

New Zealand Weekly Data Wrap

11 November 2022



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See [page 5](#).

Forecast updates

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

- [NZ Economic Outlook: coming in to land](#)
- [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](#)

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?

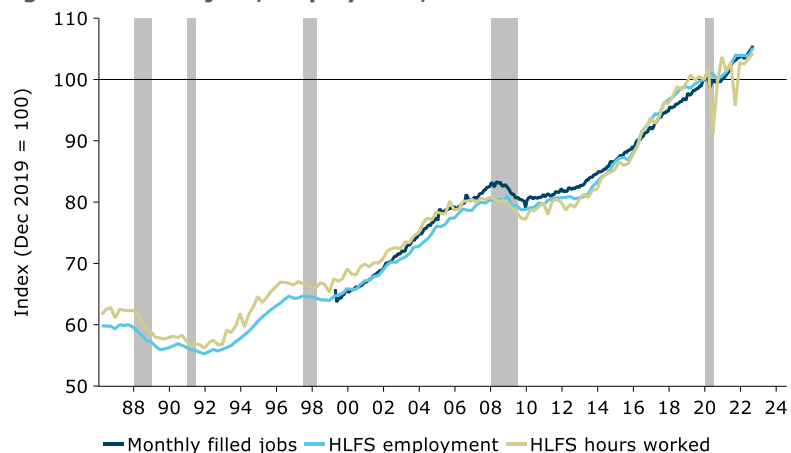
This week we released the latest edition of our [Quarterly Economic Outlook](#). Our view of the economic outlook hasn't really changed. Growth is expected to slow meaningfully over 2023, the labour market is forecast to soften, and inflation is forecast to gradually return to target as a result. The main difference is the level of the OCR that we think will be needed to achieve this outcome. Back in August, we thought that lifting the OCR to 4% would do the trick, but now we see the OCR needing to be lifted to 5.0% by February 2023 (with risks it could go higher still).

A big part of this adjustment reflects a higher natural OCR (the level of the OCR that is neither adding to nor subtracting from inflation over the medium term). Basically, this means the actual OCR needs to be higher to achieve the same level of policy tightening. While the actual level of the neutral OCR is highly uncertain, ongoing strength in inflation expectations (see next page) means we can be more confident that this level has increased, and therefore the actual OCR will need to go higher than the RBNZ thought back in the August MPS (which projected a 4.1% peak).

Yesterday, the RBNZ released the [Review and Assessment of the Formulation and Implementation of Monetary Policy](#) (RAFIMP). Separate from the review of the Monetary Policy Committee's Remit, the RAFIMP is a backward-looking 'report card' on decisions made by the MPC from 2017 to mid-2022. While it's a 'pass', the report highlights areas for improvement.

We also took the time to explore some of the records broken by last week's Q3 labour market data in a [recent insight note](#). While unemployment was unchanged at 3.3% (still a very low number!), we saw records broken for employment, participation, hours worked, and wage growth (to name a few). The data put in perspective how rapid the labour market recovery from COVID has been, especially compared to previous cycles (figure 1). Of course, a super-tight labour market can have some downsides, especially in that it's a key driver of the outlook for domestic inflation remaining too high for too long. But in a glass-half-full view, Kiwi households are on average in a solid position (from an income growth and job security perspective) to weather what's shaping up to be a fairly difficult 2023.

Figure 1. Filled jobs, employment, and hours worked



Source: Stats NZ, Macrobond, ANZ Research

Note: Grey shading represents recessions in New Zealand



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- RBNZ Formulation and Implementation of Monetary Policy Review
- NZ Insight: our record breaking labour market
- 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?

Click here for more.



ANZ Proprietary data

Check out our latest releases below.

