

New Zealand Weekly Data Wrap

30 September 2022



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See [page 5](#).

Forecast updates

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

- [NZ Property Focus: spring bounce or false floor?](#)
- [NZ OCR Call Change: more work to do](#)
- [NZ Forecast Update: farmgate milk price forecasts revised up](#)
- [NZ Quarterly Economic Outlook: on the edge](#)

Our other recent publications are on [page 2](#).

What's the view?

- GDP currently constrained by supply more than demand
- Labour market still extremely tight, and very inflationary
- Inflation way above target, but likely peaked in Q2
- OCR hikes to 4.75% by mid-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



Global growth risks abound, not least in China, our key trading partner.



Falling house prices could have a more significant impact on the economy than expected.



The neutral OCR could be increasing faster than estimated.



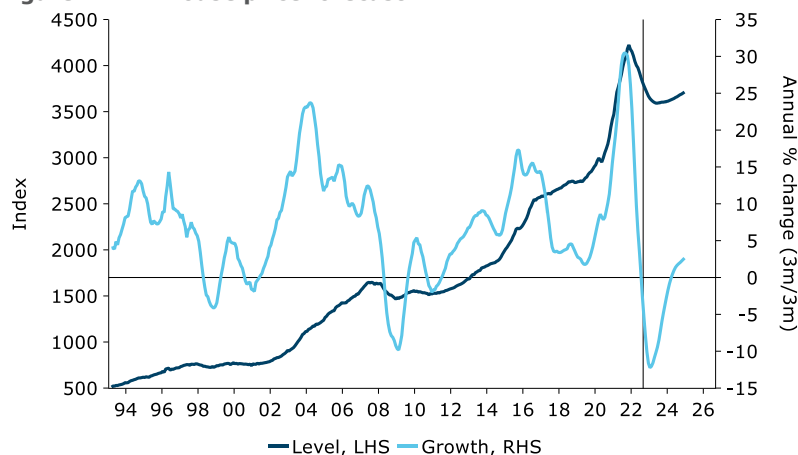
Global inflation pressures may not decline as quickly or as far as anticipated.

What happened this week?

Global market ructions rather stole the show this week, with the Bank of England even intervening in the UK bond market (see page 3). Domestically, we await the RBNZ's October Monetary Policy Review (see next page). We also released the latest edition of our [Property Focus](#), taking a look at the outlook for house prices. In recent months, the data have continued to evolve in line with our forecast for a 15% peak-to-trough decline in house prices, and the August data would indicate we're about two thirds of the way through that decline (with prices now down 9.5% from their November 2021 peak, figure 1). Importantly, when we look at the housing market fundamentals, there's nothing that says the housing market is about to turn a corner any time soon:

- [We anticipate](#) the RBNZ will lift the Official Cash Rate to a peak of 4.75% in May 2023, which should see mortgage rates continue to rise.
- The number of properties for sale has hit its highest level in 6 years.
- With the border remaining closed until recently, new housing supply has vastly outstripped new housing demand, eroding the "housing deficit" by about 65,000 houses since 2020 border closure.

Figure 1. ANZ house price forecast



Source: REINZ, Macrobond, ANZ Research

We also received the September update to our [ANZ Business Outlook](#) survey yesterday. Activity measures generally lifted modestly, with headline business confidence bouncing 11 points to a still-dire -37, and own activity rising 2 points to -2. Unfortunately, that's where the good news ends, with inflation pressures in the survey remaining intense, and easing only slightly from recent highs. Inflation expectations are still around 6%, and a net 68% of firms intend to raise their prices over the next three months (down just two points from the last survey).

