

New Zealand Weekly Data Wrap

20 May 2022



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See [page 5](#).

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.

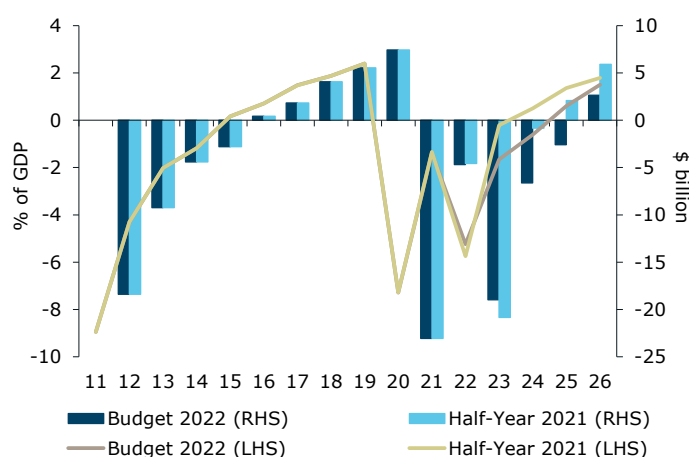
What happened this week?

This week the Government [unveiled Budget 2022](#) – and it's very much a reflection of the times we live in. There's a big focus on climate change and health as the Government sets its focus on long-term challenges facing New Zealand. Key health reforms will receive a massive \$11.1bn of operational expenditure over the next four years, as Health New Zealand and the Maori Health Authority are set up to replace the DHBs. The Covid Response and Recovery Fund has now been discontinued (after being boosted by \$5bn back in February of this year), and \$1bn of the unallocated funds has been converted into a cost of living package. This includes a \$350 one-off payment for people earning under \$70k (with some exclusions, eg if you already receive the Winter Energy Payment), and a two-month extension of the fuel duty reduction and half-price public transport.

The Treasury's economic forecasts were fairly sobering, with real GDP growth receiving a downgrade. The economy is picked to slow to a crawl over 2023 as a combination of high inflation, higher interest rates, a normalisation in government spending down from pandemic levels, and the slowing housing market weigh on domestic demand. The Treasury expects that the RBNZ will need to wallop demand pretty hard to get underlying inflation pressures down – and that's forecast to contribute to unemployment lifting to just under 5% by the end of the Treasury's forecast in mid-2026.

While strong inflation is a serious challenge for the real economy, on the nominal side of the ledger, it's giving the Government even more of a boost to revenue, as nominal GDP surges. That's reflected in a cumulative \$11.5bn upgrade in the tax revenue forecast (from the year to June 2023 to 2026). However, despite the additional revenue, the Treasury is now forecasting that the Operating Balance Before Gains and Losses (OBEGAL) will be in deficit until fiscal year 2025 (figure 1).

Figure 1. Total Crown OBEGAL



Source: New Zealand Treasury

In a separate announcement this week, the Government also published their [plans to meet the emissions reductions budget](#). These initiatives are spread across key sectors such as agriculture, forestry, transport, energy, and construction, and will soak up \$2.9bn of the \$4.5bn Climate Emergency Response Fund. Right now, the goal is to bring all greenhouse gas emissions (excluding biogenic methane) to net zero by 2050. It'll be a long and expensive journey to net zero, but the sooner we set off, the better.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Budget Review: Big Budget
- NZ Insight: Emissions Reduction Plan
- NZ Insight: new fiscal rules
- NZ Property Focus: regional rollercoaster
- NZ Insight: how widespread is labour market tightness?
- NZ Agri Focus: mixed blessings
- 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 HYEPU: 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.

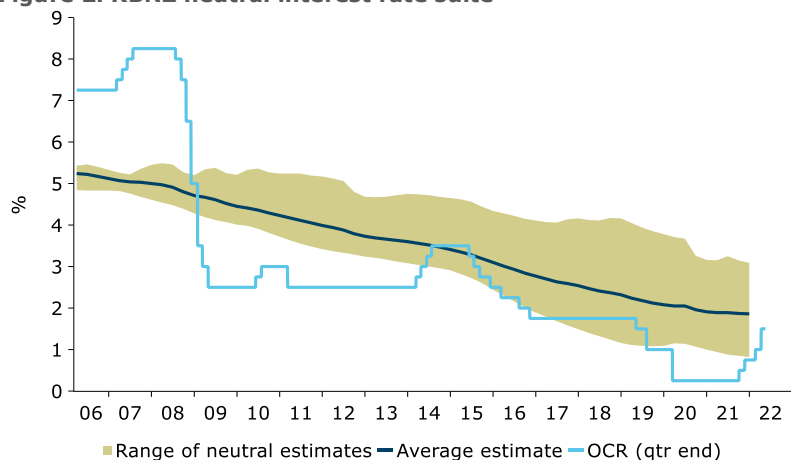
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

What are we watching?

