

New Zealand Weekly Data Wrap

28 October 2022



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See page 5.

Forecast updates

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

- [NZ Property Focus: Testing times](#)
- [NZ CPI and OCR call change: 75s now expected for Nov and Feb](#)
- [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, and looking sticky
- OCR to 5% by Feb 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.



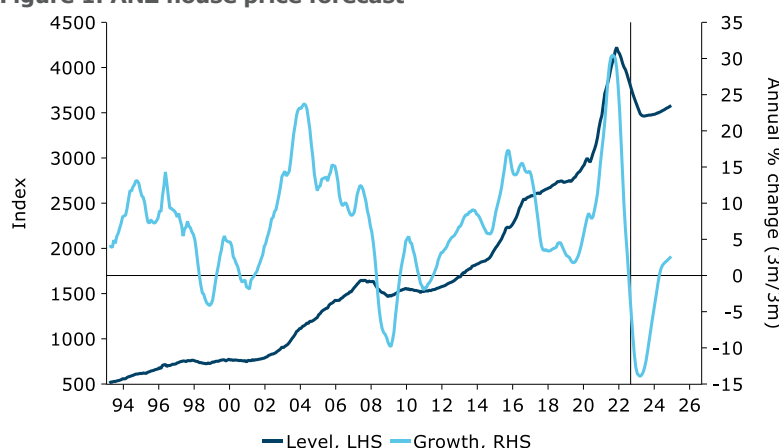
Global inflation pressures may not decline as quickly or as far as anticipated.

What happened this week?

Note: We will publish our Preview for next week's Q3 Labour Market data later this morning after September filled jobs data are released.

This week we released the latest edition of our [Property Focus](#). The housing market has continued to soften in recent months, with the REINZ house price index now down about 11% from its November 2021 peak (ANZ seasonal adjustment). In the wake of our [OCR call change](#) last week, (with two 75bp hikes in November and February expected to bring the OCR to 5% by February 2023), it's hard to escape the conclusion that house prices will probably fall a bit further than expected. Consequently, we now expect house prices to fall a total of 18% from peak to trough, versus -15% previously. Once again we would emphasise that while this decline sounds dramatic, it's still only a partial unwind of the recent run-up in prices (figure 1).

Figure 1. ANZ house price forecast



Source: REINZ, Macrobond, ANZ Research

Next week the RBNZ will release their latest Financial Stability Report (published every six months). In a [speech](#) yesterday the Governor noted "I am pleased to provide a teaser in that New Zealand's financial system remains well placed to support the economy", but he also noted that "there will be stresses in business and amongst households as interest rates and asset prices adjust". In the [May Monetary Policy Statement](#), the RBNZ made the point that most mortgage-holding households have seen higher mortgage rates in the years before the extreme lows seen in 2020 and 2021, and were "tested on the ability to service their mortgages at interest rates over 7 percent". With fixed mortgage rates close to or slightly above 6% (and likely to rise higher as the OCR approaches our 5% forecast in coming months) households are getting closer to that 7% level.

But (on average) Kiwi households are well placed to get through this period of rapidly tightening monetary policy. Debt servicing as a share of income is unlikely to reach levels seen before the 2008 recession even if the OCR rises to 5% (our forecast). Job security is strong, and wages are growing at their fastest pace in many years. That's not to say that the next year will be easy. High debt-servicing costs will reduce discretionary spending, weigh on investment, and constrain the economy. And people who leveraged up to the hilt to get on the housing market over 2021 will feel the brunt of it. But the RBNZ sets monetary policy for New Zealand as a whole, and for the moment, there's not much to suggest they will be shifting from their hawkish stance.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: Testing times
- 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

