

New Zealand Weekly Data Wrap

27 January 2023



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See page 5.

Forecast updates

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

- [NZ CPI and OCR call change: much better than feared](#)
- [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](#)
- [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 5.25% 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, despite a recent flurry of optimism.



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.

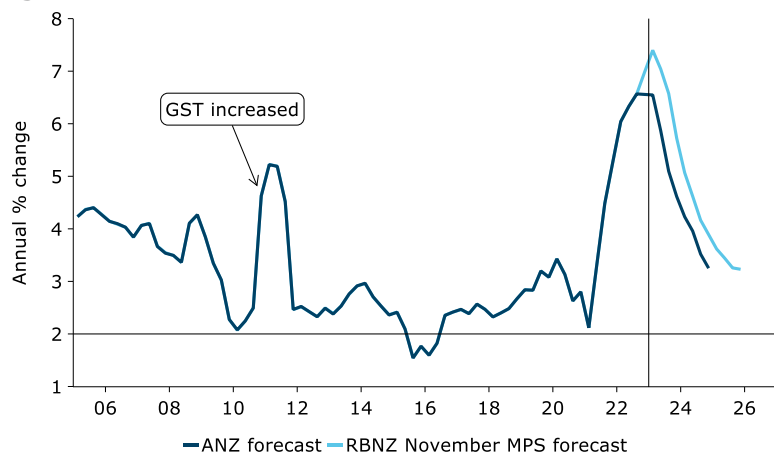
What happened this week?

The Q4 CPI report showed that inflation in New Zealand remains far too strong, with CPI inflation remaining flat at 7.2% y/y, meaning it's essentially flat-lined for nine months now. That being said, the details of the data were much better than the RBNZ feared back in November. The RBNZ then forecast headline inflation to re-accelerate to 7.5% y/y in Q4, with non-tradables inflation lifting to a fresh record high of 7.0% y/y (instead, it was also stable at 6.6%). Encouragingly, measures of core inflation are looking a lot more mixed as well (even if some measures, notably the sectoral factor model, still did increase).

The RBNZ's inflation battle is far from over, and there are still aspects of the CPI data that are concerning. Services inflation is still increasing, and 72% of items in the CPI saw price increases in Q4 2022, up from 66% in Q3. And there are still plenty of factors that could see inflation hold up over the medium term: China's rapid reopening, geopolitics, climate change, altered inflation expectations and price-setting behaviour – some combo of these could see the decline in inflation stall well above 2%.

But when we combine the marked deterioration in activity indicators in recent months with non-tradables inflation coming in significantly below the November MPS forecast (and likely to undershoot the RBNZ's expectations even further over 2023, figure 1), we think there's a strong argument for the RBNZ to dial back some of the hawkishness it added in November. We have subsequently [changed our OCR call](#), and now expect the RBNZ to hike the OCR 50bp in February (previously 75bp), followed by two more 25bp hikes, bringing the OCR to a peak of 5.25% by May (previously 5.75%).

Figure 1. Non-tradables inflation forecasts



Source: Stats NZ, Macrobond, ANZ Research

There's still a big job to do on inflation – and it's very possible we get stuck with the RBNZ delivering a series of 'last' 25bp hikes in order to convince themselves and others that they're on track to return inflation to the 1-3% target band. But the worst-case inflation scenario that the RBNZ was fearing has not come to pass, and that warrants a more moderate pace of monetary tightening, especially with job ads, employment intentions, business and consumer confidence, and firms' own-activity expectations all dropping sharply in recent months.



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
 - NZ Property Focus: hardening headwinds and soft landings
 - NZ Insight: the low consumer confidence puzzle
 - NZ Property Focus: when, not if
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ANZ Proprietary data

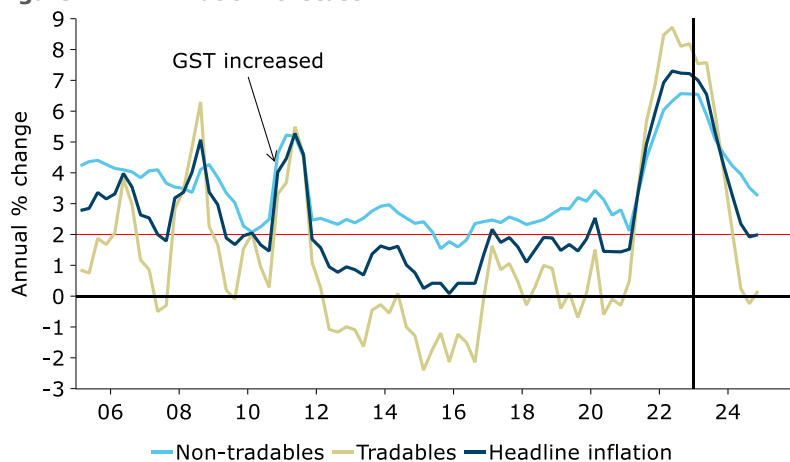
Check out our latest releases below.

