

# New Zealand Weekly Data Wrap

29 April 2022



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See page 5.

## Forecast updates

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

- [NZ Property Focus: regional rollercoaster](#)
- [NZ Weekly Data Wrap: has inflation peaked?](#)
- [NZ GDP Forecast Update: walking the tightrope](#)
- [NZ Forecast Update: Farmgate milk price forecast revised up](#)
- [NZ OCR Call Change: back-to-back 50bp hikes in April and May](#)

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.

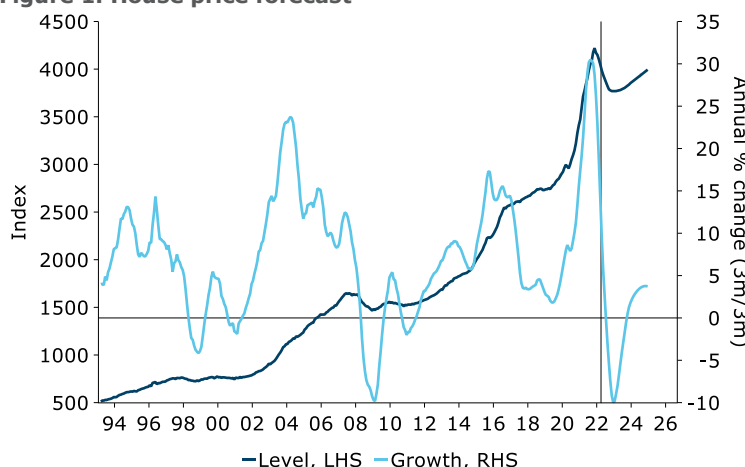


Global inflation pressures push inflation up more than expected in NZ over 2022.

## What happened this week?

In the latest edition of our [Property Focus](#) this week we did a deep dive into regional housing markets. At the national level, house prices have posted four months in a row of price declines, with March house prices now 4.1% below their November 2021 peak (ANZ seasonal adjustment). And while the annual pace of growth is still elevated, we're expecting to see a 10% fall overall in calendar year 2022, or about an 11% fall from peak to trough (figure 1). Given that would leave the level of house prices about 30% higher than pre-COVID levels, we continue to call it a soft landing. Of course, it's contingent on the labour market holding up – which we'll get an update on next week (see next page).

Figure 1. House price forecast



Source: REINZ, Macrobond, ANZ Research

At the regional level, it's clear that the slowdown in the housing market has spread to most parts of the country – albeit to varying degrees. Things are on a cooling trajectory, and every region could be susceptible to much weaker house price inflation in the year ahead. It wouldn't be surprising to see negative annual house price inflation prints across all regions for a time. That said, regional labour markets are in very good shape, with unemployment rates ranging from a high of 4.1% in the Bay of Plenty, to a low of 2.7% in Otago and Manawatu-Wanganui. Even 4.1% is a very low unemployment figure for New Zealand. And that should provide a floor under how far regional housing markets will soften. As long as people remain employed, they should, for the most part, be able to withstand higher interest rates and the rising cost of living, albeit with reduced discretionary spending.

With the housing market convincingly on the retreat, it's no surprise that our latest [Business Outlook](#) survey showed inflation pressures easing in the construction sector. Residential construction intentions have continued to weaken, down 10 points to -36.8 in April. And while inflation measures remain very elevated, the expected cost and pricing intentions measures declined for the construction industry. The RBNZ may find comfort in some of the inflationary heat coming out of the building industry, given that construction costs alone contributed 1.6% pts to Q1's 6.9% [CPI inflation](#) print. However, inflation expectations continued to rise (boosted by the Q1 inflation number), and the RBNZ's inflation battle is far from won, given how widespread inflation pressures have become.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: regional rollercoaster
- 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 HYEPU: 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

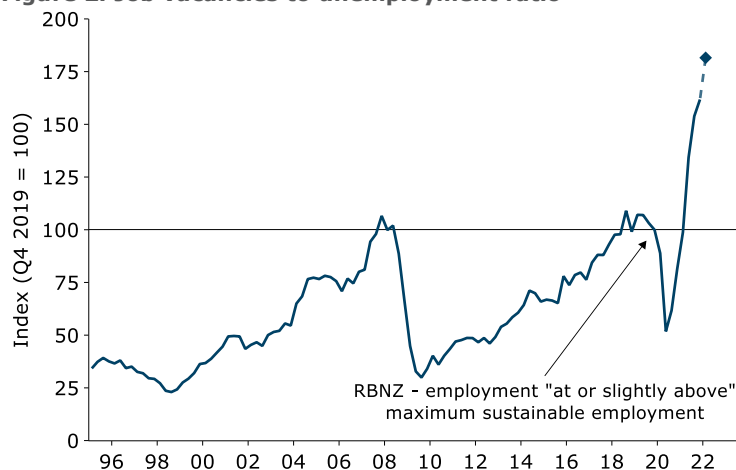
### What are we watching?