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ANZ Proprietary data

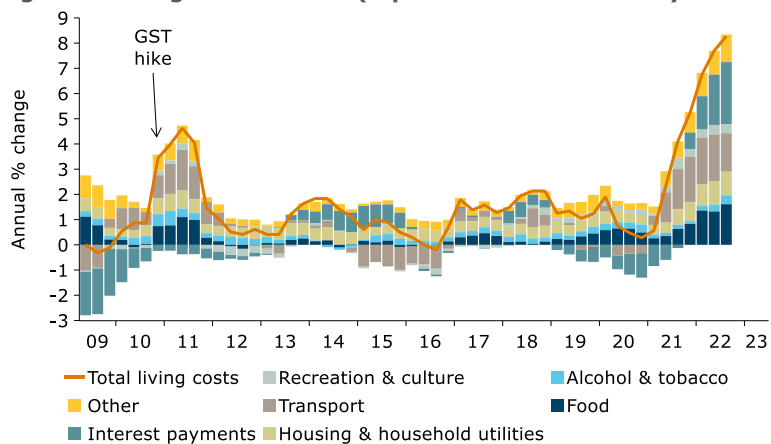
Check out our latest releases below.

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

Housing living-costs price indexes show impact of rate hikes

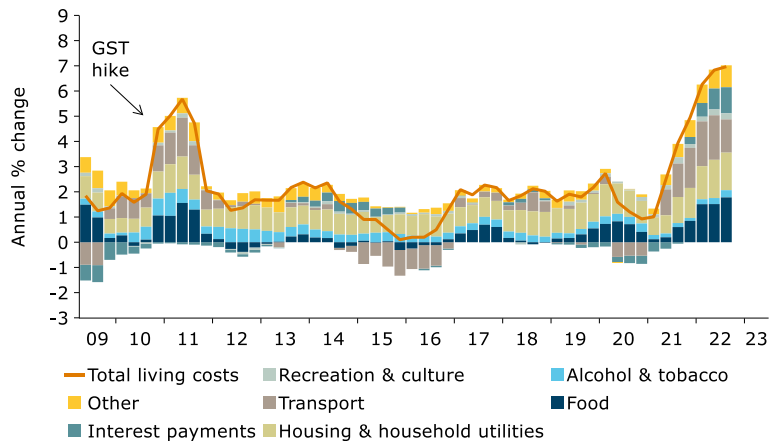
Stats NZ released the Q3 household living-costs price indexes (HLPI) this week. While the data aren't exactly market-moving, given that we already have Q3 CPI data under our belts, they do offer useful information on how interest payments are impacting household living costs (which are excluded from the CPI, given that it's the RBNZ's target inflation measure). The HLPI also gives some detail on how different households are experiencing the current inflation surge. There are some interesting details in the data at the moment. In a reversal of historical trends, the cost of living is increasing faster for the top 20% of households by income, up 8.3% y/y (figure 2), while for the lowest 20%, costs are up a still-too-high 7.0% y/y (figure 3). For all households, costs are up 7.7% y/y (versus 7.2% CPI inflation).

Figure 2. Living cost inflation (top 20% of households by income)



Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Living cost inflation (lowest 20% of households by income)

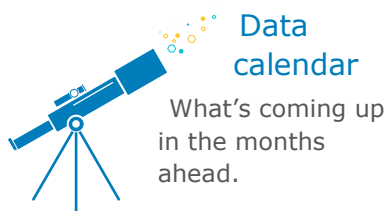


Source: Stats NZ, Macrobond, ANZ Research

The difference in costs between households, and between the HLPI and CPI, largely comes down to interest payments. With the RBNZ rapidly raising interest rates to bring down overall inflation, the cost of interest payments to households has lifted 39.3% y/y, and that's a cost that's not measured in the CPI. In addition, higher-income households tend to spend more on interest payments (with lower-income households spending more on rent), so the current inflation, combined with rapidly rising interest rates, is actually sending costs up faster for high-income households. However, the concentration of inflation in food, housing costs, and transport (ie essentials) means the burden of inflation will nonetheless be particularly tough for those on lower fixed incomes.