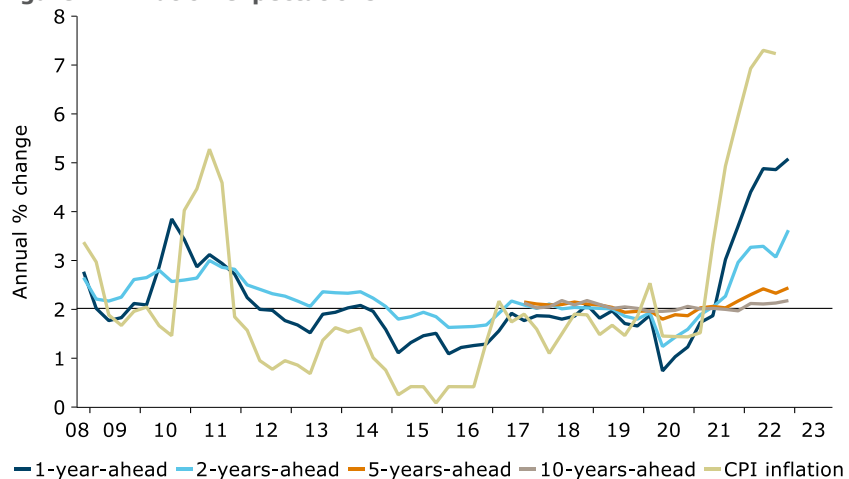
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

Inflation expectations going the wrong way again

Since the August MPS the RBNZ has had a trifecta of hawkish surprises, with CPI inflation, labour market, and most recently inflation expectations data all coming in considerably hotter than expected. Since that shock Q3 CPI print, [we've been forecasting](#) that the OCR will need to rise to 5.0% by February 2023 (via 75bp hikes in the November and February meetings). And despite downside risks to growth continuing to build, we still see upside risks to our forecast for a 5.0% terminal OCR.

Those risks were reinforced this week by the RBNZ's Q4 Survey of Expectations. It was all bad news, with inflation expectations rising across the curve (figure 2), despite survey respondents also anticipating a much higher peak in the OCR. Essentially, inflation was seen as being much stronger and more persistent, even in the face of the rapid rate rises the RBNZ has delivered. We should note that the sample size of the survey is a mere 33 "business leaders and professional forecasters", so it's not capturing the expectations of Kiwi businesses and households at large. But it does highlight that forecaster expectations are moving further towards the 'RBNZ losing credibility' end of the spectrum, which would support super-sized 75bp OCR hikes in the next two meetings as the RBNZ defends its inflation target.

Figure 2. Inflation expectations



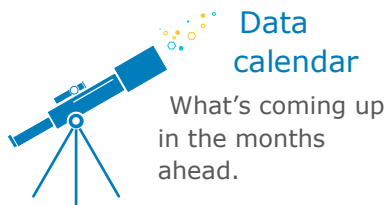
Source: RBNZ, Stats NZ, Macrobond, ANZ Research

The Q4 Survey of Expectations joins an array of broader measures of inflation expectations that have remained worryingly high in recent months and that are certainly not consistent with strong inflation dissipating any time soon. For example, in the October [ANZ-Roy Morgan Consumer Confidence](#) survey inflation expectations were little changed at 5.0% (5.1% previously). That's down from peaks seen earlier in 2021, but remains well above pre-pandemic ranges of 3-4%. In our [ANZ Business Outlook](#) survey, inflation expectations bounced to 6.1% in October (6.0% previously), remaining close to their recent highs. Cost expectations and pricing intentions have eased modestly from extreme highs, but again are still far too strong to be consistent with low and stable inflation being achieved in the near term.

Stubbornly high inflation expectations across a number of different surveys highlight the challenge that remains for the RBNZ. Yes, they have delivered significant monetary tightening in a very short period of time, and yes, that's going to slow down the economy over 2023. But with expectations of high inflation becoming embedded into wage and price setting behaviour, it'll take a concerted effort to tamp down wage-price spiral dynamics that are becoming ever more established in the New Zealand economy. As we note in our latest [Quarterly Economic Outlook](#), recession risks are rising, but when price stability is at stake, getting inflation back down is priority number one.