Next week brings Q1 labour market data for New Zealand. This will be a key update for the RBNZ ahead of their next meeting on 25 May, where we continue to expect another 50bp hike. As the RBNZ itself notes, the labour market is currently beyond maximum sustainable employment, a situation that is expected to generate significant domestic inflationary pressure over 2022. We think next week's data will show that labour market stretch has continued to intensify, with **unemployment forecast to fall** to 3.1% in Q1, versus 3.2% in Q4 (see [figure 6](#) on page 4).

But Omicron disruption over the March quarter is also expected to add volatility and noise into the data, and care will be needed when interpreting the headline numbers. Early indicators suggest that the Omicron wave has caused hiring to slow to a crawl (if it was even positive at all). Monthly filled jobs declined in February and March as the Omicron wave peaked, with overall jobs growth over Q1 pointing to a very weak employment figure in next week's Household Labour Force Survey (HLFS). We've pencilled in a 0.1% q/q increase in HLFS employment, but there are risks on both sides. On the upside, indicators of labour demand are holding up at or around record levels. On the downside, QSBO experienced employment and PSI employment for Q1 both point south.

Regardless of the headline figures for Q1, labour demand has shown no signs of slowing over the past three months, in spite of the chaos wrought by the Omicron wave. Job vacancies are miles above their pre-pandemic level, and combined with our forecast for Q1 unemployment, imply levels of labour market tightness that are literally off the charts ([figure 2](#)).

**Figure 2. Job vacancies to unemployment ratio**

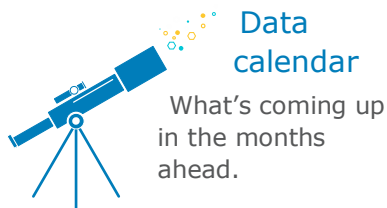


Source: Stats NZ, MBIE, Macrobond, ANZ Research

Looking at [figure 2](#), it's clear that we are far beyond the comfort zone for the RBNZ – and the intense level of stretch in the labour market will keep the pressure on for rapid OCR hikes in order to bring surging domestic inflation under control. However, bringing labour market tightness back towards 2019 levels doesn't necessarily require a large rise in unemployment. Labour demand is so much higher than domestic supply that we can feasibly see some pretty chunky interest rate rises before unemployment starts to rise significantly. That will be a relief for the RBNZ, who are aiming to rein in inflation without causing a recession. All up, the labour market will remain in sharp focus over 2022. As long as wages pick up and unemployment remains low, then the economy should be able to handle a period of sharply rising interest rates as the RBNZ grapples with inflation. But it won't be easy.



## Looking ahead



### Data calendar

What's coming up in the months ahead.

Date	Data/event
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>
Tue 24 May (10:45am)	Merchandise Trade – Apr
Tue 24 May (10:45am)	Retail Trade – Q1
Wed 25 May (2:00pm)	<b>RBNZ Monetary Policy Statement</b>
Fri 27 May (10:00am)	<a href="#">ANZ-RM Consumer Confidence – May</a>
Tue 31 May (10:45am)	Building Permits – Apr
Tue 31 May (1:00pm)	<a href="#">ANZ Business Outlook – May</a>
Thu 2 Jun (10:45am)	Terms of Trade – Q1
Fri 3 Jun (10:45am)	Building Work Put in Place – Q1
Tue 7 Jun (1:00pm)	<a href="#">ANZ Commodity Price Index – May</a>
Wed 8 Jun (early am)	GlobalDairyTrade auction
Thu 9 Jun (10:00am)	<a href="#">ANZ Truckometer – May</a>
Fri 10 Jun (10:45am)	Manufacturing Activity – Q1
Fri 10 Jun (10:45am)	Electronic Card Transactions – May

### Interest rate markets

Global interest rates fell a touch this week as geopolitical tensions and concerns about the economic impact of lockdowns in China weighed on global growth expectations. The US 10-year yield opened at 2.89% this week, and fell to a low of 2.71% before rising to 2.82% this morning as risk sentiment stabilised and Q1 US GDP data confirmed a strong domestic demand pulse – despite surging imports driving a 1.4% saar contraction in headline GDP. For now, the RBNZ's "stitch-in-time" messaging at the April Review has been lost in the noise of ever-increasing expectations for Fed and RBA rate hikes. A series of 50bp fed funds rate hikes is now widely expected, and the surprisingly strong Q1 inflation print in Australia has many forecasters (including us) calling for the RBA to kick off their hiking cycle next week with a 15bp hike to 0.25%. Market pricing looks overdone for the OCR (sitting well over 4% for 2023, versus [our forecast](#) of a 3.5% peak), but in this global context, we may have to wait for the May MPS or further signs that inflation has peaked before markets unwind much of what's priced in.

