

New Zealand Weekly Data Wrap

8 July 2022



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See page 5.

Forecast updates

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

- [NZ Property Focus: When, not if](#)
- [NZ Weekly Data Wrap: Fifty-fifty-fifty](#)
- [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.

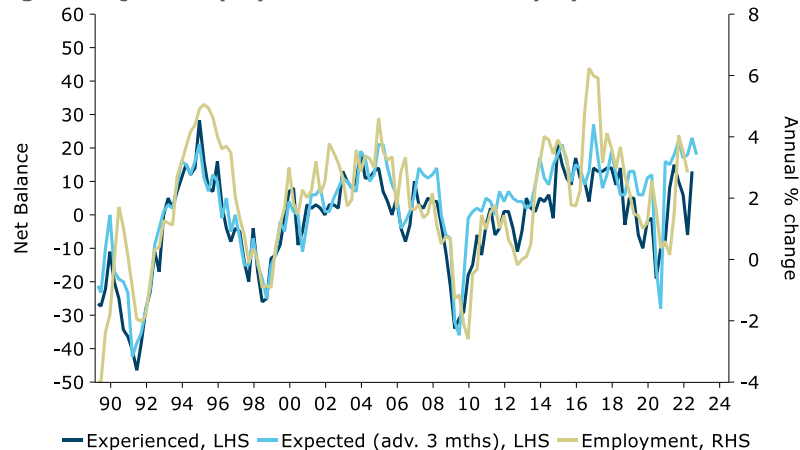


Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

Data this week continued the theme of high inflation, slow economic growth, and an extremely tight labour market. The [Quarterly Survey of Business Opinion](#) (QSBO) for Q2 reinforced what we've seen in our monthly [Business Outlook](#) – capacity constraints are critical, cost and price pressures are intense, and difficulty finding labour has never been worse. It's a highly inflationary mix of factors. There were some silver linings in the data, with reported employment in the past three months rebounding from Q1's decline (figure 1), and domestic trading activity over the past three months also ticking up a tad (although expected activity has fallen sharply for Q3). The data highlight our expectation for a further reduction in the unemployment rate to 2.9% over mid-2022 (3.2% currently). Growth is starting to look wobbly, but labour demand remained insatiable over Q2 – and the signal from monthly filled jobs data and the QSBO is that a significant number of jobs were added, despite the difficulty finding workers.

Figure 1. QSBO employment versus actual employment



Source: Stats NZ, NZIER, Macrobond, ANZ Research

However, despite the tightness we're seeing in the labour market, consumers remain extremely pessimistic – something we dig into in our latest [insight note](#). It's tempting to blame domestic Omicron disruption for the drop in confidence, but given the synchronised fall in confidence across many of our trading partners, that explanation doesn't pass the sniff test. Rather, we suspect consumers are voicing their discomfort at having to cope with surging inflation, declining real wages, and the sharp rise in interest rates designed to combat the first two factors. Low confidence is likely a genuine reflection of the tough times households are going through – and is a signal that consumer spending growth is set to slow markedly. We think there are enough supports out there for consumers to keep their head above water (including rapidly rising nominal wages, low unemployment, and high levels of pandemic savings), but it'll still be a tough year for households, and the retail sector too.

Commodity prices have started to ease – with the ANZ [World Commodity Price Index](#) down 0.4% m/m in June. Dairy, aluminium, and meat, skins and wool have all come down in prices in recent months. However, with the New Zealand dollar continuing to depreciate against many of our trading partner currencies, the New Zealand dollar cost of these commodities remains solid. Great for exporters – but it means we're still importing inflation.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: the low consumer confidence puzzle
- NZ Property Focus: when, not if
- 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 Agri Focus: heating up
- NZ Insight: Endemic COVID-19 and labour supply
- NZ Insight: The real cost of inflation

[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 watching?

