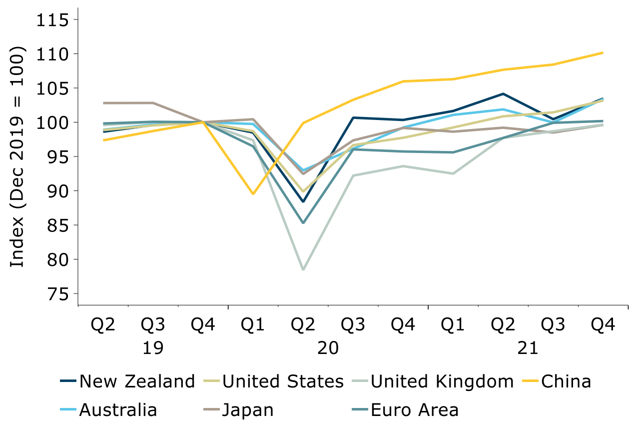
| | Actual | | | Forecast (end month) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| FX rates | Jan-22 | Feb-22 | Today | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 |
| NZD/USD | 0.657 | 0.674 | 0.688 | 0.650 | 0.660 | 0.680 | 0.700 | 0.700 | 0.700 |
| NZD/AUD | 0.932 | 0.933 | 0.933 | 0.929 | 0.930 | 0.932 | 0.933 | 0.933 | 0.933 |
| NZD/EUR | 0.589 | 0.600 | 0.620 | 0.580 | 0.579 | 0.591 | 0.598 | 0.593 | 0.588 |
| NZD/JPY | 75.9 | 77.9 | 81.6 | 73.5 | 75.2 | 78.2 | 81.2 | 81.2 | 81.2 |
| NZD/GBP | 0.489 | 0.503 | 0.523 | 0.474 | 0.478 | 0.486 | 0.490 | 0.483 | 0.483 |
| NZ$ TWI | 71.0 | 72.2 | 73.9 | 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 | 1.56 | 1.92 | 2.52 | 3.02 | 3.27 | 3.60 | 3.60 |
| NZ 10-yr bond | 2.60 | 2.75 | 3.18 | 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) | -3.6 | 3.0 | **0.5** | **0.2** | **0.4** | **0.7** | **0.8** | **0.4** | **0.5** |
| GDP (% yoy) | -0.2 | 3.1 | **2.3** | **0.0** | **4.1** | **1.8** | **2.1** | **2.3** | **2.4** |
| CPI (% qoq) | 2.2 | 1.4 | **2.0** | **1.6** | **1.2** | **0.8** | **0.8** | **0.6** | **0.8** |
| CPI (% yoy | 4.9 | 5.9 | **7.1** | **7.4** | **6.4** | **5.7** | **4.5** | **3.4** | **2.9** |
| 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** |

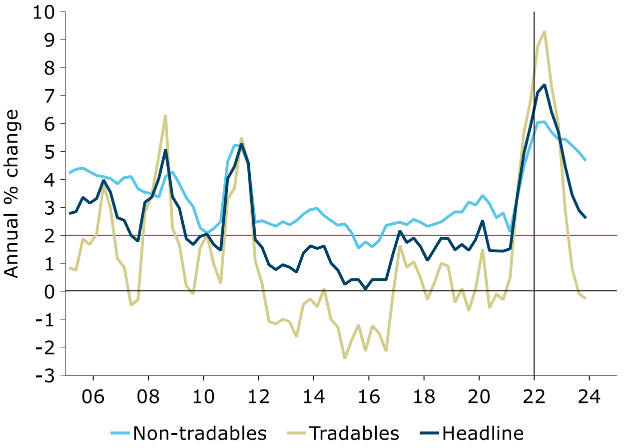
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

**Figure 3. GDP levels (Q4 2019= 100)**




Source: Macrobond, ANZ Research

**Figure 4. CPI inflation components**



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Last updated: 28 February 2022

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