

New Zealand Weekly Data Wrap

12 May 2023



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Forecast updates

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

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

Our other recent publications are on [page 2](#).


What's the view?


- GDP transitioning from acute supply constraints to a softening demand pulse.
- Labour market still tight, but expected to cool.
- Inflation way above target and looking sticky.
- OCR to 5.50% at May 24th decision, 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.

 Soaring net migration could see house prices start to rise again.

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

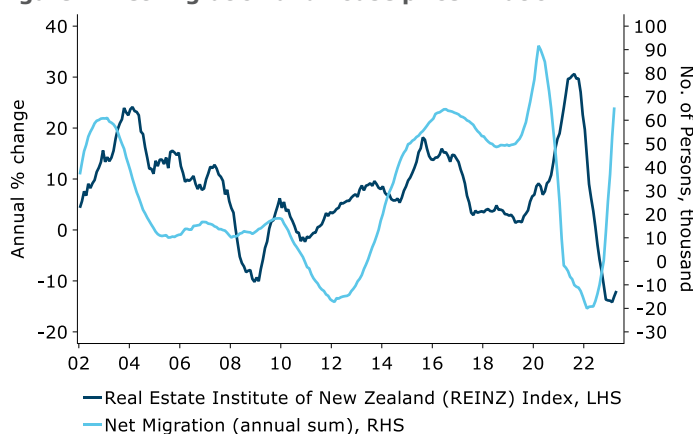
 NZ's large external imbalances could see the market impose a more abrupt adjustment path.

What happened this week

The [REINZ House Price Index](#) was unchanged on a seasonally adjusted basis in April. Coupled with a 7.1% m/m (sa) increase in sales (albeit from very low levels), and no change in the number of days to sell, the outturn was consistent with a housing market that's nearing a turn. While it's only one month of data, it adds upside risk to our recently updated house price forecast (an 18% peak-to-trough decline, from 22% previously).

While we're not expecting house prices to take off again, the boost to demand from surging migration does pose some upside risk. In March, about 12.5% of home sales were to people currently on resident visas. That trend has been rising steadily in recent years, although that doesn't necessarily reflect new arrivals in the country. There tends to be a lagged relationship between net migration and house prices, and while correlation doesn't necessarily imply causation, the increased demand for housing at a time when new supply is slowing is likely to put upward pressure on prices. That said, there's still plenty of downward pressure from other headwinds, namely relatively high borrowing costs, a slowing economy, and a loosening labour market.

Figure 1. Net migration and house price inflation



Source: REINZ, Stats NZ Macrobond, ANZ Research

Net migration continued to surge in March, with a net inflow of 12,100 new migrants, and revisions to Stats NZ's historical data adding an extra 1000 migrants in the last year. The annualised rate for the first three months of the year is nearly 130k – well in excess of the highs we saw pre-COVID. That certainly adds upside risk to our forecasts for activity, labour supply and house prices, as we all budge up.

The impact on inflation, however, is ambiguous. All else equal, greater labour supply will ease capacity constraints in the tight labour market and reduce wage pressures. But wages tend to respond with a lag, and new migrants entering the country add to demand in other areas, particularly the housing market. The overall inflation impact of migration will partly depend on the composition of new migrants (eg families tend to boost demand more than single working migrants). Research has tended to show that migration is net positive for demand, and the RBNZ noted in April that it poses upside risks to inflation in the medium term. Given the current capacity constraints in the labour market, labour supply growth may be more disinflationary than usual. But our gut feel is that it's an upside risk to the OCR.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Economic Outlook: moving parts](#)
- [NZ Insight: divergence across the Tasman, recession for NZ but not for Oz](#)
- [NZ Property Focus: nearing the bottom](#)
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- [NZ Property Focus: rain check](#)
- [NZ Insight: inflationary risks from Gabrielle](#)
- [NZ Agri Focus: opportunities and challenges ahead](#)
- [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](#)
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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](#)

