

New Zealand Weekly Data Wrap

14 October 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.

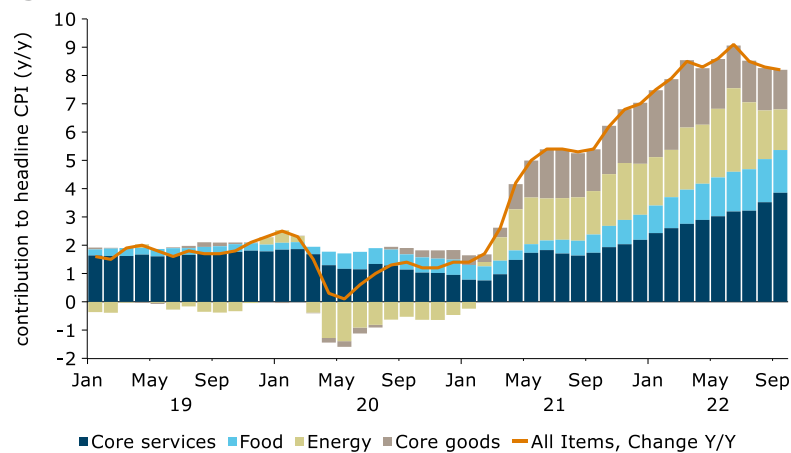


Global inflation pressures may not decline as quickly or as far as anticipated.

What happened this week?

Last night the US released their September inflation report, and the news wasn't good. Headline annual CPI inflation did ease to 8.2% (versus a peak of 9.1% in June), but the fall was less than the 8.1% consensus forecast, and more worryingly, core inflation (excluding food and energy) increased 0.3ppts to 6.6% y/y (a 40-year high). Core services inflation has continued to increase in recent months, and is contributing to a persistent surge in domestic inflation pressures in the US, even if lower energy prices have reduced the headline CPI print (figure 1).

Figure 1. Contributions to US CPI inflation



Source: BLS, Macrobond, ANZ Research

Combined with last week's solid September jobs report (with US unemployment falling 0.2ppts to 3.5%), last night's CPI figures have seen markets price 80bps into the Fed's November meeting, essentially locking in expectations for a fourth consecutive 75bp Fed funds rate hike, with a small nod towards the risk of a 100bp hike. The US story is important to keep in mind as we await next week's Q3 CPI data for New Zealand (see next page for more details). Headline inflation has fallen for several months in a row in the US, and yet the Fed has become more and more hawkish as core domestic inflation pressures have continued to surprise on the stronger side.

The bottom line is that underlying inflation both here and overseas is proving stronger and more persistent than expected. Yes, hard-landing risks are intensifying, but these may never materialise. Central banks simply don't yet have the luxury to watch, worry, and wait. They will want to see hard evidence that core inflation has turned the corner before entering that phase. Both the RBNZ and the Fed have demonstrated (in words and actions) that they are more concerned about the risk of doing too little to curb inflation, than the risk of doing too much. Unless we see a step change in the inflation outlook, we continue to see the RBNZ [on track](#) to lift the OCR to a peak of 4.75% in May 2023.

Domestically, the September REINZ property report showed the New Zealand [housing market continuing to cool](#). House prices were down 1.5% m/m in September (ANZ seasonal adjustment), and are now down about 11% from their November 2021 peak. Indicators continue to soften, with the median number of days it is taking to sell a house increasing by 1 to 47, while sales declined 6.9% m/m. We're now over two-thirds of the way through our (optimistic?) [forecast](#) for a 15% peak-to-trough decline in house prices.