### FX markets

Globally, it's a story of USD strength and EUR weakness at the moment, as geopolitical developments and an increasingly hawkish US Fed drive moves in FX markets. Political tensions in Europe continue to put pressure on the EUR, with growth expectations revised lower, and Russia stepping up its war rhetoric and cutting gas supplies to Poland and Bulgaria. Meanwhile, continued hawkish re-pricing of the Fed (with multiple 50bp Fed Funds Rate hikes now widely expected) has bolstered the USD. We view the USD as overvalued based on our fair value estimate, although it's hard to push back against USD strength right now in the context of rapidly rising central bank expectations. However, given strong commodity prices and higher interest rates, we should see the NZD strengthen against the USD later in the year as the USD softens. With markets bringing forward expectations for hikes by the RBA, it'll be difficult for the NZD to outperform against the AUD for now.

### Key data summary

**Overseas Merchandise Trade – March.** The annual merchandise trade deficit expanded to NZD9.1bn (NZD8.7bn prev.) as surging imports offset exports.

**ANZ Business Outlook – April.** [A mixed bag](#), with confidence remaining very low, but own activity expectations lifting as Omicron disruption waned. There are early signs of easing inflation pressures in the construction sector.

**ANZ Roy Morgan Consumer Confidence – April.** [Consumer confidence](#) lifted 6 points in April to 84.4, off its record low but still extremely pessimistic.

### The week ahead

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

**Building Permits – March (Tuesday 3 May, 10:45am).** The uptrend in dwelling consents over 2021 appears to have peaked – but Omicron volatility remains in the data.

**GlobalDairyTrade auction (Wednesday 4 May, early am).** The GDT Price Index is expected to fall a further 3.5% as higher offerings for current season whole milk powder and anhydrous milkfat are expected to test buyer appetite.

**Labour Market Statistics – Q1 (Wednesday 4 May, 10:45am).** We're forecasting that unemployment fell to 3.1% in Q1. See our [Preview](#).

**ANZ Commodity Price Index – April (Wednesday 4 May, 1:00pm).**



## 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	0.649	0.670	0.670	0.690	0.680	0.680	0.670
NZD/AUD	0.933	0.926	0.914	0.905	0.882	0.885	0.883	0.883	0.882
NZD/EUR	0.600	0.625	0.618	0.615	0.609	0.616	0.602	0.596	0.583
NZD/JPY	77.9	84.4	84.9	90.5	90.5	89.7	86.4	85.0	81.7
NZD/GBP	0.503	0.529	0.521	0.515	0.515	0.523	0.507	0.504	0.496
NZ\$ TWI	72.2	74.4	72.3	73.4	72.8	73.7	72.3	71.9	70.6
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	1.99	2.52	3.02	3.27	3.60	3.60	3.60
NZ 10-yr bond	2.75	3.22	3.65	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	1.8	<b>1.2</b>	<b>1.5</b>	<b>0.7</b>	<b>0.9</b>	<b>0.7</b>	<b>0.8</b>	<b>0.4</b>
CPI (% yoy)	5.9	6.9	<b>6.8</b>	<b>6.1</b>	<b>5.3</b>	<b>4.5</b>	<b>4.0</b>	<b>3.2</b>	<b>2.9</b>
Employment (% qoq)	0.1	<b>0.1</b>	<b>0.4</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>3.2</b>	<b>2.6</b>	<b>1.0</b>	<b>1.2</b>	<b>1.4</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

