

# New Zealand Weekly Data Wrap

10 June 2022



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See page 5.

## Forecast updates

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

- [NZ Weekly Data Wrap: Petrol points to 7%](#)
- [NZ Property Focus: Better fundamentals mean softer prices](#)
- [RBNZ MPS Review](#)
- [NZ Quarterly Economic Outlook: rebalancing act](#)
- [NZ Forecast Update: farmgate milk price forecasts revised down](#)

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 February 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?

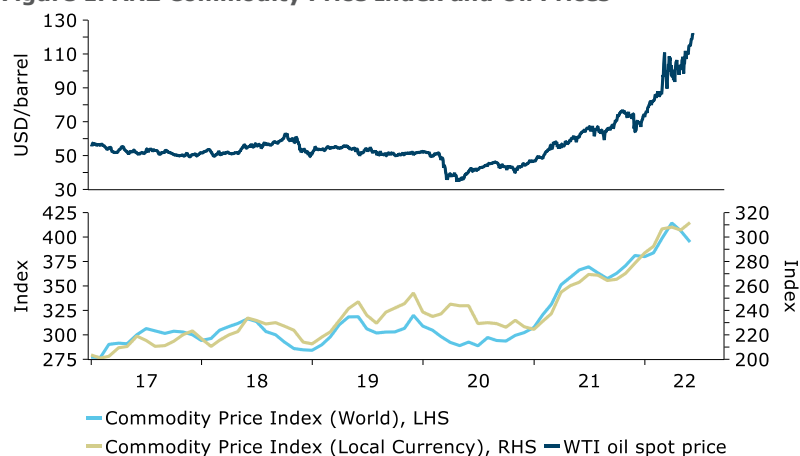
The word of the week was stagflation, with global markets fretting about the risk of economic growth stalling even as inflation pressures remain sky high. The World Bank's latest Global Economic Prospects report saw their 2022 and 2023 world growth outlook revised down, and the title of their press release was grim: "[Stagflation risk rises amid sharp slowdown in growth](#)". The World Bank expects global growth to "slump" to 2.9% in 2022, from 5.7% in 2021. With inflation pressures elevated (exacerbated by the Russian invasion of Ukraine), the risk of a period of "high inflation and sluggish growth" has increased. The OECD's latest [economic outlook](#) was equally glum, with growth "set to be markedly weaker than expected in almost all economies".

But don't expect downside growth risks to deter global (and local) central banks from continuing to hike interest rates. After being surprised by the strength and persistence of inflation over 2021, most are really only just beginning their campaign to restore price stability. The ECB, for example, has only just announced an end to its bond-buying programme and signalled a first rate hike next month, while the RBA delivered its second interest rate hike on Tuesday (see next page).

The continued uptrend in oil prices has only increased concerns about low growth and high inflation over this year. As of writing, spot prices for WTI oil futures are sitting at USD121/barrel – up from USD73/barrel at the start of the year (figure 1, top panel). For oil-importing countries (including New Zealand), higher oil prices are particularly challenging because they increase inflation, but negatively impact growth (since oil is such a key input for many industries). [Last week](#) we revised up our annual inflation forecast for Q2 to 7%, reflecting the impact that surging oil prices have had on fuel prices during the June quarter. At the margin, continued increases in oil prices could reinforce the RBNZ's conviction that they need to deliver 50bp hikes in both July and August. We still lean [towards the view](#) that easing domestic demand pressures will give them the flexibility to return to 25bp hikes after July.

As an exporting economy, New Zealand exporters have at least benefitted from higher commodity prices – but even there, the shine has started to come off, with the ANZ World [Commodity Price Index](#) posting two monthly falls in a row (although NZD weakness means the index has still increased in local currency terms – figure 1, bottom panel).