Next week brings the RBNZ's Monetary Policy Review for July. We're expecting the RBNZ will raise the Official Cash Rate (OCR) 50bps to 2.5% – the third 50bp hike in a row. What's actually happened since the May Monetary Policy Statement (MPS)? Domestically, the data continue to paint a picture of an economy struggling with strong demand amid hobbled supply. Filled jobs are **bouncing back** from Q1 disruption. Firms' top three concerns in our **Business Outlook** remain finding skilled labour, non-wage costs and high rates of pay. And measures of labour market stretch in the **QSBO** are at or around record levels. Inflation and labour market pressures remain intense – but growth risks are building. Our latest **Truckometer** reading for June suggests downside risk to our expectation that GDP growth in Q2 rebounded 1.4% q/q (from Q1's 0.2% **fall**). However, we'd likely put any downside growth surprise in Q2 down to stronger-than-expected supply-side challenges. Demand is set to fall as the sharpest interest rate increases in decades flow through the economy, but that's more of a story for the second half of this year.

Globally, inflation pressures have continued to surprise to the upside, with CPI inflation in the US coming in at 8.6% y/y in May – dashing hopes that the 8.5% print seen in March was the peak. We won't know what Q2 inflation looked like in New Zealand until *after* the RBNZ's decision – but given the strong correlation between domestic and global inflation at the moment, upside risks certainly exist (figure 2). In Australia, labour demand has reached unprecedented levels, with almost half a million vacant positions across the country. Unemployment there is forecast to fall from the current multi-decade low of 3.9% down to just 3.3% by the end of the year. That's only going to add to the already immense stretch we're seeing in the New Zealand labour market as firms across the Tasman fight it out to attract increasingly scarce workers. With demand remaining insatiable, it's small wonder both the RBNZ and RBA are now moving in 50bp increments. They need to rein in demand, or inflation pressures will only continue to build.

Figure 2. US and New Zealand CPI inflation

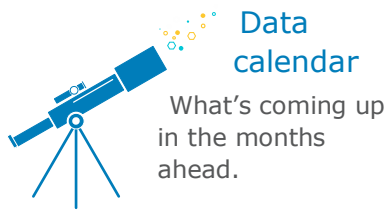


Source: BLS, Stats NZ, Macrobond, ANZ Research

It's an easy decision for the RBNZ this time. The flow of data since the May MPS has shown no meaningful signs of inflation starting to come off the boil, and labour market indicators continue to point to further tightening over mid-2022. As Governor Orr has previously noted, when it's easy to make an OCR decision, it means you are not in a good place. That is, inflation is clearly dangerously strong, and so the policy prescription is obvious – keep hiking rates until inflation starts to ease (or you're very confident that it will in the near future). Again, not a good place to be. But hopefully by going hard and going early, the RBNZ won't end up having to lift the OCR beyond 3.5%.



Financial markets update



Date	Data/event
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 - Jun
Mon 18 Jul (10:45am)	CPI – Q2
Wed 20 Jul (early am)	GlobalDairyTrade auction
Thu 21 Jul (10:45am)	Merchandise Trade – Jun
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
Thu 11 Aug (10:45am)	Net Migration – Jun
Fri 12 Aug (10:30am)	BusinessNZ Manuf PMI – Jul
Fri 12 Aug (10:45am)	Food Price Index – Jul
Fri 12 Aug (10:45am)	Rental Price Index – Jul
Mon 15 Aug (10:30am)	Performance Services Index – Jul
Wed 16 Aug (early am)	GlobalDairyTrade auction
Wed 17 Aug (2:00pm)	RBNZ Monetary Policy Statement
Fri 19 Aug (10:45am)	Merchandise Trade – Jul

Interest rate markets

Global interest rate markets remain extremely volatile, with intraday trading ranges in the bellwether US 10yr Treasury bond spanning ~20bps on two of three days of this holiday-shortened US trading week. Market sentiment continues to oscillate between fears of a recession and fears of inflation and higher policy rates. At the peak point of recession-fear stress, the US 10yr bond got as low as 2.75%, but it's now back at 3%. US payroll data tonight and CPI data next week have scope to stoke further volatility. Local markets haven't been quite as volatile, but they have been whippy, and as we head into next week's RBNZ OCR decision, it's likely that the focus returns to both local factors and inflation pressures. While we are cautious about the growth outlook, the RBNZ can't afford to blink. We expect a repeat of May's hawkish rhetoric, which suggests rates will remain elevated for a while.

