

# New Zealand Weekly Data Wrap

8 April 2022



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See page 5.

## 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 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](#).

Confused by acronyms or jargon? See a glossary [here](#).

## 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.



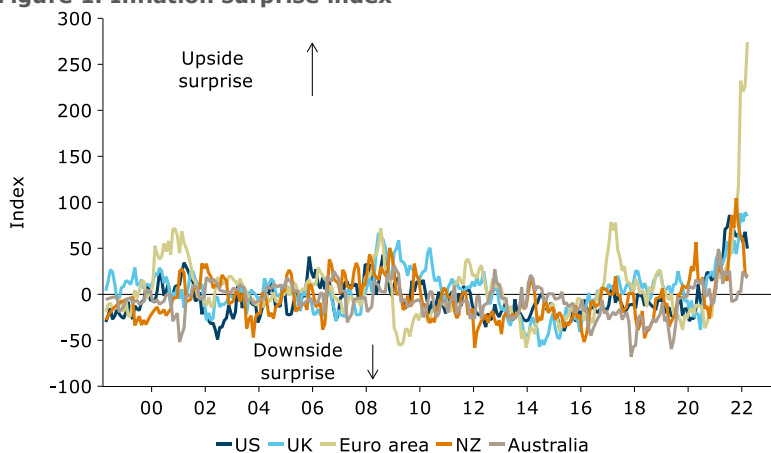
Omicron outbreak causes severe disruption, shortages, and yet more inflation.

## What happened this week?

The RBNZ meets next week for the April Monetary Policy Review (MPR). We [continue to expect they will lift the OCR by 50bps next week](#) and again in May, and then continue in 25bp increments at each meeting until the OCR reaches a peak of 3.5% in April 2023. But risks abound.

On the inflation side of the ledger, inflation expectations have continued their worrying grind upwards. In our [March Business Outlook](#), a net 96% of firms expected higher costs in the next three months, and both pricing intentions and inflation expectations continued to rise to, or close to, record highs. Plus, global inflation pressures are only continuing to surprise to the upside (figure 1). The Russian invasion of Ukraine has triggered immense commodity price volatility, but overall, prices are well up on this time last year. Euro area inflation hit 7.5% in March – miles above expectations, and US inflation was sitting at 7.9% in February (with expectations it hit over 8% in March). With key cities in China entering new lockdowns as COVID cases rise, that could also see further shipping disruptions – adding to imported inflation in New Zealand.

Figure 1. Inflation surprise index



Source: Citi, Bloomberg, Macrobond, ANZ Research

Unfortunately, even as inflation has continued to build, the growth outlook has continued to weaken. Business and consumer confidence both soured markedly at the start of 2022, and supply disruptions mean whatever growth the domestic economy achieves this year will be hard won. But none of that gives the RBNZ reason to hold back on interest rate hikes. As we note in our [MPR Preview](#), Governor Orr has said that “Our ‘path of least regrets’ has now become one where we must ensure that consumer price inflation and inflation expectations do not rise persistently above our target level. Anything less from the Committee risks spiralling long-term economic costs and reduced wellbeing for New Zealanders.” The growth risks of hiking aggressively are clear, but so are the risks of letting inflation spiral. And while there are no low-risk options anymore, acting aggressively now gives the best odds of avoiding even larger economic costs later.

One of the few silver linings of the current global environment is that rising commodity prices do support our exporters. The March read of the [ANZ World Commodity Price Index](#) showed prices were up another 3.9% m/m. But, NZD strength meant the index rose just 0.5% m/m in local currency terms. With shipping costs still elevated, seasonal exporters may struggle.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- NZ Agri Focus: mixed blessings
- 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 Agri Focus: Higher prices for Christmas
- NZ Insight: The real cost of inflation
- NZ Insight: The Reopening

Click [here](#) for more.



### ANZ Proprietary data

Check out our latest releases below.

- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

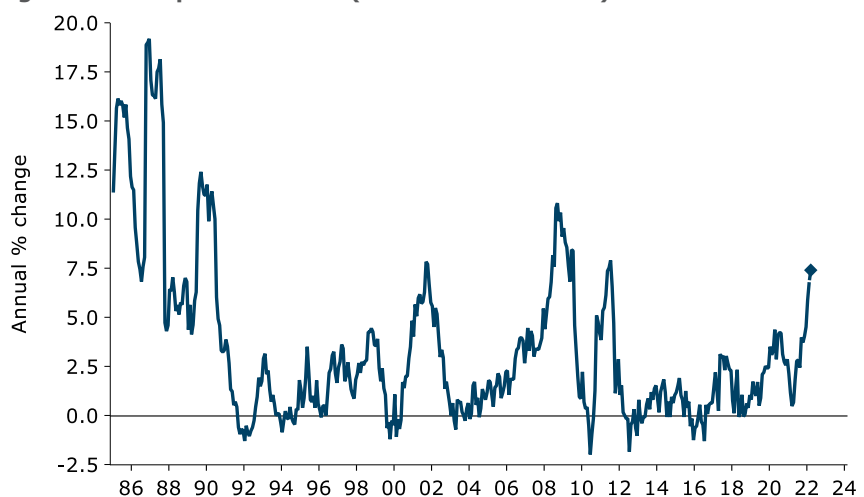
### What are we watching?

It's been a pretty quiet couple of weeks on the domestic data front – but that changes next week. In addition to the RBNZ's April Monetary Policy Review, we also get a swathe of timely economic data that should give us a clearer picture of how activity and inflation fared over the March quarter. On that front, the Q1 Quarterly Survey of Business Opinion (QSBO) is released on Tuesday. While not as timely as our [Business Outlook](#), the QSBO gives a more comprehensive overview of the degree of capacity stretch in the economy – and the RBNZ (who make their interest rate decision the day *after* the QSBO) pay close attention to it. We suspect the QSBO will show economic activity struggling to make headway against a difficult mix of supply shortages, labour shortages, and surging costs. QSBO business confidence is likely to follow the ANZBO measure lower. But if we continue to see increases in measures of costs and prices, then the implication for the RBNZ is clear – they need to hike the OCR aggressively to get ahead of the inflation curve, even if confidence has soured.

The March property report from REINZ is also due next week. We've pencilled in a further monthly drop in house prices – and we expect that to continue over 2022. We're forecasting house prices to decline about 10% over this year. While that's a similar-sized drop to that seen during the GFC, we'd still see it as a 'soft landing' considering prices would still be about 30% higher than they were at the start of the pandemic. The softening housing market is one factor that should help to ease some domestic inflation pressure points over the coming year.

Speaking of inflation, the final Q1 CPI indicators are released on Wednesday, (in)conveniently on the same day as the Monetary Policy Review. We expect March rents were up 0.4% m/m (3.6% y/y), based on a reasonably reliable seasonal pattern. March food prices are also due – we expect to a seasonal 0.6% m/m (7.4% y/y) lift. Excluding the GST hike in 2010, that would be the largest rise in food prices since the commodity price boom in 2008 (figure 2). For lower-income households who [spend a much larger share of their budgets](#) on food, housing and transport, the recent rises in food and petrol costs will be hard to manage. And that could see consumers pull right back on spending as essentials take up a larger and larger share of disposable income. We've pencilled in a 7.1% inflation print for Q1 – but we'll lock down our pick after the March food and rent price data are in. If the ANZBO pricing intentions data are anything to go by (and history would say they are), inflation risks are solidly to the upside.

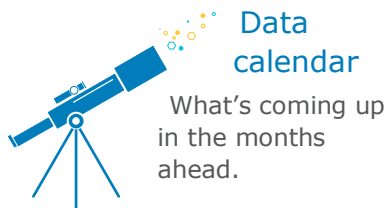
Figure 2. Food price inflation (with March forecast)



