

New Zealand Weekly Data Wrap

13 May 2022



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Forecast updates

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

- [NZ Quarterly Economic Outlook: rebalancing act](#)
- [NZ Forecast Update: farmgate milk price forecasts revised down](#)
- [NZ Property Focus: regional rollercoaster](#)

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, but may have peaked
- Aggressive OCR hikes towards 3.5% in April 2023 needed to contain inflation

Our forecasts are on [page 4](#).

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.



Global inflation pressures push inflation up more than expected in NZ over 2022.

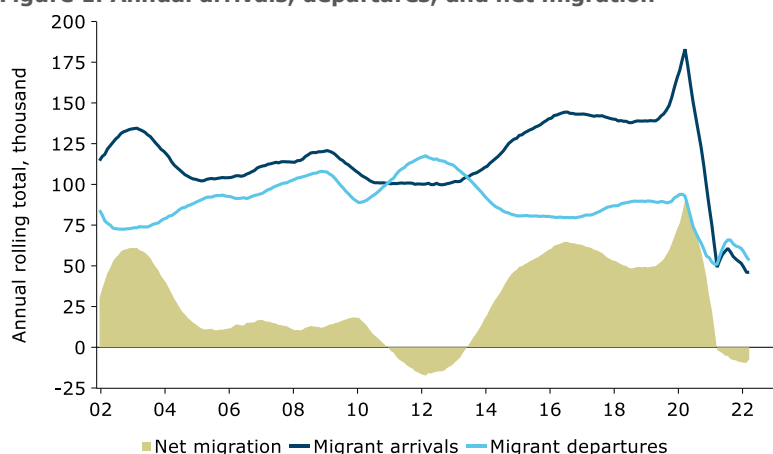
What happened this week?

As we await Budget 2022 next week, policy announcements continue to flow in. This week the Government unveiled their long-awaited changes to immigration policy in New Zealand, at the same time as announcing they would bring forward the border reopening to 31 July. The Government's "immigration rebalance" overall represents a tightening in immigration policy for New Zealand, with a focus on filling key job vacancies in (mostly) high-paying and highly skilled industries. A "Green List" of occupations creates a streamlined process to bring people into the country in key occupations (particularly health professionals and engineers), with a pathway to residence for those migrants. Migrants wanting residence will otherwise have to earn twice the median wage or go through the Skilled Migrant Category pathway.

Temporary work visas will now have to pay a minimum threshold, based on the median wage (to be set at \$27.76 from 4 July), although there are some sector-specific exemptions. For example, many tourism and hospitality roles will have a lower threshold of \$25/hr until April 2023. Sectors receiving exemptions have to demonstrate they are "of sufficient national interest and already rely on lower skilled migrant labour". They need to show they are "working towards reducing their existing dependence on migrant workers".

So what do these announcements mean for New Zealand? As the Government notes, we most likely won't see a return to the high levels of net immigration we saw in the years immediately prior to the pandemic. That's consistent with what we've assumed in our forecasts – ie that net immigration would return to historically average levels once the border opened (somewhere in the vicinity of 30,000/year), rather than reverting back to the 50-90,000 levels seen in the second half of the 2010s (figure 1).

Figure 1. Annual arrivals, departures, and net migration



Source: Stats NZ, Macrobond, ANZ Research

But the policy may come with transition costs, as about half of New Zealand's economic growth in the years before COVID came from migration-driven population growth. Kiwi firms are struggling with historic levels of labour market tightness, and reducing their ability to bring people in from overseas could hurt in the near term (although it's [debatable](#) to what extent the border opening would have helped ease labour market pressure in any case, given equally tight overseas markets). In the long run, focusing on productivity growth and capital investment to grow the economy could mean sustainably higher wage growth for Kiwis. But the transition could be challenging.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: new fiscal rules](#)
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- [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 HYEPU: Wind change](#)
- [NZ Agri Focus: Higher prices for Christmas](#)
- [NZ Insight: The real cost of inflation](#)
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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](#)

What are we watching?

