

# New Zealand Weekly Data Wrap

4 November 2022



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Contact us

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.



The construction slowdown could have broader impacts than assumed.



The neutral OCR could be increasing faster than estimated as wages lift.

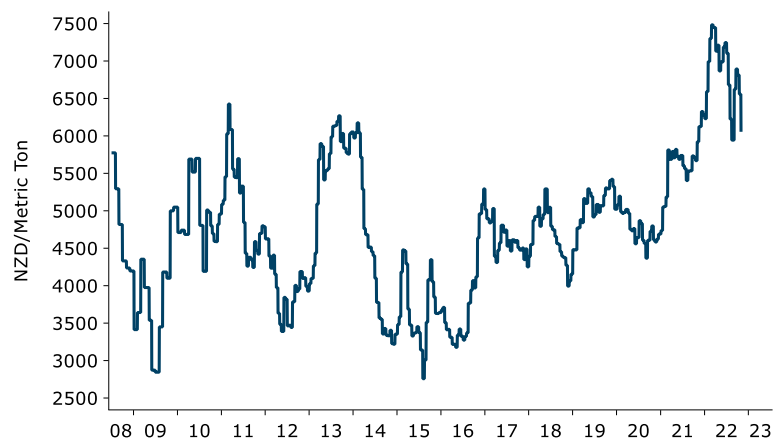


Global inflation pressures may not decline as quickly or as far as anticipated.

## What happened this week?

Dairy commodity prices have dropped 30% since March 2022 to trade at an average price of USD3537/MT this Global Dairy Trade auction. While dairy prices are now below historical averages in USD terms, in NZD terms they remain elevated (figure 1). While some softening in this market was expected after such a steep run-up over 2021, the pace at which dairy commodity prices have declined has surprised market participants. The USD has appreciated significantly in recent months, benefitting from softening global risk appetite and an increasingly strong interest rate outlook for the US.

Figure 1. Global Dairy Trade average prices in NZD



Source: RBNZ, Global Dairy Trade, Macrobond, ANZ Research

The relatively low NZ currency is supporting returns at the farmgate level. The ANZ milk price forecast for the 2022-23 season has been at \$8.75/kg milksolid [for some time](#), and was considered pessimistic when initially released. However, the sharp drop in commodity prices has now eroded the buffer built into this forecast, meaning any further falls in dairy commodity prices would pose a downside risk to the outlook for farm-gate milk prices.

Both demand for dairy products and the supply of them are relatively weak, with these two market forces battling it out. At present, the equilibrium between supply and demand is favouring buyers of dairy products rather than sellers. A seasonal lift in milk supply among the main dairy-exporting markets has contributed to the bearish trend.

Milk supplies in New Zealand tend to peak in early November, which often puts pressure on the market. But the bigger picture shows milk output in NZ is weak compared to recent seasons. Milk intakes across the country from June to September are down 4% y/y and are 6.9% back on the same period in 2020. Most of the fall has occurred in the North Island, where extremely wet spring conditions hampered pasture production. Now that the ground is starting to dry out milk production should improve a little, but the industry is very unlikely to make up the ground lost earlier in the season. We expect milk production will be down 3% across the 2022-23 season.

New Zealand's commodity prices generally have started heading south, with the latest [ANZ World Commodity Price Index](#) showing a 3.4% decline in October as meat and dairy prices eased. However, local currency commodity prices still rose 0.3% m/m due to the weaker NZD. Shipping costs have fallen sharply around the world, but the relief for New Zealand has been limited due to a reduction in the quantity of ships servicing New Zealand ports.



## 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

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

### Updating our labour market outlook

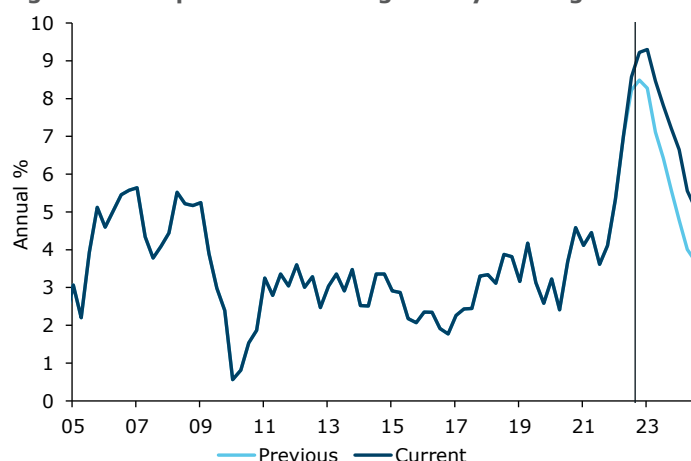
Unemployment remained very low at 3.3% in the September quarter, but the flat print hid some **extremely strong details**. Employment lifted 1.3% q/q, much stronger than the 0.5% we had pencilled in, and well ahead of the 0.1% the RBNZ expected at the August MPS. How, then, did the unemployment rate not fall? Because we saw the biggest-ever quarterly fall in the number of people not in the labour force, and a new record high in the participation rate. A combination of elevated labour demand and intensifying cost of living pressures is continuing to drive solid jobs growth by pulling (and pushing) people into the labour force. And yet we still see record levels of difficulty finding workers reported in business surveys.

