

New Zealand Weekly Data Wrap

10 February 2023



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See [page 5](#).

Forecast updates

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

- [NZ Forecast Update: milk price forecasts revised down](#)
- [NZ Economic Outlook: brake point](#)
- [NZ Property Focus: key themes for 2023](#)

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.



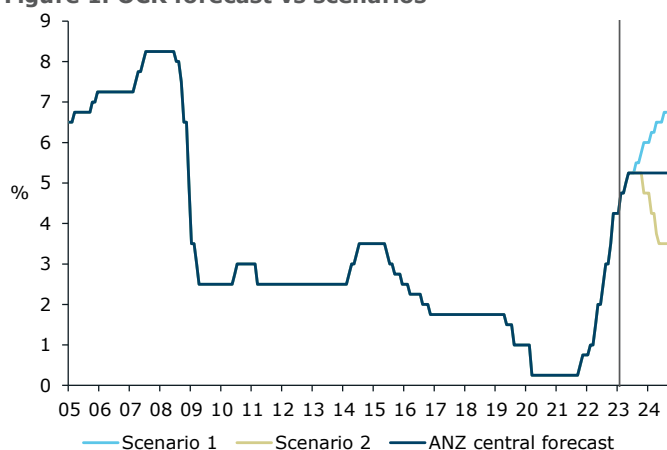
China's reopening could put upward pressure on commodity prices, pushing up tradables inflation.

What happened this week?

This week we released our first [Quarterly Economic Outlook of 2023](#). We expect the RBNZ will join other central banks in dialling back the pace of interest rate hikes at their first meeting of 2023, on 22 February. With inflation looking like it's probably peaked, domestic indicators pointing to easing demand, and cracks starting to appear in a previously unstoppable labour market, the case for a slower pace of interest rate hikes is, in our view, clear. We expect a 50bp rate hike in February (down from 75bp in November, but still double the normal pace of 25bp), followed by two 25bp hikes in April and May, which would bring the OCR to a peak of 5.25% (4.25% currently). That's another 100bp of rate hikes in coming months.

Markets continue to price in interest rate cuts over the second half of 2023, but we aren't forecasting any cuts at the moment (our forecast horizon ends in December 2024). As outlined in more detail in our Quarterly, a key reason for that is that we still see risks on both sides of our call for a 5.25% peak in the OCR. On the upside, it's entirely possible that the domestic economy proves more resilient than anticipated to the monetary policy tightening delivered so far. Figure 1 outlines how this could eventuate, with the RBNZ getting the OCR to their desired 'watch, worry and wait' level (we see this as 5.25%) and pausing, only to see domestic data rolling in stronger than expected over the second half of 2023. This could see them resume hiking (albeit much more slowly than in 2022), with a series of 'top-up' hikes taking the OCR up to 7% by the end of 2024 (ie a similar level to the 2000s). Alternatively, it could be the case that the RBNZ ends up overshooting, with households tightening their belts more than expected, and businesses shedding headcount at a greater pace. This could see rates being slashed in late 2023/early 2024, with the OCR easing to 3.5%. Our central forecast balances these two opposing risks.

Figure 1. OCR forecast vs scenarios



Source: RBNZ, ANZ Research

We have downgraded our [milk price forecasts](#). We now see the 2022-23 season payout at \$8.50/kg milksolid (previously \$8.75). And our forecast for the 2023-24 season has also been revised down 25c to \$8.75/kg milksolid. The GlobalDairyTrade Price Index did lift 3.2% in this week's auction, but recent moves in dairy commodity prices and the exchange rate have been unfavourable for farmgate milk prices. Dairy commodity prices are expected to improve over 2023, but a stronger NZD/USD exchange rate is forecast to weigh on prices received by farmers.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Agri Focus: opportunities and challenges ahead
- NZ Insight: early thoughts on the Upper North Island floods
- NZ Agri Focus: a year of challenges
- NZ 2022 HYEPU: 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 Insight: the Australian labour market and the RBNZ
- NZ Property Focus: hardening headwinds and soft landings
- NZ Insight: He Waka Eke Noa recommendations
- Agri Insight: global food crisis to worsen
- NZ Budget Review: Big Budget

