

New Zealand Weekly Data Wrap

13 January 2023



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Forecast updates

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

- [NZ Forecast Update: ANZ releases milk price forecast for 2023-24 season](#)
- [NZ Weekly Data Wrap: taking stock after the MPS](#)
- [NZ Property Focus: six reasons](#)
- [RBNZ MPS Review and OCR Call Change: hope is not a strategy](#)
- [NZ Economic Outlook: coming in to land](#)

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 5.75% by May 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 housing slowdown could become disorderly if unemployment rises sharply.



The shock value of the November MPS could result in a more sudden stop.

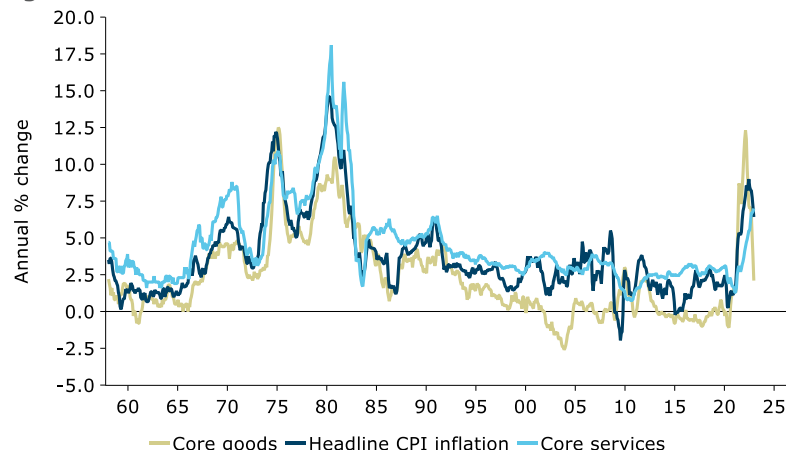


Global inflation pressures may not decline as quickly or as far as anticipated.

What happened this week?

The first week back from the holiday brought some good news on global inflation pressures, with US annual CPI inflation dropping back to 6.5% in December, down from the peak of 9.1% in June. Core inflation dropped to 5.7% y/y, down from a 6.6% peak in September. However, a lot of this is being driven by rapidly declining goods price inflation. Services inflation, more closely related to labour market conditions, remains strong, with core services inflation still increasing on an annual basis (figure 1). Fed speakers continue to emphasise the need to lift the fed funds rate above 5% given the ongoing strength in the labour market and services inflation, and we anticipate the Fed will deliver two further 25bp rate hikes, bringing the ceiling of the fed funds rate corridor to 5% (versus 4.5% currently).

Figure 1. US CPI inflation



Source: BLS, Macrobond, ANZ Research

The good news for New Zealand is that as supply chains continue to normalise, shipping costs fall, and the global inflation pulse wanes, we should be importing less inflation (ie tradables inflation should drop). But domestic inflation remains the key challenge for the RBNZ.

Monthly filled jobs data for November showed ongoing resilience in the Kiwi labour market. Filled jobs were up 0.2% m/m, and October's print was revised up to +0.2% m/m (from flat). The data is consistent with our expectation that employment growth will remain positive over the summer (Q4 and Q1), helping to keep the unemployment rate at (or even slightly below) the current very low level of 3.3%. Summer saw the tourism sector struggle to rebuild capacity as tourists arrived, with the hospitality, retail, and accommodation sectors severely constrained by labour shortages. That means we're likely to see evidence of the labour market remaining extremely stretched in the very near term.

However, looking ahead, storm clouds are building. Our December [ANZ Business Outlook](#) showed a sharp deterioration in employment intentions, consistent with our expectation that the labour market will start to soften significantly in the second half of 2023. And job ads were down 6.0% m/m in December.

