

New Zealand Weekly Data Wrap

20 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, but that's changing
- 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.



China's reopening could put upward pressure on commodity prices, pushing up tradables inflation.

What happened this week?

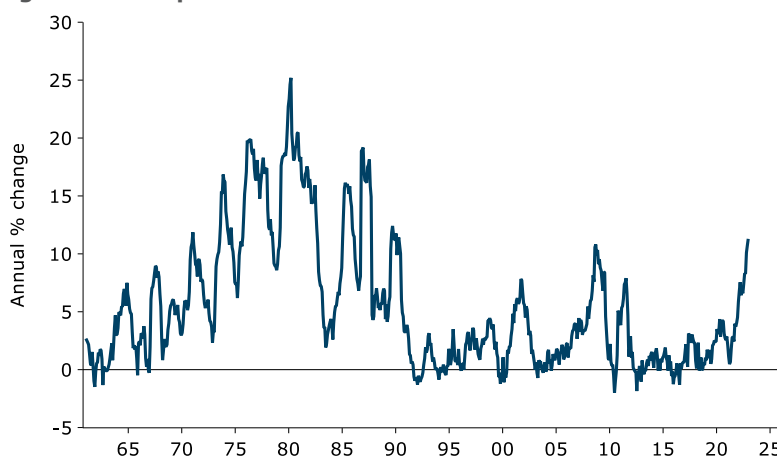
The Q4 QSBO, released earlier in the week, [made for grim reading](#).

Surveyed after the RBNZ's hawkish November MPS, the QSBO confirmed the sharp drop in business confidence, activity expectations, employment intentions, and investment intentions seen the December reading of our Business Outlook survey. Leading economic indicators are now looking quite sickly, and point to the risk that economic momentum will slide further and faster than the RBNZ is intending.

Unfortunately, timely indicators also point towards domestic inflation continuing to worsen over the summer, putting the RBNZ in a tough spot, with activity measures flashing recessionary warning signals, but inflation measures so far giving the RBNZ no real leeway to ease up on their aggressive approach. In the Q4 QSBO, actual and expected price and cost measures ticked up again. That points to inflation remaining very strong over both Q4 and Q1. And, measures of capacity stretch in the labour market remained at historic highs. Labour as a limiting factor eased slightly from Q3's record high – but only because capacity as a limiting factor rose (that's also inflationary). Meanwhile, difficulty finding skilled and unskilled labour increased, and overtime worked in the past three months also lifted.

And then there were food prices, which lifted 1.1% m/m in December – a month where they're normally flat or falling. Ouch. Food prices are now up 11.3% relative to this time last year, the strongest annual increase in food prices since 1990 (figure 1). This lift in food prices is a key reason why we expect Q4 CPI inflation will print at 7.2% next week, versus our previous forecast of 7.0% (see next page). Rent prices were up 0.3% m/m, which saw annual rent inflation (for all tenancies) up 3.9% y/y. But the good news there at least is that for new tenancies, rents were unchanged in December, and up just 0.8% y/y on an annual basis. That should flow through into lower overall rental inflation as we move through 2023.

Figure 1. Food price inflation



Source: Stats NZ, Macrobond, ANZ Research

The housing market wrapped up 2022 on [another soft note](#), with the December REINZ house price index slipping 1.2% m/m (ANZ seasonal adjustment), or 12.8% y/y (3mma). Prices are down 15% relative to their November 2021 peak, meaning we are about two thirds of the way through the 22% peak-to-trough decline in house prices that we are forecasting.



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](#)

Inflation data next week to offer little respite

Stats NZ will release the Q4 CPI inflation report next Wednesday (25 January). We anticipate that the data will show annual CPI inflation remained flat at 7.2% y/y, which would be a touch lower than the 7.5% print that the RBNZ was expecting at the time of the November MPS.