Financial markets update



Date	Data/event
Mon 14 Nov (10:30am)	Performance Services Index – Oct
Tue 15 Nov (09:00am)	REINZ Housing Data – 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
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
Mon 19 Dec (10:30am)	Performance Services Index – Nov
Tue 20 Dec (10:45am)	Merchandise Trade – Nov
Tue 20 Dec (1:00pm)	ANZ Business Outlook – Dec
Wed 7 Dec (early am)	GlobalDairyTrade auction
Wed 21 Dec (10:00am)	ANZ-RM Consumer Confidence – Dec

Interest rate markets

Global interest rate volatility stepped up a notch this week, with the yield on the bellwether US 10yr Treasury bond spanning a staggering 43bp range since last Friday. The latest move was a sharp fall in the wake of softer US CPI data last night. While that move is completely understandable given how fearful markets were that inflation might have accelerated, in level terms, inflation is still high in the US and here, and central banks aren't done with rate hikes yet. Markets continue to toy with cuts in 2023, yet most analysts expect the Fed and RBNZ to lift their policy rate projections, and both central banks are warning that it's still too soon to be thinking about cuts. We are thus cautious about how long relief will last, and are still eyeing higher interest rates as we head into the end of the year.

FX markets

The USD dropped sharply (alongside interest rates) in the wake of US CPI data, driving the Kiwi back above 0.60. With the peak in US inflation now likely in, markets are likely to continue fading USD strength, to the NZD's benefit. Our forecasts do call for a higher NZD over 2023, and it is possible that the low is in for the Kiwi, but we are cautious not to extrapolate overnight moves given the still extremely challenging inflation backdrop here and abroad. We think it makes sense to expect more volatility into year-end as markets debate whether or not the global inflation cycle has turned.

Key data summary

ANZ Truckometer – October. *Postponed until 8 December due to interruptions in the data supply.*

RBNZ Inflation Expectations – Q4. In a concerning development for the RBNZ, inflation expectations lifted across the curve, with the 2-year-ahead measure up to a multi-decade high of 3.62% (3.07% previously).

Electronic Card Transactions – October. Spending lifted another 1.0% in October.

Performance of Manufacturing Index – October. Dipped into contractionary territory at 49.3 (51.7 previously).

Food Prices – October. Rose 0.8% m/m (10.1% y/y) as costs continue to spiral. In seasonally adjusted terms prices were up 1.8% m/m.

Rental Price Index – October. Rents lifted 0.3% m/m (4.1% y/y), and new rents surged 1.7% m/m.

The week ahead

Performance of Services Index – October (Monday 14 November, 10:30am). Has been particularly robust in recent months, with new orders still flying high at 62.9 (50 being par) in September.

REINZ House Prices – October (Tuesday 15 November, 09:00am). We expect prices will [continue to fall](#) throughout the rest of the year, with a total 18% peak-to-trough fall in house prices currently forecast.

Net Migration – September (Tuesday 15 November, 10:45am). Annual net migration flows remain in negative territory. With labour demand still extremely high, it'll take a significant turnaround in migration to alleviate pressures in key industries that rely on workers from overseas.

GlobalDairyTrade auction (Wednesday 16 November, early am). Prices are down 33%, and there's not much of a buffer left in our farmgate milk price forecast for \$8.75/kg milk solids for 2022/23.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Sep-22	Oct-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD/USD	0.560	0.580	0.602	0.590	0.570	0.580	0.590	0.600	0.620
NZD/AUD	0.874	0.907	0.910	0.908	0.891	0.892	0.894	0.882	0.886
NZD/EUR	0.571	0.584	0.590	0.608	0.600	0.598	0.590	0.583	0.590
NZD/JPY	81.0	86.2	85.0	86.7	85.5	85.8	85.6	85.2	86.8
NZD/GBP	0.501	0.503	0.514	0.527	0.518	0.513	0.504	0.504	0.517
NZ\$ TWI	67.8	69.8	70.9	71.1	69.2	69.5	69.6	69.6	71.0
Interest rates	Sep-22	Oct-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
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	4.13	4.85	5.10	5.10	5.10	5.10	5.10
NZ 2-yr swap	4.67	5.02	4.95	5.30	5.30	5.30	5.20	5.20	5.10
NZ 10-yr bond	4.30	4.19	4.23	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	1.3	0.3	0.2	0.0	-0.4	-0.5	-0.4	0.0
Employment (% yoy)	1.5	1.2	1.5	1.7	1.7	0.1	-0.7	-1.2	-1.2
Unemployment Rate (% sa)	3.3	3.3	3.3	3.3	3.5	4.0	4.5	4.9	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