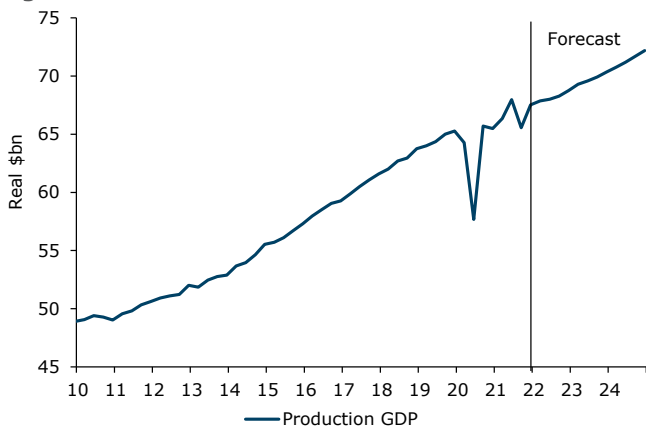


Figure 4. CPI inflation components

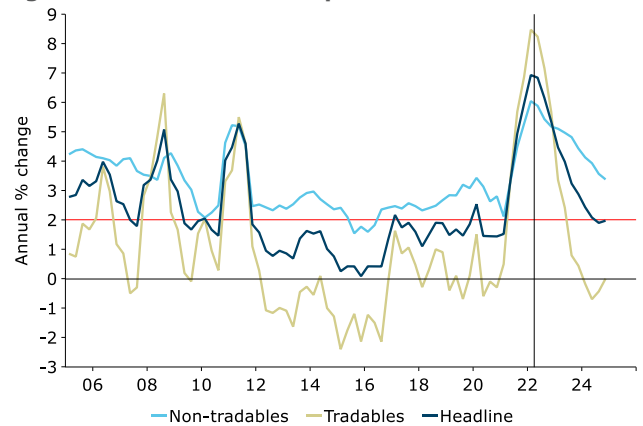


Figure 5. ANZ OCR forecast

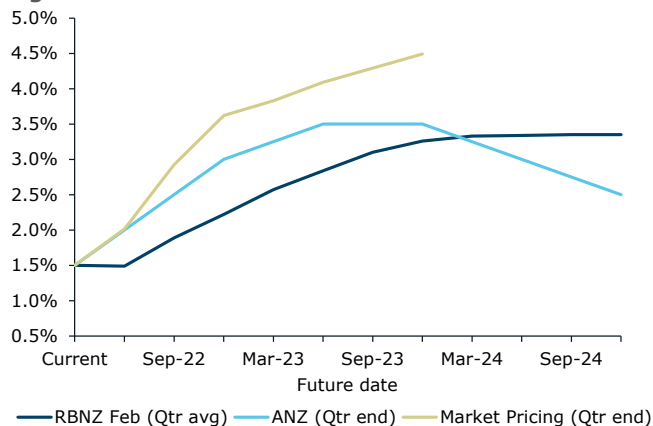
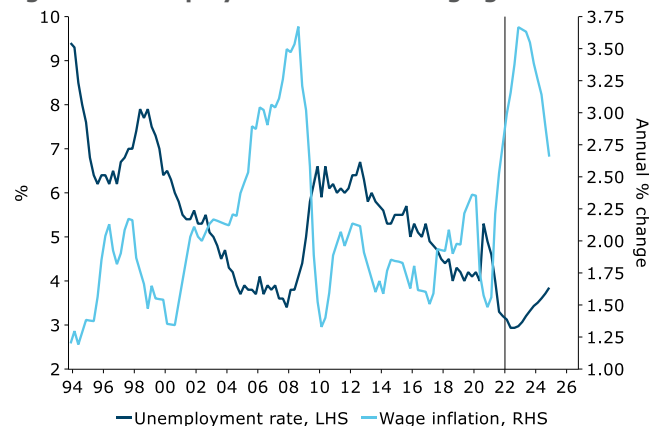


Figure 6. Unemployment rate and wage growth



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



## Contact us

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**Sharon Zollner**  
Chief Economist

Follow Sharon on Twitter  
[@sharon\\_zollner](#)

Telephone: +64 27 664 3554  
Email: [sharon.zollner@anz.com](mailto:sharon.zollner@anz.com)

General enquiries:  
[research@anz.com](mailto:research@anz.com)

Follow ANZ Research  
[@ANZ\\_Research](#) (global)



**David Croy**  
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022  
Email: [david.croy@anz.com](mailto:david.croy@anz.com)



**Susan Kilsby**  
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469  
Email: [susan.kilsby@anz.com](mailto:susan.kilsby@anz.com)



**Miles Workman**  
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792  
Email: [miles.workman@anz.com](mailto:miles.workman@anz.com)



**Finn Robinson**  
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553  
Email: [finn.robinson@anz.com](mailto:finn.robinson@anz.com)



**Kyle Uerata**  
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894  
Email: [kyle.uerata@anz.com](mailto:kyle.uerata@anz.com)



**Natalie Denne**  
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808  
Email: [natalie.denne@anz.com](mailto:natalie.denne@anz.com)

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