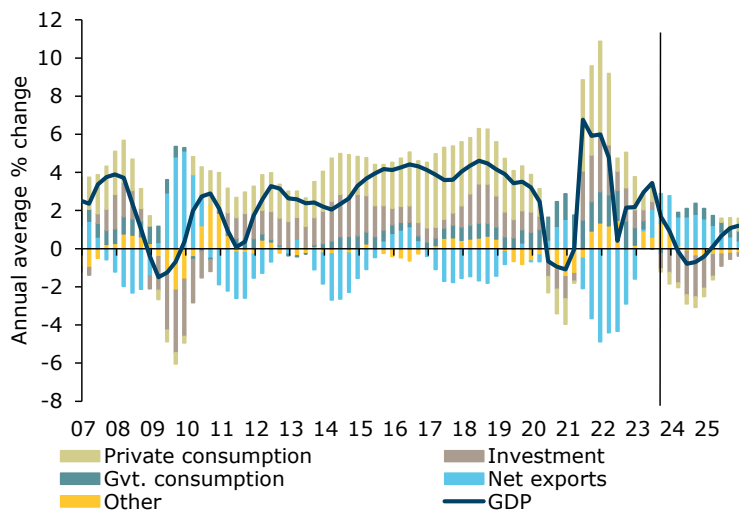
Attention turns to the 'no frills' Budget

Next Thursday's [Budget](#) marks the last milestone before the May MPS, and we (and the RBNZ) will be closely watching to see the level of fiscal stimulus, and any repercussions for monetary policy. While the rebuild from severe weather events earlier in the year will require a substantial investment, the Government has already announced that no taxes or levies will be introduced to fund the recovery. Given that reprioritised spending is unlikely to cover the shortfall, coupled with our expectation of a weaker tax take than that previously forecast at November's HYEPU, it's likely that net new spending will be required and we're expecting the Treasury will signal the return to surplus will be delayed another year to 2025/26.

All up, while responding to the cyclone is absolutely the right thing to do, running wider-for-longer fiscal deficits and adding further macroeconomic stimulus to an already out-of-balance economy is potentially problematic. With inflation still near multi-decade highs and the annual current account deficit at its highest level since quarterly records began in 1987, there's certainly risks to both the sustainability of our external position and that high inflation proves more persistent, leaving more work for monetary policy to do.

In the last few weeks in the lead-up to the MPS the RBNZ has been surprised to the downside on inflation in Q1, while the labour market remained broadly tighter than their estimates. We're still picking that the RBNZ will deliver one more 25bp hike before they pause, but next week's Budget certainly adds upside risks to the ultimate OCR peak. For now, we're picking a terminal rate of 5.50% is enough to cool demand in the economy, as we highlight in our latest [Quarterly Economic Outlook](#).

Figure 2. GDP Forecast

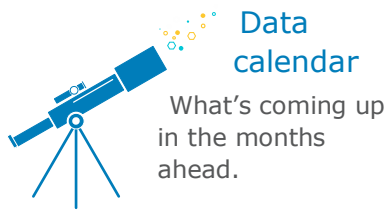


Source: Stats NZ, ANZ Research

Our latest Quarterly Economic Outlook, published this week, highlighted that the economy is on the verge of a policy-induced slowdown. Higher interest rates, falling house prices, weak confidence and loosening in the labour market are all expected to weigh on household spending, and in conjunction with weaker business and residential investment, see the economy enter recession in the second half of 2023, with a total contraction of 1.1% pencilled in through to the start of 2024. The slowdown sees the unemployment rate lift to 5.4%. As demand slows, and supply disruption continues to dissipate, inflation is forecast to gradually ease from 6.7% y/y currently to 5.2% y/y and returning to the target band from the second half of 2024. We assume recent strong net migration numbers pent-up demand that will soon wane, but it's a key risk to our forecasts.



Financial markets update



Date	Data/event
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)	NZ Budget 2023
Fri 19 May (10:45am)	Merchandise Trade – Apr
Tue 23 May (10:00am)	ANZ Truckometer – Apr
Wed 24 May (10:45am)	Retail Sales – Q1
Wed 24 May (2:00pm)	RBNZ MPS
Fri 26 May (10:00am)	ANZ-RM Consumer Confidence – May
Tue 30 May (10:45am)	Building Permits – Apr
Wed 31 May (1:00pm)	ANZ Business Outlook – May
Wed 31 May (3:00pm)	RBNZ Sectoral Lending – Apr
Fri 2 Jun (10:45am)	Terms of Trade – Q1
Fri 2 Jun (10:45am)	Building Work Put in Place – Q1
Tue 6 Jun (1:00pm)	ANZ Commodity Price Index – May
Wed 7 Jun (early am)	GlobalDairyTrade auction
Thu 8 Jun (10:45am)	Economic Survey of Manufacturing – Q1
Mon 12 Jun (10:45am)	Electronic Card Transactions – May
Tue 13 Jun (10:45am)	Net Migration – Apr
Wed 14 Jun (10:45am)	Food Price Index – May
Wed 14 Jun (10:45am)	Rental Price Index – May
Wed 14 Jun (10:45am)	Current Account – Q1
Thu 15 Jun (10:45am)	GDP – Q1
Fri 16 Jun (10:30am)	BusinessNZ Manuf PMI – May
Mon 19 Jun (10:30am)	Performance Services Index – May
Wed 21 Jun (early am)	GlobalDairyTrade auction
Thu 22 Jun (10:45am)	Merchandise Trade – May