Source: Stats NZ, Macrobond, ANZ Research



## Looking ahead



### Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 11 Apr (10:45am)	Electronic Card Transactions – Mar
Tue 12 Apr (10:00am)	NZIER QSBO – Q1
Tue 12 Apr (10:45am)	Net Migration- Feb
Wed 13 Apr (10:45am)	Food Price Index – Mar
Wed 13 Apr (10:45am)	Rental Price Index – Mar
Wed 13 Apr (2:00pm)	<b>RBNZ Monetary Policy Review</b>
Thu 14 Apr (10:30pm)	BusinessNZ Manuf PMI – Mar
Wed 20 Apr (early am)	GlobalDairyTrade auction
Thu 21 Apr (10:45am)	<b>CPI – Q1</b>
Thu 28 Apr (10:45am)	Merchandise Trade – Mar
Thu 28 Apr (1:00pm)	<a href="#">ANZ Business Outlook – Apr</a>
Fri 29 Apr (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Apr</a>
Fri 29 Apr (3:00pm)	RBNZ Sectoral Lending – Mar
Tue 3 May (10:45am)	Building Permits – Mar
Wed 4 May (early am)	GlobalDairyTrade auction
Wed 4 May (10:45am)	<b>Labour Market – Q1</b>
Wed 4 May (1:00pm)	<a href="#">ANZ Commodity Price Index – Mar</a>
Tue 10 May (10:00am)	<a href="#">ANZ Truckometer – Apr</a>
Tue 10 May (10:45am)	Electronic Card Transactions – Apr
Thu 12 May (10:45am)	Food Price Index – Apr
Thu 12 May (10:45am)	Rental Price Index – Apr
Thu 12 May (3:00pm)	RBNZ 2Yr Inflation Expectation – Q2
Fri 13 May (10:30am)	BusinessNZ Manuf PMI – Apr
Mon 16 May (10:30am)	Performance Services Index – Apr
Wed 18 May (early am)	GlobalDairyTrade auction
Thu 19 May (2:00pm)	<b>NZ Budget 2022</b>

### Interest rate markets

Global interest rates continue to rise, led by the US, where a firming up of expectations for 50bp Fed hikes have driven the short end higher, and talk of quantitative tightening (or “QT”) beginning as early as next month has sent long-end rates to new highs for the year. The RBA also changed its tone, distancing itself from its erstwhile “patient” guidance as it adopted a more hawkish and proactive stance (and as a consequence, we now expect the RBA to start raising rates in June). All of this has hit the local market on the eve of next week’s key RBNZ decision, driving local rates to highs for the year in most maturities. Longer-term OCR expectations now exceed our forecast (even if expectations for next week don’t) and technically, that suggests there is scope for term interest rates to fall. However, liquidity is dire, and few are prepared to take on the market ahead of next week’s OCR decision, and potential 50bp hikes elsewhere. So, while the bulk of the rise in local interest rates looks to be behind us, that doesn’t mean that there is much scope for a retracement just yet – unless the RBNZ surprises us with only a 25bp hike, in which case, a sizeable correction is likely.

### FX markets

FX market volatility has died down a touch, but major currencies like EUR and JPY are at key levels (of weakness) against the USD. Should they break lower, that could have downside implications for the NZD and AUD. The RBA tilt has helped the AUD, and in turn the NZD (and driven NZD/AUD lower), but markets continue to weigh the upside risks to the USD stemming from tighter policy and higher rates there against the downside to commodity currencies stemming from what could be a long path to peace in Ukraine.

### Key data summary

**GlobalDairyTrade auction.** Dairy prices fell 1% at the latest auction.

**ANZ Commodity Price Index – March.** [Commodity prices](#) lifted 3.9% m/m – although in NZD terms the lift was only 0.5%.

**ANZ Truckometer – March.** The [heavy traffic index](#) was up 1.8% m/m, suggesting a modest expansion over Q1 for the economy.

### The week ahead

**Electronic Card Transactions – March (Monday 11 April, 10:45am).** Our ANZ card spending data suggests a rebound after February’s nearly 8% fall.

**NZIER Quarterly Survey of Business Opinion – Q1 (Tuesday 12 April, 10:00am).** Should echo [what we’ve seen in the ANZBO](#) – prices and costs are surging, but activity is struggling to make headway.

**Net Migration – February (Tuesday 12 April, 10:45am).** Will remain close to zero as the border only opened to travellers from Australia on 27 February.

**Food Prices – March (Wednesday 13 April, 10:45am).** Seasonality suggests a 0.6% m/m lift in food prices (7.4% y/y).

**Rental Price Index – March (Wednesday 13 April, 10:45am).** We’ve pencilled in a 0.4% m/m (3.6% y/y) lift in the stock measure of rent prices.

**RBNZ OCR Review – April (Wednesday 13 April, 2:00pm).** We expect a 50bp hike to 1.5% – see our [preview](#).

**REINZ House Prices – March (11-14 April, 9:00am).** We expect ongoing declines over 2022, and auction data suggest softness has continued.

**Performance of Manufacturing Index – March (Thursday 14 April, 10:30am).** Has remained expansionary, even in the face of Omicron.



## Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Feb-22	Mar-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.674	0.694	0.689	0.660	0.680	0.700	0.700	0.700	0.700
NZD/AUD	0.933	0.926	0.921	0.930	0.932	0.933	0.933	0.933	0.933
NZD/EUR	0.600	0.625	0.633	0.600	0.618	0.636	0.625	0.625	0.614
NZD/JPY	77.9	84.4	85.4	77.9	80.9	84.0	84.0	84.0	84.0
NZD/GBP	0.503	0.529	0.527	0.504	0.515	0.526	0.522	0.519	0.519
NZ\$ TWI	72.2	74.4	74.3	71.2	72.9	74.5	74.2	74.0	73.8
Interest rates	Feb-22	Mar-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZ OCR	1.00	1.00	1.00	2.00	2.50	3.00	3.25	3.50	3.50
NZ 90 day bill	1.26	1.61	1.67	2.52	3.02	3.27	3.60	3.60	3.60
NZ 10-yr bond	2.75	3.22	3.43	3.40	3.60	3.70	3.90	4.00	3.95

### Economic forecasts

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

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

Figure 3. Production GDP forecast

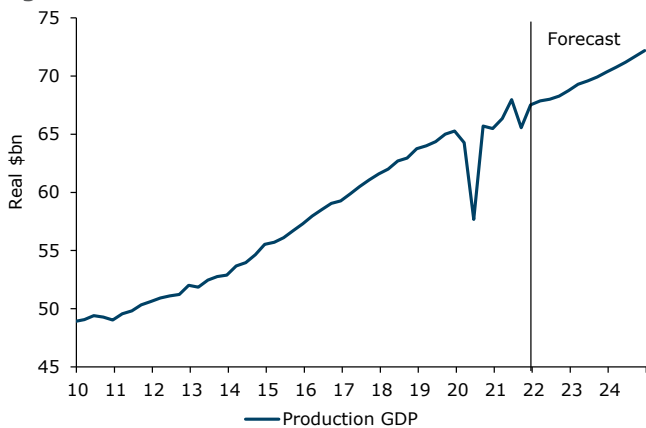


Figure 4. CPI inflation components

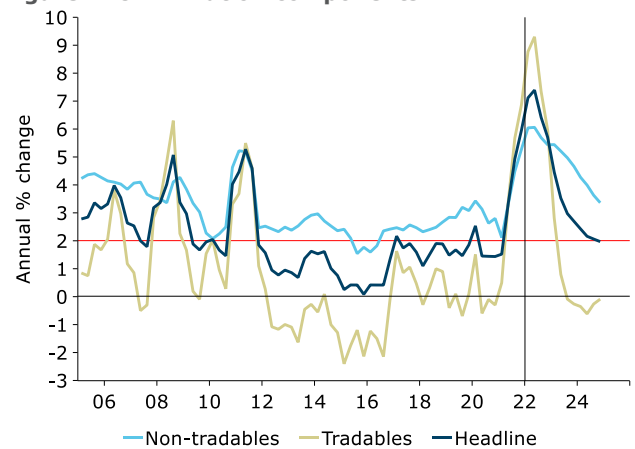


Figure 5. ANZ OCR forecast

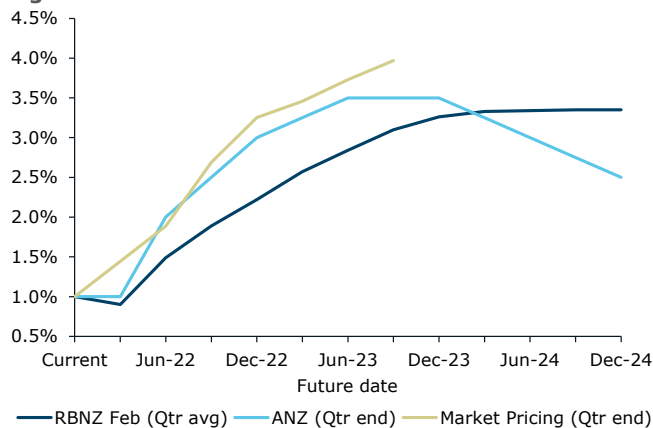


Figure 6. Unemployment rate and wage growth



Source: Stats NZ, Macrobond, ANZ Research



## Contact us

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