

New Zealand Weekly Data Wrap

23 June 2022



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Forecast updates

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- [NZ Weekly Data Wrap: Fifty-fifty-fifty](#)
- [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 in Q2
- Aggressive OCR hikes towards 3.5% in November 2022 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.

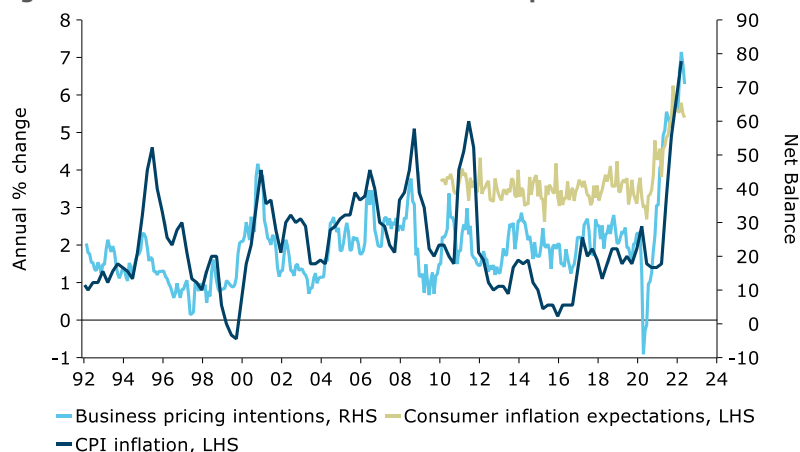
Watching like hawks

This week was relatively quiet, following last week's 75bp hike from the Fed, a 40-year low in the Australian underutilisation rate, and a [slightly worse-than-expected](#) Q1 GDP print for New Zealand (-0.2% q/q versus our pick for 0%). With a fairly light domestic data calendar ahead, attention is turning to the RBNZ's next meeting on 13 July. Barring some unforecastable shock, a third 50bp OCR hike is pretty much locked in in the wake of the hawkish May MPS. Indeed, the market sees a small chance of a 75bp hike, but we don't believe that's necessary, and could in fact undermine the RBNZ's calm "we got this" rhetoric. The interesting question is at what point will the RBNZ be satisfied that they're gaining traction on inflation? At what point will domestic demand have been hit hard enough that they can ease off the brakes a little, returning to the more normal 25bp pace of OCR hikes? We are [picking that to be](#) after a fourth 50bp hike in August.

Official stats on GDP, employment, and inflation are slow (with Q1 GDP only just released last week). And inflation and employment in any case tend to reflect previous momentum in the economy, rather than telling us where things are headed. So what key data will the RBNZ be watching as they assess the influence their OCR hikes are having on the economy?

Next week we get our [Business Outlook](#) and [Consumer Confidence](#) surveys. Just as these surveys picked the rapid turnaround in inflation in 2021, they should be useful for monitoring whether the inflationary worm has turned (figure 1). The plunge in consumer confidence is also noteworthy. While the RBNZ is chalking it up to Omicron, we're not convinced – consumer confidence has plummeted in a range of countries. Will consumer demand stall? Well, of course it will – the RBNZ will keep hiking until it does – but the question is one of timing. Will households lift their saving rate while the labour market is so strong? Fair to say there's little sign of it yet – household consumption was up a whopping 4.6% q/q in Q1. But as the year wears on, house prices continue to fall, and rising interest rates kick in, we suspect the RBNZ may find they've had a bigger impact on demand than they anticipated in the May MPS. All the more reason to keep a close eye on these surveys.

