

New Zealand Weekly Data Wrap

22 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, but may have peaked
- Aggressive OCR hikes towards 3.5% in April 2023 needed to contain inflation

Our forecasts are on [page 4](#).

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.



Global inflation pressures push inflation up more than expected in NZ over 2022.

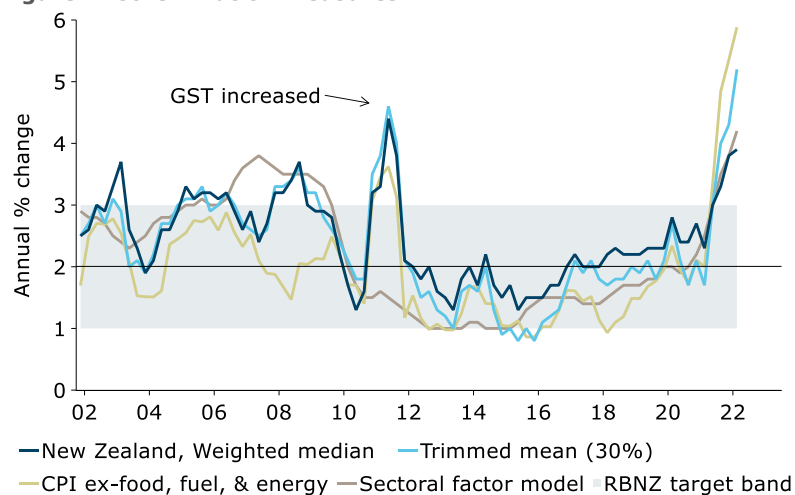
What happened this week?

Data from Stats NZ showed that **annual CPI inflation** hit 6.9% in Q1, up from 5.9% in Q4. While less than the 7.4% we feared we would see, it's still the highest we've seen since 1990. The overall mix of inflation was similar to our expectations, with food, fuel, and housing costs driving the multi-decade high. The inflation print was consistent with the RBNZ's expectation that inflation will peak "around 7 percent" in the first half of 2022.

Unsurprisingly, a large portion of the headline inflation result came from the tradables (ie largely imported) side of things. Annual tradables inflation increased sharply to 8.5% in Q1 (6.9% previously). Food prices have surged both here and around the world due to an inflationary mix of strong demand, ongoing disruption from COVID, and the tragic invasion of Ukraine, the 'breadbasket of Europe'. But another big driver was the 8.8% quarterly increase in petrol prices that largely resulted from the Russian invasion as well. Petrol prices are now up 32.3% on an annual basis, really putting the squeeze on households. Fortunately, oil prices have eased from the over USD120/barrel peaks seen in Q1, and the temporary cut in fuel excise taxes should also reduce some of the burden.

But of more concern for the RBNZ is the ongoing intensification in domestic inflation pressures. Non-tradables inflation lifted to 6.0%, up from 5.3%. This is the sticky kind of inflation that hangs around, and is difficult to tame. That's particularly clear when we look at measures of core inflation, which range between 3.9 and 5.9% (figure 1). The RBNZ's sectoral factor model measure hit a record high of 4.2%. While alarming, we're cautious about interpreting model-based measures when underlying data are so volatile.

Figure 1. Core inflation measures



In other data developments this week, the Performance of Services Index (PSI) posted the first month of expansion since the August 2021 lockdown, with the index rising to 51.6 in March, versus 48.9 previously (a reading of 50 is neutral). But as with all things these days, there were still signs of stress relating to COVID disruption. New orders rose to a very solid 60.1 in March – but supplier deliveries languished at 40.1, firmly contractionary. That summarises the COVID economy – demand is hot, but supply is not.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: how widespread is labour market tightness?](#)
- [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](#)
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ANZ Proprietary data

