

New Zealand Weekly Data Wrap

25 March 2022



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Contact us

See [page 4](#).

Forecast updates

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

- NZ GDP Forecast Update: walking the tightrope
- NZ Property Focus: a soft landing as headwinds gather
- NZ Forecast Update: Farmgate milk price forecast revised up
- NZ OCR Call Change: back-to-back 50bp hikes in April and May
- NZ Quarterly 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.

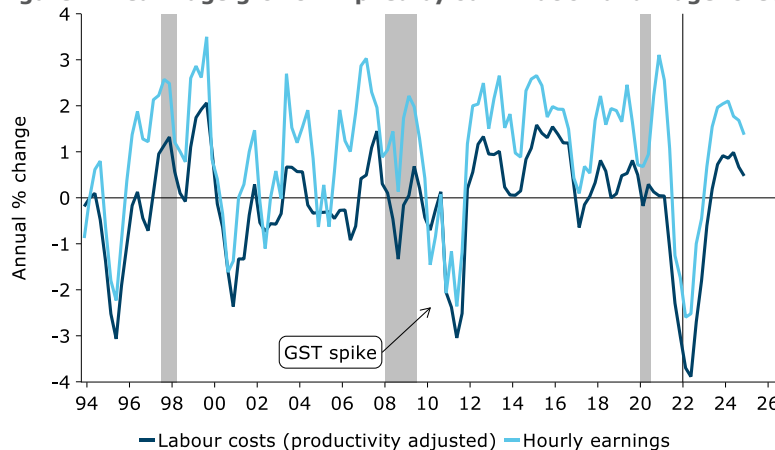


Omicron outbreak causes severe disruption, shortages, and yet more inflation.

What happened this week?

With Q4 2021 GDP data now under our belt, we've taken the opportunity this week to extend our [macroeconomic forecasts](#) to include 2024. What's becoming increasingly clear to us is that the surge in inflation that we're seeing in New Zealand is becoming a threat to economic growth. Sure, the nominal economy may grow rapidly, but in 'real' terms (ie adjusting for inflation), economic momentum may struggle as household real purchasing power is rapidly eroded. Wage growth is lagging well behind the increase in consumer prices – and we think wages will only start to catch up at the start of 2023 (figure 1).

Figure 1. Real wage growth implied by our inflation and wage forecasts



Source: Stats NZ, Macrobond, ANZ Research

Until wage growth catches up to inflation, people either need to work longer hours, or have more members of the household enter the labour force, just to maintain the same purchasing power. Combine cost pressures with disruption from the Omicron wave, and the economy may struggle to post strong growth numbers. We now expect the economy will expand 2.1% over 2022 – a downwards revision from our previous forecast for a 2.7% expansion.

The upshot of all this is that whichever way you look at it, recession risks are building. But – counterintuitively perhaps – the risk of a recession is no longer a good reason for the RBNZ to not hike the OCR aggressively. The RBNZ is stuck between a rock and a hard place. If they don't get on top of inflation, and quickly, then [rapidly rising inflation expectations](#) could see inflation surge higher and become even more embedded than it already is. That would require even more aggressive hikes in interest rates than we're forecasting – making a soft landing nigh-on impossible. At the same time, the rate hikes we're forecasting will still dent growth, at a vulnerable time. No one wins when inflation is this high.

Ultimately, it comes back to our discussion in last week's [Data Wrap](#) – the best way for the RBNZ to support maximum sustainable employment and a long economic expansion is to do their best to restore price stability. It won't be a fun process, and for highly indebted households, it will certainly increase the cost of living. But it's a much smaller cost than what the RBNZ would need to do if inflation expectations became unanchored from the 2% target midpoint. The second half of the 20th Century is littered with policy-induced recessions in the campaign of central banks against high inflation. No one wants a repeat of that.

Key data summary

Overseas Merchandise Trade – February. The annual trade deficit widened to NZD8.4bn (7.8bn prev.), as a 29% rise in imports offset a 9.8% lift in exports.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: the RBNZ's inflation expectations headache](#)
- [NZ Property Focus: A soft landing as headwinds gather](#)
- [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
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
Tue 5 Apr (10:00am)	NZIER QSBO – Q1
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

What are we watching?

It's been just over a week since the US Federal Reserve hiked the Federal Funds Rate by 25bps. Since then an array of Fed speakers have been busy prepping markets for what's looking increasingly likely to be a 50bp Fed Funds Rate hike at their next meeting in May (as well as a likely announcement around plans to shrink the balance sheet – quantitative tightening). Market pricing for the May meeting is sitting around 3:2 odds in favour of a 50bp hike. And that's flowed through to New Zealand as well, with market pricing currently implying a similarly high chance of a 50bp hike in April (which is our forecast). Major central banks are now in inflation-fighting mode, with Fed Chair Powell making it clear that restoring price stability is their priority – and acknowledging that with the benefit of hindsight, monetary policy shouldn't have been as stimulatory for as long as it has been. The same holds for New Zealand – even if the RBNZ were faster off the mark than other central banks. The NZ economy is overstimulated, and the RBNZ needs to act quickly, **hiking 50bps** in April *and* May, to start making headway against inflation.

