

New Zealand Weekly Data Wrap

17 June 2022



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Forecast updates

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- [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.



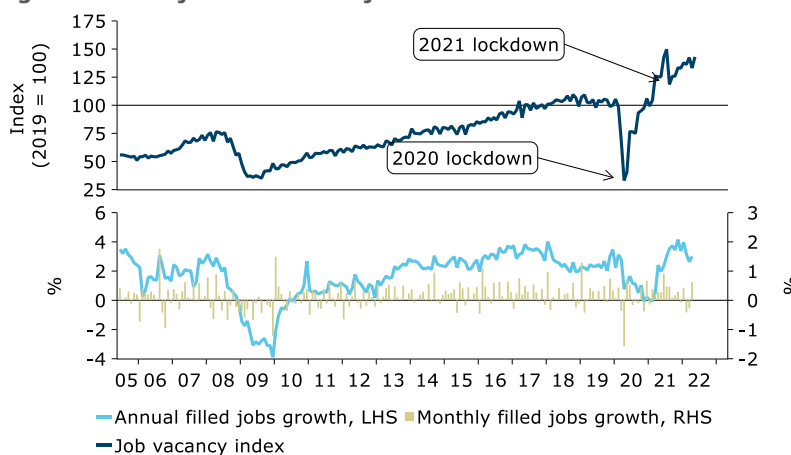
Global inflation pressures push inflation up more than expected in NZ over 2022.

Fifty-fifty-fifty-fifty

We have tweaked our OCR call and now expect the RBNZ will lift the OCR by 50bps in both July and August (previously we were picking 25bps for August). We continue to expect that signs of softening domestic demand will see the RBNZ return to 25bp moves, just a little later than previously anticipated. We're forecasting further 25bp hikes in October and November will bring the OCR to a peak of 3.5%. From there, we think the RBNZ will hold off on further hikes as inflation pressures wane – as long as there are no further upside inflation surprises. The picture can change quickly; ask the Fed.

So why the adjustment? It's not a big change of view – we still think the RBNZ will be surprised by how rapidly it gets traction on domestic demand. But we're just running out of time for the data to soften enough for the RBNZ to revert to 25bp hikes by August, due to a combination of strong monthly data prints for inflation and employment, as well as global events. On the domestic front, labour market indicators are holding up very well. April filled jobs were up 0.6% m/m, retracing a chunk of the Omicron-related losses in February and March (figure 1). And the MBIE online job ads index was up 7.4% m/m in May, seasonally adjusted (13.1% y/y). The RBNZ is placing a lot of weight on the strength of the labour market in their assessment that the economy can withstand a rapid rise to 4% for the OCR. That means the bar for returning to 25bp hikes will be very high until we start to see a meaningful easing in labour demand. And so far, that's yet to emerge. Indeed, the small fall in [GDP in Q1](#) was much more about labour shortages than it was weak demand. If the RBNZ assess these data as we do, they're likely to look though the headline read.

Figure 1. Filled jobs and online jobs



Source: MBIE, Macrobond, ANZ Research

Timely inflation data have also offered no respite – particularly food and petrol. While there's not a lot the RBNZ can do about either, the fact is, petrol and food prices are both highly visible, and are driving [inflation expectations](#) higher, particularly for consumers. The usual policy prescription would be to look through an oil price spike, but that flexibility doesn't exist when inflation is around 7%, and inflation expectations remain dangerously elevated. And food prices surged 0.7% m/m (6.8% y/y) in May. Particularly worrying is the jump in the restaurant meals and ready-to-eat food sub-group (classified as non-tradable). Inflation in this sub-group surged to 6.0% in May (5.3% previously). That's wages. It suggests there's plenty of domestically generated pressure still coming through.



