

New Zealand Weekly Data Wrap

12 August 2022



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See page 5.

Forecast updates

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

- [NZ Quarterly Economic Outlook: on the edge](#)
- [NZ Property Focus: hardening headwinds and soft landings](#)
- [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 extremely tight, and very inflationary
- Inflation way above target, but likely peaked in Q2
- Aggressive OCR hikes towards 4.0% 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.



Inflation expectations become unanchored, possibly as the labour market remains very tight.



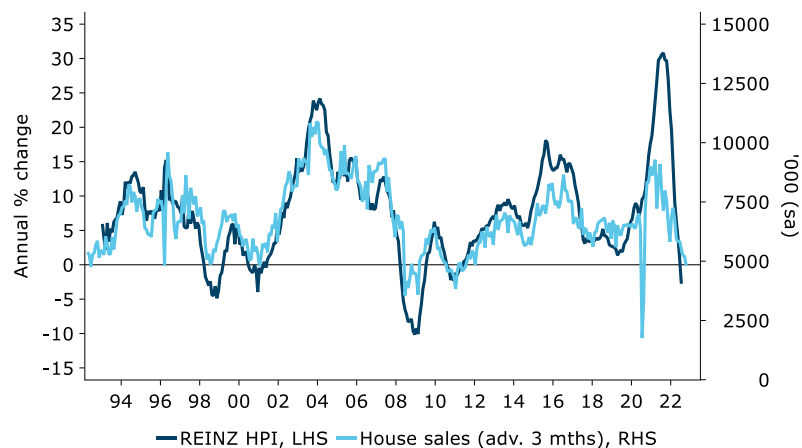
Global inflation pressures don't decline as anticipated.

What happened this week?

This week we released our latest [Quarterly Economic Outlook](#). Since the last edition, we have seen an intensification of domestic inflation pressures, with non-tradables inflation rising to 6.3% y/y in Q2, and private sector average hourly earnings growth hitting 7.0% in the same period. Consequently, we anticipate the RBNZ will raise the Official Cash Rate by 50bps at each meeting left in 2022 (including next week – see next page). That will take the OCR to 4% by year-end, versus just 0.25% back in early October 2021. These hikes should bring annual CPI inflation back into the RBNZ's 1-3% target range by the end of 2023, but at a considerable cost. We're now anticipating that the domestic economy will shrink by about 1% in 2023 as higher interest rates flow through to outright falls in household consumption, investment, and residential building activity. The return of tourism and education exports should see the broader economy avoid a recession – but only just.

One area where we've already seen significant weakening is the housing market. The July [REINZ property report](#) showed that national house prices were down 1.4% m/m (ANZ seasonal adjustment), leaving prices 8.1% below their November 2021 peak. And we've now seen prices decline on an annual basis for the first time since 2011 (figure 1). Signs of continued softening are clear, with the number of days it's taking to sell a house increasing to 44, up from 43 previously and above the historical average of 39. In Wellington, median days to sell have increased to 59, versus 30 this time last year.

Figure 1. House price inflation and sales



Source: REINZ, Macrobond, ANZ Research

Net migration data this week showed that in the year to June 2022, New Zealand lost an estimated 11,478 people overseas. While the numbers are still relatively small (given the border didn't fully open until the end of July), it's a big adjustment for an economy which before COVID regularly saw annual net migration running at over 50,000. There are good reasons to expect this outflow of people to continue in the near term – in particular, the incredibly strong Australian labour market. In an [insight note published this week](#) we looked at what happens to the New Zealand labour market when we see increases in Australian job vacancies. Not surprisingly, this triggers a tightening in the Kiwi labour market as people emigrate to Australia, with unemployment falling, and wages and inflation rising in New Zealand. With Australian unemployment at 3.5% and job vacancies at record highs, that's only going to add to the pressure in New Zealand's labour market.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: the Australian labour market and the RBNZ
- NZ Property Focus: hardening headwinds and soft landings
- 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 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

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ANZ Proprietary data

Check out our latest releases below.

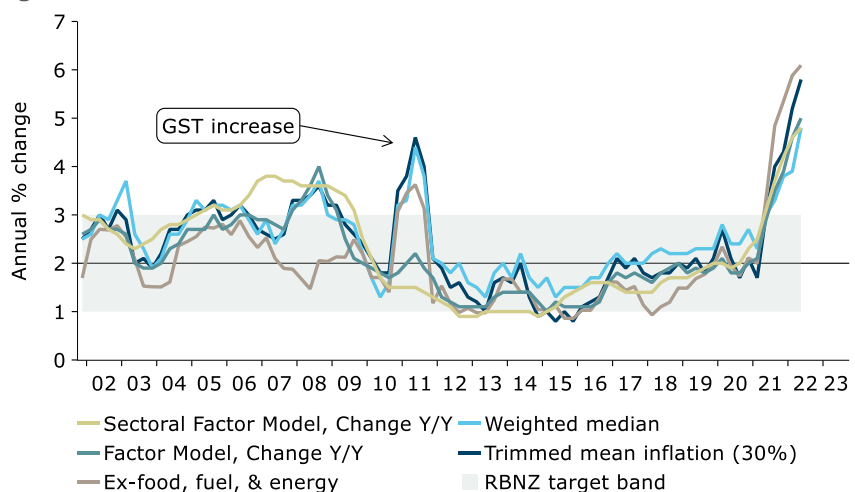
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

What are we watching?