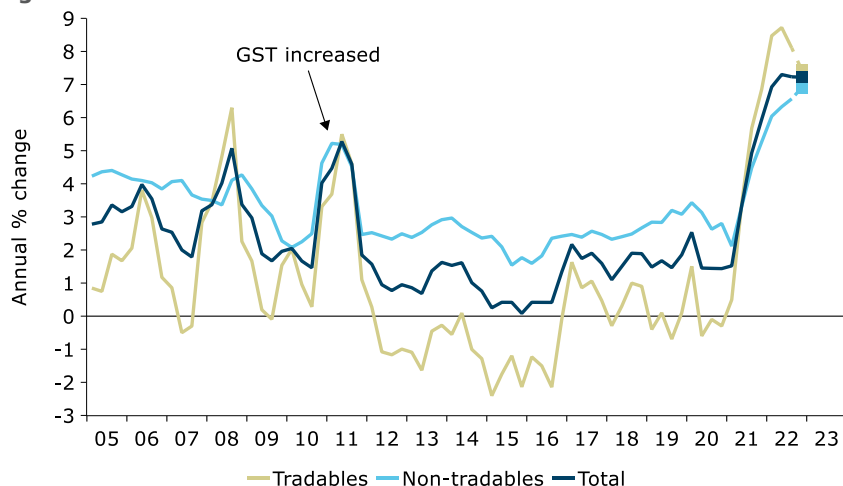
Of course that would, to an extent, be welcome news. But we would be hesitant about celebrating too soon, as the main difference between our forecast and the RBNZ's comes down to tradables inflation (ie the imported stuff, which is largely outside of the RBNZ's direct control). Petrol prices have dropped sharply (courtesy of lower oil prices and a stronger NZD over Q4), and the global inflation pulse is now convincingly on the way down. We therefore expect to see tradables inflation come in at 7.4% y/y, versus 8.1% in Q3, and the RBNZ's pick of 8.3%.

But the kicker is that the near-term domestic inflation outlook keeps looking worse. The Q4 QSBO reinforced that domestic capacity pressures are still acute, the revival of international tourism has injected more demand into our capacity-stretched economy, and food price inflation continues to surge. All up, that means we expect that non-tradables inflation increased again to 6.9% y/y in Q4, up from Q3's already record high of 6.6% (the RBNZ is picking 7.0%). Core inflation measures may have continued to increase as well, even if headline inflation remains flat.

It's worth noting, this ongoing domestic inflation surge is probably on borrowed time. The tourism-reopening story is a temporary dynamic; the housing market continues to decline; and forward-indicators suggest domestic demand will ease significantly over 2023. But at the same time, the RBNZ (and we) have been repeatedly surprised to the upside by non-tradables inflation over the past year. So unless we get a reasonably significant downside surprise on non-tradables (and a turnaround in at core inflation measures), it's not clear the RBNZ will feel they have the flexibility to ease back on the aggressive pace of OCR hikes anytime soon.

For now, we continue to forecast a second 75bp OCR hike will be delivered at the 22 February meeting (with a peak of 5.75% reached by May). But as we noted [last week](#), despite still-strong inflation pressures, downside risks to that outlook have piled up since our change of OCR call in November. The RBNZ's aggressive rhetoric has triggered a marked deterioration in consumer and business confidence, and declining job vacancies point towards some normalisation of labour demand in coming months. That should bring inflation down over 2023, but the RBNZ may need to see it in the data to believe it. Next week's CPI data is crucial.

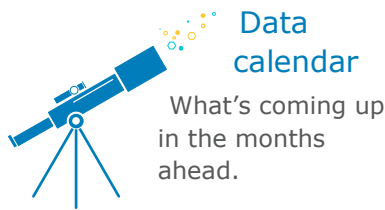
Figure 2. ANZ inflation forecast



Source: Stats NZ, Macrobond, ANZ Research



Financial markets update



Date	Data/event
Tue 24 Jan (10:30am)	Performance Services Index – Dec
Wed 25 Jan (10:45am)	CPI – Q4
Fri 27 Jan (1:00pm)	ANZ Business Outlook - Jan
Tue 30 Jan (10:45am)	Merchandise Trade – Dec
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
Mon 27 Feb (10:45am)	Retail Sales – Q4
Tue 28 Feb (1:00pm)	ANZ Business Outlook – Feb
Wed 1 Mar (10:45am)	Building Permits – Feb
Thu 2 Mar (10:45am)	Terms of Trade – Q4
Fri 3 Mar (10:00am)	ANZ-RM Consumer Confidence – Feb
Mon 6 Mar (10:45am)	Building Work Put in Place – Q4
Mon 6 Mar (1:00pm)	ANZ Commodity Price Index – Feb