Figure 1. ANZ Commodity Price Index and Oil Prices



Source: ANZ, Bloomberg, Macrobond, ANZ Research



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: He Waka Eke Noa recommendations
- Agri Insight: global food crisis to worsen
- NZ Property Focus: better fundamentals mean softer prices
- NZ Budget Review: Big Budget
- NZ Insight: Emissions Reduction Plan
- 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 Insight: Terms of trade: risks and opportunities
- NZ Agri Focus: heating up
- NZ Insight: Endemic COVID-19 and labour supply
- NZ Insight: The real cost of inflation

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### ANZ Proprietary data

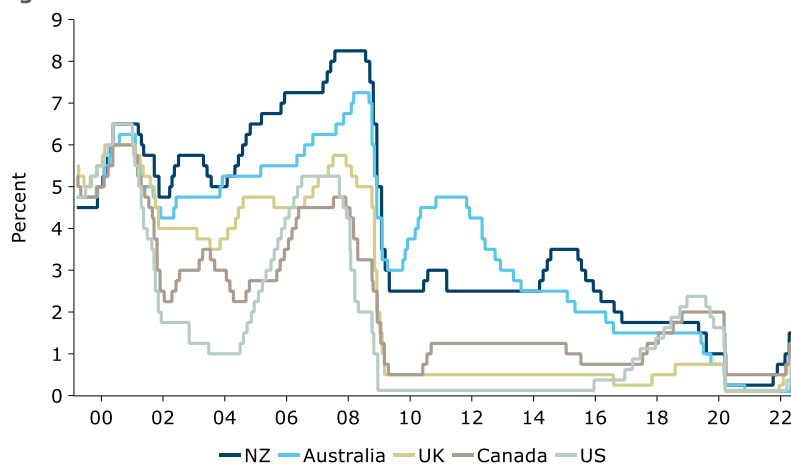
Check out our latest releases below.

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

### What are we watching?

One of the biggest economic events this week was actually across the ditch in Australia, with the Reserve Bank of Australia (RBA) lifting the cash rate by 50bps to 0.85%. With hourly earnings growth and inflation both accelerating sharply in Q1, that was enough to convince the RBA to join the growing list of advanced-economy central banks hiking rates in 50bp increments (ie double the usual pace – figure 2). Given the stronger messaging in the RBA's statement, we now expect a 50bp hike in July, followed by 25bp moves in August, September, October, and November bringing the cash rate to 2.35%.

**Figure 2. Selected central bank interest rates**



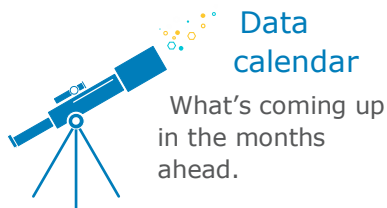
Source: RBNZ, RBA, BoE, BoC, Fed, Macrobond, ANZ Research

The RBNZ will probably be quietly relieved to see the hiking cycle getting underway in Australia. One potentially quite significant driver of inflation in New Zealand over the next year or so is the fact that the Australian labour market is expected to tighten even further over 2022 (with their unemployment rate already at 3.9% in April – a record low in data going back to the 1970s). Our modelling shows that (during 'normal' times) an increase in job vacancies in Australia generates a statistically significant reduction in the New Zealand unemployment rate in subsequent quarters, as well as an increase in earnings growth and job vacancies in New Zealand. Basically, a strong Australian labour market ratchets up the competition to attract Kiwi workers, driving up wages (and therefore underlying domestic inflation pressures). As the RBA acts to swiftly lift interest rates and moderate demand in the Australian economy, that should flow through to lower-than-otherwise pressure in New Zealand's labour market as well.

