

New Zealand Weekly Data Wrap

3 June 2022



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See [page 5](#).

Forecast updates

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

- [NZ Property Focus: Better fundamentals mean softer prices](#)
- [RBNZ MPS Review](#)
- [NZ Quarterly Economic Outlook: rebalancing act](#)
- [NZ Forecast Update: farmgate milk price forecasts revised down](#)

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.



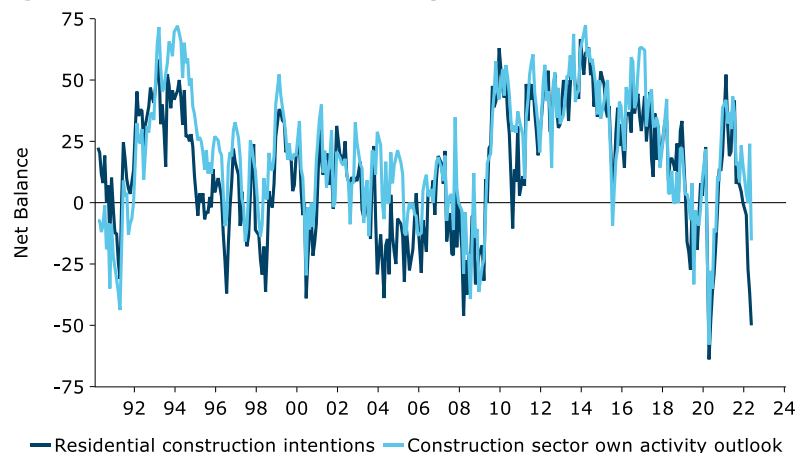
Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

The housing market was in focus this week. Our latest edition of the [Property Focus](#) published a slightly downgraded house price outlook in the wake of the RBNZ's hawkish [May MPS](#). We're now forecasting an 11% drop in prices over 2022 (10% fall previously expected) – but we continue to call that a soft landing given how far prices have come since 2019.

We also got updates on a range of timely housing and construction sector indicators, including building consents, our Business Outlook survey, and real estate listings. Broadly speaking, the data point to further softening in the housing market in coming months. Our [Business Outlook](#) survey in particular showed that construction firms are very pessimistic about the outlook for the sector (figure 1). With house prices falling but construction costs and wages rising sharply still, it's no surprise that construction firms are increasingly worried about the future.

Figure 1. ANZBO construction activity indicators



Source: Macrobond, ANZ Research

The May Property Report from RealEstate.co.nz showed that the stock of available listings is now up 77% from this time last year – a rapid reversal of the trend decline in listings over the past few years. And dwelling consents remain extremely elevated, even if they did decline 8.5% m/m in April. Even if a chunk of those consents never make it through to completion, that's still a sizeable amount of new housing supply in the pipeline. So to summarise, house prices are falling, builders are feeling the pinch of higher costs and lower house prices, available listings are accumulating rapidly, and we're still consenting new builds at pace. The housing market is clearly in retreat, and these data trends reinforce our expectation for further softening over 2022. The RBNZ will need to be careful here – they are kicking the housing market while it's down. And while that is needed in order to put a lid on inflation pressures in the wider economy, it would be very easy to overdo it and cause a hard landing in both construction and household spending that takes the economy down. The rapidly cooling housing market is the key reason for our expectation that the RBNZ will revert to 25bp hikes after the July meeting.

Price pressure may be easing in the housing market, but the same cannot be said for some key commodities. Oil prices have surged (see next page), and a range of factors, including the war in Ukraine, inclement weather, and food protectionism, have sent food prices skyrocketing. This is generating a [significant deterioration in global food security](#).



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- Agri Insight: global food crisis to worsen
- 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
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- 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?

We've taken the opportunity to tweak our inflation forecasts in the light of the steep lift in petrol prices we've seen in recent weeks. Previously, it was looking like Q1's 6.9% annual inflation print was going to be the worst of it. However, volatility in oil prices has remained extreme in the wake of the Russian invasion of Ukraine, and subsequent efforts from the EU to ban the import of Russian oil. Add NZD weakness against the USD to the mix, and that's sent petrol prices almost back to where they were when the Government announced the temporary reduction in the [fuel excise tax](#) (figure 2). Given those moves, it's looking much more likely that inflation will peak in Q2, at around 7%. But uncertainty is high – and as house prices showed us in 2021, picking the timing of turning points is not easy.