On 25 May next week the RBNZ will publish their Monetary Policy Review. The domestic economy has actually evolved in a way fairly consistent with the RBNZ's forecast back in the February MPS (at least inflation and the labour market – the key variables for monetary policy in New Zealand). At the April Review, the Monetary Policy Committee said they were happy with the February OCR track (which peaked at 3.35%), and that they saw their 50bp hike as a "stitch in time" that should mean they don't have to increase interest rates by as much as if they hiked more slowly.

Not surprisingly, it's now widely expected that the RBNZ will **deliver another 50bp hike** next week as they seek to quickly return the OCR to a more neutral level (ie one that's no longer driving inflation higher). However, estimating the neutral interest rate is a difficult task at the best of times – and with COVID disruption still everywhere in the economic data, it's almost impossible to pin it down with any accuracy. The RBNZ's latest estimate is that the neutral OCR is somewhere around 2% (figure 2). However, we wouldn't be too surprised if estimates of the neutral interest rate start to edge upwards, given the sharp rise in inflation expectations here and overseas. And it really matters what the RBNZ thinks neutral is, because they need to lift the OCR 1 for 1 with any increase in their estimate of neutral – otherwise interest rates can become *more* stimulatory, even if the OCR remains unchanged. Any upward revision would, all else equal, increase the odds that the RBNZ isn't done with 50bp hikes after next week.

Figure 2. RBNZ neutral interest rate suite

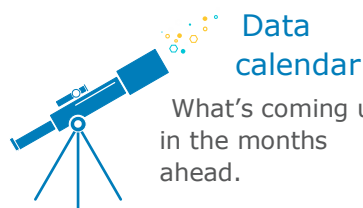


Source: RBNZ, Macrobond, ANZ Research

The policy outlook becomes more nuanced once interest rates are back into contractionary territory (above neutral). Core inflation is clearly far too strong, and wages are accelerating. But at the same time, the RBNZ is hiking into a sharply slowing housing market. Our central forecast (which assumes no unforecastable downside risks materialise) predicts that the strong labour market will stop economic momentum from being completely flattened by the housing downturn. But falling house prices have the potential to dent consumer spending (through wealth and/or confidence effects), and it's a pretty unpleasant mix for the construction sector, with construction costs up 18% y/y in Q1, even as the end product (housing) is losing value. In short, we think that the balance of risks around inflation and economic growth are likely to become less one-sided in favour of large OCR hikes over the second half of this year, and that should prompt the RBNZ to move in more considered 25bp steps over the second half of the year. But from this starting point, the tolerance for upward inflation surprises is nil.



Looking ahead



Data calendar

What's coming up in the months ahead.

Date	Data/event
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
Fri 1 Jul (10:45am)	Building Permits – May
Tue 5 Jul (10:00am)	NZIER QSBO – Q2
Tue 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Wed 6 Jul (early am)	GlobalDairyTrade auction

Interest rate markets

Global interest rate markets remain extremely volatile, and that has again been plain to see in core markets like the US, where the bellwether 10-year Treasury bond has traded in a 2.77%/3.01% range over the past 48 hours. It's all very convoluted – while most market participants acknowledge that large rate hikes are needed to rein in inflation, the debate is swinging from “that may not be enough” to “actually, that could be too much”. Telltale signs of this swing are evident in equity markets, which have had another bad week, having clearly taken the side that hikes will hurt growth. None of this is likely to make the Fed (or RBNZ) blink near term, but it definitely has the potential to make central banks pause (or at least slow down) and assess later in the year, especially if inflation does show signs of levelling out or falling. Stepping back, it seems unlikely that interest rates will break higher as this debate continues. We think early and aggressive hikes are key to markets trusting the ability of central banks to contain inflation, and in that regard, if the RBNZ's message next week remains one of going hard early, and “a stitch in time saves nine”, we may have seen the peak in short-term interest rates. Long-end rates remain beholden to global rates; plenty is priced into US and other markets too, but the policy cycle there has lagged New Zealand, and that speaks to global rates remaining elevated for longer.

FX markets

FX markets have also been extremely volatile, with the NZD trading a circa 2-cent range over the past week. From a technical perspective, price action has been encouraging – not only did the Kiwi bounce off the key 0.6230 support level, it has also broken out of its 6-week downtrend channel. Tentative signs that the USD may have peaked (as it typically does early in the tightening cycle – which we have written about elsewhere) have also encouraged Kiwi bulls. However, we are mindful that if the RBNZ does acknowledge the recent bout of market volatility and the fragility of the growth outlook, the NZD may itself come under pressure. Global bond market and US dollar sentiment has swung swiftly in the past week, and it's far too early to conclude that that's it and that everything has turned now.

Key data summary

Performance of Services Index – April. Down slightly to 51.4 (51.5 previously) – but still in expansion. Supply issues remain.

GlobalDairyTrade auction. The Global Dairy Trade Index fell 2.9%, led by a 4.9% fall in whole milk powder prices. Dairy prices peaked in early March, and have been trending down since then.

NZ Budget 2022. See our [Review](#).

The week ahead

Retail Trade Survey – Q1 (Tuesday 24 May, 10:45am). As the first partial indicator for Q1 GDP, we'll be looking closely at how the continued Delta rebound clashed with the Omicron outbreak. We've pencilled in a 1% q/q lift, and see risks on both sides.