As we highlighted in a [recent insight note](#), inflation pressures are looking stickier and stickier in New Zealand. We expect headline inflation peaked at 7.3% in Q2, but it's looking increasingly likely that underlying core inflation will remain too high for too long, and yesterday's Business Outlook survey did nothing to allay those fears. Our view is this sticky inflation means the RBNZ still has their work cut out to return inflation to the 2% midpoint of their 1-3% target range, and [we see the RBNZ](#) lifting the Official Cash Rate to a peak of 4.75% in May 2023 in order to suppress inflation.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: spring bounce or false floor?
- NZ Insight: The inflation outlook and the balance of risks
- NZ Insight: 2020 hindsight
- NZ Agri Insight: feeding the world sustainably
- NZ Agri Focus: it's raining, it's pouring
- 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 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 Insight: the RBNZ's inflation expectations headache
- NZ Insight: how is NZ's agri sector impacted by the Russian invasion
- NZ Insight: Endemic COVID-19 and labour supply

Click here for more.



ANZ Proprietary data

Check out our latest releases below.

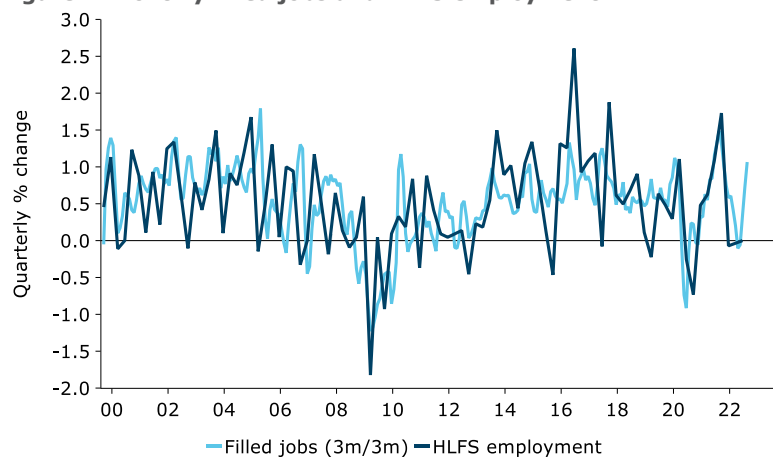
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

What are we watching?

Next week brings the RBNZ's October Monetary Policy Review. [We anticipate](#) another 50bp hike will be delivered, bringing the Official Cash Rate (OCR) to 3.5%. Back in the August Monetary Policy Statement the RBNZ made it clear that they intended to raise the OCR by 50bps at the October and November meetings, and there have been no significant data surprises that would provide a compelling reason for the RBNZ to diverge from that path.

The recent data flow continues to point to an economy that is refusing to roll over as quickly as the RBNZ needs to see to be confident it is gaining enough traction with interest rate hikes. On Wednesday, the August [monthly filled jobs data](#) showed the number of jobs lifted 0.4% m/m (2.3% y/y), with job gains seen across all regions and most industries (on an annual basis). After slowing sharply over Q1 as peak Omicron disruption took hold, filled jobs have bounced back solidly over the middle of 2022 (figure 2). If anything, the data suggest upside risk to our expectation that HLFS employment will increase just 0.1% over 2022 (due to a lack of available workers, rather than a lack of demand).

Figure 2. Monthly filled jobs and HLFS employment



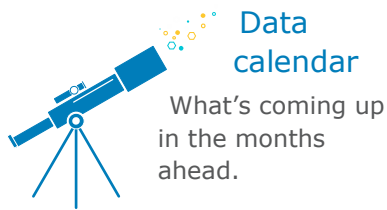
Source: Stats NZ, Macrobond, ANZ Research

The monthly filled jobs data adds to a list of other monthly indicators including job ads and PMI employment which suggest that labour demand has shown no signs of slowing over the past few months. Of course, the labour market is a lagging indicator in that it usually echoes previous economic momentum, so there's always a risk of spending too much time looking at the rear-view mirror. But even more forward-looking indicators like employment intentions in our [Business Outlook](#) survey are holding up well. In the latest September data, employment intentions for the next 12 months increased, with a net to 5.9% of firms expecting to increase headcount (3.4% previously) – pretty close to the historical average of 7.4%. Next Tuesday's Q3 QSBO, while only available at a quarterly frequency, will give us further detail on how the labour market (and broader economy) fared over the September quarter.