Interest rate markets

Global bond yields continue to track lower, led by the US as markets latch on to recessionary vibes and the prospect of lower headline inflation over coming months (despite services and core inflation remaining sticky). New Zealand markets have followed, and 10yr bonds yields are back below 4% again (having ended 2022 at 4½%). That's despite still-worrying signs of inflation here, with Q4 CPI (due next week) likely to remain stubbornly high (and the prospect of core and non-tradables accelerating). That makes us cautious about how much further bond yields might fall. Even if a 75bp OCR hike next month is far from a slam-dunk, it is likely to be a long time before the OCR can come down. Yet markets are pricing in cuts from July.

FX markets

The Kiwi made a new high for the summer on Wednesday night before closing lower yesterday, rounding out a key day reversal. From here the outlook remains balanced, with volatility likely trumping directionality. The USD may struggle further in the near term if the Fed only hikes by 25bp next month (as we expect), but if markets shy away from pricing in aggressive H2 cuts, we may well see a rebound. Commodity prices are bouncing around, but recession fears continue to percolate locally.

Key data summary

NZIER Quarterly Survey of Business Opinion – Q4. **Business confidence** hit a record low in Q4, but with costs and prices lifting these data still suggest the RBNZ still has an inflation problem on its hands.

GlobalDairyTrade auction. Dairy prices fell 0.1% following a 2.8% fall in the index at the first GDT event of 2023 held on 3 Jan. Whole milk powder (WMP) prices increased by 0.1% offsetting weaker prices for skim milk powder (-0.3%) and the milkfat products (butter -0.6% and anhydrous milkfat -0.9%).

REINZ House Prices – December. **House prices** fell another 1.2% m/m, with prices now down around 15% from their November 2021 peak.

Electronic Card Transactions – December. Card spending eased 1.2% m/m, broadly in line with weakness in ANZ card spending data. Retail spend was down 2.5% m/m.

Food Prices – December. Lifted 1.1% m/m (11.3% y/y), a very strong print considering prices are usually flat/falling in December due to seasonality.

Rental Price Index – December. Rent prices lifted 0.3% m/m (4.0% y/y), but rental inflation on new tenancies was 0% m/m (0.8% y/y).

Performance of Manufacturing Index – December. The PMI remained flat at 47.2, still in contractionary territory.

Net Migration – November. Monthly net migration lifted to 6110 in November (3857 previously), much stronger than expected. At face value, November's print represents upside risk to our forecast of annual net migration reaching 20,000 by the end of 2023. The data can be significantly revised after initial release, so for now we'll be keeping a watching brief on these data. Importantly, the RBNZ will need to see evidence that this is helping to resolve the labour supply-demand imbalance.

The week ahead

Performance of Services Index – December (Tuesday 24 January, 10:30am). Services momentum was solid over most of 2022. December data could be messy, mixing the impact of the RBNZ's hawkish November MPS with the ongoing revival of international tourism.

CPI – Q4 (Wednesday 25 January, 10.45am). We expect annual CPI inflation remained flat at 7.2% y/y. See our [preview](#).

ANZ Business Outlook – January (Friday 27 January, 1:00pm).



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	0.640	0.610	0.610	0.620	0.630	0.640	0.640
NZD/AUD	0.927	0.932	0.925	0.938	0.924	0.912	0.900	0.889	0.877
NZD/EUR	0.602	0.593	0.591	0.604	0.592	0.590	0.594	0.593	0.582
NZD/JPY	86.6	83.3	82.1	79.3	78.1	78.1	78.1	78.1	76.8
NZD/GBP	0.520	0.525	0.516	0.530	0.521	0.521	0.516	0.516	0.508
NZ\$ TWI	72.4	72.1	71.7	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	4.83	5.77	5.85	5.85	5.85	5.85	5.85
NZ 2-yr swap	5.14	5.38	4.91	5.35	5.35	5.15	5.10	5.05	4.95
NZ 10-yr bond	4.08	4.47	3.99	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	1.4	<i>Under review</i>						
CPI (% yoy)	7.2	7.2							
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 3. GDP level

