


# New Zealand Weekly Data Wrap

6 April 2023



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See [page 5](#).

## Forecast updates

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

- [NZ Forecast Update: getting an extension](#)
- [NZ Property Focus: rain check](#)
- [NZ Forecast Update: milk price forecasts revised down](#)

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 5.50% 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 and financial market risks abound, as markets debate the rates outlook.

 The housing slowdown could become disorderly if unemployment rises sharply.

 Negative supply shocks, including weather impacts, could see inflation hold up.

 NZ's large external imbalances could see the market impose a more abrupt adjustment path.

## RBNZ maintains laser focus on inflation...

Defying both market and analyst expectations, the RBNZ hiked the OCR 50bps this week, with the accompanying commentary making it clear they mean business, and that global financial market risks are just that: risks, for now at least. We expected a 25bp hike, but warned in our [Preview](#) that a 50bp hike was more likely than a pause. The decision to hike 50bp rather than 25bp can be put down to the following:

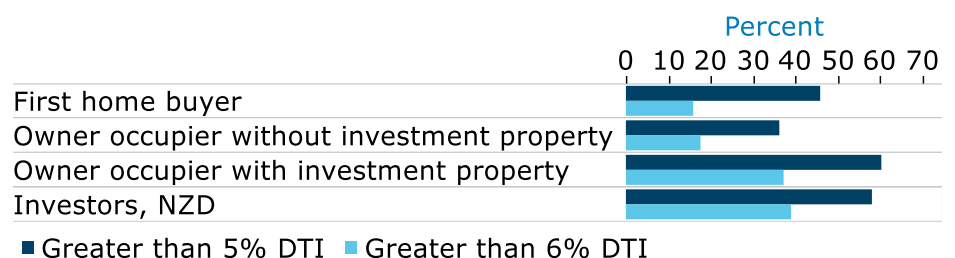
- Cyclone Gabrielle looks more inflationary than previously assumed.
- There was a perceived risk that a 25bp hike may not have been sufficient to offset downward pressure on fixed retail lending rates.
- They remain acutely aware (as are we) of the risk that fiscal policy could turn more expansionary at Budget. If so, the RBNZ will need to offset any inflationary impact with a higher OCR than otherwise.

While the RBNZ did acknowledge softening activity and downside risks to the activity outlook, inflation continues to take centre stage. Clearly, the RBNZ is worried about giving inflation and inflation expectations any more oxygen to get entrenched in wage and price-setting behaviour. It would appear the RBNZ's perceived 'happy place' (where they can 'watch, worry and wait') remains 5.5%. And assuming the wheels don't fall off the global economy or Q1 inflation isn't an absolute shocker, that's fair enough. [We've updated our OCR call](#), banking the 25bp surprise in April and maintaining our expectation for a 25bp follow-up in May (which will take the OCR to a peak of 5.5%). We've also pencilled in three cuts for late 2024.

## ...and signals a new financial stability tool for its toolkit

The RBNZ also [announced this week](#) that it intends to include [debt-to-income \(DTI\) restrictions](#) on mortgage lending in its financial stability toolkit. The potential impacts on housing are difficult to gauge at this state. First, the RBNZ has signalled that the earliest these restrictions *could* be implemented is March 2024 – it's not a lock that they will be implemented this early. Second, it's possible that the implementation of DTI restrictions is met with an easing in loan-to-value ratio restrictions, meaning some potential offsets when it comes to how overall financial stability policy bites. Third, DTI guidance suggests there will be some exemptions and 'speed limits' (similar to how LVRs are implemented), meaning a portion of mortgage lending will still be able to occur above the regulated threshold. The details of the policy will matter, and we do not yet know where the RBNZ might set DTI thresholds. But the data for 2022 suggests investors may feel the largest impact as they tended to take on more lending at a DTI greater than 5 and 6 times income (figure 1).

Figure 1. DTIs greater than 5 and 6 times income by borrower type



Source: RBNZ, Macrobond, ANZ Research



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: Not a straight line
- NZ Insight: Inflation rotation
- NZ Insight: second wind for the labour market?
- NZ Property Focus: rain check
- 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 HYEUFU: 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 Insight: The inflation outlook and the balance of risks
- NZ Insight: 2020 hindsight
- NZ Agri Insight: feeding the world sustainably
- NZ Budget Review: Big Budget

[Click here for more.](#)



### ANZ Proprietary data

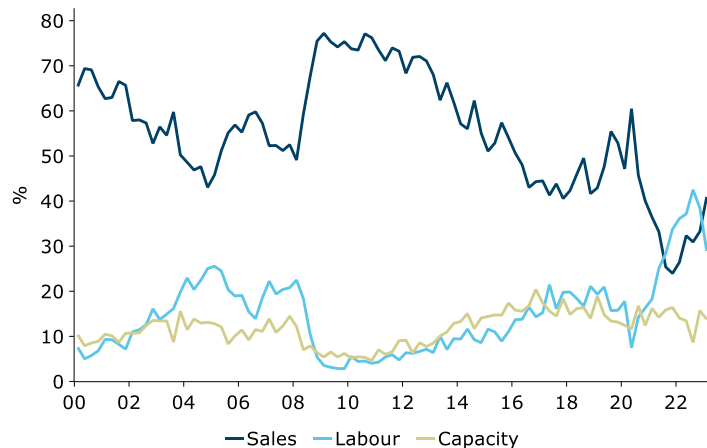
Check out our latest releases below.