In contrast to the RBNZ, Kiwi exporters won't be as happy to see softer demand from Australia. In particular, Kiwi tourism operators have now endured two peak summer seasons without any international visitors. And while it looks like we'll be open for business for the 2022/23 summer (touch wood), our re-engagement with the world coincides with warnings that low growth, high inflation, and rising interest rates will weigh on consumer spending and sentiment in our trading partners. The US and Australia are currently ranked #1 and #2 in terms of the value of our services exports – and both have central banks grappling with an inflation problem. While both countries' household balance sheets are in good shape, the rapid increase in interest rates (after a period of sharply higher house prices) will still eat into discretionary spending. Overseas travel to New Zealand is probably high up on the list of 'nice to haves' that can be cancelled as household wallets feel the squeeze of tighter monetary policy.



## Looking ahead



### Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 13 Jun (10:45am)	Net Migration – Apr
Tue 14 Jun (9:00am)	REINZ Housing Data – May
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
Thu 16 Jun (10:45am)	GDP – Q1
Fri 17 Jun (10:30am)	BusinessNZ Manuf PMI – May
Mon 20 Jun (10:30am)	Performance Services Index May
Wed 22 Jun (early am)	GlobalDairyTrade auction
Wed 22 Jun (10:45am)	Merchandise Trade – May
Thu 30 Jun (1:00pm)	<a href="#">ANZ Business Outlook – Jun</a>
Thu 30 Jun (3:00pm)	RBNZ Sectoral Lending – May
Fri 1 Jul (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Jun</a>
Fri 1 Jul (10:45am)	Building Permits – May
Tue 5 Jul (10:00am)	NZIER QSBO – Q2
Tue 5 Jul (1:00pm)	<a href="#">ANZ Commodity Price Index – Jun</a>
Wed 6 Jul (early am)	GlobalDairyTrade auction
Fri 8 Jul (10:00am)	<a href="#">ANZ Truckometer – Jun</a>
Mon 11 Jul (10:45am)	Electronic Card Transactions – Jun
Tue 12 Jul (10:45am)	Net Migration – May
Wed 13 Jul (10:45am)	Food Price Index – Jun
Wed 13 Jul (10:45am)	Rental Price Index – Jun
Wed 13 Jul (2:00pm)	<b>RBNZ Monetary Policy Review</b>
Fri 15 Jul (10:30am)	BusinessNZ Manuf PMI – Jun
Mon 18 Jul (10:30am)	Performance Services Index
Mon 18 Jul (10:45am)	<b>CPI – Q2</b>
Thu 21 Jul (10:45am)	Merchandise Trade – May

### Interest rate markets

Global interest rates continue to drive higher as monetary authorities wind back stimulus. While US rates aren't as high as they were a few weeks ago, the yield on the bellwether 10yr Treasury bond is back above 3%. European bond yields are also up, with some large rises seen in Italy, Portugal and Spain. Closer to home, Australian markets are still reeling after the RBA's unexpected 50bp hike on Tuesday. Amid the volatility, local interest rate markets appear nervous. While some support is evident in mid-curve bonds like the 2025s (which are back above 3½%, where we see the OCR peaking), there is a lot of nervousness at the very long end ahead of US CPI data tonight and next week's FOMC meeting (the yield on the NZGB 2051 bond is around 4.34% this morning). While we expect this nervousness to continue, and see more scope for long-end yields to keep rising, the short end is now well above any notion of fair value (given our and the RBNZ's OCR forecasts/projections), and that should cap how much higher short-end rates can go from here. The 2yr swap is back at 4%; that's high even if liquidity conditions remain poor and markets remain one-sided.

### FX markets

The Kiwi has had another volatile week too, having dropped almost 2 cents since last Friday's peak of 0.6575. Higher local interest rates aren't lending it any support, and if anything, they are exacerbating hard-landing fears, which are, in turn, weighing on domestic NZD sentiment. The USD is making a comeback ahead of next week's FOMC meeting, which is understandable given heightened volatility. Our forecasts call for a mild appreciation from here, but if a hard landing were to occur, our forecasts would be at risk.

### Key data summary

**ANZ Commodity Price Index – May.** The world price index fell 2.8% m/m, but NZD weakness saw the index rise 2.0% in [local currency terms](#).