So for now, the highly inflationary mismatch between labour demand and supply remains a thorn in the side of the RBNZ (and many other central banks for that matter). To have any hope of containing surging domestic inflation pressures, the RBNZ needs to bring demand and supply back in line. Unfortunately, that will likely come at the cost of higher unemployment (we think close to 5% by the end of 2024, versus 3.3% currently). But not acting decisively now (which [we think](#) means hiking the OCR to a peak of 4.75% in May 2023) only risks letting inflation continue to spiral, which would be significantly more damaging to the economy and the labour market.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Fri 30 Sep (3:00pm)	RBNZ Sectoral Lending – Aug
Tue 4 Oct (10:00am)	NZIER QSBO – Q3
Wed 5 Oct (early am)	GlobalDairyTrade auction
Wed 5 Oct (2:00pm)	RBNZ Monetary Policy Review
Thu 6 Oct (1:00pm)	ANZ Commodity Price Index – Sep
Tue 11 Oct (10:00am)	ANZ Truckometer – Sep
Tue 11 Oct (10:45am)	Electronic Card Transactions – Sep
Wed 12 Oct (10:45am)	Net Migration – Aug
Thu 13 Oct (10:45am)	Food Price Index – Sep
Thu 13 Oct (10:45am)	Rental Price Index – Sep
Fri 14 Oct (10:30am)	BusinessNZ Manuf PMI – Sep
Mon 17 Oct (10:30am)	Performance Services Index – Sep
Tue 18 Oct (10:45am)	CPI – Q3
Wed 19 Oct (early am)	GlobalDairyTrade auction
Fri 21 Oct (10:45am)	Merchandise Trade – Sep
Wed 26 Oct (1:00pm)	ANZ Business Outlook – Oct
Fri 28 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Mon 31 Oct (3:00pm)	RBNZ Sectoral Lending – Sep
Tue 1 Nov (10:45am)	Building Permits – Sep
Wed 2 Nov (early am)	GlobalDairyTrade auction
Wed 2 Nov (10:45am)	Labour Market – Q3
Thu 3 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Tue 8 Nov (10:00am)	ANZ Truckometer – Oct
Tue 8 Nov (3:00pm)	RBNZ 2Yr Inflation Expectation – Q4
Wed 9 Nov (10:45am)	Electronic Card Transactions – Oct
Fri 11 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Mon 14 Nov (10:30am)	Performance Services Index – Oct

Interest rate markets

Global interest rate market volatility ratcheted up sharply this week. The first signs of stress emerged when the Bank of England (BoE) confirmed late last week that it would start actively selling bonds to unwind QE. That was followed the next day by a mini-budget that included a whopping GBP161bn of additional fiscal spending and tax cuts. Markets buckled, sending UK 10yr gilt yields soaring from 3.3% to around 4.6%. The BoE initially brushed off the move, saying it was “monitoring developments” and would meet as usual at its next scheduled meeting. But as yields continued to push higher, its hand was forced and the BoE ultimately suspended plans for bond sales and instead said it would buy long end bonds under the auspices of financial stability. In the chaos that ensued, global bond yields corrected sharply lower. But as we go to print, NZ and US bond yields are still higher than they were a week ago, and we remain alert to them rising further over coming months. While the 2yr has already reached where we are forecasting it to be by year-end, with the NZD TWI down here and inflation risks still high, we still see limited scope for a pull-back. Temporary actions like those taken by the BoE can’t paper over deep cracks. They can contain markets for a short period, but any stimulus will only add to inflation risks down the track. Bond markets are flexing their figurative muscles, and have delivered a stern message to authorities, namely that deficit spending + sticky inflation risks = higher interest rates. Next week’s RBNZ MPR is unlikely to offer any reprieve locally, with another 50bp hike and a continuation of the Bank’s erstwhile hawkish tone expected.