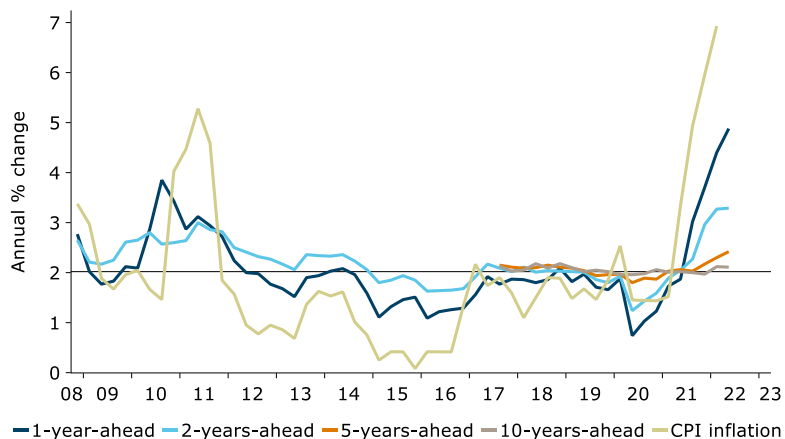
Next week the Government releases [Budget 2022](#). And they are in a tricky spot. On the one hand, the economy is clearly very overheated, but on the other, there are long-term challenges around infrastructure, health, and climate change which need to be addressed – and that requires money. Budget 2022 is going to be an expansionary budget, with a \$6bn operating allowance, a \$4bn increase to the multi-year capital envelope, and a new \$3.7bn Climate Emergency Response Fund all announced at the 2021 [Half-Year Update](#). In the context of surging inflation and longer-term structural issues, the details of the spending will matter. Getting the balance right is a tough gig.

Ultimately, the Government needs to balance these cyclical and structural challenges facing the economy. The cyclical position of the economy points to a need for restraint, but the structural challenges we face will require significant ongoing investment for decades. Whatever the Government decides, it'll then be up to the RBNZ to set monetary policy to restore price stability. And with measures of inflation expectations over the next two years still too high to be consistent with the 2% target midpoint, there's considerable urgency for the RBNZ to get the OCR back to a neutral level. A 50bp hike to 2% in May is a given; from there, the question becomes does the RBNZ keep hiking aggressively, slamming on the brakes for the economy, or will they feel comfortable enough with 25bp hikes as they take a breather and assess how monetary policy is flowing through the economy?

We [continue to forecast](#) that May will be the second and final 50bp hike this cycle, with 25s at each meeting thereafter until the OCR peaks at 3.5% in April 2023. We definitely wouldn't rule out a 50bp hike in July (along the lines of the "stitch-in-time" logic), but with the 2-year and 10-year inflation expectations measures stabilising (figure 2), there are signs that the RBNZ's rapid rate rises are having some effect at halting surging expectations.

By the time we get to the July meeting, the 'least regrets' calculus that the RBNZ applies to its interest rate decisions is likely to be looking much less one-sided. It already looks like achieving a soft landing for the economy will be a difficult task, and ongoing 50bp hikes into contractionary territory (wherever that starts these days – that's also uncertain) would increase the risk of a recession. With longer-term inflation expectations no longer accelerating sharply, the RBNZ may conclude they have the flexibility to take things at a more normal pace. But they won't stop hiking until inflation has conclusively turned downward. They can't take chances on that front.

Figure 2. Inflation expectations (RBNZ Survey)



Source: RBNZ, Stats NZ, Macrobond, ANZ Research



Looking ahead



Date	Data/event
Mon 16 May (10:30am)	Performance Services Index – Apr
Wed 18 May (early am)	GlobalDairyTrade auction
Thu 19 May (2:00pm)	NZ Budget 2022
Tue 24 May (10:45am)	Merchandise Trade – Apr
Tue 24 May (10:45am)	Retail Trade – Q1
Wed 25 May (2:00pm)	RBNZ Monetary Policy Statement
Fri 27 May (10:00am)	ANZ-RM Consumer Confidence – May
Tue 31 May (10:45am)	Building Permits – Apr
Tue 31 May (1:00pm)	ANZ Business Outlook – May
Thu 2 Jun (10:45am)	Terms of Trade – Q1
Fri 3 Jun (10:45am)	Building Work Put in Place – Q1
Tue 7 Jun (1:00pm)	ANZ Commodity Price Index – May
Wed 8 Jun (early am)	GlobalDairyTrade auction
Thu 9 Jun (10:00am)	ANZ Truckometer – May
Fri 10 Jun (10:45am)	Manufacturing Activity – Q1
Fri 10 Jun (10:45am)	Electronic Card Transactions – May
Mon 13 Jun (10:45am)	Net Migration – Apr
Tue 14 Jun (10:45am)	Food Price Index – May
Tue 14 Jun (10:45am)	Rental Price Index – May
Wed 15 Jun (10:45am)	Balance of Payments – Q1
Thu 16 Jun (10:45am)	GDP – Q1
Fri 17 Jun (10:30am)	BusinessNZ Manuf PMI – May
Mon 20 Jun (10:30am)	Performance Services Index May
Wed 22 Jun (early am)	GlobalDairyTrade auction
Wed 22 Jun (10:45am)	Merchandise Trade – May
Thu 30 Jun (1:00pm)	ANZ Business Outlook – Jun
Fri 1 Jul (10:00am)	ANZ-RM Consumer Confidence – Jun

