

New Zealand Weekly Data Wrap

15 July 2022



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Forecast updates

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

- [NZ Property Focus: When, not if](#)
- [NZ Weekly Data Wrap: Fifty-fifty-fifty-fifty](#)
- [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 in Q2
- Aggressive OCR hikes towards 3.5% in November 2022 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.



Inflation expectations become unanchored, possibly as the labour market remains very tight.

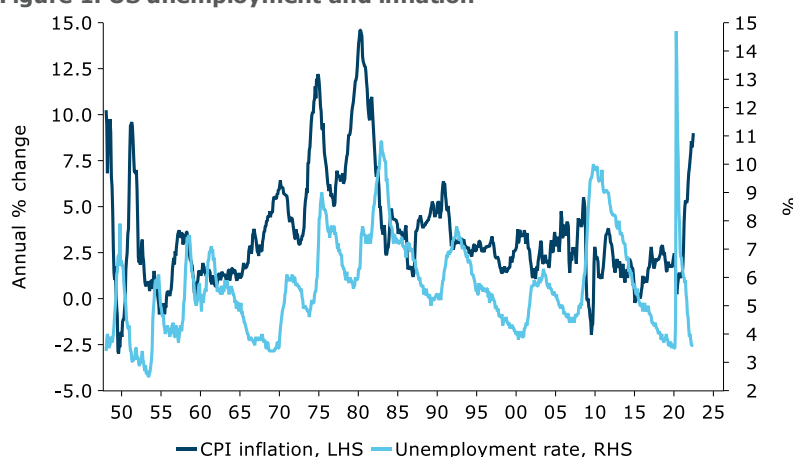


Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

Despite this being an OCR decision week, global moves dominated market action. In particular, we saw US CPI inflation rise to 9.1% y/y in June – up from 8.6% in May, and above consensus expectations for an 8.8% print. With inflation showing no signs of slowing, and the US labour market still extremely tight, there's even more urgency for the US Fed to tighten policy (figure 1). A second 75bp hike at the end of July is very likely – and a third 75bp raise in September may also be on the table. Indeed, markets are toying with the possibility of a 100bp hike from the Fed after the Bank of Canada surprised most economists by doing exactly that this week – following Iceland's lead. The Fed has demonstrated their willingness to move aggressively in response to upside inflation surprises – and this week's CPI print suggests we're far from the end of aggressive Fed funds rate hikes.

Figure 1. US unemployment and inflation



Source: BLS, Macrobond, ANZ Research

New Zealand's inflation problem isn't as bad as in the US (and hopefully that remains the case) – but it's still far too high (and forecast to increase a touch further, see next page). No surprises then that the RBNZ delivered a third 50bp rate hike at their Monetary Policy Review this week. It was pretty much [a copy-paste job from the May MPS](#), with the RBNZ noting that "it remains appropriate to continue to tighten monetary conditions at pace". We expect they'll deliver another 50bp hike in August, with 25bp moves thereafter as evidence mounts that consumption and construction activity are starting to slow meaningfully. However, any upside surprises to inflation (eg in next Monday's [CPI data](#)) would only increase the odds of a continuation of 50bp hikes beyond August, and a higher endpoint for the OCR.

The cooling housing market is one reason to expect domestic inflation pressures to start to ease before too long. [House prices declined](#) another 0.9% m/m in June (ANZ seasonal adjustment), marking seven months in a row of house price falls. They're now down 6.6% from the November 2021 peak – and in some regions, the fall has been even larger. Wellington in particular stands out, with prices down 12.1% on an annual basis. National house prices have actually fallen a bit more slowly than our forecasts over the last couple of months – so far certainly consistent with a relatively soft landing. With the labour market this strong, we're much less likely to see households being forced to sell up. That should mean less adjustment via falls in house prices, and more via incomes gradually catching up.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: the low consumer confidence puzzle
- NZ Property Focus: when, not if
- NZ Insight: He Waka Eke Noa recommendations
- Agri Insight: global food crisis to worsen
- NZ Property Focus: better fundamentals mean softer prices
- 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 Agri Focus: heating up
- NZ Insight: Endemic COVID-19 and labour supply
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ANZ Proprietary data

