ANZ Research

New Zealand Weekly Data Wrap

27 May 2022

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See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- RBNZ MPS Review
- 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 February 2023 needed to contain inflation

Our forecasts are on page 4.

Confused by acronyms or jargon? See a glossary here.

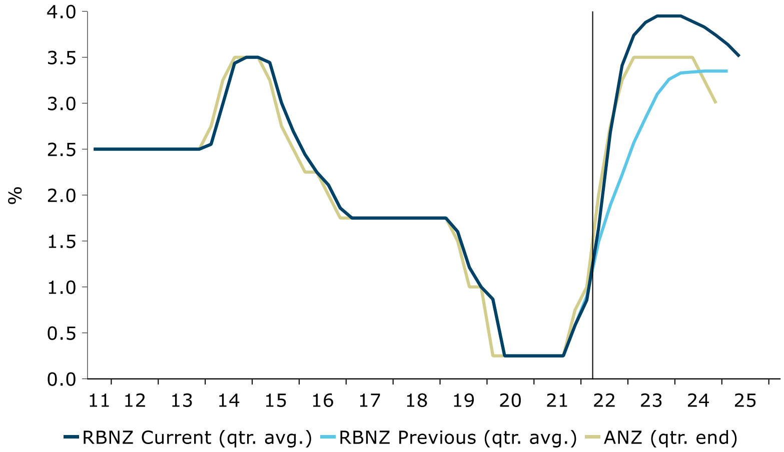
Key risks to our view

- 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 was widely expected, the RBNZ lifted the Official Cash Rate (OCR) 50bps this week to 2%. But what was not widely expected was just how aggressive the MPS forecast track for the OCR would be. The RBNZ's (highly conditional) OCR forecast now implies another two 50bp hikes at both the July and August meetings, with the OCR peaking at a smidgen under 4% in Q3 2023 (figure 1). As the RBNZ notes, monetary policy is to "tighten by more and sooner".

Figure 1. RBNZ OCR forecast



Source: RBNZ, Macrobond, ANZ Research

It appears that most of the developments that triggered this increased urgency from the RBNZ actually occurred between February and April, rather than since the April OCR Review. In April, when the RBNZ hiked 50bps for the first time, it stated that "the Committee remained comfortable with the outlook for the OCR as outlined in their February Monetary Policy Statement." Accordingly, the dramatic change in the slope and peak of the OCR track this week provided a significant surprise to both commentators and the market. That's because since April, developments have actually been much as the RBNZ expected: the unemployment rate remained at its record low of 3.2% in Q1 (as the RBNZ predicted), and Q1 inflation hit 6.9% – consistent with the RBNZ's statement in April that inflation would "peak around 7 percent in the first half of 2022".

Be that as it may, we're all now on the same page, and the reasons for the upgraded OCR track versus the February MPS, at least, are clear. First, the RBNZ has significantly upgraded their forecast for wage growth, with the growth in (productivity-adjusted) private sector labour costs expected to reach an unprecedented 4.6% in mid-2023. Second, Budget 2022 saw an upgrade to government spending, with the Monetary Policy Committee noting that "the current level of fiscal spending is contributing to a modest increase in demand." Global inflation pressures have ratcheted up too since February, with the war in Ukraine driving up global prices for energy and food.

Given the RBNZ's laser focus on upward inflation risks, we are now forecasting another 50bp hike in July. But we believe that as domestic momentum starts to cool the RBNZ will feel sufficiently comfortable to revert to 25bp rate rises from August onwards, as signs of faltering domestic momentum (and capacity pressures) become clearer. We continue to forecast a 3.5% peak in the OCR for similar reasons.

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 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

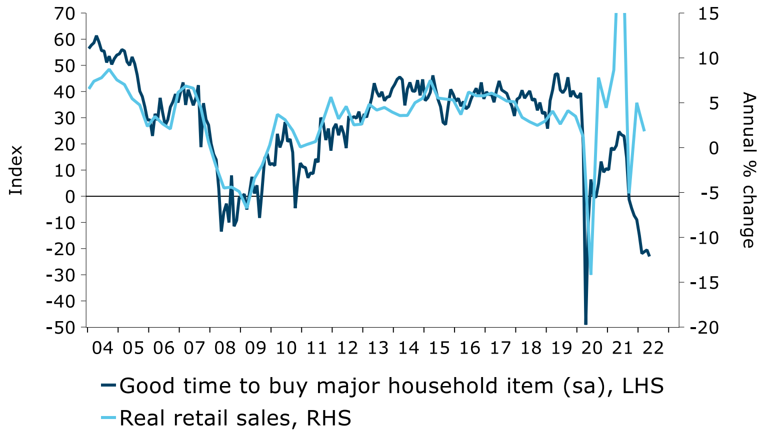
What are we watching?

In order for the balance of risks to tilt towards the RBNZ returning to 25bp hikes after July, evidence is required that monetary policy is working and inflation pressures retreating. That requires that the housing market is all but dead in the water, consumers are seriously pulling their heads in, labour demand is easing, and inflation expectations are receding.