Figure 1: Consumer and business inflation expectations versus CPI



Source: Stats NZ, Macrobond, ANZ Research

On the labour market front, the RBNZ will be looking for signs that the severe mismatch between supply and demand is easing. Next week's filled jobs report for May will be an important indicator here. The number of filled jobs



Looking ahead



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- [NZ Insight: new fiscal rules](#)
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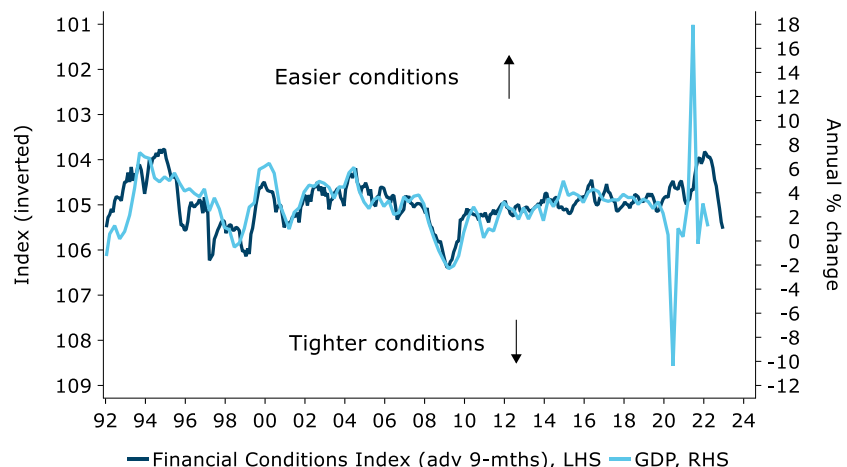
- [ANZ Business Outlook](#)
- [ANZ-Roy Morgan Consumer Confidence](#)
- [ANZ Truckometer](#)
- [ANZ Commodity Price Index](#)

lifted a very solid 0.6% m/m in April – after declining for two months straight in February and March (which we assume reflected the impact of Omicron on the hiring process). Another month of strong job gains in May would be a signal that hiring is bouncing back. Job vacancy data will be key as well. Even if employment growth starts to slow, if it's due to weak labour supply failing to satisfy demand, that would be much more inflationary. This supply-demand imbalance is prevalent in other economies too, with roughly two job openings for every unemployed person in the US at the moment. To have a hope of getting underlying inflation down to more acceptable levels, the RBNZ and its overseas counterparts will need to bring labour demand (ie job vacancies) back down to earth. Employment intentions in our Business Outlook survey will offer another signal of whether they're making a dent.

Another important factor to consider will be market expectations for New Zealand interest rates. Those expectations have surged over the past week and a bit, riding a global wave upwards as an extra-hawkish Fed delivered a 75bp hike and hinted at another such move should inflation continue to surprise to the upside. Current market pricing implies the OCR could reach 4¼% by mid-2023, which is considerably higher than our own forecast for a 3.5% peak to be reached in November this year, and the RBNZ's May forecast of a 4% peak (see figure 6 on page 4).

The fact that market pricing for OCR hikes has increased so much is in practice one reason why the OCR may not in fact need to go as high as anticipated. Surging wholesale rates have flowed through into further increases in domestic mortgage rates – adding to what's already been a big tightening in financial conditions. This is the expectations channel of monetary policy at play. People know that central banks are on the inflation-fighting warpath, and anticipation of rate rises has lifted the wholesale and retail yield curve, doing some of the RBNZ's tightening work for it. Indeed, GDP growth is (usually) well correlated with financial conditions in New Zealand (figure 2). Apart from interest rates, falling house prices are the other big contributor to tightening financial conditions currently.

Figure 2. New Zealand GDP growth and financial conditions index

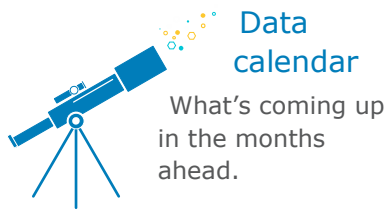


Source: Macrobond, ANZ Research

The key motivation for the RBNZ to watch these data so closely is to try to judge the right time to slow down tightening (and eventually hit the pause button). If the RBNZ leaves it too late, then the economy could slip into recession. But taking the foot of the brakes too early risks seeing inflation remain above target. Given how high inflation expectations are, the RBNZ has been clear that they would much rather risk overdoing it. The RBNZ can't afford to go easy on inflation for the sake of economic growth, or they risk the credibility of the inflation target – and that's far worse in the long run.