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

### In other developments

The NZIER's [Quarterly Survey of Business Opinion \(QSBO\)](#) for Q1 had a similar vibe to our Business Outlook over the first three months of 2023. In a relative sense, there was a general improvement across confidence, activity, employment, capacity and cost/pricing indicators from Q4. But it wasn't all one-way traffic, and the improvement from Q4 should be put into perspective: Q4 marked a record low for headline confidence, and a generally dire read all round. In an absolute sense, the Q1 QSBO data are still symptomatic of an economy grappling with significant capacity constraints and an inflation pulse that's way too high. That said, there is clear evidence in these data that monetary tightening is getting traction, and that the mismatch between supply and demand is going the right way to eventually bring inflation down. One key milestone in the Q1 release was sales overtaking labour as a limiting factor on production (figure 2). Neither indicator is at what you'd call a deflationary level, but the trajectory will give the RBNZ some comfort.

**Figure 2. Limiting factors**



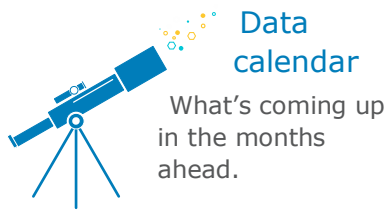
Source: NZIER, Macrobond, ANZ Research

Government financial statements for the eight months ended February 2023 suggest the economy has been sputtering a bit compared to the Treasury's Half-Year Update forecast. Tax revenue came in \$1bn below forecast, led by a \$0.5bn miss on GST (largely reflecting weaker household spending). Provisional tax, customs and excise duties, and source deductions were also weaker than forecast. But a downside miss owing to a weaker underlying economy isn't that surprising. [We noted](#) in December that because the Half-Year Update forecasts were finalised before the RBNZ's hawkish November MPS that there were downside risks to the Treasury's economic outlook, and upside risks to their interest rate assumptions. Come February, and the monthly fiscal statements reflect both a weaker economy and higher core Crown finance costs (owing to the higher OCR).

Looking forward, May's Budget is expected to include cyclone-related spending (with some spending reprioritisations to partially facilitate this), and a weaker economic (and therefore tax) outlook. All else equal, that speaks to upside risk to bond issuance, downside risk to the fiscal outlook (more persistent deficits), and to the extent that any additional fiscal stimulus adds to inflation pressures, upside risk to the OCR and retail interest rates more broadly. However, the Government could also increase taxes to help pay for any increase in spending, offsetting the positive demand and inflation impacts (meaning the RBNZ won't need to react), and reducing the need for the Treasury to issue more bonds.



## Financial markets update



Date	Data/event
Thu 6 Apr (1:00pm)	<a href="#">ANZ Commodity Price Index – Mar</a>
Wed 12 Apr (10:45am)	Electronic Card Transactions – Mar
Fri 14 Apr (10:30am)	BusinessNZ Manuf PMI – Mar
Fri 14 Apr (10:45am)	Net Migration – Feb
Mon 17 Apr (10:30am)	Performance Services Index – Mar
Mon 17 Apr (10:45am)	Food Price Index – Mar
Mon 17 Apr (10:45am)	Rental Price Index – Mar
Wed 19 Apr (early am)	GlobalDairyTrade auction
Thu 20 Apr (10:45am)	<b>CPI – Q1</b>
Wed 26 Apr (10:00am)	<a href="#">ANZ Truckometer – Mar</a>
Wed 26 Apr (10:45am)	Merchandise Trade – Mar
Thu 27 Apr (1:00pm)	<a href="#">ANZ Business Outlook – Apr</a>
Fri 28 Apr (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Apr</a>
Wed 3 May (early am)	GlobalDairyTrade auction
Wed 3 May (10:45am)	<b>Labour Market – Q1</b>
Thu 4 May (10:45am)	Building Permits – Mar
Thu 4 May (1:00pm)	<a href="#">ANZ Commodity Price Index – Apr</a>
Tue 9 May (10:45am)	Electronic Card Transactions – Apr
Thu 11 May (10:45am)	Food Price Index – Apr
Thu 11 May (10:45am)	Rental Price Index – Apr
Fri 12 May (10:30am)	BusinessNZ Manuf PMI – Apr
Fri 12 May (10:45am)	Net Migration – Mar
Fri 12 May (3:00pm)	2Yr Inflation Expectations – Q2
Mon 15 May (10:30am)	Performance Services Index – Apr
Wed 17 May (early am)	GlobalDairyTrade auction
Thu 18 May (2:00pm)	<b>NZ Budget 2023</b>
Fri 19 May (10:45am)	Merchandise Trade – Apr

