ANZ Research

New Zealand Weekly Data Wrap

1 April 2022

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See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Forecast Update: Farmgate milk price forecast revised up
- NZ OCR Call Change: back-to-back 50bp hikes in April and May
- NZ CPI Forecast Update: inflation now forecast to peak at 7.4% in Q2
- NZ Property Focus: At your service
- NZ Quarter Economic Outlook: Turning points

Our other recent publications are on page 2.

What's the view?

- GDP constrained by supply more than demand
- Labour market tighter than ever, and very inflationary
- Inflation way above target
- Aggressive OCR hikes towards 3.5% in April 2023 needed to contain inflation

Our forecasts are on page 3.

Confused by acronyms or jargon? See a glossary here.

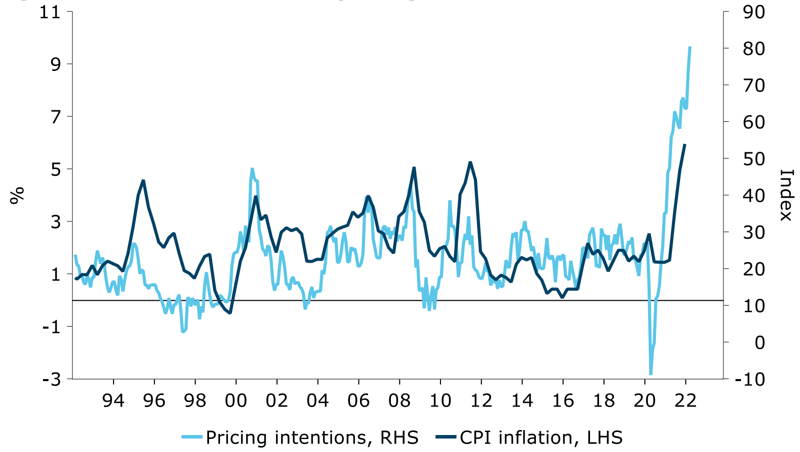
Key risks to our view

- Falling consumer and business sentiment derail momentum.
- Falling house prices could have a more significant impact on the economy than expected.
- Surging commodity prices cause inflation expectations to become unanchored.
- Omicron outbreak causes severe disruption, shortages, and yet more inflation.

What happened this week?

The good news this week was that business confidence and activity expectations stabilised in March (albeit at low levels), after falling sharply in February. The bad news was that inflation expectations, pricing intentions, and cost expectations all continued to surge. And that's despite the RBNZ having three 25bp OCR hikes under its belt, and signalling plenty more to come. At face value, pricing intentions imply CPI inflation is heading sky high (figure 1) – and the latest Business Outlook results are certainly a source of upside risk to our forecast that CPI inflation hits 7.1% y/y in Q1.

Figure 1. CPI versus ANZBO pricing intentions



Source: Stats NZ, Macrobond, ANZ Research

It's not just businesses that are fretting about inflation. Our latest consumer confidence survey showed consumer confidence dropped to a new record low in March – with the index down 4 points to 77.9, well below the pre-COVID average of about 120. Inflation expectations rose to 6.0% (5.6% previously), and a net 26% of respondents think it's a bad time to buy a major household item. Consumers may say it's a terrible time to spend, but they still seem to be begrudgingly getting their wallets out. While firms are reporting that finding skilled labour, non-wage cost inflation, and high rates of pay are growing problems, low turnover (a more traditional recession-type problem) is so far a relatively minor concern.

It may be getting tough out there, but the big problem in the economy is still the inability of supply to meet strong demand – and that means inflation pressures aren't going away any time soon. Business and households certainly aren't expecting any easing in inflation pressures. As we discussed in an insight note last week, the synchronised lift in a range of different inflation expectations measures is a serious concern for the RBNZ – and was highlighted as the most significant risk outlined in the February MPS. That risk is clearly even stronger in the wake of the latest ANZBO and consumer confidence results.