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ANZ Proprietary data

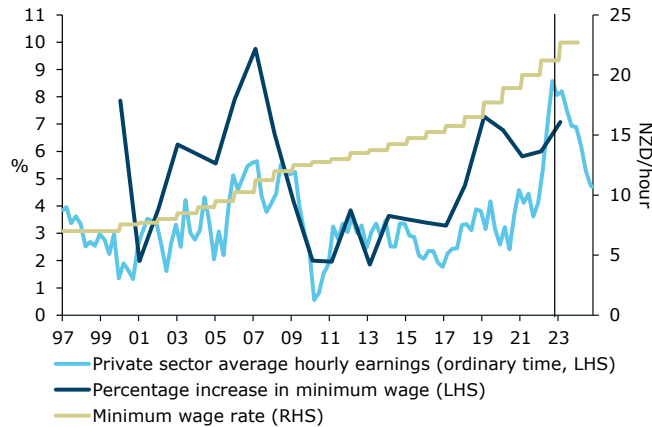
Check out our latest releases below.

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

2023 minimum wage announced

This week the Government **announced** the minimum wage will be increased by \$1.50 to \$22.70/hour from 1 April 2023. That would represent a 7.1% lift relative to 2022's \$21.20/hr. Such a lift in the minimum wage is actually not out of the ordinary relative to historical decisions nor the general trend in wages, but it does follow a period where minimum wage hikes have been well in excess of the growth in private sector average hourly earnings (figure 2).

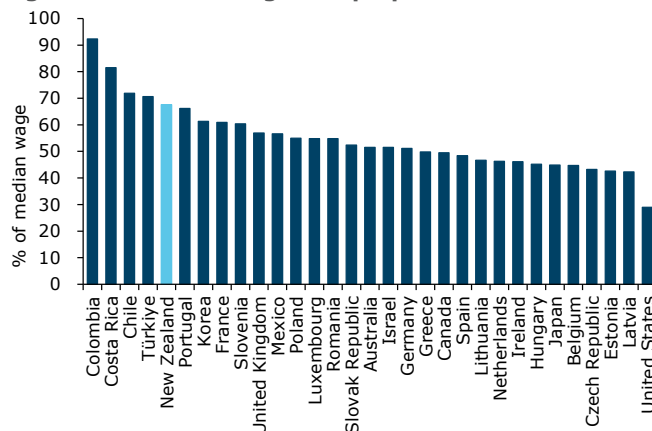
Figure 2. NZ minimum wage and annual private sector wage growth



Source: MBIE, Stats NZ, ANZ Research

The (un)employment effects of nationwide minimum wage hikes are very hard to pin down – especially since we will never know the counterfactual (ie how much employment would have grown without the increase). New Zealand's minimum wage is high relative to median earnings. OECD data (for 31 countries) shows our minimum wage was the fifth highest as a proportion of the median in 2021 (figure 3). That could suggest we may see more significant employment impacts from continued hikes to the minimum wage. However, [Maré and Hyslop \(2021\)](#) provide a thorough review (and updated analysis) of the impact of minimum wage hikes on the New Zealand labour market and "find no clear evidence that increases in the minimum wage have led to adverse employment effects". But they do note a large proportion of teenagers now have their wage rates determined by movements in the minimum wage, so this group could be exposed to any potential job losses.

Figure 3. Minimum wage as a proportion of median earnings (2021 data)

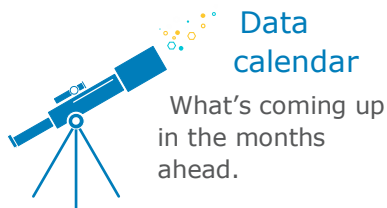


Source: OECD, ANZ Research

Ultimately, in a labour market still characterised by excess demand for workers, one would expect any unemployment impacts from a chunky minimum wage hike to be smaller than usual. It may cause overall wage (and CPI) inflation to be marginally higher than otherwise. But unless that bleeds through into higher inflation expectations, it's unlikely to influence the RBNZ's decision making.



Financial markets update



Date	Data/event
Mon 13 Feb (10:30am)	Performance Services Index – Jan
Tue 14 Feb (09:00am)	REINZ House Prices – 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
Tue 28 Feb (3:00pm)	RBNZ Sectoral Lending – Jan
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
Wed 8 Mar (early am)	GlobalDairyTrade auction
Thu 9 Mar (10:00am)	ANZ Truckometer – Feb
Thu 9 Mar (10:45am)	Electronic Card Transactions – Feb
Fri 10 Mar (10:30am)	BusinessNZ Manuf PMI – Feb
Fri 10 Mar (10:45am)	Economic Survey of Manufacturing – Q4
Mon 13 Mar (10:30am)	Performance Services Index – Feb
Mon 13 Mar (10:45am)	Food Price Index – Feb
Mon 13 Mar (10:45am)	Rental Price Index – Feb
Tue 14 Mar (10:45am)	Net Migration – Jan
Wed 15 Mar (10:45am)	Current Account – Q4