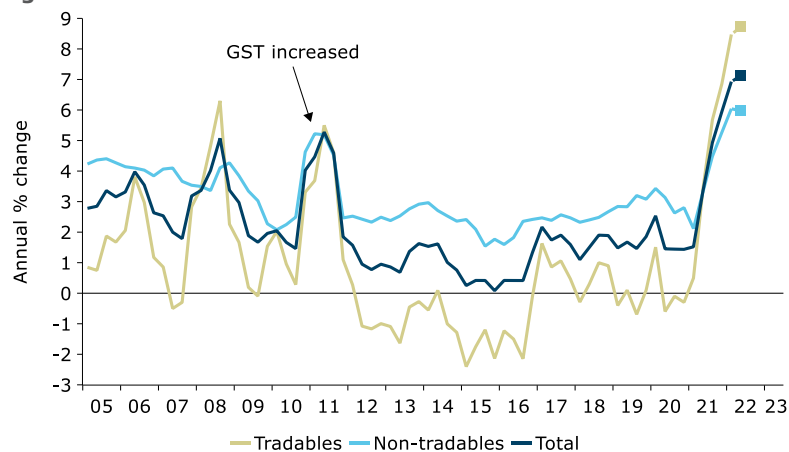
Check out our latest releases below.

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

What are watching?

On Monday next week we get CPI data for Q2. We're anticipating that **consumer prices rose 7.1%** in the year to June 2022 (figure 2) – a slight increase from Q1's 6.9% print, and marginally higher than the RBNZ's May MPS forecast of 7.0%. The main inflation culprits are expected to remain the same – surging food prices, rising rents and construction costs, and soaring fuel prices. The increase in oil prices over Q2 has been particularly challenging for Kiwi households. Oil traded at over USD100/barrel for much of the quarter, and combined with a weak New Zealand dollar, that saw petrol prices breach NZD3/litre. It's worth noting that these numbers include the 25 cents/litre reduction in the fuel excise tax. Without that, we could have been looking at a CPI forecast closer to 7.6% for Q2. Of course, if the fuel tax is restored to its previous level, then we would see a one-off bump in inflation – but at the least, it should reduce the peak in headline inflation.

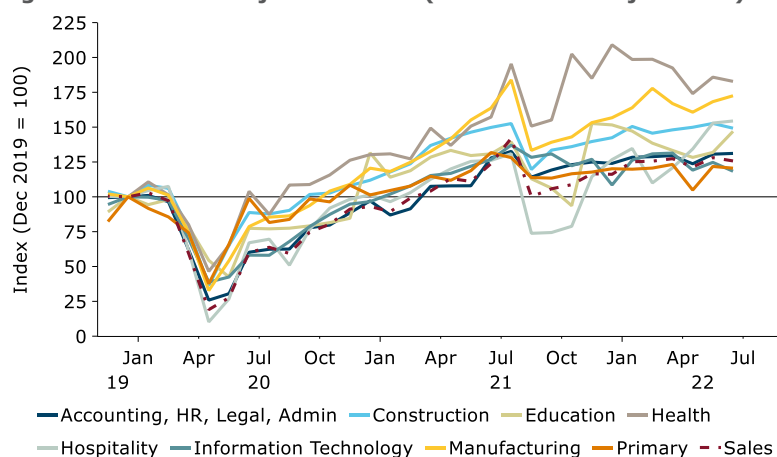
Figure 2. CPI inflation forecast



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

A key piece of data will be what's happening with non-tradables (ie domestic) inflation. While we expect tradables (ie mostly imported) inflation to drop away quickly in coming months, non-tradables is likely to hang around for some time yet. An important driver of this domestic inflation pressure is our incredibly stretched labour market. Job vacancies data for June showed no let-up in labour demand, with broad-based strength across many industries (figure 3). Record low unemployment in Australia (3.5% in June) will make the competition for workers fiercer still.

Figure 3. MBIE online job ads index (ANZ seasonal adjustment)



Source: MBIE, Macrobond, ANZ Research



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 18 Jul (10:30am)	Performance Services Index - Jun
Mon 18 Jul (10:45am)	CPI - Q2
Wed 20 Jul (early am)	GlobalDairyTrade auction
Thu 21 Jul (10:45am)	Merchandise Trade - Jun
Thu 28 Jul (1:00pm)	ANZ Business Outlook - Jul
Fri 29 Jul (10:00am)	ANZ-RM Consumer Confidence - Jul
Fri 29 Jul (3:00pm)	RBNZ Sectoral Lending - Jun
Mon 1 Aug (10:45am)	Building Permits - Jun
Wed 3 Aug (early am)	GlobalDairyTrade auction
Wed 3 Aug (10:45am)	Labour Market - Q2
Wed 3 Aug (1:00pm)	ANZ Commodity Price Index - Jul
Mon 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectation - Q3
Tue 9 Aug (10:00am)	ANZ Truckometer - Jul
Tue 9 Aug (10:45am)	Electronic Card Transactions - Jul
Thu 11 Aug (10:45am)	Net Migration - Jun
Fri 12 Aug (10:30am)	BusinessNZ Manuf PMI - Jul
Fri 12 Aug (10:45am)	Food Price Index - Jul
Fri 12 Aug (10:45am)	Rental Price Index - Jul
Mon 15 Aug (10:30am)	Performance Services Index - Jul
Wed 16 Aug (early am)	GlobalDairyTrade auction
Wed 17 Aug (2:00pm)	RBNZ Monetary Policy Statement
Fri 19 Aug (10:45am)	Merchandise Trade - Jul
Thu 25 Aug (10:45am)	Retail Sales - Q2
Fri 26 Aug (10:00am)	ANZ-RM Consumer Confidence - Aug
Wed 31 Aug (10:45am)	Building Permits - Jul
Wed 31 Aug (1:00pm)	ANZ Business Outlook - Aug
Wed 31 Aug (3:00pm)	RBNZ Sectoral Lending - Jul