All up, it's clear that the RBNZ's measured approach thus far (ie hiking in 25bp increments) is not looking sufficient to bring inflation and inflation expectations back down quickly enough. And the longer it takes for the RBNZ to really start to gain traction on inflation, the more the risk builds that inflation expectations will become significantly unanchored from the 2% target midpoint. We're forecasting 50bp OCR hikes in April *and* May, which we hope will be enough to start bringing inflation down to a tolerable level.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: the RBNZ's inflation expectations headache
- NZ Property Focus: A soft landing as headwinds gather
- NZ temp fuel tax changes knock 0.5% off Q2 CPI
- NZ Insight: how is NZ's agri sector impacted by the Russian invasion
- NZ Insight: The Reopening II – shifting economic sands
- NZ Property Focus: At your service
- NZ Insight: Terms of trade: risks and opportunities
- NZ Agri Focus: heating up
- NZ Insight: Endemic COVID-19 and labour supply
- NZ 2021 HYEFU: Wind change
- NZ Agri Focus: Higher prices for Christmas
- NZ Insight: The real cost of inflation
- NZ Insight: The Reopening

Click here for more.

ANZ Proprietary data

Check out our latest releases below.

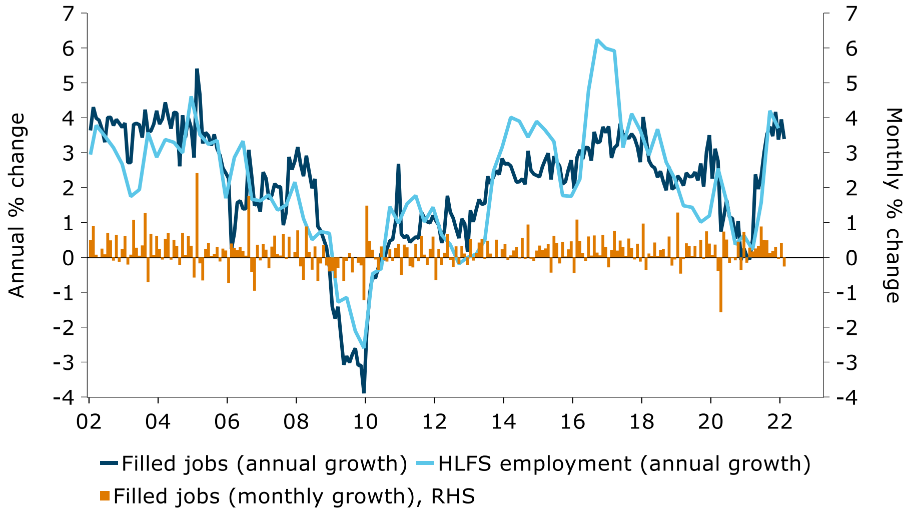
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

What are we watching?

People are clearly very concerned about rising inflation. That's understandable – businesses are watching rapidly rising input costs squeeze their margins, while households on fixed incomes will be cutting back discretionary spending as the cost of essentials surges. Aggressive interest rate rises will put a dampener on economic growth as the RBNZ fights inflation, but we continue to forecast a 'soft' landing for the economy.

That really reflects the crown jewel in the New Zealand economy right now – our extremely tight labour market. We're forecasting that unemployment will drop slightly further from 3.2% at the end of 2021, to a new record low of 2.9% over mid-2022. In combination with rapidly rising wages over this year, we expect that should provide a pretty solid foundation for the economy to tolerate the strong (and necessary) medicine being administered by the RBNZ. Monthly filled jobs data published this week did show some weakness, with jobs falling 0.3% m/m in February, likely reflecting the impact of Omicron (although a 0.3% m/m fall is well within normal monthly volatility – figure 2). On an annual basis, employment is still elevated – and with employment intentions rebounding in the March Business Outlook survey, we should see employment recover as the Omicron wave starts to fade. The best way for the RBNZ to support employment remaining strong is to quickly stabilise prices.