Next week brings the RBNZ's August Monetary Policy Statement (MPS). A 50bp rate hike to 3.0% is **widely anticipated** (although given upside CPI and wage inflation surprises relative to the May MPS forecast, one can't rule out a 75bp hike).

What will be much more interesting will be the tone of the MPS, and the interest rate projection the RBNZ publishes. The US Fed delivered back-to-back 75bp interest hikes at their last two meetings, but global interest rates have fallen significantly. The yield on the US 10-year note, for example, has declined from 3.47% in mid-June to just 2.89% currently. The catalyst has been a weakening growth outlook, prompting markets to price in interest rate cuts from the Fed from as early as the middle of next year. This has inevitably flowed through to New Zealand, with falling wholesale interest rates being reflected in declining mortgage rates in recent weeks. Markets are also pricing interest rate cuts from the middle of next year for New Zealand. That seems very unlikely (barring some unforecastable disaster hitting the economy). Underlying inflation pressures have only **continued to increase**, with measures of core inflation now ranging between 4.8 and 6.1%, and showing no sign of slowing (figure 2). Wage growth is **accelerating**, and the labour market remains incredibly tight. In short, domestic inflation pressures are now stronger than the RBNZ anticipated when they last published forecasts in the May MPS. That's just not the kind of environment in which inflation-targeting central banks cut interest rates – even if growth is forecast to slow rapidly.

Figure 2. Core inflation measures

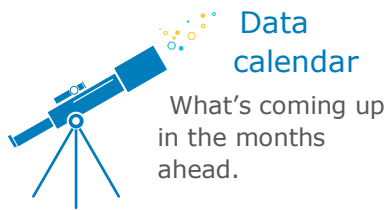


Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Basically, the last thing the Monetary Policy Committee will want to see right now is falling interest rates and any easing in financial conditions. As such, we expect the August MPS to have a notably hawkish tone, both in the choice of wording and OCR track. In July the Committee noted that it "remains broadly comfortable" with the May OCR track (which peaked at 3.95%). But given starting point surprises on inflation and wages since then, combined with falls in domestic mortgage rates, the Committee has little choice but to send a clear message. The battle against surging domestic inflation is far from over – and giving up early risks seeing inflation continue to spiral higher. Rapidly rising wages are also a significant source of upside risk to interest rates in New Zealand. With **private sector wage growth** at 7.0%, that essentially takes quite a bit of the sting out of interest rate hikes. Sounds like great news for households, but for the RBNZ, it means that a given level of the OCR may not be as contractionary as previously thought. All else being equal, that in turn implies a risk that the OCR may need to move higher than 4% to bring down domestic inflation pressures.



Financial markets update



Date	Data/event
Mon 15 Aug (10:30am)	Performance Services Index – Jul
Wed 17 Aug (early am)	GlobalDairyTrade auction
Wed 17 Aug (2:00pm)	RBNZ Monetary Policy Statement
Fri 19 Aug (10:45am)	Merchandise Trade – Jul
Thu 25 Aug (10:45am)	Retail Sales – Q2
Fri 26 Aug (10:00am)	ANZ-RM Consumer Confidence – Aug
Wed 31 Aug (10:45am)	Building Permits – Jul
Wed 31 Aug (1:00pm)	ANZ Business Outlook – Aug
Wed 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Fri 2 Sep (10:45am)	Terms of Trade – Q2
Mon 5 Sep (10:45am)	Building Work Put in Place – Q2
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 7 Sep (early am)	GlobalDairyTrade auction
Thu 8 Sep (10:45am)	Economic Survey of Manufacturing – Q2
Fri 9 Sep (10:00am)	ANZ Truckometer – Aug
Fri 9 Sep (10:45am)	Electronic Card Transactions – Aug
Mon 12 Sep (10:45am)	Net Migration – Jul
Tue 13 Sep (10:45am)	Food Price Index – Aug
Tue 13 Sep (10:45am)	Rental Price Index – Aug
Wed 14 Sep (10:45am)	Balance of Payments – Q2
Thu 15 Sep (10:45am)	GDP – Q2
Fri 16 Sep (10:30am)	BusinessNZ Manuf PMI – Aug
Mon 19 Sep (10:30am)	Performance Services Index – Aug
Wed 21 Sep (early am)	GlobalDairyTrade auction
Thu 22 Sep (10:45am)	Merchandise Trade – Aug
Thu 29 Sep (1:00pm)	ANZ Business Outlook – Sep
Fri 30 Sep (10:00am)	ANZ-RM Consumer Confidence – Sep