Interest rate markets

Last week's bumper US jobs report has forced markets to reassess the outlook for Fed policy. Fed speakers reiterating that there is still work to do (and that it's premature to contemplate easing, given still-high inflation) and renewed labour market strength have added upside pressure, and we don't expect any meaningful let-up any time soon. Bottom line, we are a long way from rate cuts in the US and here, and markets (that are still expecting cuts) are on notice.

FX markets

NZD/USD has repriced lower as US bond yields have risen, but longer term we remain positive, and have [lifted our forecasts](#). But Australia looks better placed to benefit from China reopening, and we have lowered our NZD/AUD forecasts.

Key data summary

ANZ Roy Morgan Consumer Confidence – January. [Consumer confidence](#) bounced 9 points to 83.4, led by more optimism about the future.

ANZ Commodity Price Index – January. The ANZ World [Commodity Price Index](#) eased 1.0% m/m.

GlobalDairyTrade auction. Dairy prices lifted, with the 3.2% increase in the GDT Price Index driven by a 3.8% rise in whole milk powder.

ANZ Truckometer – January. The [Light Traffic Index](#) (LTI) fell 0.7% in January, while the Heavy Traffic Index (HTI) lifted 0.8%.

Performance of Manufacturing Index – January. Bounced to 50.8 (47.2 previously), the first expansionary reading (ie above 50) since September last year. But new orders remained in negative territory (48.8, up 1 point).

Electronic Card Transactions – January. Retail card spending bounced 2.6% m/m, after a 2.3% fall in December.

The week ahead

Performance of Services Index – January (Monday 13 February, 10:30am). Slowed to 52.1 in December (53.8 previously), but new orders were still strong at 58.4 (57.4 previously), which could point to ongoing strength in services momentum in January.

REINZ House Prices – January (Tuesday 14 February, 09:00am). We expect house prices continued to decline in January. As of December, we were about two-thirds of the way through the 22% peak-to-trough decline in prices we're forecasting.

Food Prices – January (Tuesday 14 February, 10:45am). It's highly uncertain how much the bad weather, egg shortages, and carbon dioxide shortages will add to the January Food Price Index. We've pencilled in a 3.0% m/m (11.7% y/y) jump in food prices (versus 2.7% m/m in January 2022). That would be the strongest monthly increase since 1989.

Rental Price Index – January (Tuesday 14 February, 10:45am). We expect a 0.3% m/m (3.9% y/y) lift in overall rent prices. However, with rental inflation on new tenancies dropping sharply in recent months, a smaller 0.2% m/m lift in overall rents wouldn't be too surprising either.

RBNZ Inflation Expectations – Q1 (Tuesday 14 February, 3:00pm). The two-year-ahead measure increased to 3.6% in Q4 (3.1% previously). If inflation expectations eased back in Q1, that would give the RBNZ further confidence to dial back some of November's hawkishness.

Net Migration – December (Thursday 16 February, 10:45am). Net migration has increased sharply in recent months, with monthly flows now above their pre-COVID average.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Dec-22	Jan-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD/USD	0.635	0.641	0.633	0.640	0.650	0.660	0.660	0.670	0.670
NZD/AUD	0.932	0.918	0.912	0.901	0.890	0.892	0.880	0.870	0.859
NZD/EUR	0.593	0.593	0.589	0.587	0.586	0.584	0.579	0.578	0.568
NZD/JPY	83.3	83.6	83.2	83.2	83.2	83.2	81.8	81.7	80.4
NZD/GBP	0.525	0.521	0.522	0.525	0.524	0.528	0.524	0.523	0.519
NZ\$ TWI	72.1	71.7	71.2	71.2	71.2	71.7	71.1	71.4	70.8
Interest rates	Dec-22	Jan-23	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	4.65	4.91	5.00	5.27	5.35	5.35	5.35	5.35	5.35
NZ 2-yr swap	5.38	5.00	5.09	4.85	4.85	4.65	4.60	4.55	4.45
NZ 10-yr bond	4.47	4.17	4.20	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	0.1	-0.1	-0.5	-0.4	-0.1	0.3	0.4
GDP (% yoy)	6.4	3.8	4.4	2.3	-0.2	-0.9	-1.1	-0.7	0.2
CPI (% qoq)	2.2	1.4	1.6	0.9	2.0	0.5	0.6	0.4	0.6
CPI (% yoy)	7.2	7.2	7.1	6.3	6.1	5.1	4.0	3.5	2.1
Employment (% qoq)	1.3	0.2	0.1	0.0	-0.4	-0.4	-0.4	-0.1	0.1
Employment (% yoy)	1.2	1.3	1.4	1.5	-0.2	-0.7	-1.2	-1.3	-0.8
Unemployment Rate (% sa)	3.3	3.4	3.4	3.6	4.1	4.5	5.0	5.3	5.4