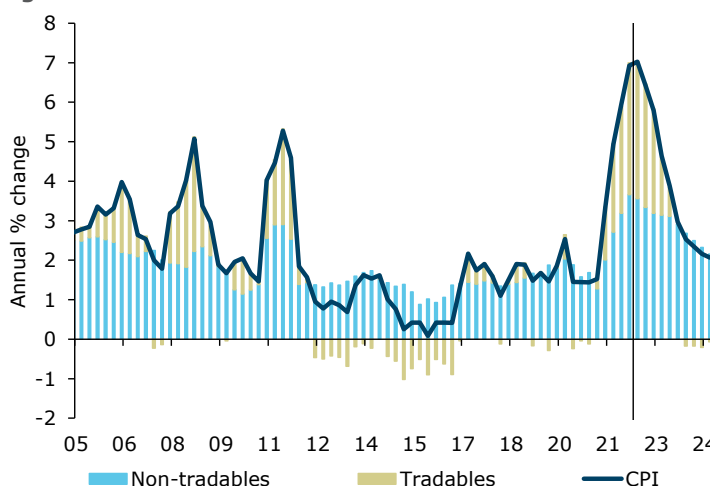
Figure 2. Oil prices and average retail price of regular petrol



Source: MBIE, Macrobond, ANZ Research

Our forecast for a 7% peak in CPI inflation in Q2 (6.8% previously expected) has no implications for our OCR call. As tough as high inflation is for Kiwi households and businesses, the concerning part of the inflation outlook is actually the persistence of the domestic inflation pulse, rather than the 7% peak that we're now forecasting (figure 3). Domestic inflation pressures are likely to last for a considerable time as the extremely tight labour market drives the largest wage rises we've seen since 2009. That's why we expect the RBNZ will continue hiking until the OCR reaches a peak of 3.5% in February next year (although we think evidence of slowing momentum will see them revert to 25bp hikes after the July meeting).

Figure 3. ANZ inflation forecast



Source: Stats NZ, ANZ Research



Looking ahead



Date	Data/event
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
Fri 8 Jul (10:00am)	ANZ Truckometer – Jun
Mon 11 Jul (10:45am)	Electronic Card Transactions – Jun
Tue 12 Jul (10:45am)	Net Migration – May
Wed 13 Jul (10:45am)	Food Price Index – Jun
Wed 13 Jul (10:45am)	Rental Price Index – Jun
Fri 15 Jul (10:30am)	BusinessNZ Manuf PMI – Jun

Interest rate markets

While there have been varying degrees of over- or underperformance, the entire term structure of New Zealand interest rates is higher this week. The drivers have been both local and global. Short-end rates are high, clearly demonstrating (a) a lack of liquidity, (b) a one-sided market, and (c) that the market has been spooked by the RBNZ. 1-year ahead OCR expectations are back above 4% again, and the 2yr swap is at around 3.9%. These rates exceed fair-value measures implied by both the RBNZ's and our OCR projections/forecasts. That's not unusual, given where we are in the cycle and the above factors, but it does leave us cautious, particularly given the increasingly loud chorus of commentators either explicitly calling a hard landing, or acknowledging the growing risks of it (we're in the latter camp). Long-end rates are following global rates higher. That seems logical to us given ongoing hawkish talk by global central banks, the energy-driven "second wind" of inflation, how far "behind the curve" most other central banks are, and QT now being underway in the US (and about to get underway here). All else equal, that speak to a steeper yield curve here.

FX markets

The Kiwi is back above 0.65 after a volatile week. We have downgraded our year-end forecast from 0.69 to 0.67. That reflects our ongoing expectation that the USD will continue to moderate, but also that markets have shifted their focus away from carry and the erstwhile strong economy and are instead now more focussed on hard landing risks and high energy prices. NZD/AUD has slipped to just above 0.90; we think that's logical given hard landing fears here, which contrast with the widely held view in markets that the RBA hasn't done enough to cool the Australian economy.

Key data summary

Building Permits – April. Declined 8.5% m/m, but remain elevated.

ANZ Business Outlook – May. Confidence and own activity expectations [deteriorated](#), but cost and price pressures remain strong.

RBNZ sectoral lending data – April. Business lending growth rose to 8.8% y/y (7.7% previously) – the strongest growth rate since 2009. Housing lending growth remains strong at 8.1%, but has been gradually slowing.

Overseas Trade Indices – Q1. New Zealand's goods [terms of trade](#) lifted 0.5% in Q1 to be just a whisker off a record high.

Building Work Put in Place – Q1. Up a solid 3.2% as residential (+3.5%) and non-residential (+2.7) both came in ahead of our expectation. This offsets some of the downside risk to our Q1 GDP pick (currently 0.6% q/q) from [weaker than expected retail sales last week](#).

The week ahead

ANZ Commodity Price Index – May (Tuesday 7 June, 1:00pm).

GlobalDairyTrade auction (Wednesday 8 June, early am). Dairy prices are poised to reverse their recent downward trend and lift 5%, supported by small offer volumes as we move into the low milk production season.

ANZ Truckometer – May (Thursday 9 June, 10:00am).

Economic Survey of Manufacturing – Q1 (Friday 10 June, 10:45am). Volumes lifted a solid 8.2% q/q in Q4 after a 6.6% lockdown-induced fall in Q3 – and ongoing strength in the PMI suggests a solid start to 2022.