FX markets

The USD found further favour this week as NZD/USD hit a new low for the year. The euro has been the main loser in the USD's advance, with markets dissatisfied by ECB hesitancy amid surging inflation and a lack of detail on its anti-fragmentation tool (designed to cap peripheral bond spreads). The USD remains the only game in town in FX markets, and the NZD's appeal continues to wane. Indeed, if the Fed hikes another 75bps this month, that'd put the Fed Funds rate on par with the RBNZ's OCR (assuming a 50bp hike here next week). While we expect the RBNZ to be hawkish next week, ironically, that may only stoke hard landing fears, at the NZD's expense.

Key data summary

NZIER Quarterly Survey of Business Opinion – Q2. As expected, capacity, cost and price pressures [remain intense](#), while growth expectations are softening.

ANZ Commodity Price Index – June. The [World Commodity Price Index](#) fell 0.4% in June, but a weaker NZD saw the index increase 0.7% in local currency terms.

GlobalDairyTrade auction. Dairy prices fell 4.1% in the latest auction as a lack of buyer confidence weighed on prices.

ANZ Truckometer – June. The [heavy traffic index](#) declined 2.7% m/m, and light traffic eased 3.4%. The data suggest downside risk for growth in Q2.

The week ahead

Electronic Card Transactions – June (Monday 11 July, 10:45am). Our card spending data suggests a 2% m/m lift in spending.

Net Migration – May (Tuesday 12 July, 10:45am). Likely to remain very low, with the border reopening still incomplete.

Food Prices – June (Wednesday 13 July, 10:45am). We've pencilled in a 0.4% m/m (5.8% y/y) lift in food prices.

Rental Price Index – June (Wednesday 13 July, 10:45am). We expect a 0.2% m/m (3.8% y/y) lift in total rents.

RBNZ OCR Review – July (Wednesday 13 July, 2:00pm). We expect the RBNZ to lift the OCR 50bps to 2.5% – see our [preview](#).

REINZ House Prices – June (11-14 July, 9:00am). House prices have fallen 5.5% from their November 2021 peak (ANZ seasonal adjustment). [More falls are anticipated](#), with an 11% fall in prices expected over 2022.

Performance of Manufacturing Index – June (Friday 15 July, 10:30am). Has been in expansionary territory since the August lockdown.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZD/USD	0.652	0.621	0.618	0.650	0.660	0.660	0.660	0.650	0.650
NZD/AUD	0.907	0.904	0.903	0.890	0.880	0.868	0.868	0.867	0.867
NZD/EUR	0.609	0.597	0.608	0.619	0.600	0.589	0.584	0.570	0.560
NZD/JPY	83.4	84.7	84.0	84.5	84.5	83.8	83.2	81.3	79.3
NZD/GBP	0.517	0.513	0.514	0.537	0.537	0.532	0.524	0.512	0.508
NZ\$ TWI	72.3	70.5	70.4	71.9	71.9	71.3	70.9	69.7	69.3
Interest rates	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZ OCR	2.00	2.00	2.00	3.00	3.50	3.50	3.50	3.50	3.50
NZ 90 day bill	2.47	2.86	2.87	3.52	3.60	3.60	3.60	3.60	3.60
NZ 2-yr swap	3.92	4.06	3.83	4.22	3.86	3.49	3.43	3.32	3.26
NZ 10-yr bond	3.61	3.86	3.67	4.40	4.25	4.10	4.00	3.80	3.70