Figure 2. Filled jobs and HLFS employment



Source: Stats NZ, Macrobond, ANZ Research

Another potential pressure point for the domestic economy over the next year is the slowing housing market. We're forecasting a 10% fall in house prices over calendar year 2022 – which again we'd characterise as a 'soft' landing, since it would see prices stabilise about 30% higher than they were pre-COVID. As long as the labour market remains tight, we shouldn't see too many forced sales – and that will help provide a floor for the market.

The construction industry usually doesn't do too well when house prices are in retreat – and residential construction intentions fell sharply in the ANZBO. However, data this week showed that monthly residential building consents rose 10.5% in February, retracing their 8.7% January fall. And while the massive uptrend in building consents looks to have peaked, ongoing high levels of consenting activity provide a pipeline of construction work, even as house prices ease. The challenge will be delivery – that will remain a difficult task as the Australian labour market heats up, costs continue to surge, and building materials remain in short supply.

Looking ahead

Data calendar

What's coming up in the months ahead.

Date	Data/event
Wed 6 Apr (early am)	GlobalDairyTrade auction
Wed 6 Apr (1:00pm)	ANZ Commodity Price Index – Mar
Fri 8 Apr (10:00am)	ANZ Truckometer– Mar
Mon 11 Apr (10:45am)	Electronic Card Transactions – Mar
Tue 12 Apr (10:00am)	NZIER QSBO – Q1
Tue 12 Apr (10:45am)	Net Migration- Feb
Wed 13 Apr (10:45am)	Food Price Index – Mar
Wed 13 Apr (10:45am)	Rental Price Index – Mar
Wed 13 Apr (2:00pm)	**RBNZ Monetary Policy Review**
Thu 14 Apr (10:30pm)	BusinessNZ Manuf PMI – Mar
Wed 20 Apr (early am)	GlobalDairyTrade auction
Thu 21 Apr (10:45am)	**CPI – Q1**
Thu 28 Apr (10:45am)	Merchandise Trade – Mar
Thu 28 Apr (1:00pm)	ANZ Business Outlook – Apr
Fri 29 Apr (10:00am)	ANZ-RM Consumer Confidence – Apr
Fri 29 Apr (3:00pm)	RBNZ Sectoral Lending – Mar
Tue 3 May (10:45am)	Building Permits – Mar
Wed 4 May (early am)	GlobalDairyTrade auction
Wed 4 May (10:45am)	**Labour Market – Q1**
Wed 4 May (1:00pm)	ANZ Commodity Price Index – Mar
Tue 10 May (10:00am)	ANZ Truckometer – Apr
Tue 10 May (10:45am)	Electronic Card Transactions – Apr
Thu 12 May (10:45am)	Food Price Index – Apr
Thu 12 May (10:45am)	Rental Price Index – Apr
Thu 12 May (3:00pm)	RBNZ 2Yr Inflation Expectation – Q2
Fri 13 May (10:30am)	BusinessNZ Manuf PMI – Apr

Interest rate markets

Local market expectations for firmer policy continue to build, with an OCR of 3.22% now priced in by February, up from 3.11% a week ago. Expectations for the next two meetings haven't changed a lot – if anything they're down very slightly, but this is just the usual ebb and flow one would expect given that unlike the Fed, the RBNZ doesn't actively "corral" the market towards a particular decision ahead of time. Rising global rates remain the key driver. While we have seen a pullback at the long end this week (US 10yr Treasury bond yields are back at 2.36% this morning, down from 2.48% last Friday and a peak of 2.55% on Monday), expectations for Fed hikes have barely budged (with ~200bps of hikes priced in over the 6 remaining meetings of 2022). At some point, market expectations are likely to fade – as well as pricing in an OCR of 3.22% by February, markets are pricing in a terminal OCR of ~3.6%, which is above our forecasts and the RBNZ's projections. But we think the second quarter will be hard going in the local interest rate space, with back-to-back RBNZ (and possibly Fed) hikes at front and centre.