Electronic Card Transactions – May (Friday 10 June, 10:45am). Card spending has bounced as Omicron disruptions ease – but with interest rates rising and consumer sentiment outright recessionary, the outlook is soft.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Apr-22	May-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.646	0.652	0.656	0.650	0.660	0.670	0.680	0.680	0.670
NZD/AUD	0.914	0.907	0.903	0.915	0.892	0.882	0.883	0.883	0.882
NZD/EUR	0.612	0.609	0.610	0.602	0.600	0.598	0.602	0.596	0.578
NZD/JPY	83.8	83.4	85.2	83.9	84.5	85.1	85.7	85.0	81.7
NZD/GBP	0.514	0.517	0.522	0.516	0.516	0.523	0.527	0.527	0.515
NZ\$ TWI	72.4	72.3	72.6	72.2	72.1	72.3	72.9	72.6	71.2
Interest rates	Apr-22	May-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
	Apr-22	May-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZ OCR	1.50	2.00	2.00	2.00	2.75	3.25	3.50	3.50	3.50
NZ 90 day bill	1.97	2.47	2.49	2.77	3.27	3.52	3.60	3.60	3.60
NZ 2-yr swap	3.82	3.92	3.91	3.89	3.74	3.66	3.54	3.43	3.32
NZ 10-yr bond	3.64	3.61	3.70	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	1.4	1.6	0.8	0.7	0.7	0.7	0.4
CPI (% yoy)	5.9	6.9	7.0	6.4	5.8	4.6	3.9	3.0	2.5
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

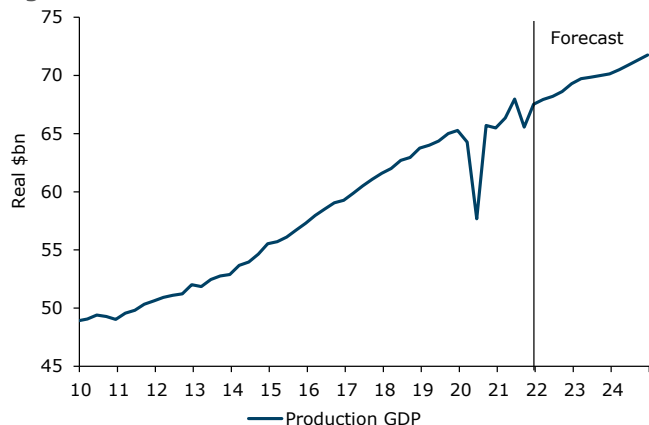


Figure 5. CPI inflation components

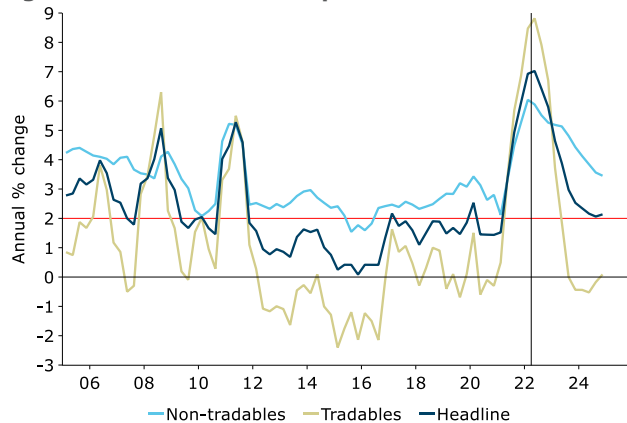


Figure 6. ANZ OCR forecast

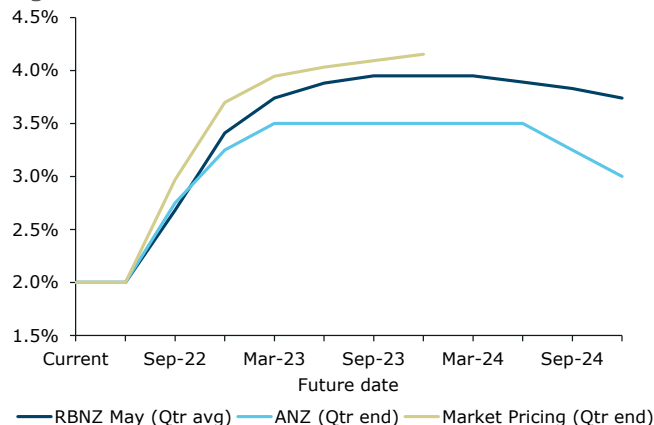
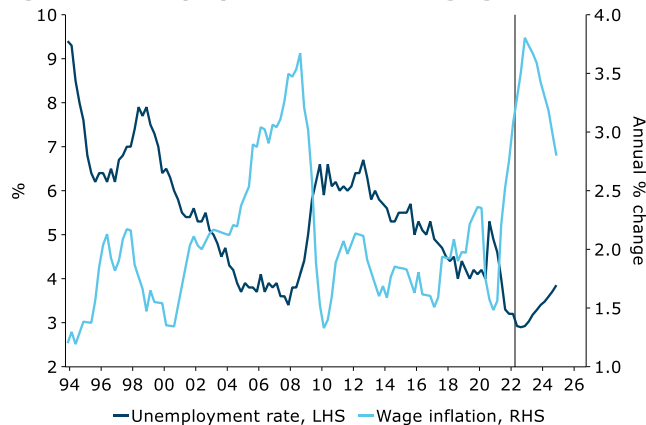


Figure 7. Unemployment rate and wage growth



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



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