Interest rate markets

Volatility remains the key feature of global bond markets, and this was neatly demonstrated this week in the US, where the yield on the bellwether 10-year Treasury bond hit a peak of 3.20% on Monday before retracing to a low of just 2.81% earlier today. While welcome news for borrowers, hedgers, and tactical investors who bought at the peak, things look less rosy if one stands back and considers what drove the correction: recession fears and sharp falls in asset prices. Markets are already contemplating what this means for policy, with market expectations for the OCR by the end of 2023 down from a peak of around 4.60% to around 4.15% over the past week. But with energy prices still elevated (and in NZ's case, the NZD sharply lower), it's still too soon to call "mission accomplished" on inflation. We are also mindful that if we do see global interest rates correct higher, local rates would likely follow. Bottom line – what we have just witnessed could be the "turning point", but even if it is, it'll be some time before we can expect large sustained interest rate falls.

FX markets

FX markets have also been volatile, but risk currencies like the NZD have also been trending lower at an accelerated pace. Last week we pointed to three factors acting against the USD's typical tendency to weaken early on in the Fed tightening cycle (namely the Ukraine crisis weighing on EUR, the BOJ weighing on JPY, and the safe-haven appeal of USDs amid market turmoil). FX markets remain attuned to those factors. And for market turmoil to prove to be enough to alter the course of central bank policy, it'd have to be significant, and that, in turn, speaks to the possibility of the USD potentially experiencing an extended period of safe-haven demand. Things aren't "going to plan" for a lot of traders and investors; in this environment, it pays to be nimble and open-minded.

Key data summary

ANZ Truckometer – April. The [light traffic index](#) lifted 8.3% m/m as the impact of the Omicron outbreak on mobility wanes.

Electronic Card Transactions – April. Retail spending lifted a solid 7% m/m, reversing a large chunk of February and March's Omicron losses.

REINZ House Prices – April. [House prices fell](#) 0.8% m/m in April, with annual growth slowing to 9.8% (3mma). Further declines are expected.

Food Prices – April. Food prices lifted 0.1% m/m – less than the 0.5% we had pencilled in, but still up a painful 6.4% y/y.

Rental Price Index – April. The stock measure of rents was up a very strong 0.5% m/m – a much faster increase than is usual for this time of year.

Net Migration – March. Remained low at 1,177 (-937 previously). This data should start showing the impacts of the reopening over the middle of the year.

RBNZ Inflation Expectations – Q2. The 2-year-ahead measure stabilised at 3.3%, an encouraging sign.

The week ahead

Performance of Services Index - April (Monday 16 May, 10:30am). Was expansionary in March – but supply issues remained intense.

GlobalDairyTrade auction (Wednesday 18 May, early am). Dairy prices will follow other commodities lower with the index expected to fall 3% further.

NZ Budget 2022 (Thursday 19 May, 2.00pm). See our [Preview](#).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Mar-22	Apr-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.694	0.646	0.624	0.670	0.670	0.690	0.680	0.680	0.670
NZD/AUD	0.926	0.914	0.909	0.905	0.882	0.885	0.883	0.883	0.882
NZD/EUR	0.625	0.612	0.601	0.615	0.609	0.616	0.602	0.596	0.583
NZD/JPY	84.4	83.8	80.2	90.5	90.5	89.7	86.4	85.0	81.7
NZD/GBP	0.529	0.514	0.511	0.515	0.515	0.523	0.507	0.504	0.496
NZ\$ TWI	74.4	72.4	70.6	73.4	72.8	73.7	72.3	71.9	70.6
Interest rates	Mar-22	Apr-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
	NZ OCR	1.00	1.50	1.50	2.00	2.50	3.00	3.25	3.50
	NZ 90 day bill	1.61	1.97	2.15	2.52	3.02	3.27	3.60	3.60
	NZ 10-yr bond	3.22	3.64	3.60	4.00	4.25	4.25	4.10	3.85