More generally, as we start the new year, the risk profile around future monetary policy moves is evolving. To be clear, inflation in New Zealand is far too high, and looking well-entrenched. But early signs are that the shock



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ 2022 HYEFU: reprioritising
 - NZ Insight: Risks to the OCR outlook
 - NZ Insight: RBA/RBNZ policy divergence back in the spotlight
 - NZ Property Focus: six reasons
 - 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
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 - NZ Insight: the low consumer confidence puzzle
 - NZ Property Focus: when, not if
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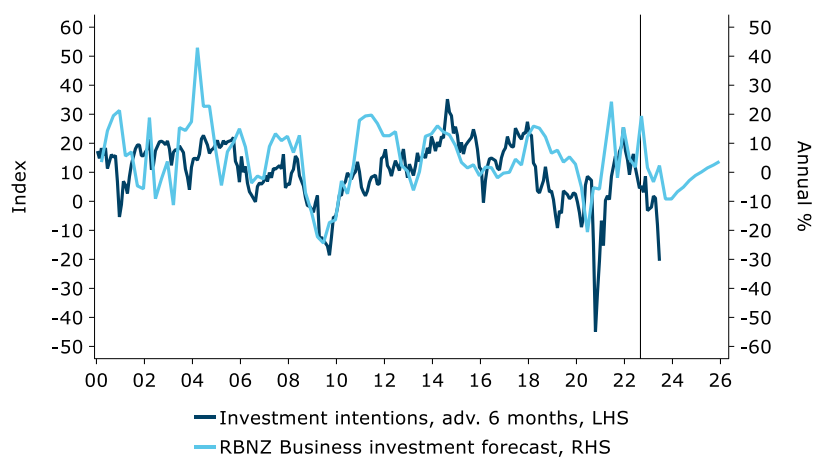
ANZ Proprietary data

Check out our latest releases below.

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

value of the November Monetary Policy Statement (ie the confidence channel of monetary policy) could have been very significant. Throughout 2022, the story of monetary policy was endless upside surprises on inflation, and downward surprises re how much traction the RBNZ was getting on cooling the economy. But that MPS appears to have gotten traction. The fall in employment and pricing intentions in the December Business Outlook survey was entirely consistent with the RBNZ's forecasts, but indicators for business investment, residential construction and overall GDP were weaker. Of course, it's just one month of 'soft' data. The key question is whether the impact will stick around, or whether it was just a double-take that won't have long-lasting impacts. We've added a January Business Outlook survey to try to get a timely initial read on that question.

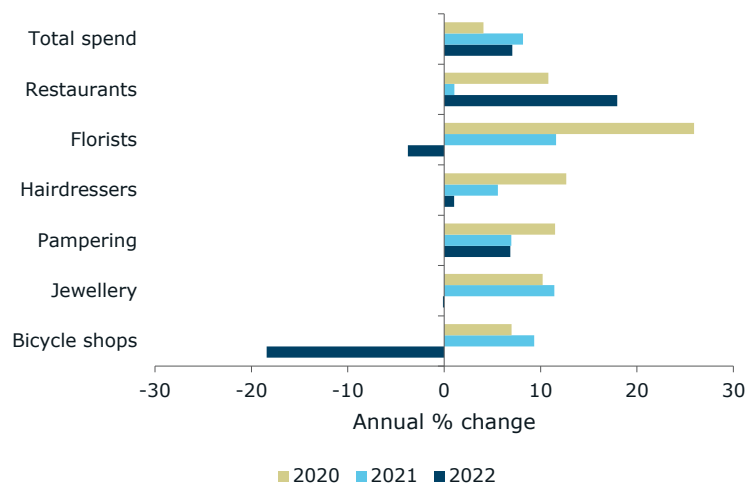
Figure 2. ANZBO investment intentions and RBNZ business investment forecast



Source: RBNZ, Macrobond, ANZ Research

Of course whether firms do pull back their expansion plans will ultimately depend on consumer behaviour. In November, the RBNZ Governor instructed consumers to "cool their jets". ANZ card spending data for December suggests they might have listened. Restaurant spend is well up, likely reflecting tourist arrivals, but Christmas pressy spending and discretionary spending like hairdressing were relatively weak. Note too that this is nominal spending – the prices of these items will have risen sharply over the past 12 months, implying even weaker sales volumes.

Figure 3. ANZ card spending data for December



Source: ANZ

Certainly consumer confidence is dire, and took another leg lower after the Monetary Policy Statement. But weak consumer confidence isn't new.



Looking ahead

Households have been saying one thing and doing another for 18 months now, due to both strong wage growth and excellent job security. Strong wage growth will be around a while, but job security may well have taken a hit from the RBNZ's words and deeds in November. Certainly media coverage of the MPS and the "deliberate recession" was off the scale. And aside from the confidence question, while household income growth is very strong, more and more households are ticking over onto significantly higher mortgage rates. It's important to note that due to strong income growth, in our forecasts a 5.75% OCR implies the household debt-servicing burden will peak below 2008 levels (a bit above two thirds of 2008 levels to be more precise). However, a backdrop of ongoing falls in house prices is important – the RBNZ shouldn't need to raid people's pockets to the same extent.