Interest rate markets

Volatility remains the main theme in global interest rate markets, with large swings in bellwether US bond yields seen again on most days this week. US short-end rates are under extreme pressure as markets there contemplate a possible 100bp hike by the Fed in the wake of bumper June CPI data (see page 1). That fear has reverberated through other markets, including New Zealand, only to be further exacerbated by the Bank of Canada's 100bp hike and market chatter about a 75bp hike in Australia following the release of data showing that the unemployment rate there is at its lowest level since 1974. It's natural that markets here are worried. NZ CPI data is due on Monday; we think a 7.1% read will firm the case for another 50bp hike in August, but markets will clearly become anxious if it's higher. Around that data, and as US markets debate the likelihood and timing of a recession, we think it make sense to brace for more volatility.

FX markets

FX markets themes remain USD-centric. The debate about the size of the next Fed hike and the implications of that for growth continue to deliver volatility, with EUR sinking below parity and USD/JPY hitting another multi-decade high this week. NZD/USD price action looks weak, with lower lows most days this week, and markets here still worried about a hard landing and the fallout of global central bank tightening. The USD is not weakening as in past cycles, and we are keeping an open mind, expecting volatility.

Key data summary

Electronic Card Transactions - June. Spending lifted 0.1% m/m (1.4% previously), but all retail card spending categories excluding petrol were down.

Net Migration - May. Remained close to zero, with a net loss of 10,674 people in the year to May 2022.

REINZ House Prices - June. Nationally, [house prices fell](#) 0.9% m/m in June (ANZ seasonal adjustment), and have fallen 6.6% since the November peak.

Food Prices - June. Lifted 1.2% m/m (6.6% y/y), with prices lifting in all categories compared to May.

Rental Price Index - June. Rents lifted 0.4% m/m (4.0% y/y) - the strongest annual increase since 2008.

RBNZ OCR Review - July. As expected, the RBNZ raised the OCR 50bps to 2.50%, saying "it remains appropriate to continue to tighten monetary conditions at pace". See our [review](#).

The week ahead

Performance of Services Index - June (Monday 18 July, 10:30am).

Rose rapidly in May - a further increase would support our forecast for a solid rebound in GDP after Q1's decline.

CPI - Q2 (Monday 18 July, 10.45am). We expect consumer prices rose 7.1% y/y (versus 6.9% in Q1). See our [preview](#).

GlobalDairyTrade auction (Wednesday 20 July, early am). Prices fell a little more at the previous event than futures were hinting at.

Overseas Merchandise Trade - June (Thursday 21 July, 10:45am). The annual goods trade deficit should eventually bottom out as domestic demand slows and imports follow. But that's a slow-burn story for what can be volatile data on a month-on-month basis (particularly given shipping disruptions).



Key forecasts and rates

		Actual			Forecast (end month)				
FX rates	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZD/USD	0.652	0.621	0.613	0.650	0.660	0.660	0.660	0.650	0.650
NZD/AUD	0.907	0.904	0.908	0.890	0.880	0.868	0.868	0.867	0.867
NZD/EUR	0.609	0.597	0.611	0.619	0.600	0.589	0.584	0.570	0.560
NZD/JPY	83.4	84.7	85.2	84.5	84.5	83.8	83.2	81.3	79.3
NZD/GBP	0.517	0.513	0.518	0.537	0.537	0.532	0.524	0.512	0.508
NZ\$ TWI	72.3	70.5	70.4	71.9	71.9	71.3	70.9	69.7	69.3
Interest rates	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZ OCR	2.00	2.00	2.50	3.00	3.50	3.50	3.50	3.50	3.50
NZ 90 day bill	2.47	2.86	3.05	3.52	3.60	3.60	3.60	3.60	3.60
NZ 2-yr swap	3.92	4.06	4.07	4.22	3.86	3.49	3.43	3.32	3.26
NZ 10-yr bond	3.61	3.86	3.70	4.40	4.25	4.10	4.00	3.80	3.70

