

New Zealand Weekly Data Wrap

6 May 2022



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See page 5.

Forecast updates

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

- [NZ Forecast Update: farmgate milk price forecasts revised down](#)
- [NZ Property Focus: regional rollercoaster](#)
- [NZ Weekly Data Wrap: has inflation peaked?](#)
- [NZ GDP Forecast Update: walking the tightrope](#)
- [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.



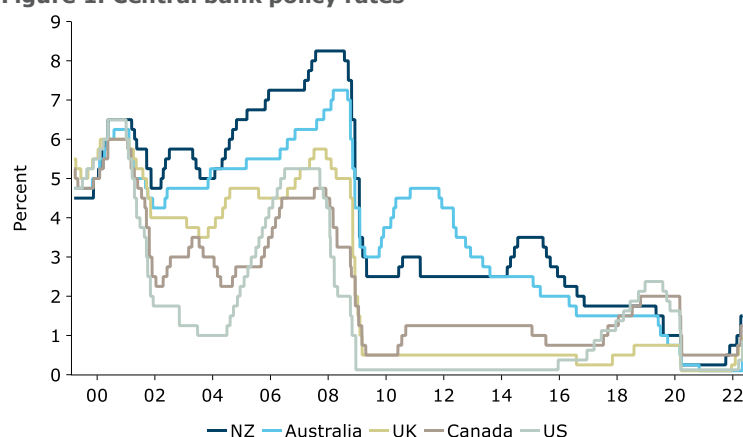
Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

This week was packed full of central bank meetings and fiscal policy announcements (not to mention data showing the strongest wage growth for Kiwis since 2009 – see next page). Here at home, the Government unveiled [new fiscal rules and a new measure of net debt](#) ahead of Budget 2022 later this month. The new rules appear to be prudent and binding enough to make sure we rebuild fiscal buffers over time, while providing flexibility (particularly on the capex side) to address New Zealand's infrastructure deficit. The new rules do appear to be a loosening from the pre-pandemic debt-targeting era.

Global central banks were also busy this week, as the campaign against high inflation began in earnest. Across the Ditch, the Reserve Bank of Australia lifted the cash rate 25bps to 0.35% in the wake of Q1's surprisingly strong 5.1% annual inflation print. Governor Lowe noted they would keep moving in 25bp increments unless there was a "very strong argument" for something bigger. The arguments are already strong in the US, where 8.5% CPI inflation (plus multi-decade highs in wage growth) saw the Federal Reserve deliver a 50bp increase in the fed funds rate yesterday morning. With inflation so far above target, markets are pricing in multiple additional 50bp moves as the Fed looks to "expeditiously" bring inflation back down to acceptable levels. And finally, moving across the Pond to the UK, the Bank of England (BoE) lifted their base rate another 25bps to 1.0%. Inflation is running at 7% in the UK, and the BoE expects it to rise to a shocking 10.25% in Q4 this year. With global policy rates still very low by historical standards (figure 1), there's an increasing sense of urgency amongst central banks around normalising policy settings. The RBNZ has a head start, but with wage pressures mounting, it'll take ongoing OCR hikes over this year (including another 50 pointer in May) to bring domestic inflation pressures back down.

Figure 1. Central bank policy rates



Source: RBNZ, RBA, BoE, BoC, Fed, Macrobond, ANZ Research

Interestingly, this week we also got new data on building consents, which were up 5.8% m/m in March, reaching yet another record high of 50,858 for the year. Given that the housing market is [in retreat](#) and interest rates are rising rapidly, we continue to wait for the inevitable turnaround in consenting activity, after what's been a year of incredibly strong growth. Indeed, risks are firmly to the downside for the construction industry. Residential building intentions tanked in our latest [Business Outlook](#) survey. Construction [costs in the CPI](#) were up 18% y/y in Q1, while house sales and prices are falling. That's not an enticing mix for property developers.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: new fiscal rules](#)
- [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 HYEUFU: Wind change](#)
- [NZ Agri Focus: Higher prices for Christmas](#)
- [NZ Insight: The real cost of inflation](#)
- [NZ Insight: The Reopening](#)

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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](#)

What are we watching?

Not surprisingly, this week's [labour market report](#) for Q1 showed symptoms of COVID. Unemployment remained at its record low of 3.2% (versus our expectation for a slight fall to 3.1%). Underutilisation rose a touch to 9.3% (9.2% previously), and hours worked dropped 0.2% q/q as Omicron disruption over the quarter took its toll. However, we're expecting this to be a temporary blip. Looking at the RBNZ's suite of maximum sustainable employment indicators, the labour market is clearly extremely tight (figure 2), with the only soft spot now being average hours worked – reflecting the impact of COVID on worker absenteeism and business operating hours.