Interest rate markets

Bond market volatility has picked up again, led by the US, where markets are banking on no more Fed hikes as regional bank wobbles rock confidence. However, data continues to come in on the strong side, which has left senior Fed officials reluctant to call an end to the tightening cycle. We expect this tug of war to continue with rates remaining volatile, as is a typical late-cycle dynamic. The local market is being subjected to similar contrasts in underlying data and policy expectations, all of which speaks to volatility, with markets confident of another 25bp hike, but similarly confident of at least two cuts by next May. We still see upside risks to short-end rates, and don't expect the RBNZ to give markets the nod re the cuts that are currently priced in. But that's a story for the week after next, when we get the May MPS. Next week's [Budget](#) is the focus for the local bond market; we expect a deterioration in the fiscal outlook and more bond supply, validating the recent underperformance of bonds.

FX markets

Although the Kiwi snapped back overnight, it has had a solid start to May, finding support from a weaker USD and decent carry against currencies like the AUD. As with interest rates, volatility beckons as markets debate the strength of safe-haven demand amid US regional bank woes, but also look to take the USD DXY back towards fair value (which we see as around 10% lower). NZD/AUD has been held up by interest rate differentials, but relative economic factors (current account, fiscal and growth outlooks) point lower.

Key data summary

Electronic Card Transactions – April. Total spending rose 1.0% m/m (sa), and retail rose 0.7% m/m. Still yet to see a clear softening in nominal spending.

Food Prices – April. Rose 0.5% m/m, taking the annual rate to 12.5% y/y - a record high.

Rental Price Index – April. Rose 0.4% m/m (3.7% y/y). The flow measure lifted 0.9% m/m, which may be an indication of growing demand.

REINZ House Prices – April. [House prices](#) were flat m/m on a seasonally adjusted basis to be 16.3% below their November 2021 peak.

Manufacturing PMI – April. Rose 1.0 pts to a still-contractionary reading of 49.1.

Net Migration – March. Net migration came in at 12.1k for the month. The annualised figure for the past three months is almost 130k.

The week ahead

RBNZ Inflation Expectations – Q2 (Friday 12 May, 3:00pm). Lower starting point and declining forecasts suggest near-term measures should fall.

Performance Services Index – April (Monday 15 May, 10:30am). Fell to a still-expansionary 54.4 in March. A further step down would be consistent with our outlook.

GlobalDairyTrade auction (Wednesday 17 May, early am). Dairy prices are expected to firm by a further 2% as we head towards the end of the NZ milk production season.

NZ Budget 2023 (Thursday 18 May, 2.00pm). See our [Preview](#).

Overseas Merchandise Trade – April (Friday 19 May, 10:45am). Imports are expected to fall in April but still outpace exports by approximately \$1bn.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Mar-23	Apr-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZD/USD	0.626	0.618	0.630	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.936	0.935	0.940	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.577	0.561	0.577	0.568	0.571	0.570	0.560	0.551	0.542
NZD/JPY	83.1	84.3	84.7	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.507	0.492	0.503	0.496	0.500	0.500	0.492	0.485	0.478
NZ\$ TWI	71.3	70.4	71.9	70.7	70.6	70.5	70.0	69.6	69.0
Interest rates	Mar-23	Apr-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	4.75	5.25	5.25	5.50	5.50	5.50	5.50	5.50	5.25
NZ 90 day bill	5.23	5.56	5.60	5.60	5.60	5.60	5.60	5.43	4.93
NZ 2-yr swap	5.03	5.05	5.02	5.25	4.75	4.34	4.25	4.15	4.10
NZ 10-yr bond	4.20	4.09	4.08	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	0.2	0.3	-0.3	-0.6	-0.2	0.1	0.3	0.3
GDP (% yoy)	2.2	2.9	1.6	-0.4	-0.4	-0.8	-1.0	-0.4	0.5
CPI (% qoq)	1.4	1.2	1.1	2.0	0.7	0.8	0.5	0.8	0.5
CPI (% yoy)	7.2	6.7	6.1	5.9	5.2	4.7	4.0	2.8	2.6
Employment (% qoq)	0.5	0.8	0.3	-0.4	-0.4	-0.4	-0.1	0.1	0.2
Employment (% yoy)	1.6	2.5	2.8	1.2	0.3	-0.9	-1.3	-0.8	-0.2
Unemployment Rate (% sa)	3.4	3.4	3.5	4.0	4.4	5.0	5.2	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 3. GDP level