Interest rate markets

Global and local interest rates have risen sharply since the start of August, but remain well shy of June's highs. Market sentiment is finely balanced, split between those fearing stickier inflation (necessitating higher policy rates and calling into question cuts that markets are pricing in over 2023) and those fearing a recession (which, it's assumed, will take care of inflation pressures). For NZ, we side with the former view and believe it is premature to assume cuts will be needed in 2023. That leaves us expecting higher interest rates following next week's RBNZ MPS as markets price in both a higher terminal OCR and an elongated period of tighter policy. Long-end rates continue to move with US rates, which seem to be factoring in more inflation concerns.

FX markets

FX markets continue to trade mainly on global themes, and this week's rally in the NZD/USD was largely thanks to a USD pullback. Next week the focus will likely turn local again into the RBNZ MPS. If we are correct that the RBNZ does strike a hawkish tone, we expect that to benefit the NZD. But as the global slow growth vs inflation debate intensifies, more volatility is likely into next month's US Federal Reserve decision, with markets still split on 50 or 75bp.

Key data summary

RBNZ Inflation Expectations – Q3. 2-year-ahead expectations eased to 3.07% (3.29% prev.). Moving in the right direction – but too high for comfort.

ANZ Truckometer – July. The [Light Traffic Index](#) fell 1.7%, despite easing petrol prices. The Heavy Traffic Index fell 0.1% but is under trend, highlighting a tough winter.

Electronic Card Transactions – July. Eased 0.2% m/m.

REINZ House Prices – July. [House prices](#) continued to fall in July, with the REINZ house price index down 1.4% m/m. Prices are now down 2.8% compared with this time last year.

Net Migration – June. Remained weak at -896. We expect net migration will remain negative for some time, especially with a [strong Australian labour market](#) likely to lure Kiwis across the ditch over the next year.

Performance of Manufacturing Index – July. Rose to 52.7 in July, from an upwardly revised 50.0 in June.

Food Prices – July. Food prices lifted a very strong 2.1% m/m (7.4% y/y), with price rises seen across all food categories monitored by Stats NZ.

Rental Price Index – July. Prices for all rents rose 0.2% m/m, with annual rent inflation at 3.9% (4.0% previously). But, new rents declined 0.7% m/m.

The week ahead

Performance of Services Index - July (Monday 15 August, 10:30am). Has been solidly expansionary in recent months, despite a highly capacity-constrained domestic economy.

GlobalDairyTrade auction (Wednesday 17 August, early am). Dairy prices are expected to fall another 2.5% as lower prices have prevailed for whole milk powder on the futures market and on the new GDT Pulse auction that runs on alternate weeks to the main GDT auction.

RBNZ Monetary Policy Statement – August (Wednesday 17 August, 2:00pm). We expect a 50bp OCR hike to 3.0%. See our [Preview](#).

Overseas Merchandise Trade – July (Friday 19 August, 10:45am). A trade deficit near \$450m is forecast as imports lift and exports stabilise.



Key forecasts and rates

	Actual			Forecast (end month)					
	Jun-22	Jul-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
FX rates									
NZD/USD	0.621	0.628	0.643	0.630	0.630	0.640	0.650	0.650	0.650
NZD/AUD	0.904	0.900	0.906	0.887	0.875	0.865	0.867	0.867	0.867
NZD/EUR	0.597	0.614	0.623	0.618	0.600	0.598	0.591	0.580	0.575
NZD/JPY	84.7	83.7	85.6	84.4	83.2	83.2	83.2	82.6	81.9
NZD/GBP	0.513	0.516	0.527	0.521	0.512	0.516	0.516	0.512	0.508
NZ\$ TWI	70.5	71.1	72.5	71.0	70.2	70.4	70.7	70.3	69.9
Interest rates									
NZ OCR	2.00	2.50	2.50	3.00	4.00	4.00	4.00	4.00	4.00
NZ 90 day bill	2.86	3.14	3.27	3.93	4.10	4.10	4.10	4.10	4.10
NZ 2-yr swap	4.06	3.74	3.93	4.37	4.21	3.99	3.93	3.82	3.76
NZ 10-yr bond	3.86	3.42	3.51	4.25	4.00	4.00	4.00	3.75	3.75

