ANZ Research

New Zealand Weekly Data Wrap

17 February 2023

Contact us

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 set to change
- 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, with central banks still on the warpath.
- The housing slowdown could become disorderly if unemployment rises sharply.
- Negative supply shocks, including weather impacts, could see inflation hold up.
- China's reopening could put upward pressure on commodity prices, pushing up tradables inflation.

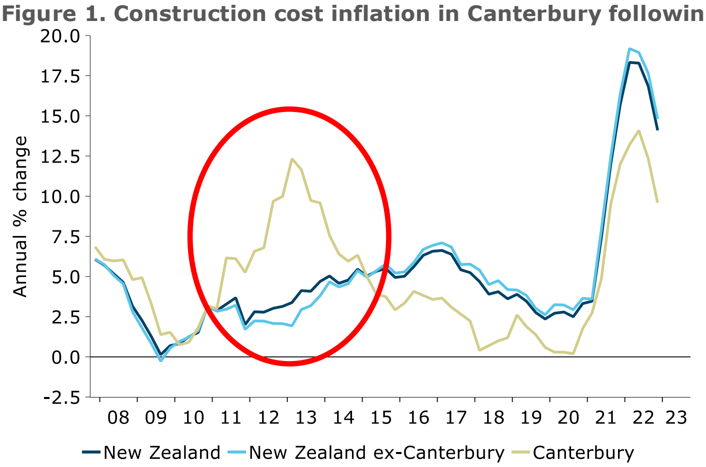
What happened this week?

Cyclone Gabrielle may have departed, but the scale of the heart-breaking devastation it has left behind is still being revealed. It's clear the cost is massive – to individuals and businesses, to local and central government, and to the insurance sector. Lives, homes, business premises and inventory, roads, bridges, electricity infrastructure, vehicles, animals, crops, and future agricultural production have all been lost. And while the cyclone may have largely spared New Zealand's largest cities, the damage it has caused is hard to fathom, and our thoughts are with all those affected.

Significant disruption to economic activity can be expected for weeks and months – and even years, in terms of transport links. An unknown number of tourists will cancel their holidays too. All this will no doubt hit Q1 and Q2 GDP, and could mean we're already in a technical recession. But over the medium term (years) not just the rebuild and clean-up effort but also an urgent need to build more resilience into critical infrastructure will boost activity. Getting back to square one is not the sort of activity we'd prefer to be putting our national resources towards, obviously – it will divert resources from productive enterprises. Indeed, the fact GDP is likely to lift just highlights the inadequacy of GDP as any kind of measure of wellbeing.

What the lost production and rebuild effort will do is increase the degree of resource stretch in the economy – and that's inflationary, as we discuss in an Insight note we published yesterday. A decent chunk of the fall in inflation that's in our (and the RBNZ's) forecasts is due to falls in construction cost and food price inflation. Both of those are likely to see some upward pressure as a result of this event. So too are insurance premiums. And rents.

Figure 1. Construction cost inflation in Canterbury following earthquakes



Source: Stats NZ, Macrobond, ANZ Research

Beyond the direct CPI impacts, it's clear the Government is going to have to stump up a massive amount of cash. Some tough prioritisation decisions lie ahead – and in an election year to boot. It also raises the question of how increased government spending is to be funded. One obvious way for the RBNZ to lend fiscal policy a hand would be to reduce the pace of quantitative tightening (QT). The need to fund QT is placing a burden of $5bn per year on government borrowing and scaling it back could help, especially as doing so would be unlikely to ease financial conditions, as we discussed in yesterday's Insight. But it might help prevent unnecessary stress in the bond market.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: inflationary risks from Gabrielle
- 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 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 Insight: the Australian labour market and the RBNZ
- NZ Property Focus: hardening headwinds and soft landings
- NZ Insight: He Waka Eke Noa recommendations
- NZ Budget Review: Big Budget

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

Looking ahead to next week's MPS

That's a challenging backdrop for the RBNZ's OCR decision next week – a huge negative supply shock that is going to hit activity and confidence in the near term, but which will be inflationary over the medium-term horizon that the RBNZ is focused on. Given the rawness of the event, the market is almost certainly right to conclude it rules out a 75bp hike. But could it result in a pause or just a 25bp hike rather than the 50bp hike that was the market and analyst consensus before the arrival of Cyclone Gabrielle?

Let's start with the baseline before the scale of the cyclone devastation became apparent. As our preview discusses, on balance, Q4 inflation and labour market data plus the TWI suggest that the RBNZ's model will spit out an OCR track that peaks around 25bp lower, before judgement is applied. But inflation pressures are obviously far too strong, and strategic considerations argue for not giving the market any reason to rally, suggesting a 50bp hike, a resolute tone and a little-changed OCR track.

But should the RBNZ now ease up on raising the OCR in response to Cyclone Gabrielle? While naturally the RBNZ committee will want to do everything they can to ease this dreadful situation, it's far from clear that deferring OCR hikes would help at all, on net.