FX markets

FX markets have been volatile too, with the USD DXY going higher on stronger US data and as traders seek a safe haven amid volatility, but retracing lower in reaction to the BoE’s intervention. Our new FX forecasts (unveiled earlier in the week) have NZD/USD falling to 0.57 in 2023, but it is basically there already. It may get a boost from next week’s RBNZ MPR, but the USD’s appeal can’t be discounted given Fed hawkishness/resoluteness, and the strength of US data, which points to the risk of a strong US non-farm payrolls print next Friday.

Key data summary

ANZ Business Outlook – September. Activity indicators [generally lifted](#) (albeit from low levels), while inflation pressures remain stubbornly high.

ANZ Roy Morgan Consumer Confidence – September. [Consumer confidence](#) was unchanged at 85.4. Inflation expectations held high at 5.1%.

The week ahead

RBNZ sectoral lending data – August (Friday 30 September, 3:00pm). Housing lending growth continues to slow as the housing market softens and interest rates rise. That’s unlikely to change in the near term.

NZIER Quarterly Survey of Business Opinion – Q3 (Tuesday 4 October, 10:00am). While our [Business Outlook](#) survey is more timely (being monthly), the QSBO provides significant additional detail on capacity pressures, which the RBNZ pays close attention to.

GlobalDairyTrade auction (Wednesday 5 October, early am). Dairy futures point to higher prices but the increased offer volumes will test the depth of demand so prices are most likely to be similar to the previous event.

RBNZ OCR Review – October (Wednesday 5 October, 2:00pm). We anticipate a 50bp OCR hike to 3.5% – see our [preview](#).

ANZ Commodity Price Index – September (Thur 6 October, 1:00pm).



Key forecasts and rates

	Actual			Forecast (end month)					
	Jul-22	Aug-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
FX rates									
NZD/USD	0.628	0.612	0.573	0.590	0.570	0.570	0.580	0.590	0.600
NZD/AUD	0.900	0.893	0.882	0.894	0.891	0.891	0.892	0.894	0.882
NZD/EUR	0.614	0.613	0.583	0.608	0.600	0.600	0.598	0.590	0.583
NZD/JPY	83.7	84.9	82.7	86.7	85.5	85.5	85.8	85.6	85.2
NZD/GBP	0.516	0.527	0.515	0.527	0.518	0.518	0.513	0.504	0.504
NZ\$ TWI	71.1	70.7	68.2	70.0	68.6	68.6	68.9	69.1	69.1
Interest rates									
NZ OCR	2.50	3.00	3.00	4.00	4.25	4.75	4.75	4.75	4.75
NZ 90 day bill	3.14	3.47	3.82	4.27	4.77	4.85	4.85	4.85	4.85
NZ 2-yr swap	3.74	4.32	4.76	4.80	4.95	4.95	4.95	4.95	4.85
NZ 10-yr bond	3.42	3.98	4.23	4.50	4.75	4.75	4.75	4.75	4.50

Economic forecasts

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
GDP (% qoq)	1.7	0.4	0.2	0.3	0.7	0.2	0.2	0.3	0.4
GDP (% yoy)	0.4	5.0	2.1	2.6	1.6	1.4	1.4	1.4	1.1
CPI (% qoq)	1.7	1.6	0.9	0.7	0.6	0.8	0.4	0.4	0.3
CPI (% yoy)	7.3	6.7	6.1	5.0	3.9	3.1	2.5	2.3	2.0
Employment (% qoq)	0.0	0.1	0.1	0.1	0.1	-0.3	-0.4	-0.4	0.1
Employment (% yoy)	1.6	-0.1	0.1	0.3	0.3	0.0	-0.5	-1.0	-1.0
Unemployment Rate (% sa)	3.3	3.3	3.4	3.4	3.6	4.0	4.5	4.8	4.9

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. Click [here](#) for full ANZ forecasts