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

Inflation forecast update

With Q4 CPI inflation data under our belts, we have updated our inflation forecasts. Inflation is still looking very sticky, and our base case is that it will only ease back to 4.2% in Q4 2023, drop back into the RBNZ's target band around the middle of 2024, and reach the 2% midpoint in H2 2024 (figure 2). But that is a more benign outlook than the RBNZ's November projection, which saw inflation re-accelerate to 7.5% in Q4 and Q1, and remain above 3% until the end of 2024. As shown in figure 1, we are anticipating lower non-tradables inflation over the next few years as well, which we think makes the case for a less aggressive series of OCR hikes than was implied by the November MPS track.

Figure 2. ANZ inflation forecast



Source: Stats NZ, Macrobond, ANZ Research

One complicating factor is the end of the [cost-of-living support measures](#) introduced by the Government in 2022, including half-price public transport, the cut to petrol excise duty, and the reduction in road-user charges. These are due to end at varying times over the March quarter, which will provide a temporary boost to headline inflation in Q1 and Q2.

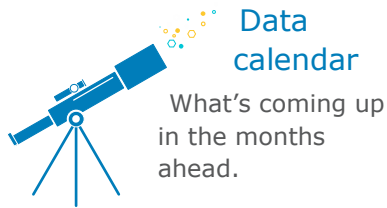
The end of the petrol excise duty cut will have the largest impact (with petrol making up just under 5% of the CPI). The 25 cents/litre excise duty cut remains in place until the end of February. The duty will then be increased by 12.5 cents/litre until the end of March, after which an additional 12.5 cents/litre will be applied, fully reversing the cut. This will boost the quarterly-average petrol price over Q1 and Q2. Based on current moves in petrol prices, our commodity price and exchange rate outlook, and the announced timing of the excise change, we anticipate petrol prices will rise around 2% in Q1 and 10% in Q2. That contributes roughly 0.1ppt and 0.4ppt to quarterly headline inflation in each quarter respectively. The petrol contribution to inflation will inevitably end up being larger or smaller depending on developments in the NZD/USD exchange rate and the global price of oil, and how these flow through to prices at the pump.

Q4 Labour market data preview

Next week brings the Q4 labour market report. The labour market went from strength to strength to strength in 2022, and we anticipate Q4's data [will echo that strength](#), with unemployment falling slightly to 3.2% (3.3% previously) and private sector labour costs (ordinary time, productivity adjusted) up 4.1% y/y (3.8% previously). Next week's data feels like older news than usual given the sharp deterioration in timely indicators of labour demand. We expect to see the labour market soften significantly from the second half of 2023. That should take the heat out of domestic inflation, particularly services prices, which continued to accelerate in Q4.



Financial markets update



Date	Data/event
Fri 27 Jan (1:00pm)	ANZ Business Outlook - Jan
Mon 30 Jan (10:45am)	Merchandise Trade - Dec
Tue 31 Jan (3:00pm)	RBNZ Sectoral Lending - 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
Thu 9 Mar (10:00am)	ANZ Truckometer - Feb

Interest rate markets

Market pricing for the February Monetary Policy Statement (MPS) is currently around 5bp lower over the week (at 56bp) following the downside surprise in the Q4 non-tradables data, below the RBNZ's November MPS forecast. We certainly think that's the appropriate direction given the forecast miss. These data set the scene for the February MPS to be the first in a long time where the RBNZ isn't having to first bake in a stronger starting point for domestic inflation before considering the outlook. We think this fact, combined with a clear deterioration in the timely activity indicators and softening labour demand, warrants 'just' a 50bp hike in February (still double speed!). But we're cognisant that next week's labour market statistics could see markets reassess things again. Meanwhile, better-than-expected US GDP data for Q4, alongside initial claims data suggesting momentum in the US labour market remains strong heading into 2023, indicate a hard landing in the US has so far been avoided. That suggests market pricing for rate cuts from the second half of the year may be overdone. Tonight's US PCE data is firmly in focus ahead of next week's FOMC decision, where the Fed is unlikely to signal a desire to ease policy any time soon. But global markets will continue to ebb and flow between hard-landing risks and the need for central banks to keep monetary conditions tight. As we go to print, the bellwether US 10-year yield is at 3.49%, very close to where it started the week.

FX markets

The Kiwi has been trading broadly sideways for most of the week as global hard landing risks appear a little lower, but rate differentials narrow. NZD/AUD is this week's 'shout out' currency cross, after Australian core inflation came in stronger than the RBA's forecast the same day NZ CPI flashed its slightly softer-than-expected underbelly. This cross is on track to end the week around 1.5% lower than where it started.

Key data summary

Performance of Services Index - December. Eased to 52.1 (53.8 previously) - slowing, but still in expansionary territory. New orders increased to 58.4 (57.4 previously), but employment dipped to 47.1 (51.8 previously).

CPI - Q4. Inflation was stable at 7.2% y/y, with non-tradables inflation coming in significantly below the RBNZ's expectation. See our [Review](#).