**GlobalDairyTrade auction.** The Global Dairy Trade price index rose 0.5% at the latest auction, ending the five-auction streak of price falls.

**ANZ Truckometer – May.** The heavy traffic index fell 1.7% m/m, while light traffic rose 0.1%. The [data are settling down](#) after Omicron disruption in Q1.

### The week ahead

**Net Migration – April (Monday 13 June, 10:45am).** The border reopens to all tourists and visa holders from 11:59pm 31 July – that's when the immigration data will really start to get interesting. Until then, cross-border movements will remain suppressed.

**REINZ House Prices – May (Tuesday 14 June, 9:00am).** We expect prices to continue declining on a monthly basis as [housing headwinds](#) blow.

**Food Prices – May (Tuesday 14 June, 10:45am).** We've pencilled in a 0.1% m/m lift, following usual seasonality. But with the Russian invasion of Ukraine putting upward pressure on global food prices, risks are to the upside.

**Rental Price Index – May (Tuesday 14 June, 10:45am).** We're picking a 0.4% m/m (3.8% y/y) lift in rent prices, but with rents for new tenancies up a steep 6.9% y/y in April, there could be some hefty increases in the pipeline.

**Current Account Balance – Q1 (Wednesday 15 June, 10.45am).** We will release our preview later today.

**GDP – Q1 (Thursday 16 June, 10.45am).** We'll release our Preview today.

**Performance of Manufacturing Index – May (Friday 17 June, 10:30am).** Manufacturing has managed to remain in expansionary territory through Omicron disruption – but we'll be watching for signs of weakness as the RBNZ continues to aggressively raise interest rates.



## Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Apr-22	May-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.646	0.652	0.638	0.650	0.660	0.670	0.680	0.680	0.670
NZD/AUD	0.914	0.907	0.900	0.915	0.892	0.882	0.883	0.883	0.882
NZD/EUR	0.612	0.609	0.602	0.602	0.600	0.598	0.602	0.596	0.578
NZD/JPY	83.8	83.4	85.8	83.9	84.5	85.1	85.7	85.0	81.7
NZD/GBP	0.514	0.517	0.511	0.516	0.516	0.523	0.527	0.527	0.515
NZ\$ TWI	72.4	72.3	71.5	72.2	72.1	72.3	72.9	72.6	71.2
Interest rates	Apr-22	May-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZ OCR	1.50	2.00	2.00	2.00	2.75	3.25	3.50	3.50	3.50
NZ 90 day bill	1.97	2.47	2.53	2.77	3.27	3.52	3.60	3.60	3.60
NZ 2-yr swap	3.82	3.92	4.01	3.89	3.74	3.66	3.54	3.43	3.32
NZ 10-yr bond	3.64	3.61	3.91	4.00	4.25	4.25	4.10	4.10	3.85

### Economic forecasts

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	
GDP (% qoq)	3.0	<i>under review ahead of Q1 GDP</i>								
GDP (% yoy)	3.1	<i>under review ahead of Q1 GDP</i>								
CPI (% qoq)	1.4	1.8	<b>1.4</b>	<b>1.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.4</b>	
CPI (% yoy)	5.9	6.9	<b>7.0</b>	<b>6.4</b>	<b>5.8</b>	<b>4.6</b>	<b>3.9</b>	<b>3.0</b>	<b>2.5</b>	
Employment (% qoq)	0.0	0.1	<b>0.6</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	
Employment (% yoy)	3.5	2.8	<b>2.5</b>	<b>1.0</b>	<b>1.3</b>	<b>1.6</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	
Unemployment Rate (% sa)	3.2	3.2	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</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 4. Production GDP