A few points of broader context are helpful here.

First, the tourism recovery is muddying the waters considerably in terms of reading the momentum of the activity and employment data. That'll remain the case until the Q2 data starts rolling in.

Second, it's important to recall that the RBNZ (and we, and everyone else) are already forecasting a recession – or something close to it. Not all weak data is a downside surprise nor an unintended consequence. That said, it's one thing to say you're going to hike the OCR aggressively into the face of sharply weakening high-frequency activity data, but quite another to actually do it.

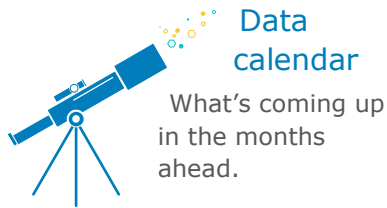
And third, net migration is lifting sharply – though data revisions mean one can't be sure until at least six months after the event. Immigration boosts both labour supply and housing demand, making its impacts on inflation ambiguous. However, in today's context, with the tightest labour market on record but the housing market in full retreat, it seems likely the disinflationary impact would dominate in the near term. That is, it's hard to imagine population growth reigniting the housing market any time soon, but less difficult to envisage firms deciding perhaps they don't need to offer such large pay increases to retain their staff as they thought, because it might soon be easier to replace people.

All up, we see the risks around our OCR call (a peak of 5.75%) as clearly to the downside now that the MPS has caused such a double take. But not only do we need to see whether that impact 'sticks'; upcoming Q4 CPI data is key. While inflation is the most backward-looking data there is, it is understandably front and centre of the RBNZ's thinking at the moment, and over the past year, CPI data has been the key driver of revisions to forecasts of how high interest rates need to go.

We'll also be watching labour market indicators very closely. As long as the risk of a wage-price spiral remains elevated, the RBNZ has little choice but to plough on.



Financial markets update



Date	Data/event
Tue 17 Jan (10:00am)	NZIER QSBO – Q4
Wed 18 Jan (early am)	GlobalDairyTrade auction
Wed 18 Jan (10:45am)	Electronic Card Transactions – Dec
Thu 19 Jan (10:45am)	Food Price Index – Dec
Thu 19 Jan (10:45am)	Rental Price Index – Dec
Fri 20 Jan (10:30am)	BusinessNZ Manuf PMI – Dec
Fri 20 Jan (10:45am)	Net Migration – Nov
Tue 24 Jan (10:30am)	Performance Services Index – Dec
Tue 24 Jan (10:45am)	Merchandise Trade – Dec
Wed 25 Jan (10:45am)	CPI – Q4
Fri 27 Jan (1:00pm)	ANZ Business Outlook - Jan
Wed 1 Feb (10:45am)	Labour Market – Q4
Thu 2 Feb (10:45am)	Building Permits – Jan
Fri 3 Feb (10:00am)	ANZ-RM Consumer Confidence – Jan
Tue 7 Feb (1:00pm)	ANZ Commodity Price Index – Jan
Wed 8 Feb (early am)	GlobalDairyTrade auction
Thu 9 Feb (10:00am)	ANZ Truckometer – Jan
Fri 10 Feb (10:30am)	BusinessNZ Manuf PMI – Jan
Fri 10 Feb (10:45am)	Electronic Card Transactions – Jan
Mon 13 Feb (10:30am)	Performance Services Index – Jan
Tue 14 Feb (10:45am)	Food Price Index – Jan
Tue 14 Feb (10:45am)	Rental Price Index – Jan
Tue 14 Feb (3:00pm)	RBNZ 2Yr Inflation Expectation – Q1
Thu 16 Feb (10:45am)	Net Migration – Dec
Wed 22 Feb (early am)	GlobalDairyTrade auction
Wed 22 Feb (10:45am)	Merchandise Trade – Jan
Wed 22 Feb (2:00pm)	RBNZ Monetary Policy Statement

Interest rate markets

Global bond yields have fallen significantly in recent weeks as markets have re-assessed the outlook for monetary policy. US markets led the move, fuelled by weaker than expected wages and ISM data, and moderating inflation. US markets are now firmly of the view that the Fed will slow the pace of hikes and deliver just a 25bp hike next month. While that has no direct relevance for the RBNZ, with local leading indicators turning lower and signs that November's 75bp hike had some real shock value, the risk is markets here start to question whether the RBNZ will be brave enough to deliver a 75bp hike in February. CPI data next week will be key, but local rates will be sensitive to gradually falling US and global rates.