Financial markets update



Date	Data/event
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
Tue 6 Dec (1:00pm)	ANZ Commodity Price Index – Nov
Wed 7 Dec (early am)	GlobalDairyTrade auction
Thu 9 Dec (10:00am)	ANZ Truckometer – Nov
Thu 9 Dec (10:45am)	Economic Survey of Manufacturing – Q3
Mon 12 Dec (10:45am)	Net Migration – Oct
Tue 13 Dec (10:45am)	Food Price Index – Nov

Interest rate markets

The froth has settled a little in local rates markets, with market pricing no longer putting any odds on the RBNZ hiking 100bps next month. Indeed, pricing for November has slipped from 78bp priced last Friday, to 66bp this morning. There are good reasons for the pullback: upping the ante this late in the cycle is not without risks, and the CPI reward versus, say, continued 50bp hikes may be deemed by the MPC as not worth it. Conversely, the wage-price spiral is looking more developed, and getting on top of that sooner rather than later may limit economic pain overall. It's also worth noting that it's a long time between drinks for the OCR from November to February, meaning if the RBNZ does conclude it has more work to do than previously thought, it may as well get on with it in November. We're comfortable with our 75bp call for November and February, but think a slight under-pricing of this by markets is a fair representation of the risks. But the fact that most economists appear to be calling 75bp doesn't necessarily make it a slam dunk. Next week's labour market data will be very important! Globally, US 10-year yields have retraced from their recent 15-year highs, down more than 40bp from last week's peak to just over 3.9%. The FOMC decision next week has gotten a lot more interesting after the Bank of Canada surprised with a smaller-than-expected hike this week. But signs that Canadian core inflation has rounded a corner are more convincing than in many other economies. We expect the Fed to hike 75bp.

FX markets

Broad USD weakness continued amid a better tone for risk and as hopes lifted that the Fed may be able to slow the pace of hikes as soon as December. Meanwhile, NZD has been riding the coattails of AUD following the strong AU CPI release this week. There is still a decent gap between RBA and RBNZ expectations, but it closed a little this week from both ends.

Key data summary

ANZ Business Outlook – October. [Business confidence](#) fell 6 points to -43, while expected own activity dipped 1 point to -3.

ANZ Roy Morgan Consumer Confidence – October. Consumer confidence was [once again unchanged](#) at a low of 85.4.

The week ahead

RBNZ sectoral lending data – September (Monday 31 October, 3:00pm). Growth in housing lending has continued to slow as the housing market cools. With house sales down 6.9% m/m in September, there's not much reason to expect that trend to reverse any time soon.

Building Permits – September (Tuesday 1 November, 10:45am).

Overall consents look like they've peaked (still running at over 50k in the year to August), but multi-unit dwelling consents are still trending up strongly on an annual basis. It's hard to see construction cost inflation falling rapidly with such a strong pipeline of work (despite the downturn in the housing market).

GlobalDairyTrade auction (Wednesday 2 November, early am). The recent downward trend in pricing is expected to persist with a further 2% fall in the GDT Price Index anticipated. Buyers are yet to react to lower milk volumes being produced in NZ this spring.

Labour Market Statistics – Q3 (Wednesday 2 November, 10:45am). We'll release our Preview later this morning once Stats NZ monthly filled jobs data for September have been released.

ANZ Commodity Price Index – September (Thursday 3 November, 1:00pm)



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	0.583	0.590	0.570	0.570	0.580	0.590	0.600
NZD/AUD	0.893	0.874	0.903	0.894	0.891	0.891	0.892	0.894	0.882
NZD/EUR	0.613	0.571	0.585	0.608	0.600	0.600	0.598	0.590	0.583
NZD/JPY	84.9	81.0	85.2	86.7	85.5	85.5	85.8	85.6	85.2
NZD/GBP	0.527	0.501	0.504	0.527	0.518	0.518	0.513	0.504	0.504
NZ\$ TWI	70.7	67.8	69.7	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	4.25	5.00	5.00	5.00	5.00	5.00
NZ 90 day bill	3.47	3.85	4.09	4.85	5.10	5.10	5.10	5.10	5.10
NZ 2-yr swap	4.32	4.67	5.01	5.30	5.30	5.30	5.20	5.20	5.10
NZ 10-yr bond	3.98	4.30	4.24	5.00	5.00	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	2.2	1.1	1.2	0.8	1.0	0.4	0.5	0.3
CPI (% yoy)	7.3	7.2	6.9	6.3	5.4	4.3	3.6	2.8	2.3
Employment (% qoq)	0.0								
Employment (% yoy)	1.6	<i>Under review, Q3 labour market preview to be published later today</i>							
Unemployment Rate (% sa)	3.3								