### Interest rate markets

Global interest rate markets remain volatile, and this has been exacerbated locally by opposing forces at each end of the yield curve. While the RBNZ's decision to deliver a larger-than-expected 50bp hike saw short-end yields spike higher, sharp falls in US bond yields have seen local long-end yields fall, further inverting the curve. We don't expect this volatility to go away any time soon, especially in the US, where financial instability fears remain elevated, depressing bond yields. Returning to the RBNZ, while they surprised markets with a 50bp hike, they also said that their economic projections were little changed relative to February (ie signalling a 5.5% OCR peak) and that the larger hike (given they also considered a 25bp move) "was seen as helping to maintain the current lending rates faced by businesses and households". If the Budget is expansionary, the OCR may well need to go higher, but for now, for the RBNZ, it's about keeping term interest rates at a level that won't reignite housing or inflation, especially given their assessment that "there is no material conflict between lowering inflation and maintaining financial stability". Our revised interest rate forecasts now factor in a 5.5% terminal OCR, taking short-end rates higher near term before they fall ahead of expected cuts in H2 2024.

### FX markets

Lower US bond yields are weighing on the USD just as RBNZ staunchness is adding to carry and giving the NZD a hand. We see mild further NZD upside by year end, but we don't expect FX markets to be as volatile as interest rates. NZD/AUD is getting a tail wind from higher NZ interest rates.

### Key data summary

**RBNZ sectoral lending data – February.** Annual household lending growth continued to slow on the back of the softening housing market. Business and agricultural lending also remained subdued.

**NZIER Quarterly Survey of Business Opinion – Q1.** The Q1 [QSBO](#) lifted from Q4's record low, with the likes of headline confidence, activity, pricing and cost indicators moving broadly in line with our [Business Outlook](#).

**GlobalDairyTrade auction.** Prices fell sharply, with the GDT Price Index down 4.7%. Whole milk powder led the fall, down 5.2% to trade at an average price of USD3053/t.

**RBNZ OCR Review – April.** The RBNZ raised the OCR by 50bp to 5.25% – see our [review](#).

### The week ahead

**ANZ Commodity Price Index – March (Thursday 6 April, 1:00pm).**

**Electronic Card Transactions – March (Wednesday 12 April, 10:45am).** Our internal spending data suggest a solid rebound from February's 1.7% m/m contraction is on the cards. Something around +2% m/m wouldn't surprise.

**Performance of Manufacturing Index – March (Friday 14 April, 10:30am).** Will the recovery persist, or are headwinds simply too strong?

**Net Migration - February (Friday 14 April, 10:45am).** At face value, monthly inflows have been coming in strong, and that vibe has been corroborated in improving labour availability in business survey data. But we're on the lookout for large revisions.



## Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Feb-23	Mar-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZD/USD	0.616	0.626	0.632	0.630	0.640	0.660	0.670	0.670	0.680
NZD/AUD	0.915	0.936	0.940	0.900	0.889	0.880	0.870	0.859	0.861
NZD/EUR	0.580	0.577	0.579	0.573	0.571	0.579	0.578	0.568	0.567
NZD/JPY	84.2	83.1	82.9	81.9	81.3	81.8	81.7	80.4	80.2
NZD/GBP	0.509	0.507	0.507	0.508	0.512	0.524	0.523	0.519	0.523
NZ\$ TWI	70.8	71.3	71.7	70.1	70.1	71.1	71.4	70.8	71.3
Interest rates	Feb-23	Mar-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	4.75	4.75	5.25	5.50	5.50	5.50	5.50	5.50	5.25
NZ 90 day bill	5.13	5.23	5.25	5.60	5.60	5.60	5.60	5.43	4.93
NZ 2-yr swap	5.37	5.03	5.08	5.25	4.75	4.34	4.25	4.15	4.10
NZ 10-yr bond	4.57	4.20	4.00	4.15	3.75	3.50	3.50	3.75	4.00