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

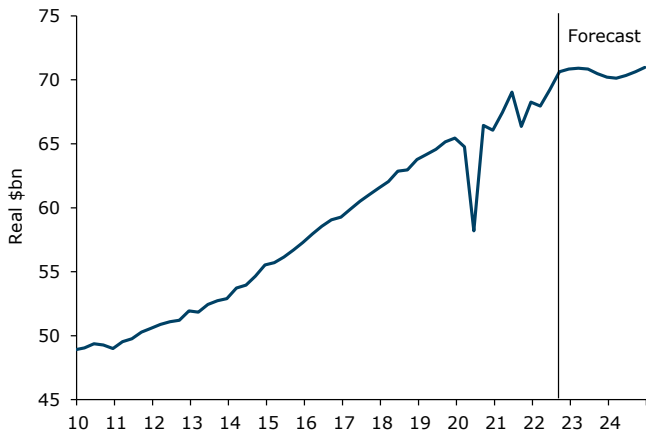


Figure 5. CPI inflation components

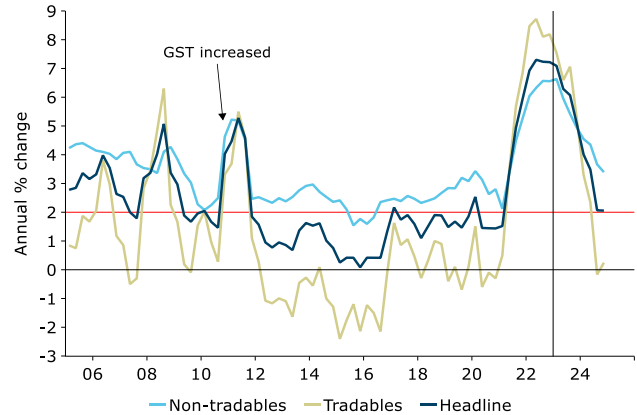


Figure 6. OCR forecast

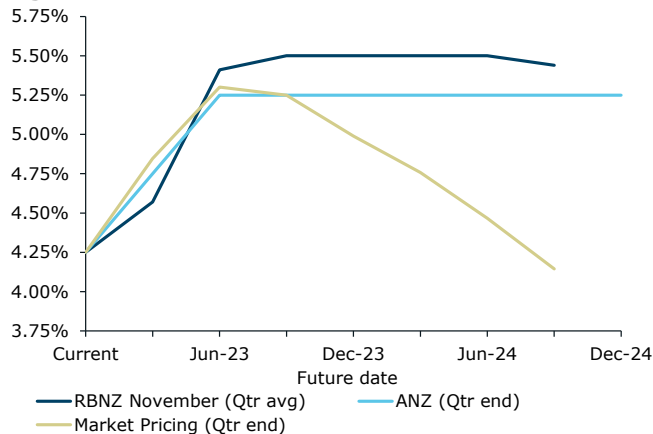
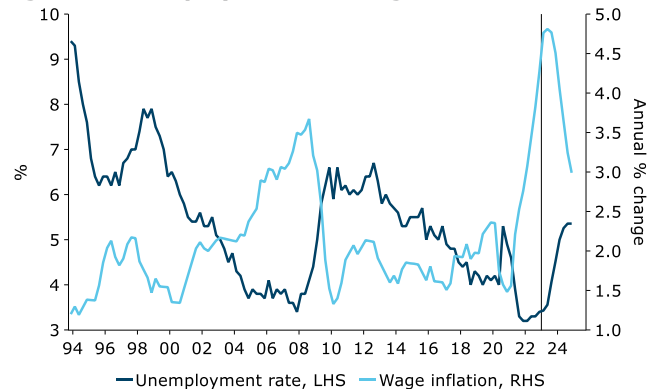


Figure 7. Unemployment and wage inflation



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



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