The week ahead

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

Overseas Merchandise Trade - December (Monday 30 January, 10:45am). We expect the monthly deficit to narrow to around \$1.6bn (November: \$1.86bn) as imports start retracing on the back of weakening domestic demand, and as exports hold steady. The annual deficit still has a little further to widen.

RBNZ sectoral lending data - December (Tuesday 31 January, 3:00pm). With the housing market continuing to soften, and house sales falling sharply in December, housing lending growth is likely to ease again.

Labour Market Statistics - Q4 (Wednesday 1 February, 10:45am). We expect unemployment ticked down to 3.2% - see our [Preview](#).

Building Permits - December (Thursday 2 February, 10:45am). Building consents bounced back 7.0% m/m in December - but we suspect that's just monthly volatility in the data. The uptrend in consents has turned around, and we anticipate softness in consenting activity will build over 2023.

ANZ Roy Morgan Consumer Confidence - January (Friday 3 February, 10:00am).



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	0.649	0.610	0.610	0.620	0.630	0.640	0.640
NZD/AUD	0.927	0.932	0.912	0.938	0.924	0.912	0.900	0.889	0.877
NZD/EUR	0.602	0.593	0.596	0.604	0.592	0.590	0.594	0.593	0.582
NZD/JPY	86.6	83.3	84.5	79.3	78.1	78.1	78.1	78.1	76.8
NZD/GBP	0.520	0.525	0.523	0.530	0.521	0.521	0.516	0.516	0.508
NZ\$ TWI	72.4	72.1	72.4	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	4.75	5.25	5.25	5.25	5.25	5.25
NZ 90 day bill	4.42	4.65	4.85	5.27	5.35	5.35	5.35	5.35	5.35
NZ 2-yr swap	5.14	5.38	4.85	4.85	4.85	4.65	4.60	4.55	4.45
NZ 10-yr bond	4.08	4.47	4.05	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	1.6	1.3	1.0	0.4	0.6	0.3	0.6
CPI (% yoy)	7.2	7.2	7.0	6.5	5.3	4.2	3.3	2.3	1.9
Employment (% qoq)	1.3	0.3							
Employment (% yoy)	1.2	1.5	<i>Under review</i>						
Unemployment Rate (% sa)	3.3	3.2							

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

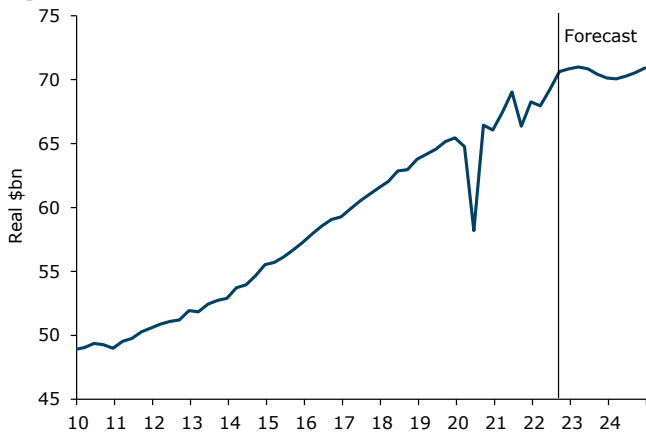


Figure 4. CPI inflation components

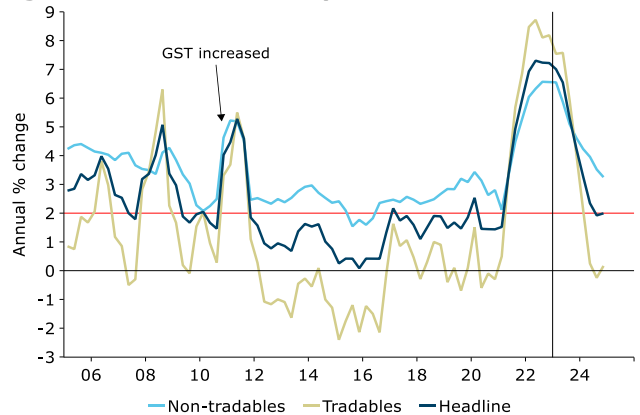


Figure 5. OCR forecast

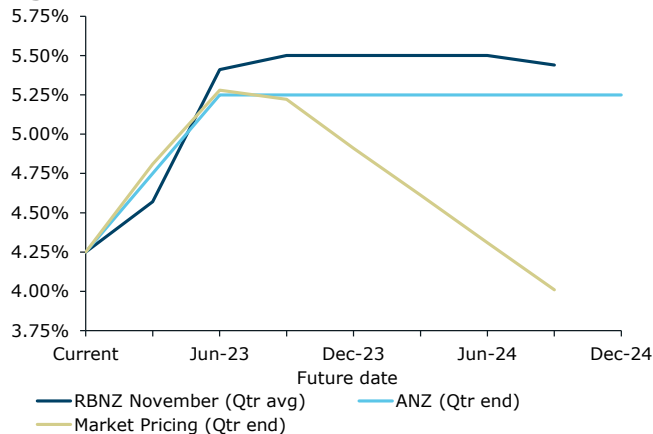


Figure 6. Unemployment and participation



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



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