Looking ahead



Recent Publications

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

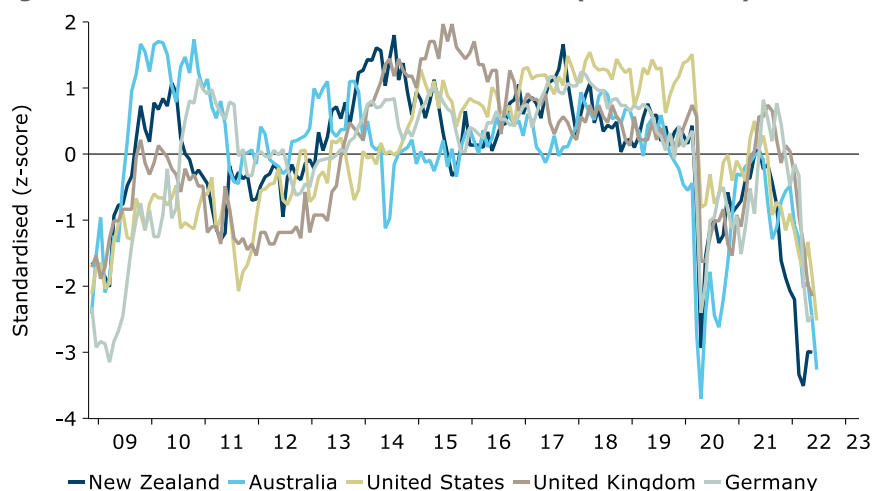
Global events have added to the upward pressure on interest rates. Risk sentiment turned deeply negative this week as markets and economists digested last Friday night's alarmingly strong CPI print for the US. Annual inflation unexpectedly rose to 8.6% in May (8.3% previously), derailing the Fed's expectation that inflation would continue to ease from the previous peak of 8.5% in March. In response, the Fed hiked the fed funds rate (FFR) by 75bps and significantly upgraded their projection, with the median FOMC participant now expecting the FFR to peak at 3.8% in 2023. This has all triggered a rapid recalibration of market expectations for the OCR in New Zealand, with markets pricing in an OCR of 4.57% in October next year, versus an already-high 4.17% last Friday. 66bps are now priced into the July RBNZ meeting.

While the RBNZ may not be inclined to raise rates in jumbo steps just because markets are pricing it, it does make it easier, all else equal. And the parallels between the US and NZ have been hard to miss – so could we get a similar CPI shock here? It's certainly true that higher inflation in the US suggests we'll see some of that pressure in import prices. In addition, the gap between the OCR and the fed funds rate is rapidly shrinking, which could put downward pressure on the NZD, further exacerbating imported inflation.

Combining these global developments with lingering strength in domestic data puts us over the line to call a fourth 50bp hike in August. But as to a 75bp hike in July, which markets are currently flirting with, we're not convinced. The urgency for the Fed to raise rates is much greater. Interest rates rose much earlier here, and the impacts on housing are already very clear. That said, one can't rule out a 75-pointer from the RBNZ along the lines of "while the going's good." The market pricing a good chance of it, and as yet there's no real push-back to the idea that rapid rate hikes are needed. The RBNZ will be well aware that hiking is going to get harder as the economy slows. Any upside surprises to inflation and it's game on, but for now, no need to panic.

To wrap up, our overall story hasn't changed. We still think that the RBNZ's going to get traction more quickly than they currently expect, and that will convince them to return to 25bp hikes in time. But the evidence of slowing domestic inflation pressures may take a little longer to emerge. There are early signs that all is not well. Consumers are miserable, and it's not just Omicron. We've seen a synchronised plunge in consumer confidence globally as high inflation and rising interest rates curtail households' real disposable incomes (figure 2). With US May retail sales unexpectedly falling 0.3% m/m, it would be unwise to write off the fall in consumer confidence as noise.

Figure 2. Selected consumer confidence indices (standardised)



Source: University of Michigan, GfK, DG ECFIN, Macrobond, ANZ Research



Looking ahead

The economy contracted 0.2% in Q1...

...as Omicron weighed.

Q2 should bring some rebound...

...but domestic economic momentum is expected to soften in time.

Hopefully NZ can avoid a hard landing and see CPI inflation slow...

...but downside activity risks are very heightened.

Q1 GDP down but not out (yet): Q2 forecast update

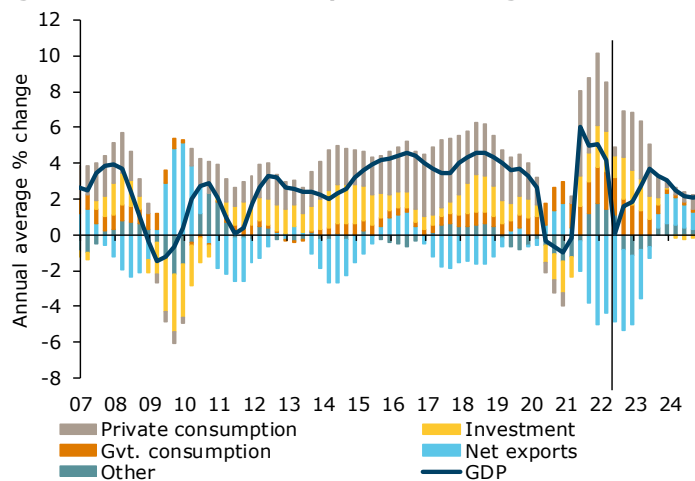
The economy contracted 0.2% in the March quarter, a touch below our expectation for a flat read (0% q/q), and well below the RBNZ's May MPS forecast of 0.7% q/q. When the MPS forecasts were hot off the press, we were expecting growth of 0.6% q/q. However, in the lead-up to yesterday's release, the partial GDP indicators (retail trade, manufacturing etc) continued to surprise to the downside.