- It couldn't be less targeted. While lower borrowing costs would at the margin offer some relief to those whose livelihoods have been affected, it would lower borrowing costs for everyone else as well. The OCR is an incredibly blunt tool. Fiscal policy, on the other hand, has the ability to target assistance where it is most needed – and the needs are great.
- Lower interest rates now would probably mean higher interest rates later, incurring greater real costs (ie a deeper slowdown and a higher rise in unemployment) than otherwise to get inflation down. That's even putting aside the fact that this is an inflationary event. Delaying hikes now would also probably mean high inflation for longer than otherwise, exacerbating cost-of-living pain.
- Reigniting the housing market and speculative house-building is not going to help those affected by this. The construction sector (particularly infrastructure) has just been presented with an incredibly daunting challenge. We need to free up some resources across the economy.

As discussed on page one, a pragmatic and useful contribution the RBNZ can make is to assist fiscal policy by agreeing with Treasury to reduce the additional funding pressure that quantitative tightening is placing on the bond market. (Note, that's not something that would necessarily be announced at a Monetary Policy Statement.)

Of course, one's view on whether the RBNZ should ease up hiking in response to the cyclone is heavily influenced by one's starting point, namely whether you believe on balance that the RBNZ has a lot more work to do to cool the economy and bring inflation down, or whether it's already probably done too much. It's entirely reasonable to have different views on that question at present, as uncertainty is extreme.

Indeed, it's a debate that's happening globally. Recent data shows growth and labour markets in both the US and Europe chugging along much better than feared. But just as bad news was 'good' news during the COVID era, insofar as it meant central bank largesse would continue, we're now in the symmetric situation. Recent US labour and retail data has stunned with its strength, and forecasts for European growth are also being revised up. Trouble is, perceptions of how high interest rates will need to go, and for how long, to beat back inflation are rising too, and that's not necessarily going down too well with equity markets. Fun and games.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
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 – Jan
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
Thu 16 Mar (10:45am)	**GDP – Q4**
Tue 21 Mar (10:45am)	Merchandise Trade – Feb
Thu 30 Mar (10:45am)	Building Permits – Feb
Thu 30 Mar (1:00pm)	ANZ Business Outlook – Mar
Fri 31 Mar (10:00am)	ANZ-RM Consumer Confidence – Mar
Tue 4 Apr (10:00am)	NZIER QSBO – Q1

Interest rate markets

Local short-end interest rates have stabilised at elevated levels this week, with the bellwether 2-year swap hovering around 5.15%, having dipped to 4.65% just two weeks ago. There has been some debate in markets about prospects for a pause from the RBNZ next week on account of Gabrielle, but as noted, we think generous, targeted fiscal support is better placed to provide relief. Monetary policy is simply too blunt. If the RBNZ wants to give fiscal policy a hand, they can scale back the pace of QT, which does put additional pressure on Crown finances. Back to the OCR, if we do see a 50bp hike next week, technically that poses upside risks to short-end rates, as just 46bps is now priced in. But we wouldn't overplay that angle given rates will in practice be anchored by the market's tendency to want to price in the next cycle (ie cuts), a consistent theme of recent months. Globally, the focus has shifted back to the stickiness of inflation, and that has seen US 10-year bond yields rise back towards December's highs. We still see upside risks as markets price out rate cuts that have been expected in late 2023, but next week is a bit binary, and all about what the RBNZ says, and what they think about Gabrielle.

FX markets

The Kiwi is lower this week. USD DXY made fresh February highs as US data surprised to the upside and US bond yields rose. We see some risk of a USD rebound, but many of the factors behind 2022's surge in the USD (rapid Fed hikes, crumbling asset prices, other central banks lagging) are absent. But as with rates, a lot hangs on the tone of next week's RBNZ MPS.

Key data summary

Performance of Services Index – January. Bounced to 54.5 (52.0 previously), indicating continued resilience in the services sector.

REINZ House Prices – January. House prices declined by 0.6% m/m (ANZ seasonal adjustment) – a little less than expected. We retain our forecast for a 22% peak-to-trough decline in house prices from their November 2021 peak.

Food Prices – January. Food prices rose by 1.7% m/m, a smaller increase than the 3.0% lift that we had feared in the wake of bad weather, egg shortages, and CO_2 shortages over January. But Cyclone Gabrielle represents a substantial upside risk to food prices in coming months.

Rental Price Index – January. The stock measure (all tenancies) lifted 0.2% m/m, a tad below the 0.3% lift we had pencilled in. Rents for new tenancies lifted 2.7% m/m, raising the risk that rental inflation could be slow to ease.

RBNZ Inflation Expectations – Q1. Two-year-ahead inflation expectations eased to 3.30% (3.62% previously), providing further support for our expectation that the RBNZ will downshift to a 50bp OCR hike next week.

Net Migration – December. Monthly net migration eased slightly to 4581 in December (7354 previously), but remains very strong, even relative to pre-pandemic norms. The data are subject to large revisions after initial release.