Figure 2. RBNZ maximum sustainable employment indicators

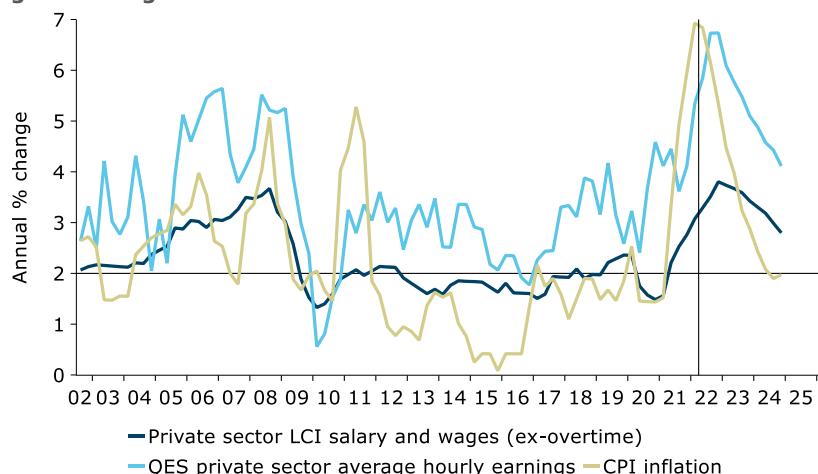
	2019 Q4	2020 Q2	2020 Q3	2021 Q4	2022 Q1
Medium term unemployment rate (%)	2.3	2.5	3.4	1.8	1.8
Youth unemployment rate (15-24 years, %)	11.1	10.8	13.5	8.7	9.3
Total unemployment rate (%)	4.1	4.0	5.3	3.2	3.2
Underemployment rate (%)	3.2	4.3	4.5	3.4	3.2
Underutilisation rate (%)	10.1	12.0	13.2	9.2	9.3
Average hours worked gap (% pts)	0.6	-6.9	0.3	-0.1	-0.3
Job finding rate (%)	32.7	31.0	38.8	36.3	37.6
Job separation rate (%)	1.0	1.3	1.4	0.7	0.8
Vacancy-unemployment ratio (Index)	100.0	51.8	61.7	161.8	176.4
Difficulty finding skilled labour (Net %)	42.9	-18.9	18.6	72.8	70.4
Difficulty finding unskilled labour (Net %)	24.8	-43.0	-6.1	57.8	67.4
Labour as a limiting factor (%)	15.3	6.4	15.3	33.5	36.7
Maori unemployment rate (%)	8.3	6.8	9.1	6.8	6.0
Pasifika unemployment rate (%)	7.4	6.5	8.6	5.5	5.8

Source: Stats NZ, NZIER, MBIE, Macrobond, ANZ Research

Note: The heatmap indicates how strong each labour market indicator is relative to its own historical average since 2000. The more orange (blue) the cell is, the stronger (weaker) the labour market indicator is. We've shown 2019 Q4 since the RBNZ saw the labour market as being "at or slightly above" maximum sustainable employment at this time. Showing 2020 Q2 and Q3 captures the impact of the first lockdown. For a full explanation of the indicators, see this [RBNZ note](#).

This labour market tightness is reflected in wage outcomes, with private sector labour costs up 3.1% y/y and average hourly earnings rising 5.3% y/y – comfortably hitting post-2009 highs. The evidence is that the strong wage rises you'd expect to see in a labour market this tight are finally starting to come through. Both wage prints are still well below Q1's 6.9% [inflation print](#), but with hourly earnings rising fast, our freshly updated forecasts imply that earnings growth could start to exceed inflation as early as the second half of this year. Previously we were looking at early 2023. Given the strength in labour demand, we continue to expect a further fall in the unemployment rate to 2.9%, especially with peak COVID disruption hopefully in the rear-view mirror (see [forecasts](#)).

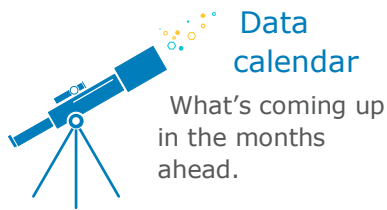
Figure 3. Wages and inflation forecasts



Source: Stats NZ, Macrobond, ANZ Research



Looking ahead



Data calendar

What's coming up in the months ahead.