We suspect weaker-than-expected Q1 growth has a lot to do with the Omicron outbreak, and that means Q2 is likely to bring some technical retracement. Indeed, looking under the hood, there is still plenty of evidence that underlying domestic demand held up in Q1. Real private consumption expenditure lifted 4.6% q/q – well in excess of both its historical average (0.8% q/q) and what the RBNZ are likely to deem a sustainable pace. Conversely, the weak spots were in areas of the economy reliant on foot traffic and international travel. To us, that speaks to the impacts of the closed border and Omicron. And the latter should at least partially reverse in Q2.

Accordingly, we have revised our expectation for Q2 growth higher (leaving the forecast level of GDP in Q2 practically unchanged from our outlook when the MPS was released). We now expect Q2 growth to come in at 1.4% q/q. However, given the degree of COVID-induced noise in these data, we think it's important to note that solid growth in Q2 GDP is not representative of where underlying domestic momentum is heading.

On that front, we see private consumption softening significantly towards the end of next year and into 2023 as higher interest rates, high inflation, falling house prices, and weak confidence bite. Investment (both residential and business) is also expected to soften significantly as heightened uncertainty and higher rates weigh. Offsetting this is an expectation that services exports will pick up strongly towards the end of the year as international tourism starts to recover. That, alongside waning goods imports, should see the net exports contribution to growth turn positive once again, and hopefully it's enough to offset a much weaker domestic economy. This broad theme is visible in the annual average growth contributions (figure 3), but you do need to use your imagination a little and look through the lockdown-driven volatility being picked up in the very near term.

Figure 3. Contributions to expenditure GDP growth

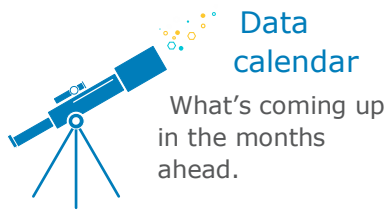


Source: Statistics NZ, ANZ Research

Risks around our outlook are very one sided. It really wouldn't take much for the domestic economy to enter recession in late 2022 to mid-2023. But even then, the RBNZ will still need to ask if a mild recession, let alone a lighter slowdown as per our central forecast, will be enough to take the heat out of pipeline inflation pressures. If not, they will need to keep going until it is.



Looking ahead



Data calendar

What's coming up in the months ahead.

Date	Data/event
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)	ANZ Business Outlook – Jun
Thu 30 Jun (3:00pm)	RBNZ Sectoral Lending – May
Fri 1 Jul (10:00am)	ANZ-RM Consumer Confidence – Jun
Fri 1 Jul (10:45am)	Building Permits – May
Tue 5 Jul (10:00am)	NZIER QSBO – Q2
Tue 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Wed 6 Jul (early am)	GlobalDairyTrade auction
Fri 8 Jul (10:00am)	ANZ Truckometer – Jun
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)	RBNZ Monetary Policy Review
Fri 15 Jul (10:30am)	BusinessNZ Manuf PMI – Jun
Mon 18 Jul (10:30am)	Performance Services Index
Mon 18 Jul (10:45am)	CPI – Q2
Wed 20 Jul (early am)	GlobalDairyTrade auction
Thu 21 Jul (10:45am)	Merchandise Trade – May
Thu 28 Jul (1:00pm)	ANZ Business Outlook – Jul
Fri 29 Jul (10:00am)	ANZ-RM Consumer Confidence – Jul
Mon 1 Aug (10:45am)	Building Permits – Jun
Wed 3 Aug (early am)	GlobalDairyTrade auction
Wed 3 Aug (10:45am)	Labour Market – Q2
Wed 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul

Interest rate markets

Global interest rate volatility picked up sharply this week as markets moved to price in a super-sized 75bp hike by the US Federal Reserve, which was duly delivered. As hawkish as that action was, what it has done has help restore confidence that the Fed can get on top of inflation (or at least give them a fighting chance at getting inflation back to target). Alongside fresh fears of a US hard landing (clearly evident in equity indices), that's helped cap bond yields, and as we go to print, the bellwether US 10yr Treasury bond yield is back at 3.20%, having peaked at 3.49% on Wednesday. While that's encouraging for borrowers and bond investors, the worst may not be over yet, and we are mindful that if US inflation climbs further in June, the Fed may deliver yet another 75bp hike. Local fears of a 75bp hike have seen NZ short-end rates go higher too. While that's a natural response, a good chunk of the rise in short-end rates reflects the dire state of liquidity. We still expect the OCR to peak at 3.5%, and while we expect the market to keep trading "cheap" relative to that, our forecasts assume that realised rates will come in below what's implied by the forward curve. That does of course does rely on markets calming down, and proper functioning returning, which could take a few more weeks, but we assume it won't be months. With short-end rates biased lower and the long end biased higher, we expect yield curves to steepen over coming quarters.

FX markets

FX markets have also been volatile. Most of the movement in NZD/USD can be explained by moves in the USD, which appreciated sharply in the lead-up to the Fed's 75bp hike, but has come off the boil in recent days. We suspect we are at or close to peak Fed hawkishness; if we are right, then it is likely that the USD has peaked, and will struggle as hard landing fears there build. New Zealand is grappling with the same fears, but it has the support of commodities and high interest rates, and our forecasts assume that will be enough to deliver mild NZD/USD upside into year-end. But the global economic environment is highly uncertain, and caution is warranted.

Key data summary

Net Migration – April. Flows remain low, but on an annual basis, we've now lost just under 9000 people overseas.

REINZ House Prices – May. [Declined](#) 0.6% m/m (ANZ sa).

Food Prices – May. Up 0.7% m/m (6.8% y/y).

Rental Price Index – May. The stock measure lifted 0.3% m/m – returning to usual seasonality after April's strong 0.5% print.

Current Account Balance – Q1. The deficit expanded to 6.5% of GDP – a touch better than the 6.6% we'd pencilled in.

GDP – Q1. Down 0.2% q/q - see our [Review](#).

Performance of Manufacturing Index – May. The PMI lifted to 52.9 in May (51.2 in April). Deliveries rose to 55.4, the highest since October 2021.

The week ahead

Performance of Services Index – May (Monday 20 June, 10:30am).

We've had several months of expansion now, although supply constraints remain evident in the sub-indices.

GlobalDairyTrade auction (Wednesday 22 June, early am). Dairy commodity prices are expected to ease slightly (0.5%) at the next auction.

Overseas Merchandise Trade – May (Wednesday 22 June, 10:45am). Import costs (\$6.6bn) are forecast to exceed export returns (\$6.5bn) as labour shortages curb agricultural exports but prices of exports and imports stay firm.



Key forecasts and rates

	Actual			Forecast (end month)					
	Apr-22	May-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
FX rates									
NZD/USD	0.646	0.652	0.636	0.650	0.660	0.670	0.680	0.680	0.670
NZD/AUD	0.914	0.907	0.903	0.915	0.892	0.882	0.883	0.883	0.882
NZD/EUR	0.612	0.609	0.603	0.602	0.600	0.598	0.602	0.596	0.578
NZD/JPY	83.8	83.4	84.3	83.9	84.5	85.1	85.7	85.0	81.7
NZD/GBP	0.514	0.517	0.515	0.516	0.516	0.523	0.527	0.527	0.515
NZ\$ TWI	72.4	72.3	71.4	72.2	72.1	72.3	72.9	72.6	71.2
Interest rates									
NZ OCR	1.50	2.00	2.00	2.00	3.00	3.50	3.50	3.50	3.50
NZ 90 day bill	1.97	2.47	2.80	2.93	3.52	3.60	3.60	3.60	3.60
NZ 2-yr swap	3.82	3.92	4.46	4.40	4.22	3.86	3.49	3.43	3.32
NZ 10-yr bond	3.64	3.61	4.23	4.25	4.40	4.25	4.10	4.00	3.80