FX markets

Moderating Fed rate hike expectations continue to weigh on the USD. That, alongside optimism around China's reopening has helped boost commodity and emerging market currencies as 2023 has gotten underway. While that's a logical response, if rate markets here start to shy away from pricing in aggressive hikes, and the Fed continues to remind markets that it will keep policy elevated for an extended period, recent NZD optimism could fade.

Key data summary

ANZ Commodity Price Index – December. The ANZ World [Commodity Price Index](#) finished 2022 down 11.4% y/y after retreating 0.1% in December.

Building Permits – November. Up 7% m/m following October's 10.7% fall. These data are volatile at the best of times, but looking through that there is a moderating trend at play.

The week ahead

NZIER Quarterly Survey of Business Opinion – Q4 (Tuesday 17 January, 10:00am). We expect to see a similar vibe to our Business Outlook: dire headline confidence following the hawkish November MPS. The QSBO survey was sent out a week or so after the MPS so it would have been fresh in the minds of respondents.

REINZ House Prices – December (17-20 January). The pace of house price declines accelerated in November, with the HPI down 1.9% m/m. If that persists it could be a signal that downside risks to our forecast for a peak to trough decline of 22% are materialising.

GlobalDairyTrade auction (Wednesday 18 January, early am). Futures prices indicate a small lift in dairy prices as demand from China improves.

Electronic Card Transactions – December (Wednesday 18 January, 10:45am). Our card spending data suggest a 0.5-1.0% m/m decline is likely. In inflation-adjusted terms, that's quite weak.

Food Prices – December (Thursday 19 January, 10:45am). Food prices are usually flat/down slightly in December, but nothing about 2022's food prices has been 'usual'. We're pencilling in a 0.3% m/m lift in December food prices, which would see the annual rate of food price inflation ease to 10.4%.

Rental Price Index – December (Thursday 19 January, 10:45am). We expect rent prices were up 0.2% m/m in December, seeing annual rent inflation ease to 3.8% (4.0% previously).

Performance of Manufacturing Index – December (Friday 20 January, 10:30am). Slipped further into contractionary territory in December. Hard to see that broad momentum story changing, but these data can be volatile month to month.

Net Migration – November (Friday 20 January, 10:45am). Monthly net inflows have already recovered to their 20-year average. Assuming no revisions (a big assumption for these data), the upwards trajectory in arrivals suggests upside risks are emerging to our forecast for a total net inflows of just under 20,000 people in 2023.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Nov-22	Dec-22	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD/USD	0.624	0.635	0.639	0.610	0.610	0.620	0.630	0.640	0.640
NZD/AUD	0.927	0.932	0.918	0.938	0.924	0.912	0.900	0.889	0.877
NZD/EUR	0.602	0.593	0.589	0.604	0.592	0.590	0.594	0.593	0.582
NZD/JPY	86.6	83.3	82.7	79.3	78.1	78.1	78.1	78.1	76.8
NZD/GBP	0.520	0.525	0.524	0.530	0.521	0.521	0.516	0.516	0.508
NZ\$ TWI	72.4	72.1	71.5	70.6	69.6	69.7	70.0	70.2	69.5
Interest rates	Nov-22	Dec-22	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZ OCR	4.25	4.25	4.25	5.00	5.75	5.75	5.75	5.75	5.75
NZ 90 day bill	4.42	4.65	4.79	5.77	5.85	5.85	5.85	5.85	5.85
NZ 2-yr swap	5.14	5.38	5.04	5.35	5.35	5.15	5.10	5.05	4.95
NZ 10-yr bond	4.08	4.47	4.02	4.25	4.20	4.15	4.05	4.05	4.00

Economic forecasts

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
GDP (% qoq)	2.0	0.3	0.2	-0.2	-0.6	-0.4	-0.1	0.3	0.4
GDP (% yoy)	6.4	3.8	4.5	2.3	-0.3	-1.0	-1.3	-0.8	0.2
CPI (% qoq)	2.2	1.3	2.0	0.8	1.0	0.6	0.7	0.4	0.6
CPI (% yoy)	7.2	7.0	7.3	6.4	5.1	4.5	3.1	2.8	2.4
Employment (% qoq)	1.3	0.3	0.2	0.1	-0.4	-0.4	-0.4	-0.1	0.1
Employment (% yoy)	1.2	1.5	1.8	1.9	0.2	-0.5	-1.1	-1.2	-0.8
Unemployment Rate (% sa)	3.3	3.2	3.3	3.4	3.9	4.4	4.9	5.1	5.2