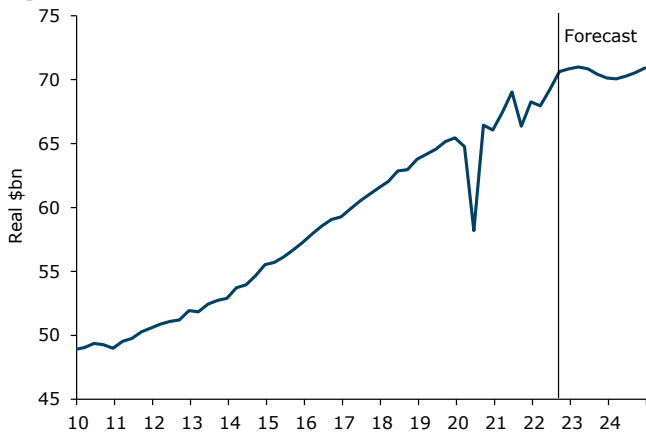


Figure 4. CPI inflation components

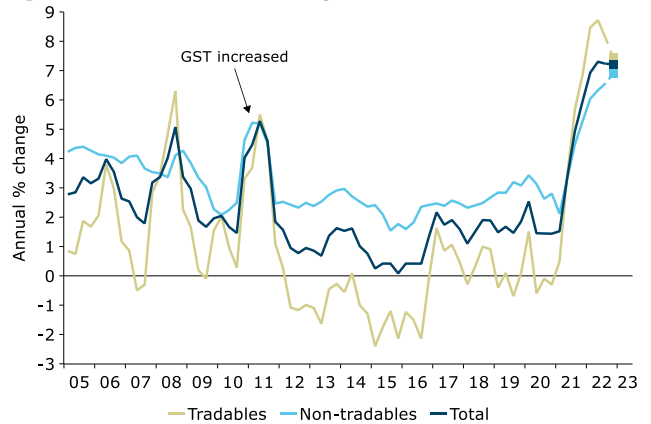


Figure 5. OCR forecast

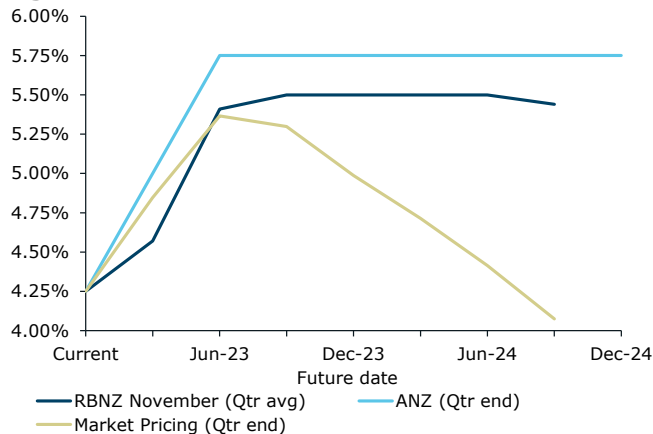
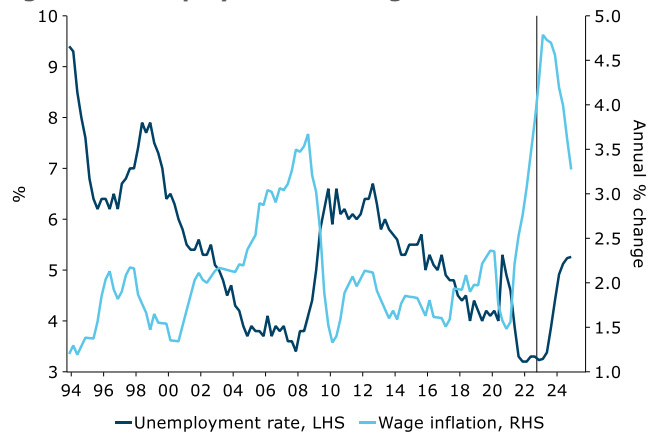


Figure 6. Unemployment and wage inflation



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



Contact us

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