### Economic forecasts

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP (% qoq)	-0.6	<b>0.2</b>	<b>0.3</b>	<b>-0.3</b>	<b>-0.6</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>
GDP (% yoy)	2.2	<b>2.9</b>	<b>1.6</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.8</b>	<b>-1.0</b>	<b>-0.4</b>	<b>0.5</b>
CPI (% qoq)	1.4	<b>1.8</b>	<b>1.1</b>	<b>2.0</b>	<b>0.8</b>	<b>0.8</b>	<b>0.5</b>	<b>0.7</b>	<b>0.5</b>
CPI (% yoy)	7.2	<b>7.3</b>	<b>6.7</b>	<b>6.6</b>	<b>5.8</b>	<b>4.7</b>	<b>4.0</b>	<b>2.7</b>	<b>2.5</b>
Employment (% qoq)	0.1	<b>0.3</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.2</b>
Employment (% yoy)	1.3	<b>1.7</b>	<b>2.0</b>	<b>0.3</b>	<b>-0.3</b>	<b>-1.0</b>	<b>-1.3</b>	<b>-0.8</b>	<b>-0.2</b>
Unemployment Rate (% sa)	3.4	<b>3.4</b>	<b>3.5</b>	<b>4.0</b>	<b>4.5</b>	<b>5.0</b>	<b>5.2</b>	<b>5.3</b>	<b>5.4</b>

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

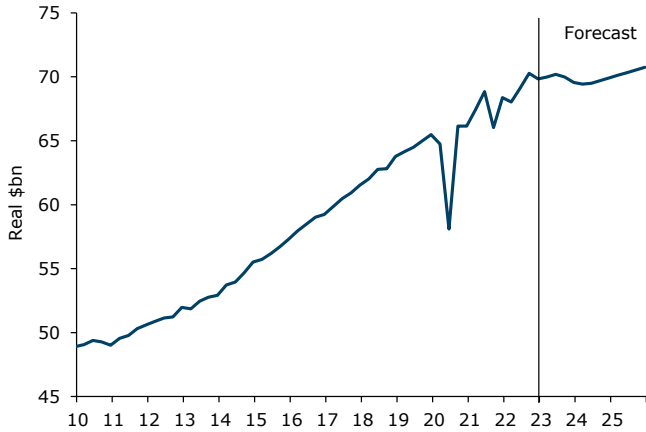


Figure 4. CPI inflation components

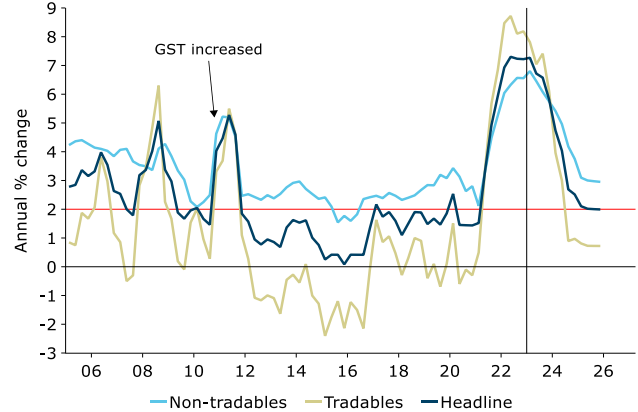


Figure 5. OCR forecast

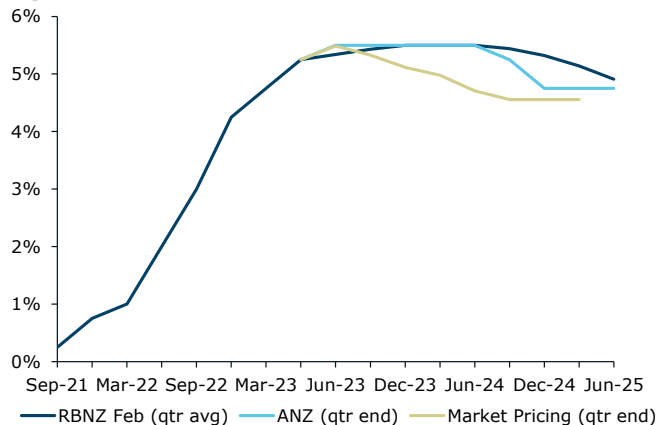
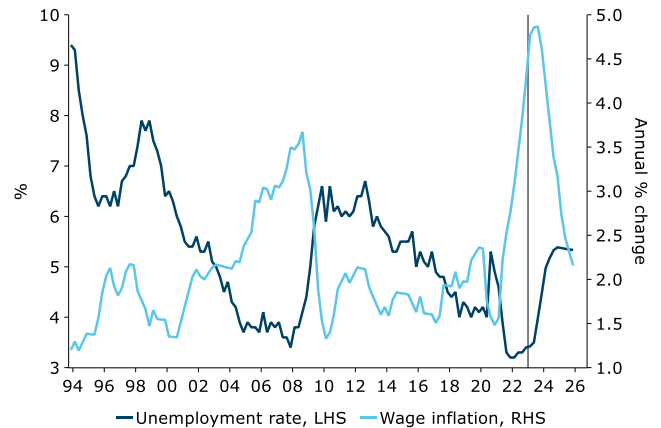


Figure 6. Unemployment and wage inflation



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



## Contact us

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