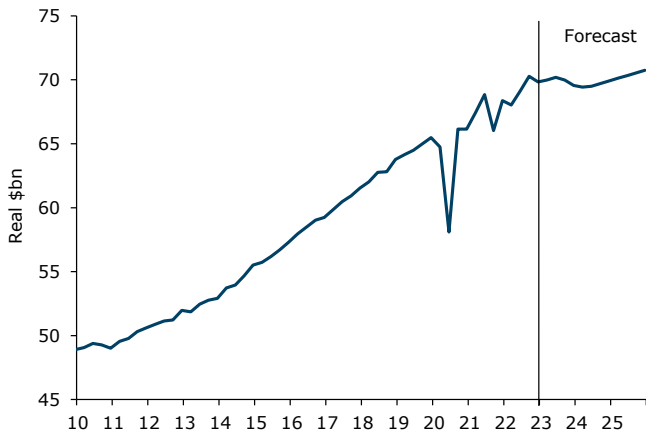


Figure 4. CPI inflation components

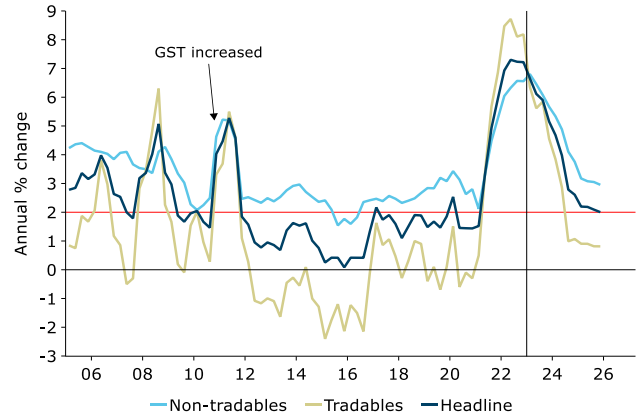


Figure 5. OCR forecast

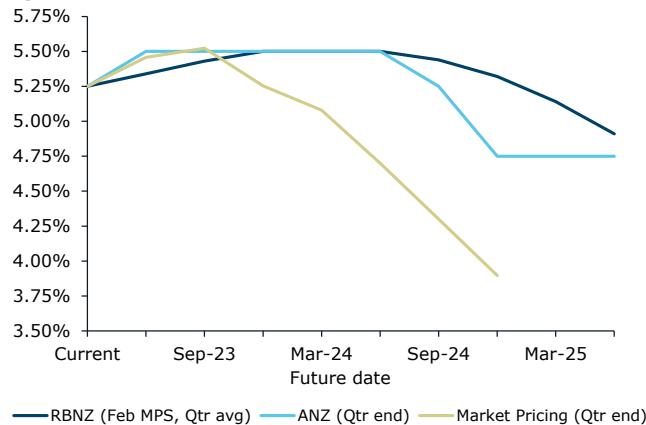
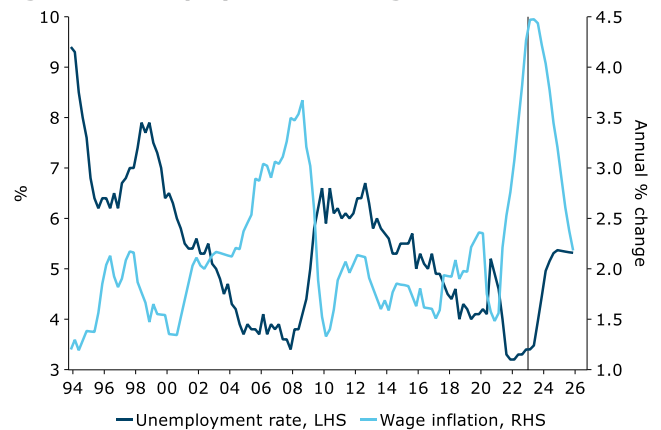


Figure 6. Unemployment and wage inflation



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



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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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