This dynamic seems likely to continue in the near term, with job gains coming mostly from people entering the labour force (eg students), rather than big reductions in the number of unemployed people. We anticipate that unemployment will remain broadly flat at 3.3% over the next few quarters (figure 6), before rising over 2023 and 2024 as the RBNZ's rapid hiking cycle triggers a marked slowdown in the domestic economy and inflation.

Amongst the many records set by the Q3 labour market data, record-high wage growth will likely alarm the RBNZ the most. Average hourly earnings for private sector workers (excluding overtime) were up a whopping 8.6% y/y, higher than our forecast of 8.2%, and the RBNZ's top-of-market expectation of 8.3% (figure 2). It's looking like private sector wage growth will peak north of 9%, which would be consistent with recent news articles that have highlighted a number of double-digit pay rises secured for large groups of workers. While these wage gains are only fair and will be a huge relief for struggling households as they claw back purchasing power from the grasp of surging inflation, the risk is that that relief could unfortunately prove relatively short-lived as inflation stays higher for longer. Wage-price spiral dynamics are looking increasingly established, which leaves the RBNZ with little choice but to **keep on hiking** the OCR, even as downside risks to growth build (both domestically and globally).

We're forecasting that the RBNZ will lift the OCR to 5.0% in February, but risks are tilted towards a higher peak. However, one important caveat is that the state of the labour market tends to reflect previous economic momentum, rather than tell you a lot about the future. There is a real risk that the economy could soften by more than expected over 2023 as the full impact of monetary tightening really starts to hit home. The challenge for the RBNZ would then be to know when the inflation embers are truly extinguished, so they can safely ease policy without seeing inflation re-ignite 70s-style. But that's most certainly a problem for another day.

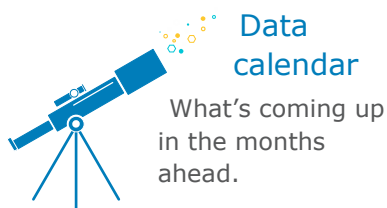
**Figure 2. ANZ private sector avg. hourly earnings forecast (ordinary time)**



Source: Stats NZ, ANZ Research



## Financial markets update



Date	Data/event
Tue 8 Nov (10:00am)	<a href="#">ANZ Truckometer – Oct</a>
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)	<b>RBNZ Monetary Policy Statement</b>
Fri 25 Nov (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Nov</a>
Fri 25 Nov (10:45am)	Retail Sales – Q3
Wed 30 Nov (10:45am)	Building Permits – Oct
Wed 30 Nov (1:00pm)	<a href="#">ANZ Business Outlook – Nov</a>
Fri 2 Dec (10:45am)	Terms of Trade – Q3
Tue 6 Dec (1:00pm)	<a href="#">ANZ Commodity Price Index – Nov</a>
Wed 7 Dec (early am)	GlobalDairyTrade auction
Thu 9 Dec (10:00am)	<a href="#">ANZ Truckometer – Nov</a>
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
Tue 13 Dec (10:45am)	Rental Price Index – Nov
Wed 14 Dec (10:45am)	Current Account – Q3
Wed 14 Dec (1:00pm)	Half Year Economic and Fiscal Update
Thu 15 Dec (10:45am)	GDP – Q3
Fri 16 Dec (10:30am)	BusinessNZ Manuf PMI – Nov

### Interest rate markets

Global interest rates resumed their upward march this week after the US Fed delivered its fourth 75bp hike in a row, and reinforced its resolve to get inflation back to target. While it did say that the pace of hikes would slow at some point, it refused to be drawn on when, and we remain worried about US inflation. Local labour market data this week reinforced the hawkish policy slant here. With US rates biased higher, we expect NZ interest rates to remain under ongoing pressure to continue rising over the remainder of 2022.