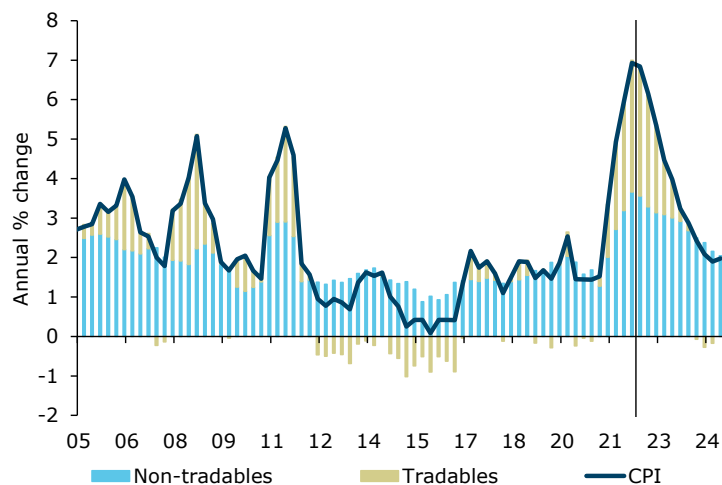
Check out our latest releases below.

- [ANZ Business Outlook](#)
- [ANZ-Roy Morgan Consumer Confidence](#)
- [ANZ Truckometer](#)
- [ANZ Commodity Price Index](#)

Are we past the inflation peak?

With Q1 CPI inflation under our belt, we've updated our forecasts to account for the new data. As we noted in our [Review](#), the natural question is; have we seen the peak in inflation? We're tentatively forecasting that we have (figure 2). Two reasons for extra strong inflation in Q1 were the disruption of the Omicron wave in New Zealand, and the commodity price volatility caused by the Russian invasion of Ukraine. Barring un-forecastable shocks, it's unlikely that we'll see the same potent combination of global and domestic price shocks hitting us together again. Plus, we think the direct impact of the temporary cut to the [fuel excise tax](#) will knock about 0.5ppts off the annual inflation figure for Q2. Without that, inflation would likely peak in Q2.

Figure 2. Contributions to CPI inflation forecast



Source: Stats NZ, ANZ Research

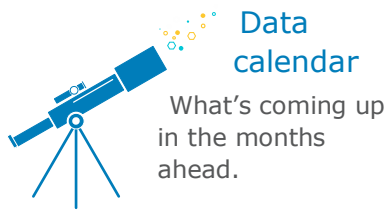
But it's too early to declare victory over inflation. True, we're tentatively picking that Q1 was the peak in headline inflation – but there's still a troubling amount of momentum in the domestic inflation pulse. Non-tradables inflation, which accounts for just over 60% of the CPI basket, is now up to 6.0%, and we expect this more domestically-driven inflation to hang around longer than tradables (ie largely imported) inflation (figure 2).

This persistence partly reflects the degree of labour market tightness that we're currently seeing (and expect to continue to see over 2022). The unemployment rate is currently at a record low of 3.2% - and we are forecasting it will fall further to a low of 2.9% over this year. Job vacancies on the other hand are close to record levels, and are far higher than pre-COVID. This mismatch between labour supply and demand, combined with cost of living adjustments and the 6% lift in the minimum wage, should drive wage growth to levels not seen since before the GFC. And as we explained in a [recent insight note](#), this is a highly inflationary process. COVID has been a negative productivity shock – which means that while firms are paying more for their workers, they aren't necessarily getting more output from them. So to meet higher wages, businesses at some point have to pass their costs on to consumers, driving inflation progressively higher.

When you combine an inflationary labour market with a concerning rise in many different measures of [inflation expectations](#), it's easy to see that domestic inflation pressures could quickly get into a self-sustaining upwards spiral. However, we are still forecasting inflation to moderate from here, and that's down to the RBNZ stepping up to the plate, [delivering rapid increases](#) in the official cash rate in order to stuff the inflation genie back into the bottle. Another 50bp hike in May should help with that task.



Looking ahead



Data calendar

What's coming up in the months ahead.

Date	Data/event
Thu 28 Apr (10:45am)	Merchandise Trade – Mar
Thu 28 Apr (1:00pm)	ANZ Business Outlook – Apr
Fri 29 Apr (10:00am)	ANZ-RM Consumer Confidence – Apr
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)	Labour Market – Q1
Wed 4 May (1:00pm)	ANZ Commodity Price Index – Mar
Tue 10 May (10:00am)	ANZ Truckometer – Apr
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)	NZ Budget 2022
Tue 24 May (10:45am)	Merchandise Trade – Apr
Tue 24 May (10:45am)	Retail Trade – Q1
Wed 25 May (2:00pm)	RBNZ Monetary Policy Statement
Fri 27 May (10:00am)	ANZ-RM Consumer Confidence – May
Tue 31 May (10:45am)	Building Permits – Apr
Tue 31 May (1:00pm)	ANZ Business Outlook – May
Thu 2 Jun (10:45am)	Terms of Trade – Q1
Fri 3 Jun (10:45am)	Building Work Put in Place – Q1
Wed 7 Jun (early am)	GlobalDairyTrade auction
Wed 7 Jun (1:00pm)	ANZ Commodity Price Index – Apr