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

Figure 4. GDP level

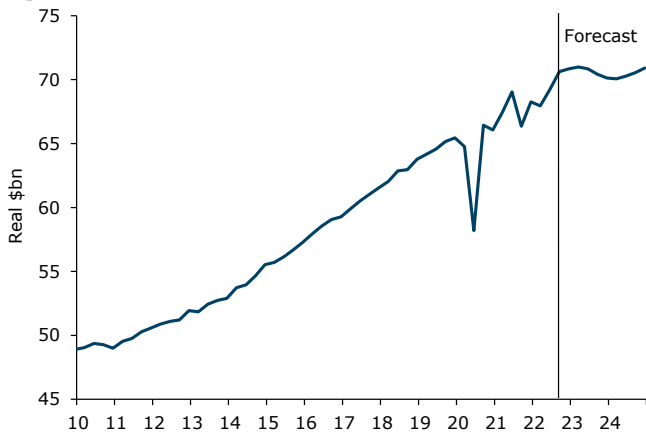


Figure 5. CPI inflation components

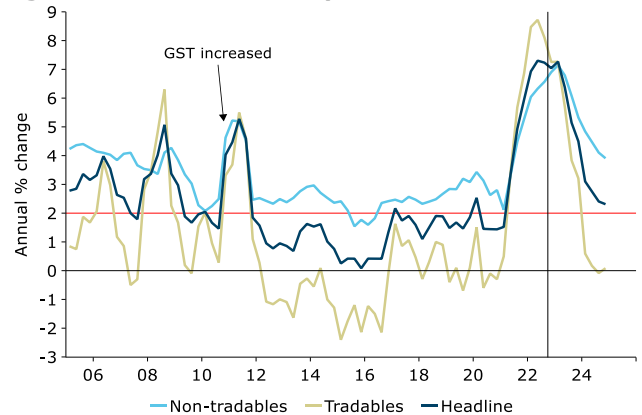


Figure 6. OCR forecast

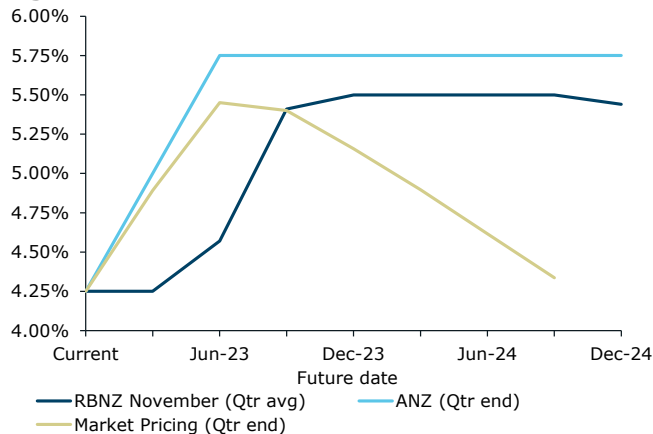
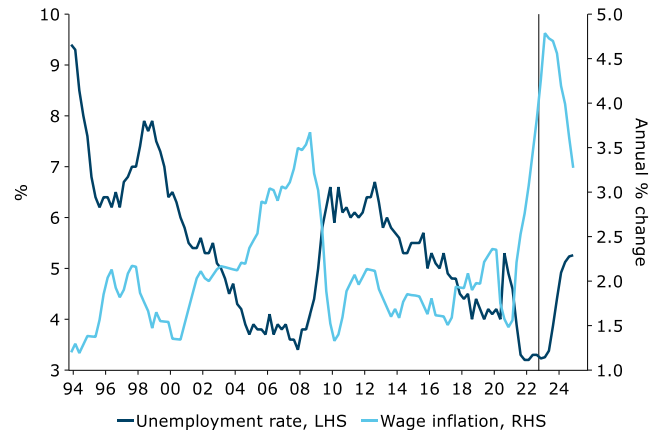


Figure 7. Unemployment and wage inflation



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



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