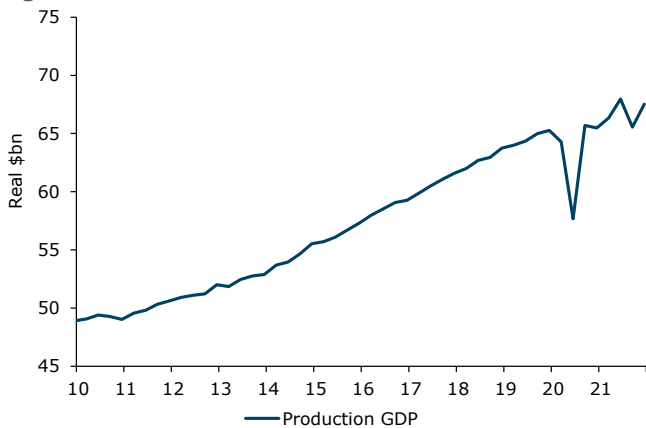


Figure 5. CPI inflation components

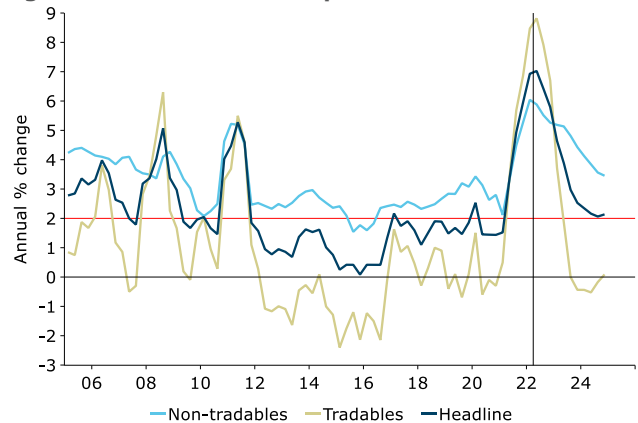


Figure 6. ANZ OCR forecast

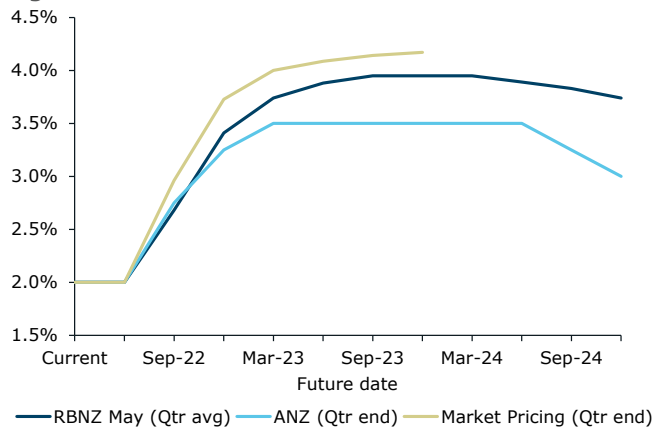
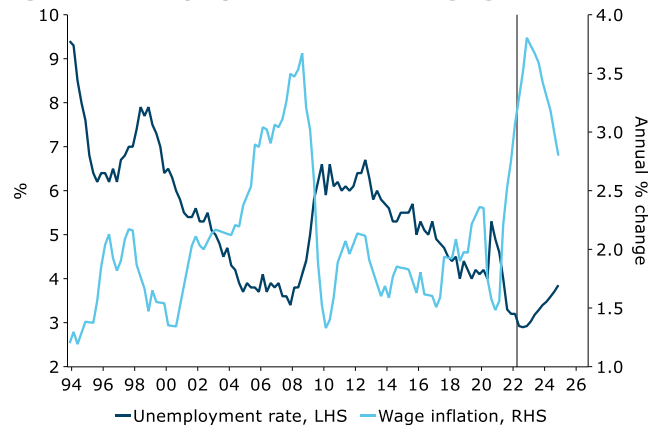


Figure 7. Unemployment rate and wage growth



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



## Contact us

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Last updated: 28 February 2022

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