Interest rate markets

Global long term interest rates continue to rise, led by the bellwether US 10-year Treasury bond, the yield on which rose to a cycle high of 2.975% earlier this week. Fears of a more front-loaded rate hiking cycle in the US continue to intensify; that's weighing on sentiment, alongside the prospect of an abrupt lurch from QE to QT following a very brief hiatus. With so much tightening priced into the local market (OIS markets are pricing an OCR of around 4.1% by November 2023), there isn't much scope for further upward drift on local factors, but a rise in global rates would "stretch" the curve, led by the long end. In essence, the RBNZ isn't really a "threat" any more since much of what likely lies ahead is already priced in, but the global environment is. It is also worth noting that it is not just US rates that pose a threat locally, so too does the prospect of a reawakening ECB.

FX markets

G3 FX markets (USD, EUR and JPY) remain extremely volatile as EUR plumbs new lows and the JPY continues to weaken, driving the USD DXY index to a 5-year high (if we exclude the short-lived spike in March 2020). We had been sympathetic to the view that USD strength would abate early into the Fed tightening cycle, as has tended to be the case in past cycles. But with US rate hike expectations still gathering steam (which is unusual, they too often peak early on), the Ukraine crisis weighing on EUR and the BoJ steadfastly keeping Japanese bond yields in check, we may be in for a longer period of USD dominance. That could in turn weigh on the NZD in coming months, and we continue to watch long end bond spreads (a reasonable proxy for terminal cash rate expectations) for NZD direction. NZD/AUD and NZD/EUR are both at key levels now; the former held the key 0.9090 technical support level after NZ CPI data, but narrowing NZ/AU bond spreads suggest that there is a reasonable risk of a break lower. This cross has struggled to sustain below 0.90 since the GFC, so the hurdle for a significant decline looks high, but relative economic prospects suggest the risk of a break lower is real.

Key data summary

Performance of Services Index - March. Increased to 51.6 (48.9 previously) – the first expansionary reading (ie above 50) since the August 2021 lockdown. But supply issues remain severe.

GlobalDairyTrade. Prices fell 3.6%, led by a 4.4% drop in whole milk powder (WMP) as offer volumes for WMP rose 7.3% at the latest auction. Lockdowns in China are also creating short term challenges for dairy demand.

CPI – Q1. Annual inflation hit a multi-decade high of 6.9% in the March quarter. See our [Review](#).

The week ahead

Overseas Merchandise Trade – March (Thursday 28 April, 10:45am). A small trade surplus is expected. With exports expected to lift to \$6.5 billion while imports increase to \$6.4 billion.

ANZ Business Outlook – April (Thursday 28 April, 1:00pm).

ANZ Roy Morgan Consumer Confidence – April (Friday 29 April, 10:00am).

RBNZ sectoral lending data – March (Friday 29 April, 3:00pm). Housing lending is slowly slowing, while business lending has been on a tear – and is comfortably above pre-COVID levels.



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	0.673	0.660	0.680	0.700	0.700	0.700	0.700
NZD/AUD	0.933	0.926	0.914	0.930	0.932	0.933	0.933	0.933	0.933
NZD/EUR	0.600	0.625	0.621	0.600	0.618	0.636	0.625	0.625	0.614
NZD/JPY	77.9	84.4	86.4	77.9	80.9	84.0	84.0	84.0	84.0
NZD/GBP	0.503	0.529	0.517	0.504	0.515	0.526	0.522	0.519	0.519
NZ\$ TWI	72.2	74.4	73.4	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	1.50	2.00	2.50	3.00	3.25	3.50	3.50
NZ 90 day bill	1.26	1.61	1.96	2.52	3.02	3.27	3.60	3.60	3.60
NZ 10-yr bond	2.75	3.22	3.53	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	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	1.8	1.2	1.5	0.7	0.9	0.7	0.8	0.4
CPI (% yoy)	5.9	6.9	6.8	6.1	5.3	4.5	4.0	3.2	2.9
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. Production GDP forecast