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

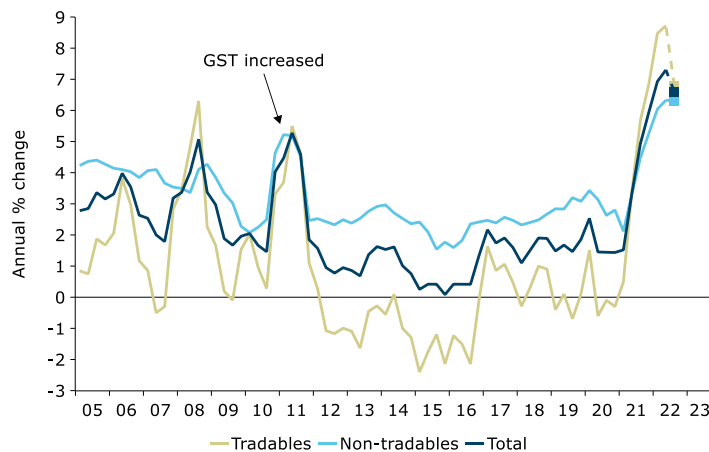
Check out our latest releases below.

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

What are we watching?

Next week we receive [CPI inflation data](#) for Q3. We anticipate that annual CPI inflation eased to 6.6%, versus 7.3% in Q2 (figure 2). That's a touch higher than the RBNZ's August MPS forecast of 6.4%. The primary driver of lower annual inflation is expected to be a roughly 8% fall in the NZD retail price of petrol over the quarter, as well as base effects (the 2021 September quarter saw a whopping 2.2% q/q increase in the CPI, which will drop out).

Figure 2. CPI inflation forecast



Source: Stats NZ, Macrobond, ANZ Research

While any easing in inflation pressure will offer some relief to squeezed households, the likely absence of a more broad-based decline in domestic inflation pressures means the RBNZ probably won't take much comfort from next week's data. We anticipate that annual non-tradables inflation remained strong at 6.3% (that's the RBNZ's August MPS forecast too), driven by rising rents, domestic food costs, construction costs, and a host of other domestically determined prices. And core inflation measures will likely remain far too high as well (even if they ease slightly from current highs).

In short, we're likely to see similarities to US CPI inflation over the September quarter (see previous page). Headline inflation should fall as petrol prices come off the boil, but core domestic inflation will in all likelihood remain far too strong.

The inflation outlook remains uncertain, and there are plenty of reasons why inflation could surprise on the upside or downside. On the downside:

- The rapid decline in shipping costs in recent months could flow through to a much faster reduction in tradables inflation.
- The [cooling housing market](#) could see construction costs (and non-tradables inflation) fall faster than expected.

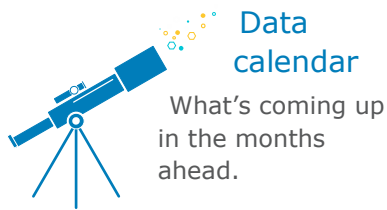
On the upside, the domestic labour market and capacity pressure indicators are holding up remarkably well:

- The economy was still adding new jobs [at a steady clip](#) in the three months to August 2022, and
- Measures of labour market stretch and employment intentions [remained extremely robust](#) in the latest QSBO.

The Q3 labour market report on 2 November will be key heading into the November MPS. Indicators suggest a significant risk that unemployment actually fell in Q3 (versus our forecast, and the RBNZ's, that it stayed flat at 3.3%). So we could see both aspects of the dual mandate surprise the RBNZ with their strength (relative to the August MPS projection). That speaks to ongoing hawkishness from the RBNZ heading into the November decision.



Financial markets update



Date	Data/event
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
Fri 11 Nov (10:45am)	Food Price Index – Oct
Fri 11 Nov (10:45am)	Rental Price Index – Oct
Mon 14 Nov (10:30am)	Performance Services Index – Oct
Tue 15 Nov (10:45am)	Net Migration – Sep
Wed 16 Nov (early am)	GlobalDairyTrade auction
Tue 22 Nov (10:45am)	Merchandise Trade – Oct
Wed 23 Nov (2:00pm)	RBNZ Monetary Policy Statement
Fri 25 Nov (10:00am)	ANZ-RM Consumer Confidence – Nov
Fri 25 Nov (10:45am)	Retail Sales – Q3
Wed 30 Nov (10:45am)	Building Permits – Oct
Wed 30 Nov (1:00pm)	ANZ Business Outlook – Nov
Fri 2 Dec (10:45am)	Terms of Trade – Q3