Looking ahead



Data calendar

What's coming up in the months ahead.

Date	Data/event
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
Mon 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectation – Q3
Tue 9 Aug (10:00am)	ANZ Truckometer – Jul
Tue 9 Aug (10:45am)	Electronic Card Transactions – Jul

Interest rate markets

Local interest rates have moderated across the board over the past week as expectations for OCR hikes have gravitated back towards 50bps (rather than 75bps as we saw at the peak of market stress and illiquidity last week), and as US bond yields have moderated. The short-end move is logical and some downward adjustment was always on the cards as markets settled down; as we noted last week, liquidity was dire and we suspect that explained most of the rise in short-end rates. Indeed, so poor was liquidity that on the way up (ahead of the Fed's 75bp hike) the 2yr swap traded at 4.08% on Monday, and didn't trade again in the interbank market until two days later, at 4.55%. As we noted, things are settling down now, but sentiment remains fickle, and we think it makes sense to be cautious. Local financial conditions are much tighter than implied by the OCR, and while that may take pressure off the RBNZ to hike, it isn't helping borrowers. The reprieve in long-end rates might also be welcome, but we wonder how long it will last, given ongoing hawkish Fed rhetoric, high fuel prices, and what we understand to be a fundamental demand overhang in energy markets. Our forecasts call for steeper curves.

FX markets

Volatility remains elevated in FX markets, and while we have seen the USD come off a touch overnight as bond yields and oil have retraced lower, the DXY remains elevated, and global growth concerns are weighing on the so-called commodity currencies. Our forecasts call for further moderate NZD strength into year-end, but we continue to characterise the risks as skewed lower given hard landing risks here, and fresh global growth concerns. Local factors are not really driving the NZD. And in any case, if they were to, the only really positive drawcard is New Zealand's high interest rates – which are, ironically, the source of hard-landing fears. The historic tendency for the USD to weaken early in the Fed tightening cycle also doesn't seem to be in play this time around. Amid all this, we think it pays to keep an open mind and expect volatility, rather than a clear trend.

Key data summary

Performance of Services Index – May. Increased to a solid 55.2 in May (52.2 previously). While the improvement was uneven across sub-indices (eg employment was down to 48.5 from 51.0), it does [support our expectation](#) for a reasonable rebound in GDP after Q1's 0.2% fall.

GlobalDairyTrade auction. Whole milk powder prices fell 0.6% at the latest auction, with the overall GDT Price Index down 1.3%.

Overseas Merchandise Trade – May. The annual merchandise trade deficit widened slightly to NZD9.5bn in May from NZD9.3bn in April. Goods exports have lifted 18.1% y/y – outpaced by a 24.1% lift in imports.

The week ahead

ANZ Business Outlook – June (Thursday 30 June, 1:00pm).

RBNZ sectoral lending data – May (Thursday 30 June, 3:00pm).

Mortgage lending growth has been slowing, but was still up 8.1% y/y in April. And business lending has also been on a tear, up 8.8% y/y.

ANZ Roy Morgan Consumer Confidence – June (Friday 1 July, 10:00am).

Building Permits – May (Friday 1 July, 10:45am). Consents fell 8.5% m/m in April, with the steep increase in consents over the past year starting to look peaky. But while the housing market is cooling, we haven't seen that in the hard construction data just yet.



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	0.629	0.630	0.650	0.660	0.660	0.660	0.650
NZD/AUD	0.914	0.907	0.908	0.900	0.890	0.880	0.868	0.868	0.867
NZD/EUR	0.612	0.609	0.595	0.600	0.619	0.600	0.589	0.584	0.570
NZD/JPY	83.8	83.4	85.6	84.4	84.5	84.5	83.8	83.2	81.3
NZD/GBP	0.514	0.517	0.513	0.512	0.537	0.537	0.532	0.524	0.512
NZ\$ TWI	72.4	72.3	71.0	70.7	71.9	71.9	71.3	70.9	69.7

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	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	4.20	4.40	4.22	3.86	3.49	3.43	3.32
NZ 10-yr bond	3.64	3.61	4.02	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