Economic forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (% qoq)	-0.2	1.4	0.5	0.9	0.6	0.0	0.2	0.2	0.5
GDP (% yoy)	1.2	0.3	4.8	2.7	3.4	2.0	1.7	1.0	0.9
CPI (% qoq)	1.8	1.4	1.6	0.8	0.7	0.7	0.7	0.4	0.5
CPI (% yoy)	6.9	7.0	6.4	5.8	4.6	3.9	3.0	2.5	2.3
Employment (% qoq)	0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	2.8	2.5	1.0	1.3	1.6	1.3	1.3	1.3	1.2
Unemployment Rate (% sa)	3.2	2.9	2.9	2.9	3.0	3.2	3.3	3.4	3.5

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

Figure 4. Production GDP

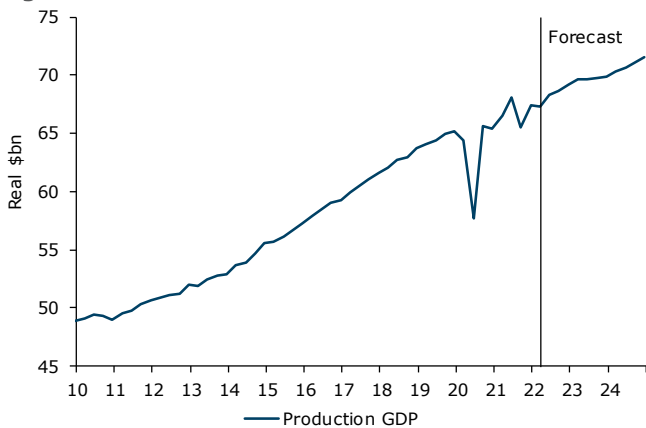


Figure 5. CPI inflation components

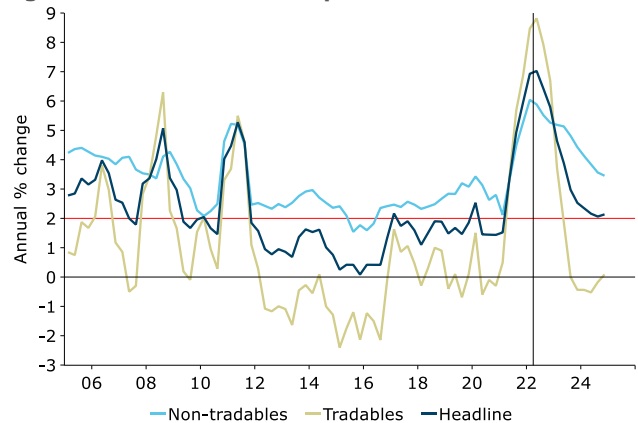


Figure 6. ANZ OCR forecast

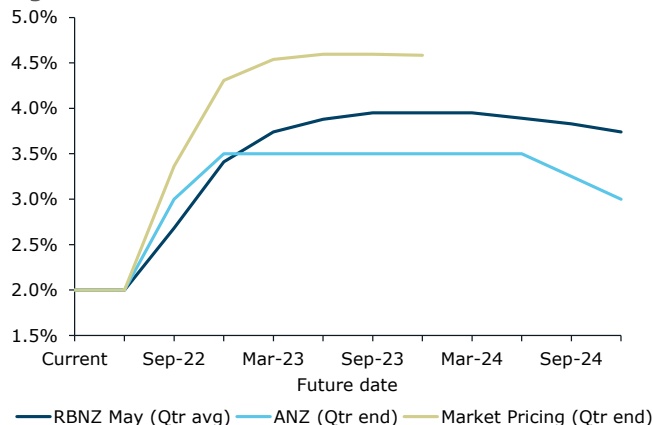
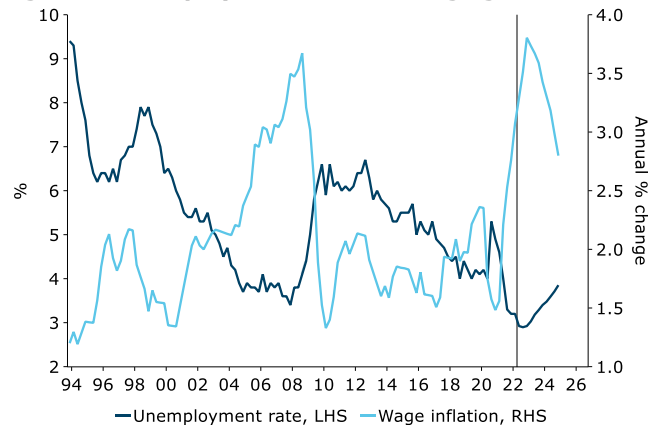


Figure 7. Unemployment rate and wage growth



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



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