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

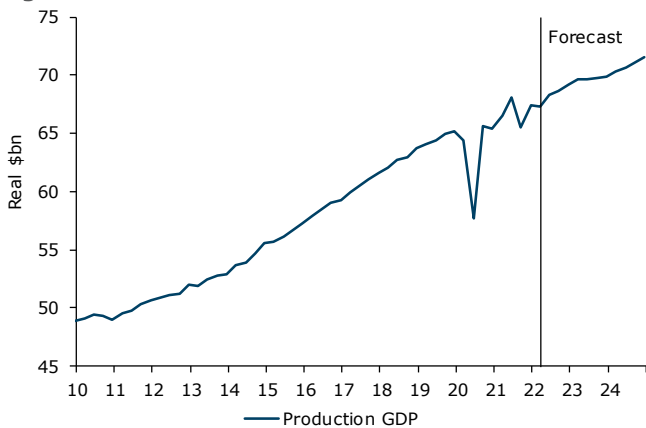


Figure 5. CPI inflation components

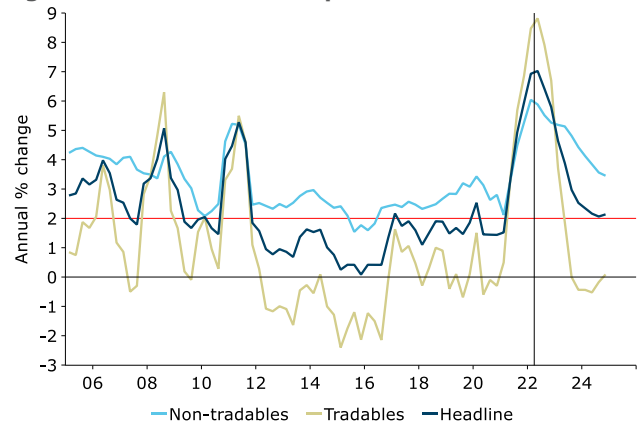


Figure 6. ANZ OCR forecast

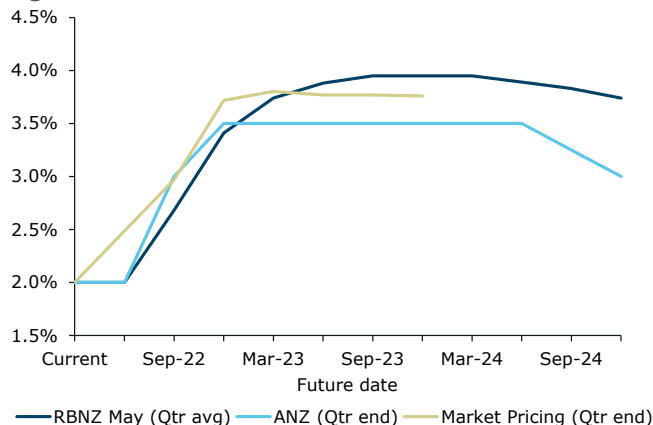
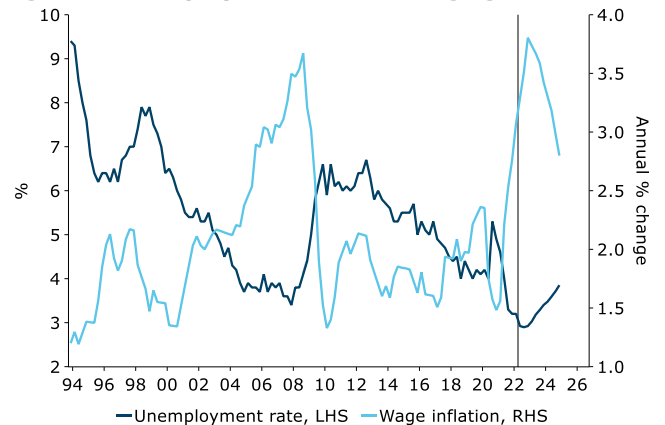


Figure 7. Unemployment rate and wage growth



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



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