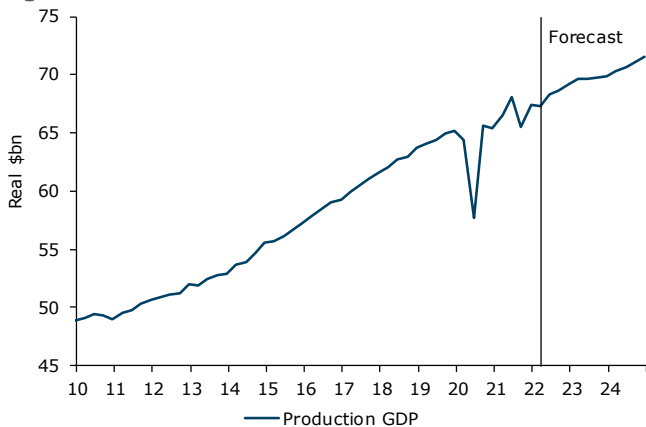


Figure 5. CPI inflation components

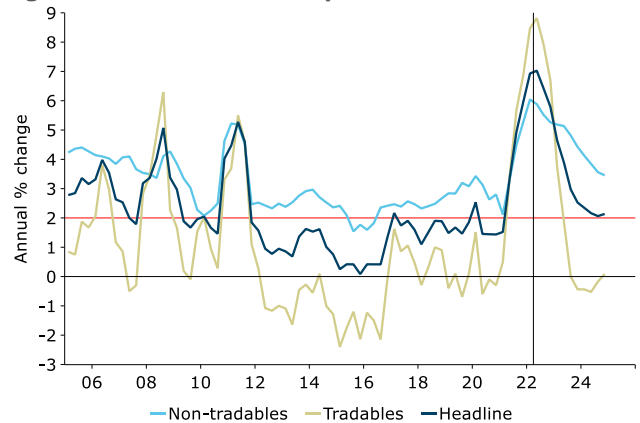


Figure 6. ANZ OCR forecast

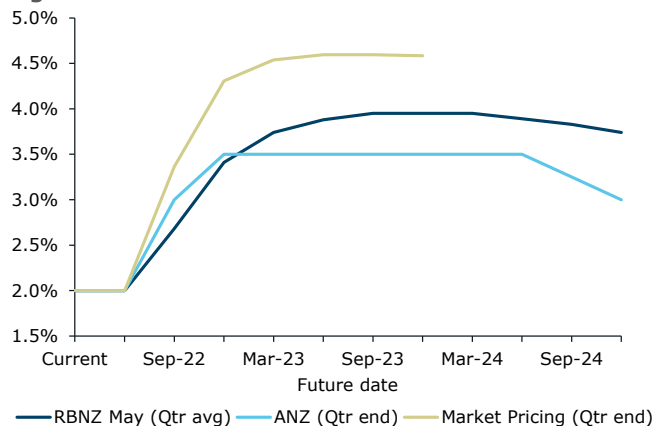
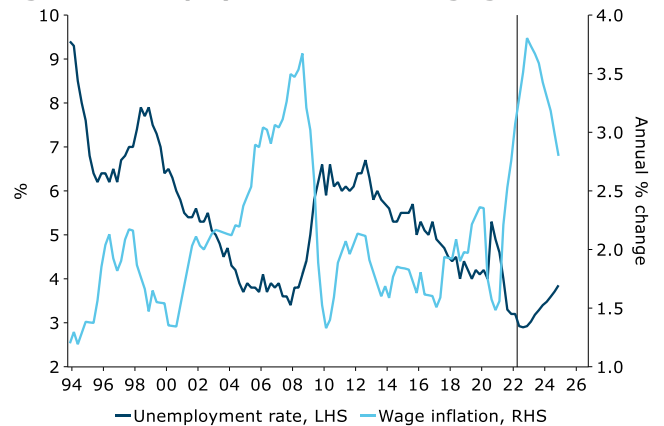


Figure 7. Unemployment rate and wage growth



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



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