FX markets

The NZD has had a sideways sort of a week, having held a narrow range bounded by 0.6880 and 0.7000. While it has yet to breach the 0.70 level, it has gotten close, and as such, has reached our year-end target early. Given how much volatility we have seen this month, and heightened uncertainty, we haven't adjusted our forecasts. But we do intend to re-examine them in the near future. There are no shortages of "ifs, buts and maybes", and all else equal that potentially portends of volatility rather than directionality. Indeed, there are significant cross currents: Omicron disruptions may be short lived, interest rates are high but other countries are catching up, commodity prices are high but not extending, the dollar is fading but EUR and JPY weakness complicate the picture. But the one thing we are mindful of is the tendency of the USD to peak (in broad or trade weighted terms) early on in the US rate hike cycle. We'll never know the counterfactual, but this did look to be on track until EUR got hammered following the Russian invasion of Ukraine, and JPY got hit by the Bank of Japan's "doubling down" on QE and Yield Curve Control (YCC). But markets look to be pushing back on both of these drivers, and if we do see a reversal, that could sow the foundations for USD weakness. While not NZD-specific, it is important.

Key data summary

Building Permits – February. Rose 10.5% m/m, retracing their 8.7% fall in January. But the uptrend in consents appears to be peaking.

ANZ Business Outlook – March. Confidence stabilised, while inflation expectations continue to surge.

RBNZ sectoral lending data – February. Growth in housing lending slowed to 9.5% y/y (10.0% previous), while business lending growth rose to 7.9% y/y (6.5% previous). Personal and agricultural lending continue to decline.

ANZ Roy Morgan Consumer Confidence – March. Confidence fell 4 points to another record low of 77.9, but inflation expectations rose.

The week ahead

GlobalDairyTrade auction (Wednesday 6 April, early am). Milk powder prices are expected to bounce up again while prices for milkfat products are likely to weaken further. Overall we anticipate a 1% lift in the GDT Price Index.

ANZ Commodity Price Index – March (Wednesday 6 April, 10:00am).

ANZ Truckometer – March (Friday 8 April, 10:00am).

Key forecasts and rates

		Actual				Forecast (end month)			
FX rates	Feb-22	Mar-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.674	0.694	0.693	0.660	0.680	0.700	0.700	0.700	0.700
NZD/AUD	0.933	0.926	0.926	0.930	0.932	0.933	0.933	0.933	0.933
NZD/EUR	0.600	0.625	0.627	0.600	0.618	0.636	0.625	0.625	0.614
NZD/JPY	77.9	84.4	84.4	77.9	80.9	84.0	84.0	84.0	84.0
NZD/GBP	0.503	0.529	0.528	0.504	0.515	0.526	0.522	0.519	0.519
NZ$ TWI	72.2	74.4	74.4	71.2	72.9	74.5	74.2	74.0	73.8
Interest rates	Feb-22	Mar-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZ OCR	1.00	1.00	1.00	2.00	2.50	3.00	3.25	3.50	3.50
NZ 90 day bill	1.26	1.61	1.66	2.52	3.02	3.27	3.60	3.60	3.60
NZ 10-yr bond	2.75	3.22	3.27	3.40	3.60	3.70	3.90	4.00	3.95

Economic forecasts

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
GDP (% qoq)	3.0	**0.5**	**0.2**	**0.4**	**0.7**	**0.8**	**0.4**	**0.5**	**0.6**
GDP (% yoy)	3.1	**2.3**	**0.0**	**4.1**	**1.8**	**2.1**	**2.3**	**2.4**	**2.3**
CPI (% qoq)	1.4	**2.0**	**1.6**	**1.2**	**0.8**	**0.8**	**0.7**	**0.8**	**0.5**
CPI (% yoy	5.9	**7.1**	**7.4**	**6.4**	**5.7**	**4.5**	**3.5**	**3.0**	**2.7**
Employment (% qoq)	0.1	**0.0**	**0.1**	**0.3**	**0.3**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	3.7	**3.0**	**2.1**	**0.5**	**0.8**	**1.2**	**1.3**	**1.3**	**1.3**
Unemployment Rate (% sa)	3.2	**3.1**	**2.9**	**2.9**	**3.0**	**3.1**	**3.2**	**3.3**	**3.4**