Figure 3. GDP forecast level

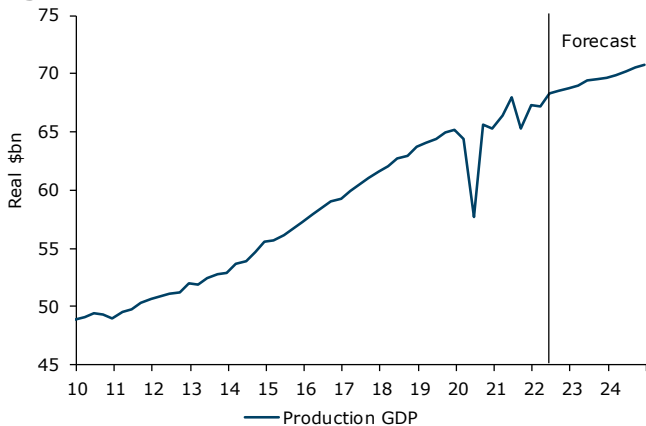


Figure 4. CPI inflation components

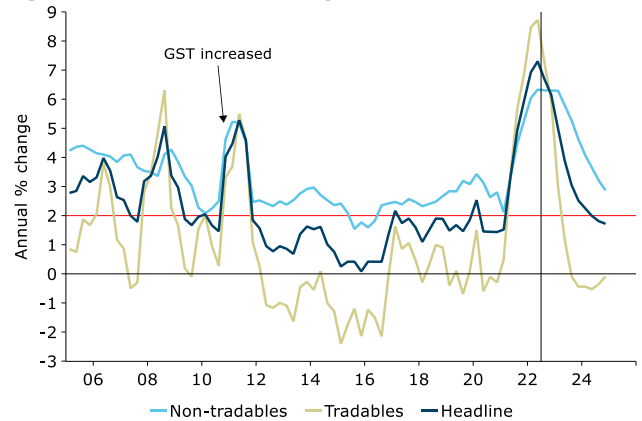


Figure 5. ANZ OCR forecast

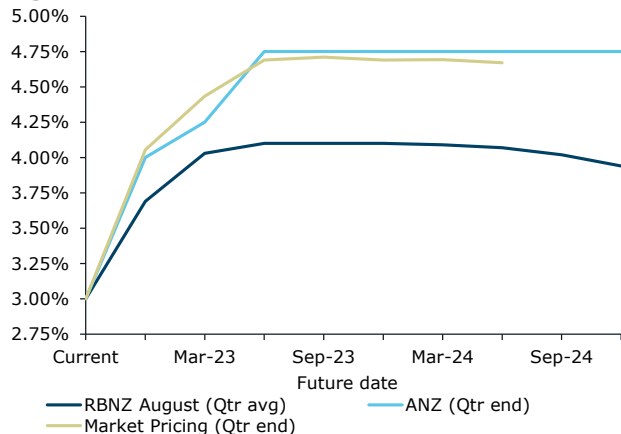
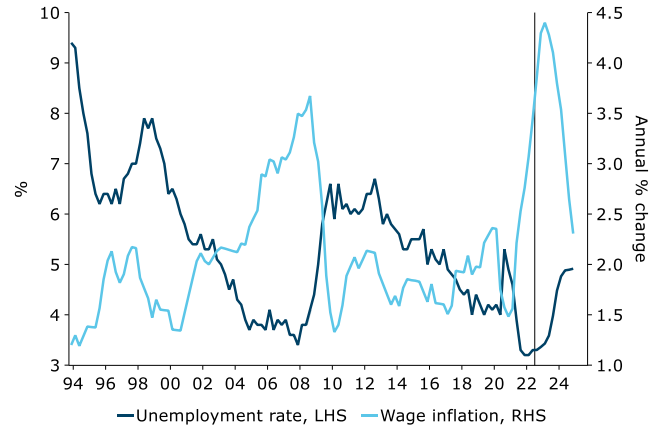


Figure 6. Unemployment and wage inflation



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



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