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

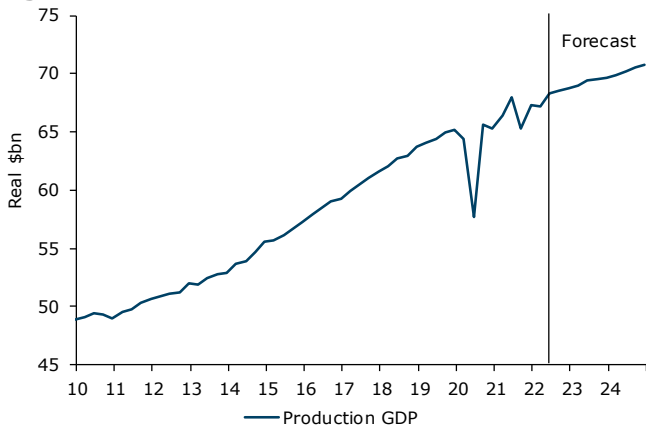


Figure 4. CPI inflation components

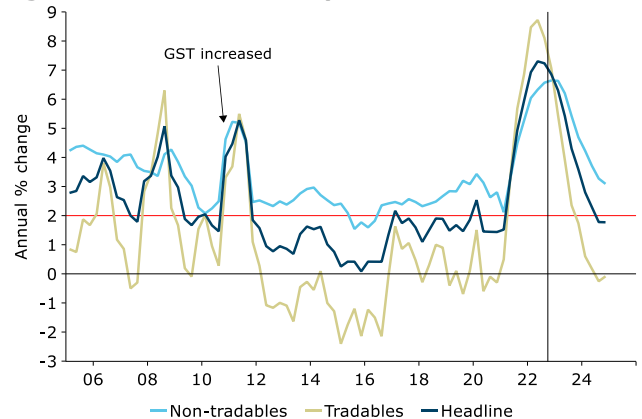


Figure 5. ANZ OCR forecast

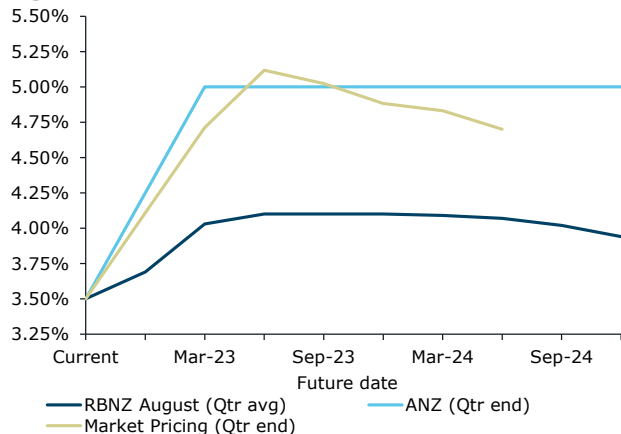
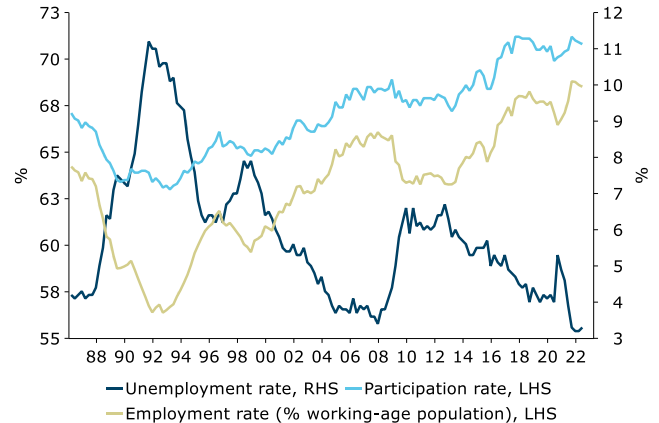


Figure 6. Labour market indicators



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



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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