Date	Data/event
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 (10:45am)	Net Migration –Mar
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
Tue 7 Jun (1:00pm)	ANZ Commodity Price Index – May
Wed 8 Jun (early am)	GlobalDairyTrade auction
Thu 9 Jun (10:00am)	ANZ Truckometer – May
Fri 10 Jun (10:45am)	Manufacturing Activity – Q1
Fri 10 Jun (10:45am)	Electronic Card Transactions – May
Mon 13 Jun (10:45am)	Net Migration – Apr
Tue 14 Jun (10:45am)	Food Price Index – May
Tue 14 Jun (10:45am)	Rental Price Index – May
Wed 15 Jun (10:45am)	Balance of Payments – Q1

Interest rate markets

This week has been an extraordinarily volatile week in global interest rate markets as is clear by the ~28bp trading range seen in the bellwether US 10-year Treasury bond yield since our last *Data Wrap* was published. Most of the volatility was centred on yesterday's Fed meeting, with yields falling sharply as chair Powell ruled out 75bp hikes (which markets had been toying with), only to rise sharply overnight on market fears that upon deeper reflection, a string of 50bp hikes may not be enough to contain inflation. And don't expect any let up in volatility, with US non-farm payroll data for April due tonight. Closer to home, the RBA's 25bp hike shocked a market expecting a 15bp hike (their cash rate was at 0.10%). All of this has overshadowed local factors, and we are in a situation where local rates remain vulnerable to global moves, and that is stretching valuations. At some point, enough will be enough and investors will call time, but that time hasn't come yet and amid global turmoil, few are prepared to call a top in local rates.

FX markets

FX markets have been just as volatile as rates, with the Kiwi trading a ~170bp range this week, and the bulk of the volatility also centred around yesterday's Fed announcement. The USD typically fades early on in tightening cycles, but we are wary that this tendency will be severely delayed this cycle thanks to (1) the Ukraine crisis and potential for more sanctions adding to recession risks in Europe, (2) the BoJ doubling down on easy policy, and (3) increased volatility feeding safe-haven demand for the USD. NZD/AUD has broken lower, but is consolidating rather than collapsing at new, lower levels. We think the correction was warranted given changes in interest rate spreads and relative RBNZ/RBA expectations, but with more hikes now priced into Australia (~240bps, albeit off a lower base) than NZ (~212bps) by November, the onus is on the RBA to deliver.

Key data summary

RBNZ sectoral lending data – March. Business and housing lending slowed on a monthly basis – but both remain strong on an annual basis.

Building Permits – March. Building consents lifted 5.8% m/m.

GlobalDairyTrade auction. The Global Dairy Trade Price Index fell 8.5%.

Labour Market Statistics – Q1. Wage growth accelerated. See our [Review](#).

ANZ Commodity Price Index – April. The [world price index](#) fell 1.9% m/m.

The week ahead

ANZ Truckometer – April (Tuesday 10 May, 10:00am).

Electronic Card Transactions – April (Tuesday 10 May, 10:45am). Our ANZ card data suggests growth held up around 1-3% m/m (sa) in April.

Food Prices – April (Thursday 12 May, 10:45am). We've pencilled in a seasonal 0.5% m/m (6.9% y/y) lift in food prices.

Rental Price Index – April (Thursday 12 May, 10:45am). We expect a 0.3% m/m (3.7% y/y) lift in overall rent prices.

Net Migration – March (Thursday 12 May, 10:45am). Remaining low.

RBNZ Inflation Expectations – Q2 (Thursday 12 May, 3:00pm). Near-term expectations may lift further, given Q1's [strong CPI print](#).

Performance of Manufacturing Index – April (Friday 13 May, 10:30am). Has remained expansionary since September 2021.

REINZ House Prices – April (10-17 May, 9:00am). We expect further declines, with a 10% fall in prices [pencilled in](#) for 2022.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Mar-22	Apr-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.694	0.646	0.643	0.670	0.670	0.690	0.680	0.680	0.670
NZD/AUD	0.926	0.914	0.903	0.905	0.882	0.885	0.883	0.883	0.882
NZD/EUR	0.625	0.612	0.610	0.615	0.609	0.616	0.602	0.596	0.583
NZD/JPY	84.4	83.8	83.7	90.5	90.5	89.7	86.4	85.0	81.7
NZD/GBP	0.529	0.514	0.520	0.515	0.515	0.523	0.507	0.504	0.496
NZ\$ TWI	74.4	72.4	71.7	73.4	72.8	73.7	72.3	71.9	70.6
Interest rates	Mar-22	Apr-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZ OCR	1.00	1.50	1.50	2.00	2.50	3.00	3.25	3.50	3.50
NZ 90 day bill	1.61	1.97	2.12	2.52	3.02	3.27	3.60	3.60	3.60
NZ 10-yr bond	3.22	3.64	3.82	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)	0.0	0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	3.5	2.8	2.5	1.0	1.3	1.6	1.3	1.3	1.3
Unemployment Rate (% sa)	3.2	3.2	2.9	2.9	2.9	3.0	3.2	3.3	3.4