Economic forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (% qoq)	-0.2	1.4	0.5	0.9	0.6	0.0	0.2	0.2	0.5
GDP (% yoy)	1.2	0.3	4.8	2.7	3.4	2.0	1.7	1.0	0.9
CPI (% qoq)	1.8	1.5	<i>Under review</i>						
CPI (% yoy)	6.9	7.1							
Employment (% qoq)	0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	2.8	2.5	1.0	1.3	1.6	1.3	1.3	1.3	1.2
Unemployment Rate (% sa)	3.2	2.9	2.9	2.9	3.0	3.2	3.3	3.4	3.5

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

Figure 4. Production GDP

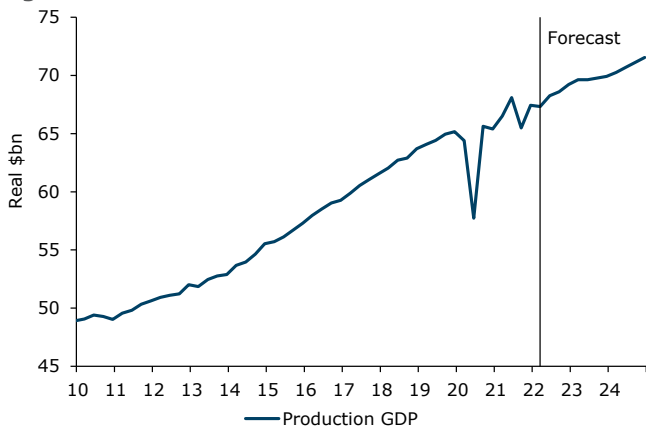


Figure 5. CPI inflation components

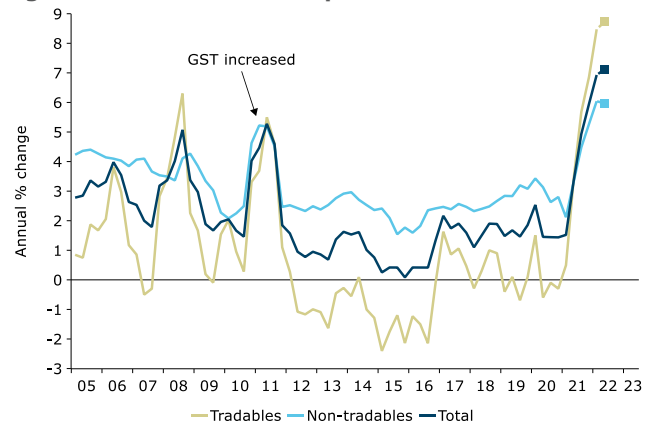


Figure 6. ANZ OCR forecast

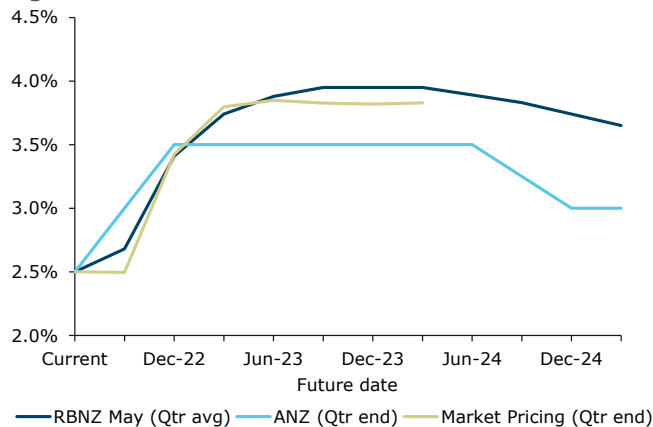
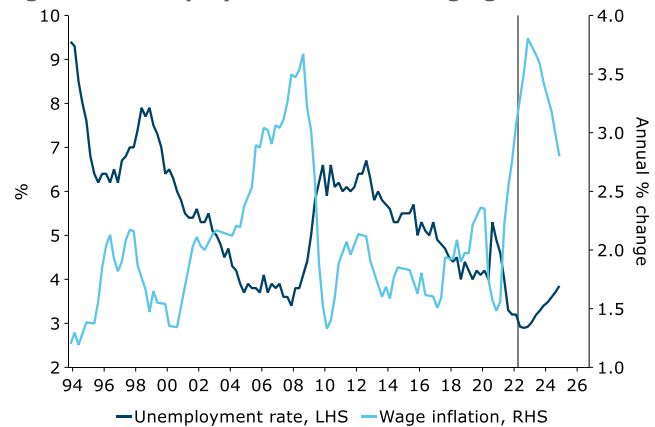


Figure 7. Unemployment rate and wage growth



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



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