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. Production GDP forecast

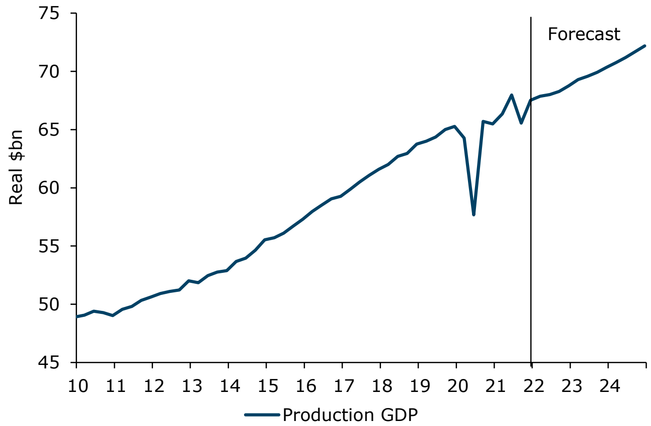


Figure 4. CPI inflation components

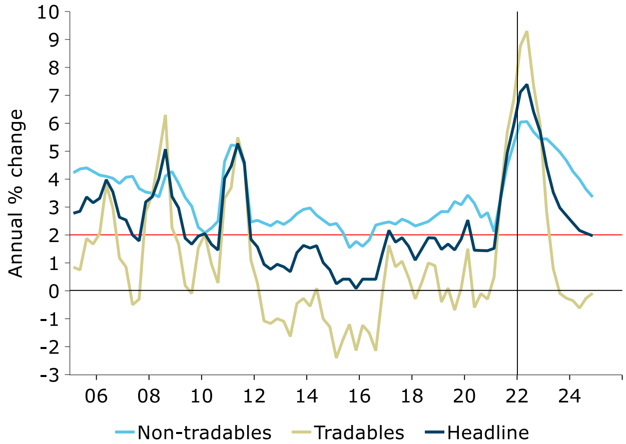


Figure 5. ANZ OCR forecast

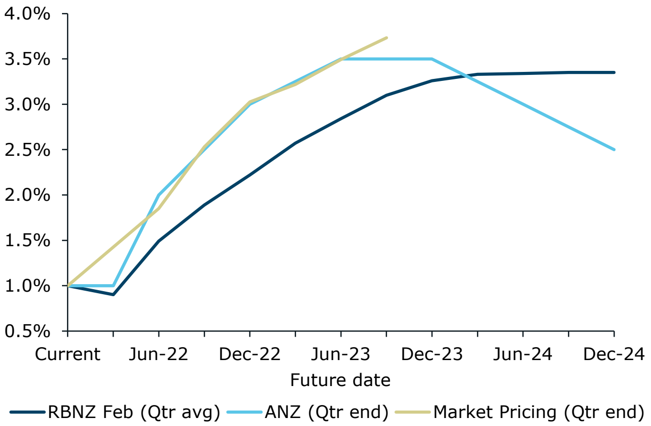
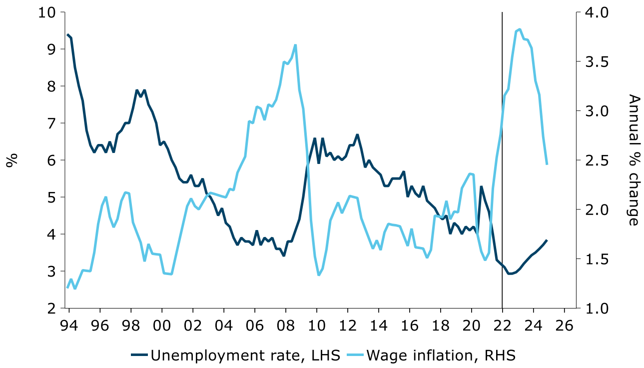


Figure 6. Unemployment rate and wage growth



Source: Stats NZ, Macrobond, ANZ Research

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Last updated: 28 February 2022

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