Interest rate markets

Global market expectations for monetary policy tightening continue to firm, with US markets toying with the idea of a 100bp hike next month, or a fifth 75bp hike in December. This drift, and higher-than-expected US core CPI overnight, have seen the NZ market move to price in 40% odds of a 75bp hike next month. We continue to expect a 50bp hike, but the market is obviously hypersensitive to any strong data, and a further drift up in expectations (and short-end rates generally) is conceivable if NZ Q3 CPI beats expectations next week. US long-end bond yields are off highs seen immediately after CPI data last night, but the decline looks technical and position-related, and could prove fleeting. We remain guarded about the prospect of a sustained move lower in long-term rates just yet. Policy rates are likely to remain higher for longer, and the risks around core inflation are still skewed to the upside.

FX markets

FX markets remain volatile, with USD/JPY at fresh highs, sterling rebounding sharply, and daily trading ranges in the kiwi exceeding 1 cent most days this week. There is clear technical support for the NZD around 0.55, but we are wary that the overnight bounce (which coincided with a general bounce in risk assets) looks like a technical correction and doesn't square with fundamentals. But going the other way, the NZ economy has some resilience, the NZD is well below our measure of fair value, and long-end bond yields are at fresh highs (just below 5%). That all makes for a more mixed and less clear outlook.

Key data summary

ANZ Truckometer – September. The Light Traffic Index lifted another 1.9% in September, while the [Heavy Traffic Index](#) eased 3.3% after jumping strongly last month.

Electronic Card Transactions – September. Retail spending lifted 1.4% m/m (1.0% previously).

REINZ House Prices – September. [House prices fell](#) 1.5% m/m (ANZ sa), down 11% from their November 2021 peak.

Net Migration – August. The first month with an open border showed an uptick in annual arrivals and departures, with an annual net outflow of -11k, versus -12k in August.

Food Prices – September. Food prices lifted 8.3% y/y, with inclement weather driving a 16% y/y rise in fresh fruit and vegetable prices.

Rental Price Index – September. Total rents rose 4.1% y/y, but a 1.3% y/y reduction in rents for new tenancies suggests an easing in rental inflation pressure could be in the pipeline.

Performance of Manufacturing Index – September. Eased to 52.0, versus 54.8 in August, dragged down by new orders falling 11.3pts to 48.4.

The week ahead

Performance of Services Index – September (Monday 17 October, 10:30am). Bounced strongly in August. Further strength would add to growing evidence that domestic demand remained resilient in Q3.

CPI – Q3 (Tuesday 18 October, 10.45am). We expect annual CPI inflation eased to 6.6% (vs. 7.3% in Q2). See our [preview](#).

GlobalDairyTrade auction (Wednesday 19 October, early am). Prices are expected to ease a further 1.5% at the next GDT event despite WMP offerings being lower.

Overseas Merchandise Trade – September (Friday 21 October, 10:45am). The monthly deficit is expected to narrow in September as imports pull back from August's surge and exports remain broadly stable.



Key forecasts and rates

FX rates	Actual				Forecast (end month)				
	Aug-22	Sep-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD/USD	0.612	0.560	0.564	0.590	0.570	0.570	0.580	0.590	0.600
NZD/AUD	0.893	0.874	0.895	0.894	0.891	0.891	0.892	0.894	0.882
NZD/EUR	0.613	0.571	0.577	0.608	0.600	0.600	0.598	0.590	0.583
NZD/JPY	84.9	81.0	83.0	86.7	85.5	85.5	85.8	85.6	85.2
NZD/GBP	0.527	0.501	0.498	0.527	0.518	0.518	0.513	0.504	0.504
NZ\$ TWI	70.7	67.8	67.7	70.0	68.6	68.6	68.9	69.1	69.1
Interest rates	Aug-22	Sep-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZ OCR	3.00	3.00	3.50	4.00	4.25	4.75	4.75	4.75	4.75
NZ 90 day bill	3.47	3.85	3.98	4.27	4.77	4.85	4.85	4.85	4.85
NZ 2-yr swap	4.32	4.67	4.95	4.80	4.95	4.95	4.95	4.95	4.85
NZ 10-yr bond	3.98	4.30	4.59	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	<i>Under review</i>						
CPI (% yoy)	7.3	6.6	<i>Under review</i>						
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