The week ahead

GlobalDairyTrade auction (Wednesday 22 February, early am). A further 2.5% lift in dairy prices is anticipated on stable offer volumes and support for whole milk powder as China demand rebounds.

Overseas Merchandise Trade – January (Wednesday 22 February, 10:45am). The cost of imports is again expected to exceed exports resulting in a trade deficit of ~$750 million for January.

RBNZ Monetary Policy Statement – February (Wednesday 22 February, 2:00pm). We expect the RBNZ will hike the OCR 50bp to 4.75% next week. See our Preview.

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Dec-22	Jan-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD/USD	0.635	0.641	0.625	0.640	0.650	0.660	0.660	0.670	0.670
NZD/AUD	0.932	0.918	0.910	0.901	0.890	0.892	0.880	0.870	0.859
NZD/EUR	0.593	0.593	0.586	0.587	0.586	0.584	0.579	0.578	0.568
NZD/JPY	83.3	83.6	83.8	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	71.0	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	5.04	5.27	5.35	5.35	5.35	5.35	5.35
NZ 2-yr swap	5.38	5.00	5.15	4.85	4.85	4.65	4.60	4.55	4.45
NZ 10-yr bond	4.47	4.17	4.35	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 2. GDP level

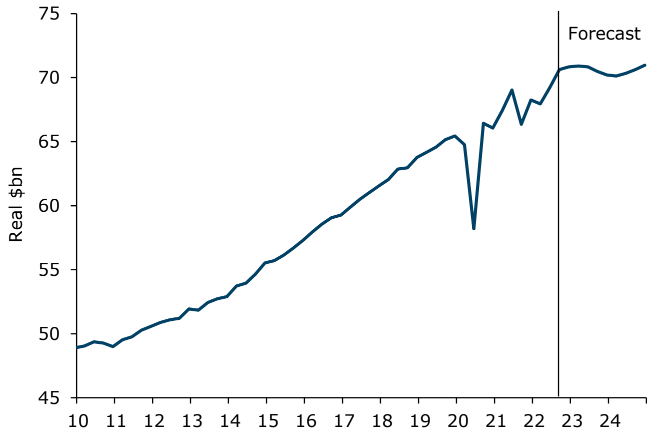


Figure 3. CPI inflation components

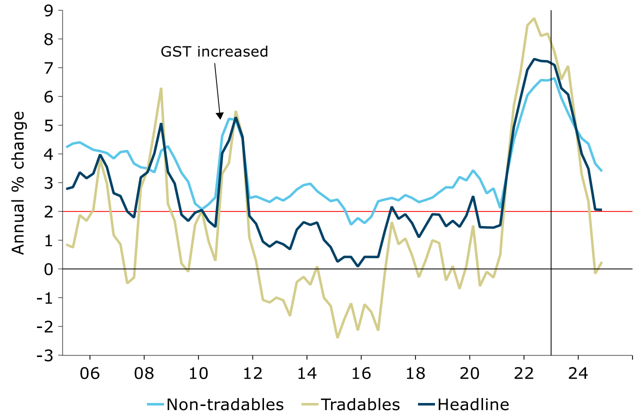


Figure 4. OCR forecast

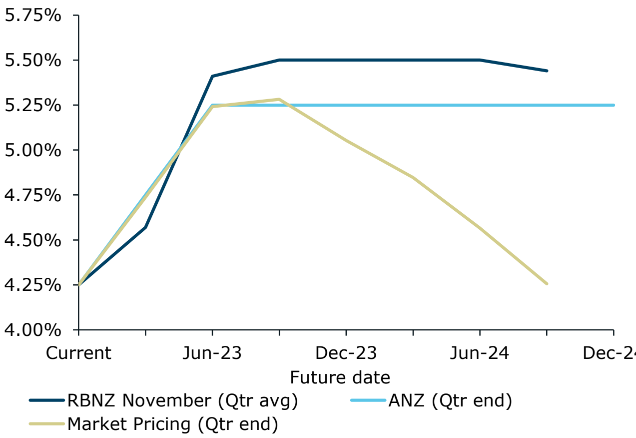
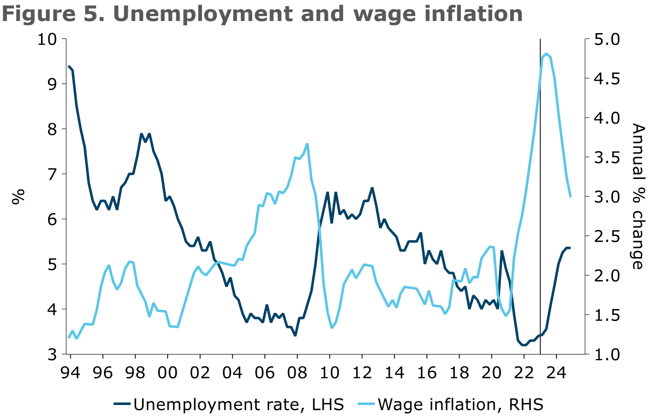


Figure 5. Unemployment and wage inflation



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

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