But unfortunately the activity data are still riddled with COVID distortions due to domestic outbreaks of Delta and Omicron. Plus, when the economy is supply-constrained, slowing GDP growth doesn't necessarily mean that the RBNZ should slow down with interest rate hikes. The RBNZ is already forecasting a meaningful slowdown, with unemployment starting to rise by the end of this year. Though they won't say it quite in so many words, it's what they need to see to ensure medium-term price stability.

Fortunately, timely indicators provide an indication of how quickly demand is fading. Our consumer confidence survey is one such measure. Confidence is as low as the depths of the 2008 recession – despite record-low unemployment. And while some of that undoubtedly reflects the impact of COVID and high inflation, it doesn't change the fact that a net 30% of consumers think it's a bad time to buy a major household item. Aside from the 2020 lockdown, that's the worst reading ever. And it's a good indicator for retail spending when COVID isn't distorting things (figure 2).

Figure 2. Good time to buy a major household item versus retail sales



Source: Stats NZ, Macrobond, ANZ Research

Our Business Outlook survey has also proved to be a timely barometer for the economy over the past few years – picking up the surge in inflation over 2021 far earlier than most of us forecasters. So on the flip-side, we reckon it will also be key data to watch for signs that price and cost pressures are easing. So far, the clearest source of softening has been in the construction sector, with construction activity expectations tanking in the April survey. There's a close correlation between the New Zealand business cycle and construction, not least because the sector provides 10% of jobs.

We often mention the strength in the labour market as a key reason why the economy should be able to handle a period of higher interest rates. But we would caution that the labour market tends to be a 'lagging indicator'. That is, it tends to be one of the last things to respond to the rapidly changing tides in the economy. So there's a risk that by focussing too much on the current strength in the labour market, one may simply see echoes of previous economic momentum, and miss signs that the tide has turned. Forward-looking and/or timely measures like employment intentions in our Business Outlook survey, or online job ads data from MBIE are more helpful for a real-time assessment of the labour market. So far, these have held up.

Looking ahead

Data calendar

What's coming up in the months ahead.

Date	Data/event
Tue 31 May (10:45am)	Building Permits – Apr
Tue 31 May (1:00pm)	ANZ Business Outlook – May
Tue 31 May (3:00pm)	RBNZ Sectoral Lending – Apr
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
Thu 30 Jun (3:00pm)	RBNZ Sectoral Lending – May
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

This week was all about local considerations as global market volatility died down and markets focussed on the RBNZ's significantly upgraded OCR projection. At face value, this speaks to "fair value" on the 2yr swap being around 3¾%, rising towards around 4% over the second half of the year. With the market already at 3.76% this morning, that doesn't suggest there is a lot more adjusting to do now that rates have lifted off lows seen earlier in the week. However, as we've discussed above, we don't think the OCR will go as high as the RBNZ's track implies, and that in turn suggests we may be nearing a peak in rates, at least at the short end. That doesn't mean rates will fall – for that to happen in any meaningful way, we'll need to see confirmation that inflation has peaked, and global rates level out. The former is likely to be evident within a few months, but the latter may take some time with quantitative tightening underway, and other central banks behind the RBNZ in their tightening cycles.

FX markets

The Kiwi bounced immediately following the RBNZ, but it has struggled to hold on to gains. Rate differentials are supportive of the Kiwi. However, at the moment they are being overshadowed by growing fears in FX markets of a domestic hard landing (ie aggressive OCR hikes risk pushing the economy over the edge), and we view that as a potential headwind for the Kiwi. On the USD side of the equation, there are signs that the USD has topped out (the USD DXY has fallen around 3% since 12 May), which is consistent with the historic tendency for the USD to peak early in the Fed tightening cycle. Bringing it all together speaks to a more neutral outlook, but if the USD has peaked, that is likely to trump domestic considerations, and deliver mild further strength over coming quarters.

Key data summary

Retail Trade Survey – Q1. Retail sales volumes fell 0.5% – but with Omicron disruption lingering in the data, there's not much signal to be had.

RBNZ Monetary Policy Statement – May. The RBNZ lifted the OCR 50bps to 2.0% - but surprised with a hawkish OCR forecast. See our Review.

ANZ Roy Morgan Consumer Confidence –May (Friday 27 May, 10:00am). Consumer confidence fell two points to 82.3. Inflation expectations eased 0.5% pts to 5.1%.

The week ahead

Building Permits – April (Tuesday 31 May, 10:45am). Annual consents have been setting new records in recent months. That isn't expected to last.

ANZ Business Outlook – May (Tuesday 31 May, 1:00pm).

RBNZ sectoral lending data – April (Tuesday 31 May, 3:00pm). Housing lending continues to grow (but at a slower pace), while business lending growth stalled in March.

Overseas Trade Indices – Q1 (Thursday 2 June, 10:45am). Import prices are forecast to have outpaced than export price gains during Q1 with the net impact being a 1% fall in terms of trade.