Economic forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (% qoq)	-0.2	1.0	0.5	0.8	0.5	0.1	0.2	0.2	0.5
GDP (% yoy)	1.2	-0.1	4.4	2.2	2.8	1.9	1.6	1.0	1.0
CPI (% qoq)	1.8	1.7	1.6	0.9	0.7	0.6	0.8	0.4	0.4
CPI (% yoy)	6.9	7.3	6.7	6.1	5.0	3.9	3.1	2.5	2.3
Employment (% qoq)	0.0	0.0	0.1	0.1	0.1	0.1	-0.3	-0.4	-0.4
Employment (% yoy)	2.7	1.6	-0.1	0.1	0.3	0.3	0.0	-0.5	-1.0
Unemployment Rate (% sa)	3.2	3.3	3.3	3.4	3.4	3.6	4.0	4.5	4.8

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

Figure 4. Production GDP

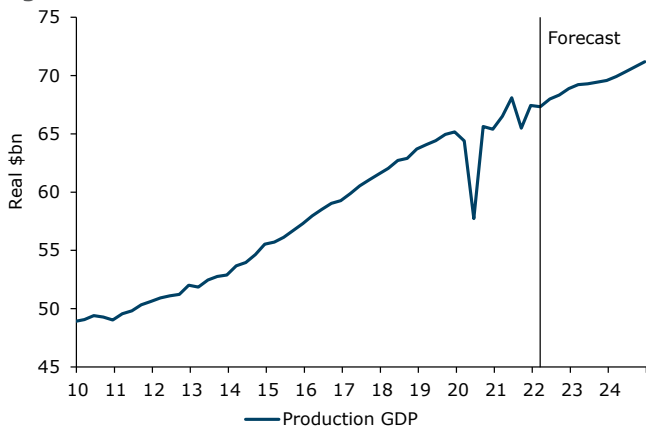


Figure 5. CPI inflation components

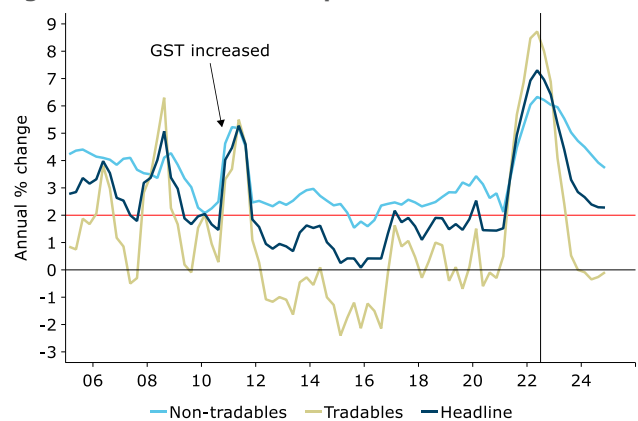


Figure 6. ANZ OCR forecast

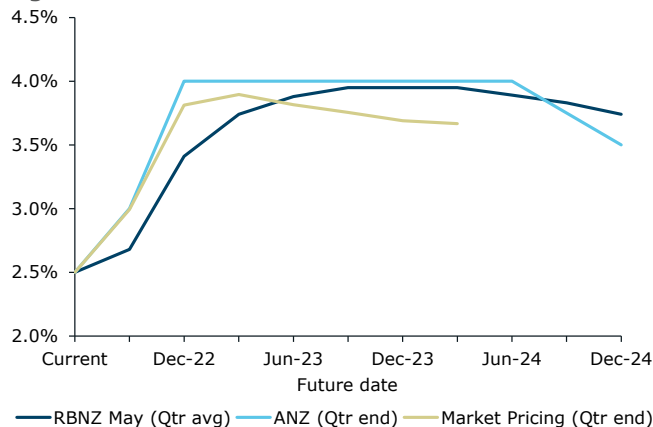
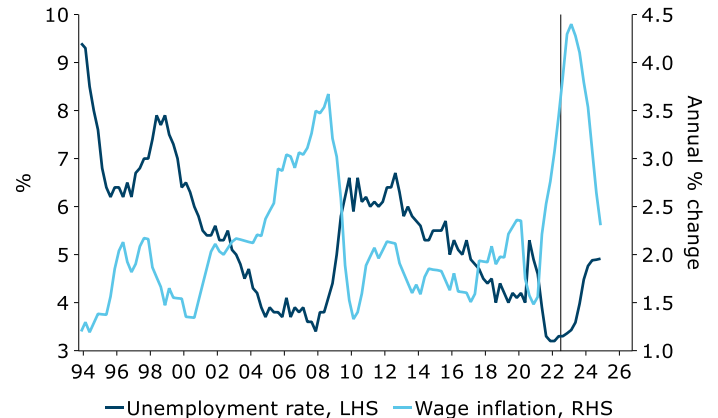


Figure 7. Unemployment and wage inflation



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



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