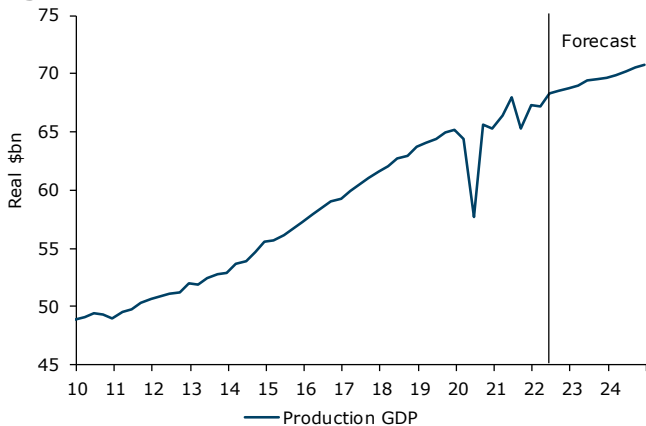


Figure 4. CPI inflation components

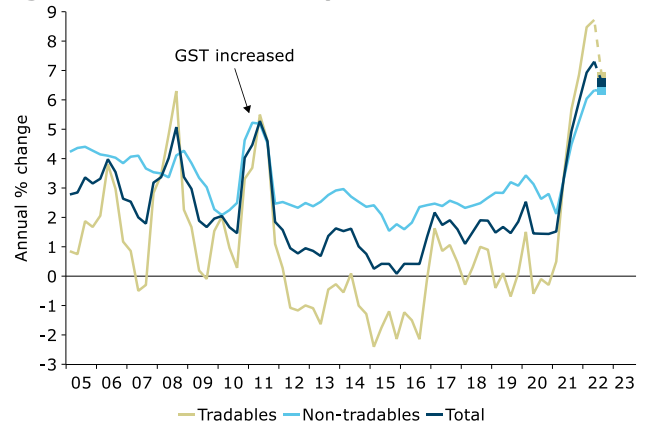


Figure 5. ANZ OCR forecast

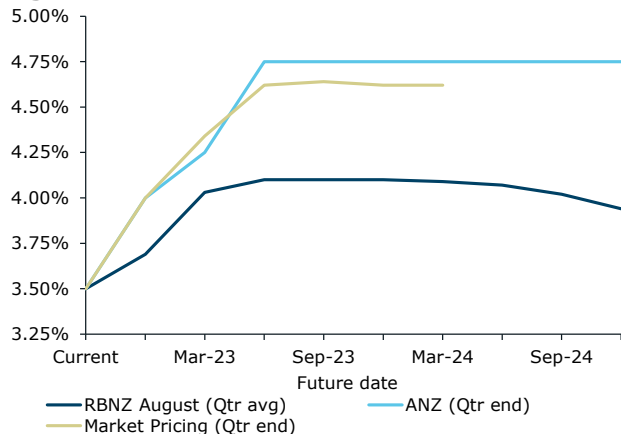
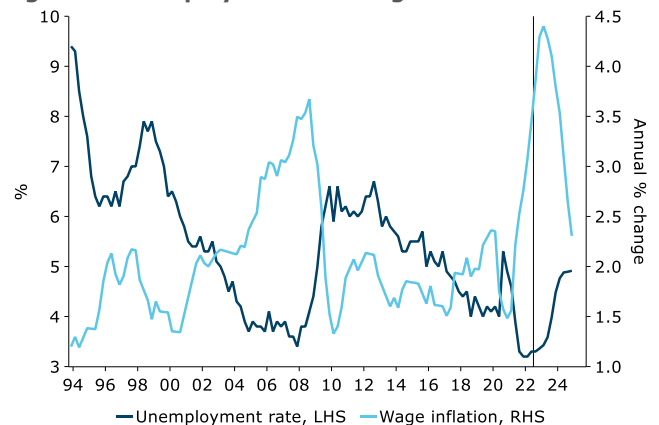


Figure 6. Unemployment and wage inflation



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



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