### FX markets

The USD made a strong comeback after the hawkish Fed meeting, driving the Kiwi back below 0.58 after earlier flurries above 0.59. New Zealand is in better shape than many countries, and that's reflected in strength in some crosses, but it's hard to deny the USD's appeal amid higher rates and a risk-off vibe.

### Key data summary

**RBNZ sectoral lending data – September.** Housing lending growth eased to 5.7% y/y (6.2% previously) as the housing market continues to cool in the face of the RBNZ's rate hikes. Consumer lending was up 1.1% y/y, the first annual rise since the onset of the pandemic.

**Building Permits – September.** Consents lifted 3.8% m/m, and remained close to record highs. The continued surge in multi-unit homes is offsetting a decline in consents for stand-alone houses. The ongoing strength in new consents is surprising, given the gloomy outlook for construction and the housing market.

**GlobalDairyTrade auction.** Prices fell 3.9% at the latest auction, and are now down 33% from their March 2022 levels.

**Labour Market Statistics – Q3.** See our [Review](#).

**ANZ Commodity Price Index – September.** The [ANZ World Commodity Price Index](#) fell 3.4% in October, as dairy and meat prices eased.

### The week ahead

**ANZ Truckometer – October (Tuesday 8 November, 10:00am).**

**RBNZ Inflation Expectations – Q4 (Tuesday 8 November, 3:00pm).** The shock Q3 CPI print means the Q4 Survey of Expectations could be a bit of a wild card, but the RBNZ will be hoping to see further moderation in inflation expectations given how far through their hiking cycle they now are.

**Electronic Card Transactions – October (Wednesday 9 November, 10:45am).** ANZ card spending data suggest spending remained robust in October, and with inflation still high and wage growth setting new records, that's not too much of a surprise.

**Performance of Manufacturing Index – October (Friday 11 November, 10:30am).** Manufacturing is slowing globally, but so far, the New Zealand PMI has remained in expansionary territory throughout 2022.

**Food Prices – October (Friday 11 November, 10:45am).** Usual seasonality would suggest a 0.5% m/m drop in food prices, but given challenging growing conditions and surging domestic costs, even a small monthly lift in food prices wouldn't be too surprising.

**Rental Price Index – October (Friday 11 November, 10:45am).** We've pencilled in a 0.2% m/m lift in total rents, but the sharp drop in rents for new tenancies (down 1.3% y/y in September) suggests an easing in rental inflation is in the pipeline.



## Key forecasts and rates

	Actual			Forecast (end month)					
	Sep-22	Oct-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<b>FX rates</b>									
NZD/USD	0.560	0.580	0.578	0.590	0.570	0.570	0.580	0.590	0.600
NZD/AUD	0.874	0.907	0.918	0.894	0.891	0.891	0.892	0.894	0.882
NZD/EUR	0.571	0.584	0.592	0.608	0.600	0.600	0.598	0.590	0.583
NZD/JPY	81.0	86.2	85.6	86.7	85.5	85.5	85.8	85.6	85.2
NZD/GBP	0.501	0.503	0.518	0.527	0.518	0.518	0.513	0.504	0.504
NZ\$ TWI	67.8	69.8	69.9	70.0	68.6	68.6	68.9	69.1	69.1
<b>Interest rates</b>									
NZ OCR	3.00	3.50	3.50	4.25	5.00	5.00	5.00	5.00	5.00
NZ 90 day bill	3.85	4.10	4.17	4.85	5.10	5.10	5.10	5.10	5.10
NZ 2-yr swap	4.67	5.02	5.21	5.30	5.30	5.30	5.20	5.20	5.10
NZ 10-yr bond	4.30	4.19	4.56	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	<b>0.4</b>	<b>0.2</b>	<b>0.3</b>	<b>0.7</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>
GDP (% yoy)	0.4	<b>5.0</b>	<b>2.1</b>	<b>2.6</b>	<b>1.6</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.1</b>
CPI (% qoq)	1.7	2.2	<b>1.1</b>	<b>1.2</b>	<b>0.8</b>	<b>1.0</b>	<b>0.4</b>	<b>0.5</b>	<b>0.3</b>
CPI (% yoy)	7.3	7.2	<b>6.9</b>	<b>6.3</b>	<b>5.4</b>	<b>4.3</b>	<b>3.6</b>	<b>2.8</b>	<b>2.3</b>
Employment (% qoq)	0.0	1.3	<b>0.3</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.4</b>	<b>0.0</b>
Employment (% yoy)	1.5	1.2	<b>1.5</b>	<b>1.7</b>	<b>1.7</b>	<b>0.1</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-1.2</b>
Unemployment Rate (% sa)	3.3	3.3	<b>3.3</b>	<b>3.3</b>	<b>3.5</b>	<b>4.0</b>	<b>4.5</b>	<b>4.9</b>	<b>4.9</b>