RBNZ Monetary Policy Statement – May (Wednesday 25 May, 2:00pm). We expect another 50bp OCR hike to 2.0%. See our [Preview](#).

ANZ Roy Morgan Consumer Confidence – May (Friday 27 May, 10:00am).



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	0.638	0.670	0.670	0.690	0.680	0.680	0.670
NZD/AUD	0.926	0.914	0.906	0.905	0.882	0.885	0.883	0.883	0.882
NZD/EUR	0.625	0.612	0.603	0.615	0.609	0.616	0.602	0.596	0.583
NZD/JPY	84.4	83.8	81.6	90.5	90.5	89.7	86.4	85.0	81.7
NZD/GBP	0.529	0.514	0.512	0.515	0.515	0.523	0.507	0.504	0.496
NZ\$ TWI	74.4	72.4	71.4	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	2.22	2.52	3.02	3.27	3.60	3.60
	NZ 10-yr bond	3.22	3.64	3.56	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

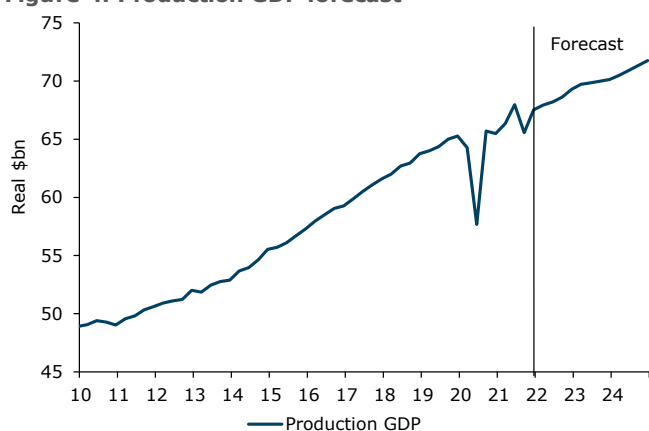


Figure 5. CPI inflation components

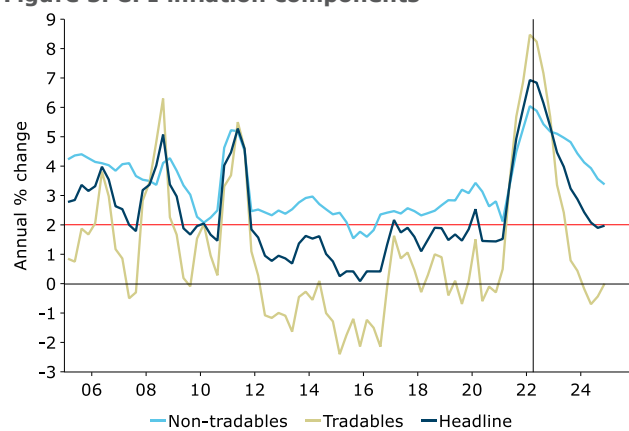


Figure 6. ANZ OCR forecast

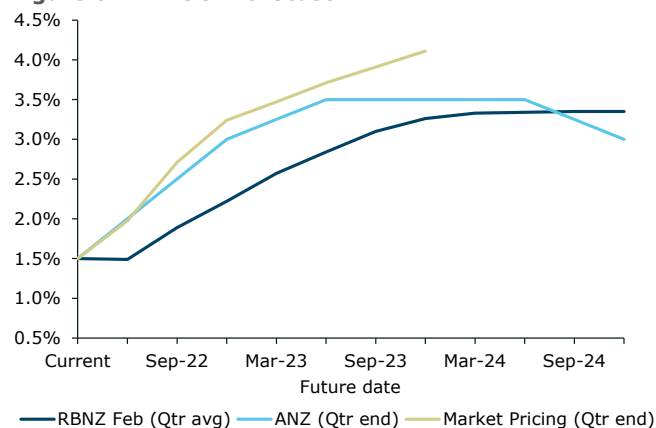
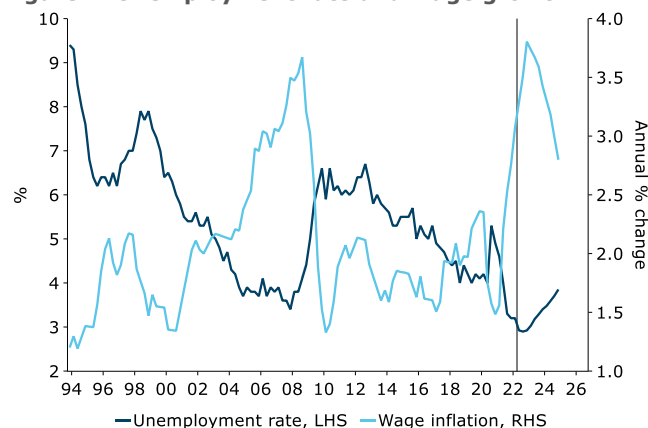


Figure 7. Unemployment rate and wage growth



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



Contact us

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