Our central forecast is one where everything goes to plan, and the RBNZ tames inflation without causing a recession. That's an increasingly challenging proposition, but one of the major reasons to be optimistic about a soft landing for the economy is the strength in our domestic labour market. Yes, [the housing market is softening](#) – and that's usually correlated with a slowdown in the wider economy. But if we're right that the unemployment rate will stay at or even fall below its current record lows over mid-2022, that should provide a significant level of resilience for the economy. And early signs are good – job vacancies are extremely high relative to pre-pandemic levels, and monthly filled jobs were still rising in January (figure 2). That said, the labour market is a lagging indicator, so we'll be watching timely data like employment intentions for any signs that the wheels may be falling off.

Figure 2. Job vacancy index and monthly filled jobs



Source: Stats NZ, MBIE, Macrobond, ANZ Research

The week ahead

Building Permits – February (Wednesday 30 March, 10:45am). Declined 9.2% in January, suggesting construction demand may have peaked. February's data may show further softening, and Omicron will add volatility.

ANZ Business Outlook – March (Wednesday 30 March, 1:00pm).

RBNZ sectoral lending data – February (Wednesday 30 March, 3:00pm). Business and housing lending have continued to grow solidly in recent months – although the pace of growth has declined a touch.

ANZ Roy Morgan Consumer Confidence – March (Friday 1 April, 10:00am).



Markets and forecasts

What's happening in financial markets

While global financial market volatility has died down from extremes seen at the beginning of the month, we are still seeing pockets of volatility in certain markets, including US Treasury bonds and FX crosses like NZD/JPY and NZD/AUD. Of note, this volatility has coincided with the return of directionality, with global bond yields at fresh highs across most developed markets, and the aforementioned FX crosses at highs and lows respectively (which may seem slightly odd). However, we think it's all part and parcel of the significant realignment that's going on as monetary policy normalises here and abroad, and as FX markets in particular traverse the myriad crosscurrents at play. On the one hand, NZ has the highest 10-year bond yields of the major developed markets (they're also at 5+ year highs), and of course commodity prices are booming. But the latter is inflationary, and many people fear a hard landing and potential sharp falls in house prices, which would also weigh on domestic growth. Complicating things further, most developed-economy central banks are, or will soon be, in tightening mode. Back to interest rates – while are now pencilling in OCR cuts in our extended forecasts out to 2024, they're very much a placeholder rather than a firm expectation. And although a lot of hikes are now priced in at the short end (OIS markets are pricing in 114bps of hikes over the next 3 meetings, and an OCR of 2.93% by year-end), we don't expect the rise in local short-end yields to let up until well into the cycle. Meanwhile, US bond yields continue to rise as markets take note of the cacophony of Fed officials calling for 50bp hikes and rapid policy normalisation.

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	0.696	0.650	0.660	0.680	0.700	0.700	0.700
NZD/AUD	0.932	0.933	0.927	0.929	0.930	0.932	0.933	0.933	0.933
NZD/EUR	0.589	0.600	0.633	0.580	0.600	0.618	0.636	0.625	0.625
NZD/JPY	75.9	77.9	85.2	73.5	77.9	80.9	84.0	84.0	84.0
NZD/GBP	0.489	0.503	0.528	0.474	0.504	0.515	0.526	0.522	0.519
NZ\$ TWI	71.0	72.2	74.9	69.8	71.2	72.9	74.5	74.2	74.0
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	1.57	1.92	2.52	3.02	3.27	3.60	3.60
NZ 10-yr bond	2.60	2.75	3.34	3.25	3.40	3.60	3.70	3.90	4.00

Economic forecasts

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
GDP (% qoq)	3.0	0.5	0.2	0.4	0.7	0.8	0.4	0.5	0.6
GDP (% yoy)	3.1	2.3	0.0	4.1	1.8	2.1	2.3	2.4	2.3
CPI (% qoq)	1.4	2.0	1.6	1.2	0.8	0.8	0.7	0.8	0.5
CPI (% yoy)	5.9	7.1	7.4	6.4	5.7	4.5	3.5	3.0	2.7
Employment (% qoq)	0.1	0.0	0.1	0.3	0.3	0.4	0.3	0.3	0.3
Employment (% yoy)	3.7	3.0	2.1	0.5	0.8	1.2	1.3	1.3	1.3
Unemployment Rate (% sa)	3.2	3.1	2.9	2.9	3.0	3.1	3.2	3.3	3.4

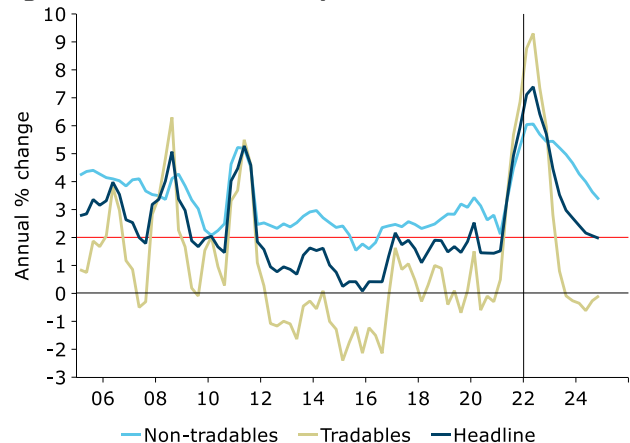
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, ANZ Research

Figure 4. CPI inflation components





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