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

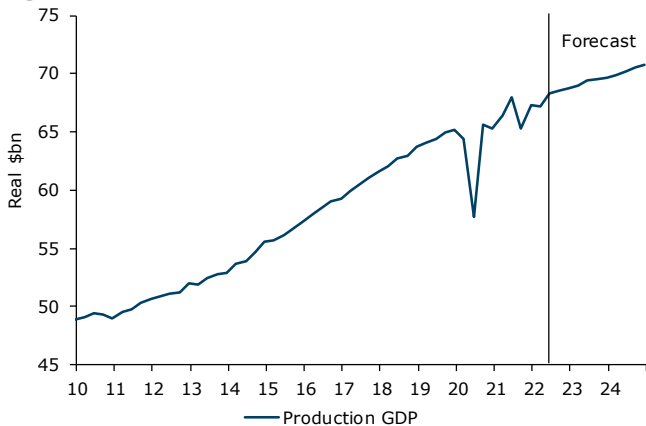


Figure 4. CPI inflation components

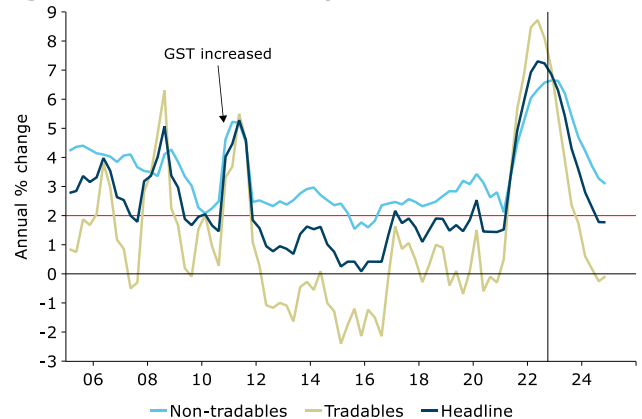


Figure 5. ANZ OCR forecast

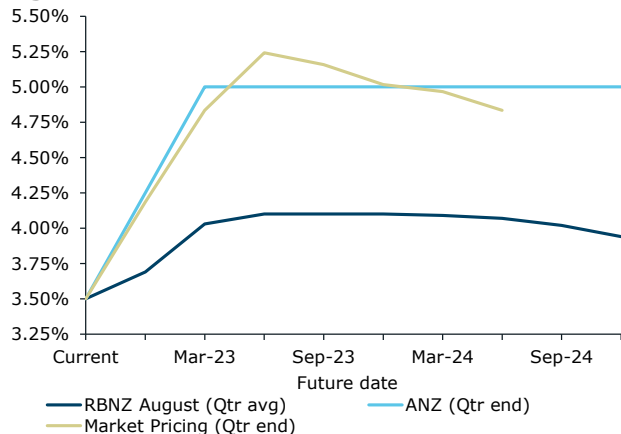
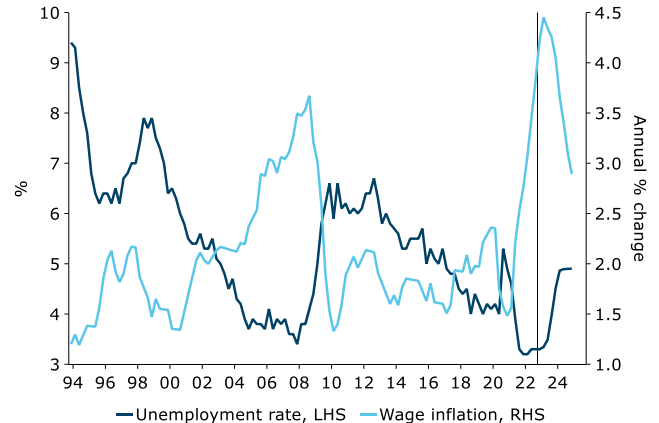


Figure 6. Unemployment and wage inflation



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



## Contact us

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