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

Figure 4. Production GDP forecast

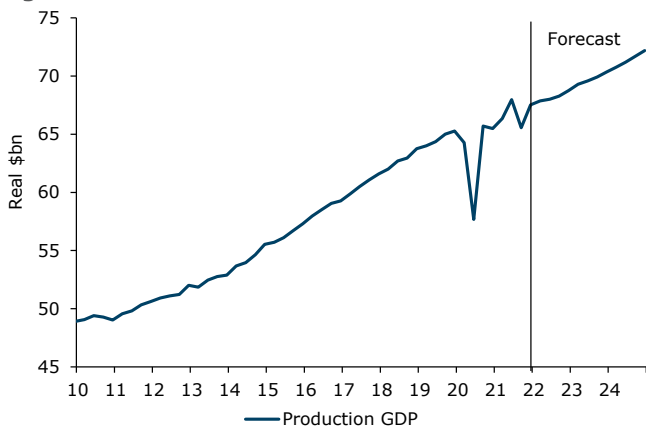


Figure 5. CPI inflation components

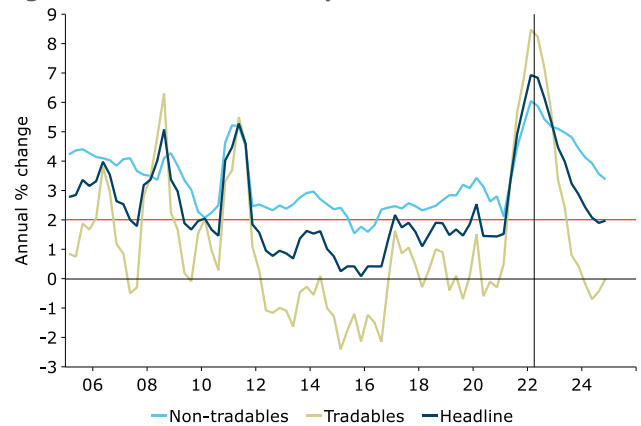


Figure 6. ANZ OCR forecast

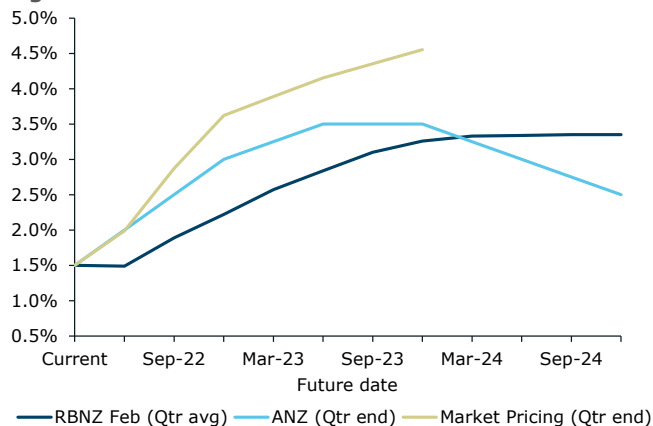
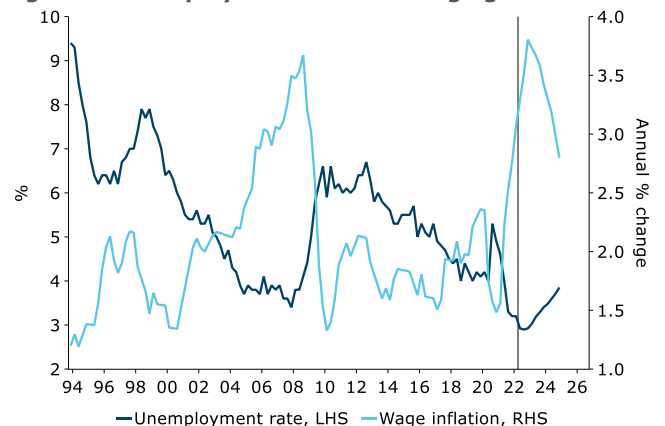


Figure 7. Unemployment rate and wage growth



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



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Last updated: 28 February 2022

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