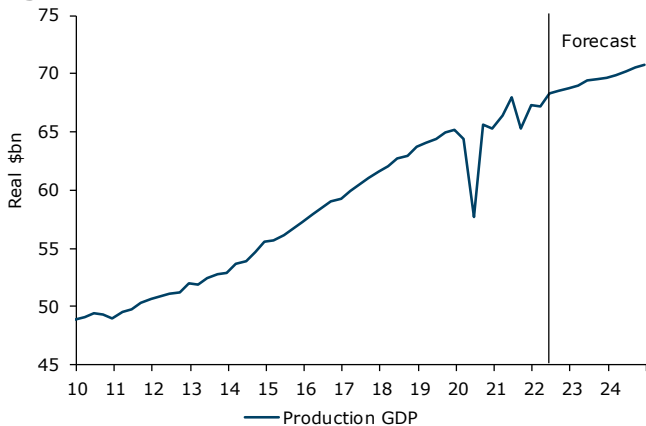


Figure 4. CPI inflation components

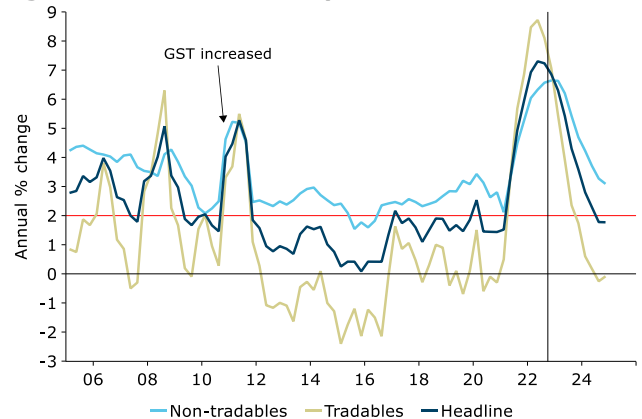


Figure 5. ANZ OCR forecast

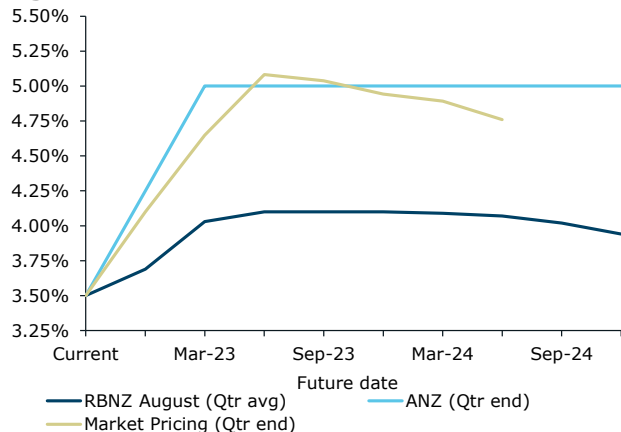
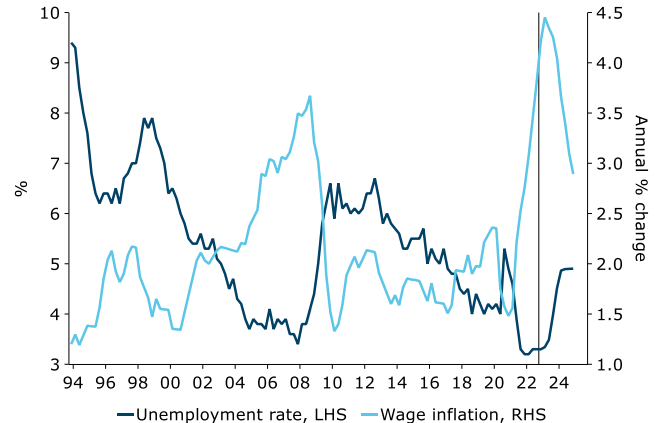


Figure 6. Unemployment and wage inflation



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



Contact us

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