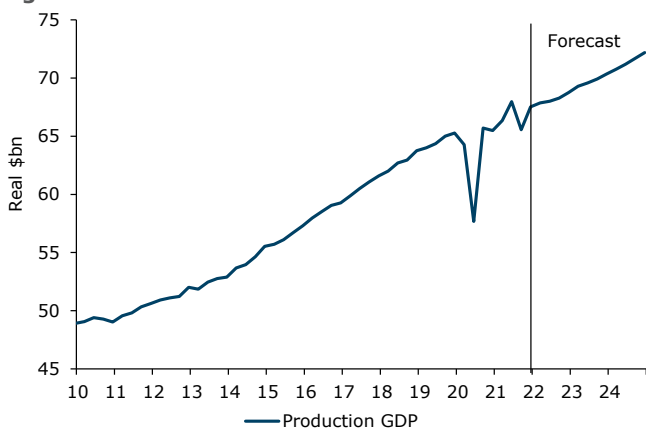


Figure 4. CPI inflation components

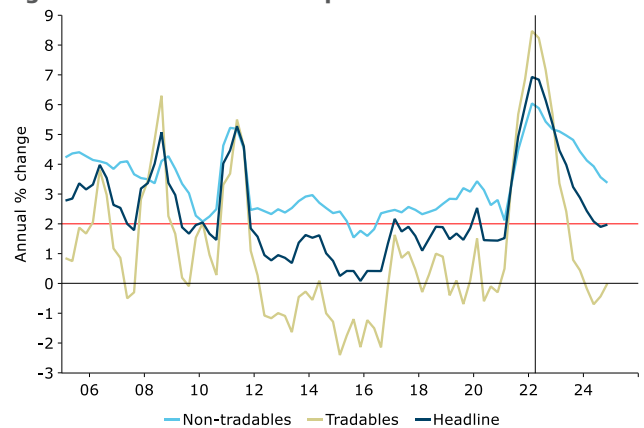


Figure 5. ANZ OCR forecast

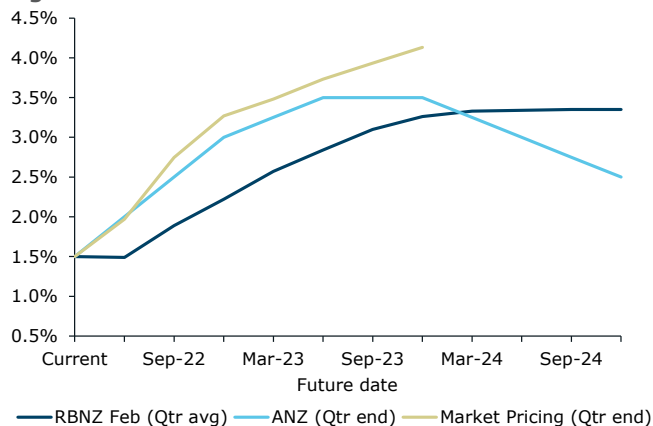
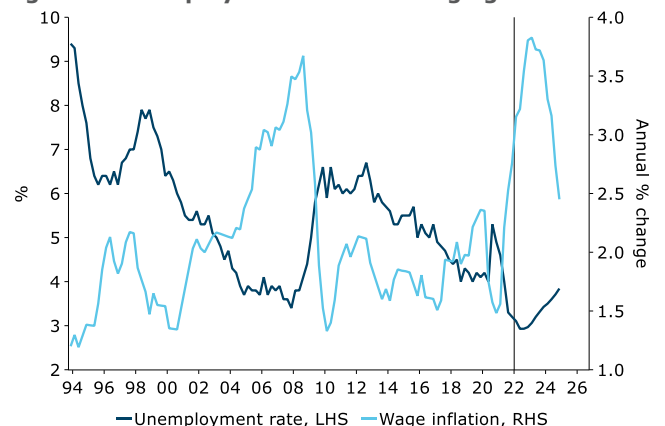


Figure 6. Unemployment rate and wage growth



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



Contact us

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