Building Work Put in Place – Q1 (Friday 3 June, 10:45am). We've pencilled in a 1% q/q rise, but usual indicators have not given a good steer through Covid disruptions.

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Mar-22	Apr-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.694	0.646	0.648	0.670	0.670	0.690	0.680	0.680	0.670
NZD/AUD	0.926	0.914	0.913	0.905	0.882	0.885	0.883	0.883	0.882
NZD/EUR	0.625	0.612	0.604	0.615	0.609	0.616	0.602	0.596	0.583
NZD/JPY	84.4	83.8	82.4	90.5	90.5	89.7	86.4	85.0	81.7
NZD/GBP	0.529	0.514	0.514	0.515	0.515	0.523	0.507	0.504	0.496
NZ$ TWI	74.4	72.4	72.3	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	2.00	2.00	2.75	3.25	3.50	3.50	3.50
NZ 90 day bill	1.61	1.97	2.40	2.77	3.27	3.52	3.60	3.60	3.60
NZ 10-yr bond	3.22	3.64	3.49	4.00	4.25	4.25	4.10	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

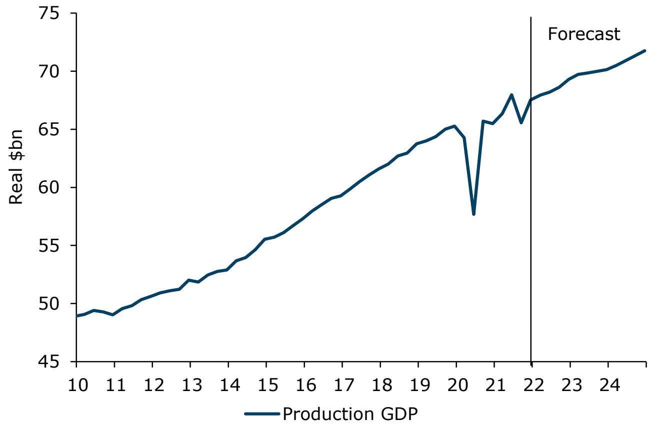


Figure 5. CPI inflation components

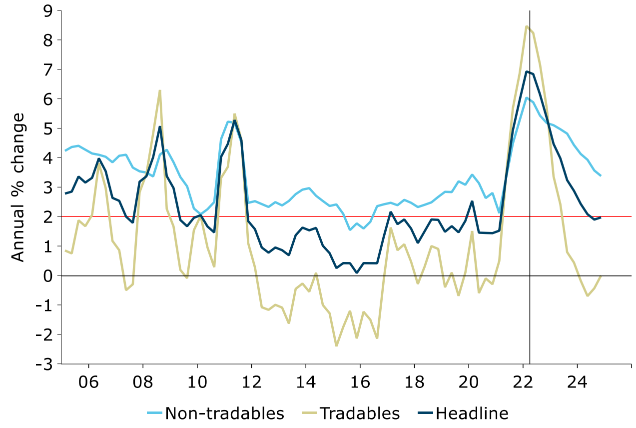


Figure 6. ANZ OCR forecast

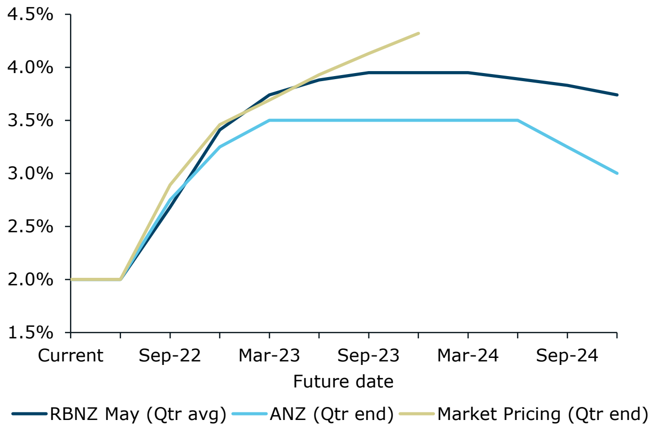
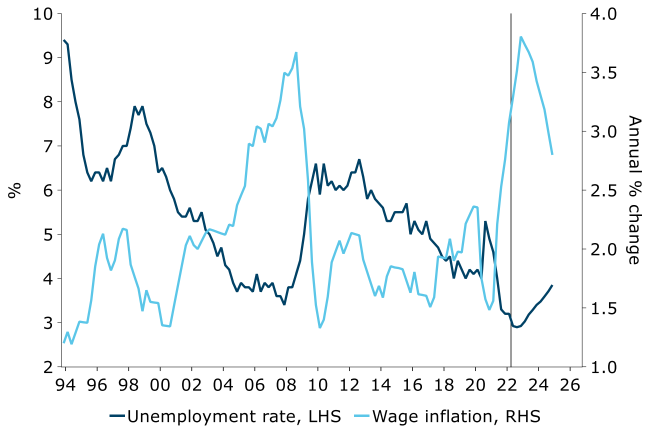


Figure 7. Unemployment rate and wage growth



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

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