Economic forecasts

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
GDP (% qoq)	3.0	0.6	0.4	0.6	1.0	0.6	0.2	0.2	0.2
GDP (% yoy)	3.1	2.4	0.3	4.7	2.6	2.6	2.4	2.0	1.2
CPI (% qoq)	1.4	1.8	1.2	1.5	0.7	0.9	0.7	0.8	0.4
CPI (% yoy)	5.9	6.9	6.8	6.1	5.3	4.5	4.0	3.2	2.9
Employment (% qoq)	0.0	0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	3.5	2.8	2.5	1.0	1.3	1.6	1.3	1.3	1.3
Unemployment Rate (% sa)	3.2	3.2	2.9	2.9	2.9	3.0	3.2	3.3	3.4

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

Figure 4. Production GDP forecast

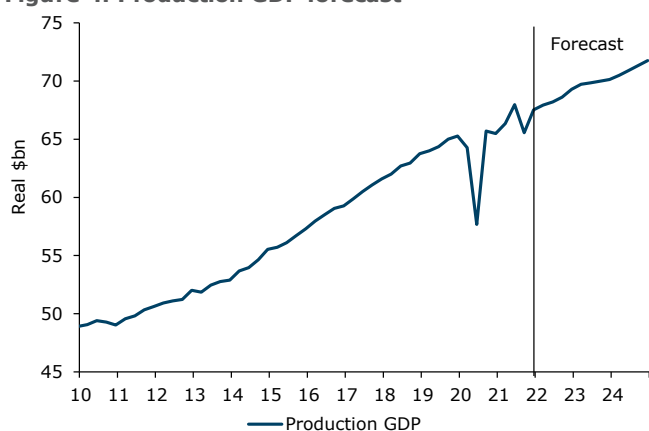


Figure 5. CPI inflation components

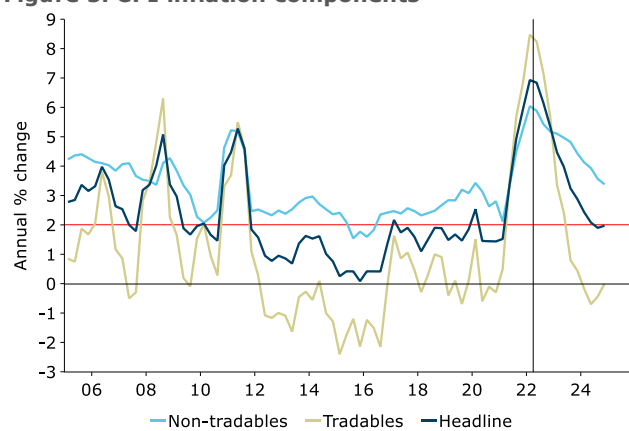


Figure 6. ANZ OCR forecast

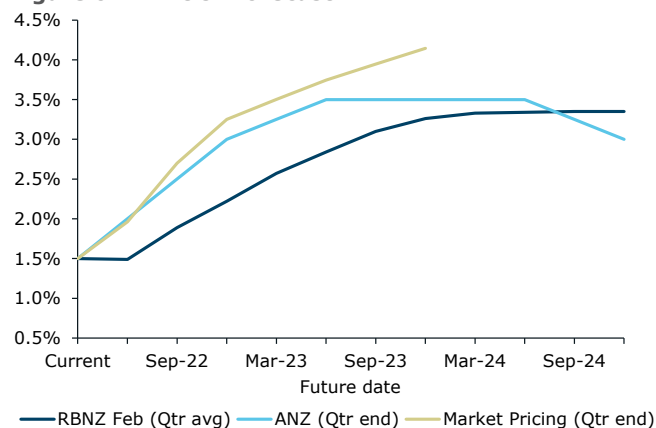
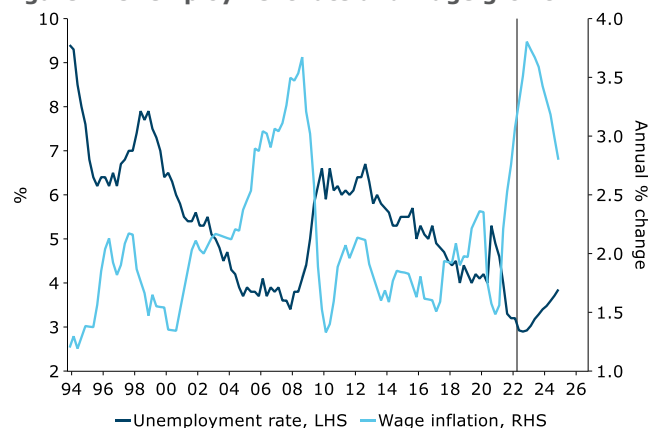


Figure 7. Unemployment rate and wage growth



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



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