

New Zealand Weekly Data Wrap

29 July 2022



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See [page 5](#).

Forecast updates

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

- [NZ Property Focus: hardening headwinds and soft landings](#)
- [NZ CPI Q2 2022 and OCR call change](#)
- [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 4.0% 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.

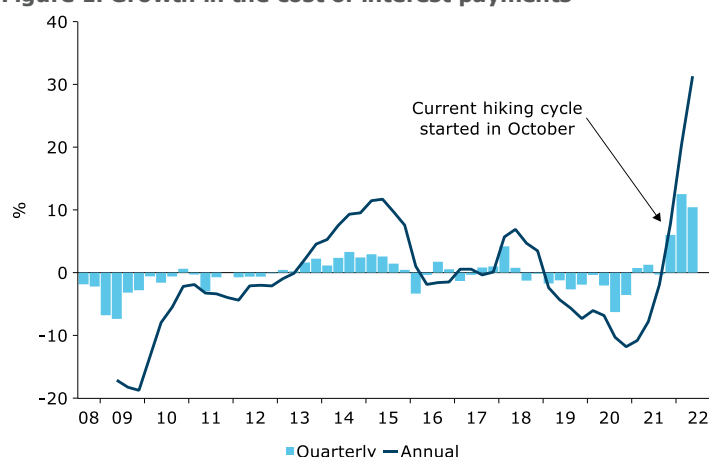


Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

This week the Q2 Household Living-costs Price Index (HLPI) gave us a deeper level of detail on how the higher cost of living is impacting different Kiwi households. As we've noted in a [previous insight](#), the rising cost of living has historically been worse for Kiwi households in the bottom 20% of the income distribution. However, in recent quarters that pattern has reversed, with living costs for the lowest 20% of households by income rising (a still substantial) 6.8% y/y in Q2, versus 7.7% y/y for the top 20% of households. A key driver of the difference is interest payments – at the last HLPI reweighting these made up 6.2% of the expenditure basket for the top 20% of households, versus just 2.7% for the bottom 20% (who spend much more on rent). With the RBNZ in inflation-fighting mode, the cost of interest payments has increased 31.3% over the past 12 months (figure 1). That's going to hurt. If it brings inflation across the wider consumption basket back down, households will end up better off for it in the medium term. But it's very bitter medicine.

Figure 1. Growth in the cost of interest payments



Source: Stats NZ, Macrobond, ANZ Research

In the July edition of our [Property Focus](#), released this week, we took the opportunity to review our house price forecast. Last week's CPI inflation print, which showed a [further intensification](#) in domestic (non-tradables) inflation, prompted us to revise up our forecast for the OCR. We're now anticipating the OCR will reach 4% at the November MPS (versus 3.5% previously). Basically, the RBNZ has more work to do than we previously thought to bring inflation down within an acceptable time horizon. That means a higher OCR, higher mortgage rates, and more downwards pressure on house prices than otherwise. As such, we're now anticipating a 15% fall in house prices from peak to trough (previously 12%). Timely housing market indicators continue to point to further softening, with real estate inventories now at a 6-year high as sales drop further below pre-COVID levels. We would still describe our housing market outlook as a 'soft landing', as even a 15% fall in house prices from their November 2021 peak would leave them about 25% higher than 2019 levels – which we all can agree, were already pretty unaffordable! Monthly house price inflation numbers have ranged from -1.4% to -0.6% (ANZ seasonal adjustment) since the November 2021 peak – that's hardly a drastic collapse. But, forecast uncertainty is very high, and we're in uncharted territory with the RBNZ hiking the OCR at double speed during a housing slowdown. A sharper 'correction' is possible – especially if the labour market weakens significantly. But that's not our forecast (see next page).



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: hardening headwinds and soft landings
- 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 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
- NZ Insight: The real cost of inflation

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ANZ Proprietary data

Check out our latest releases below.

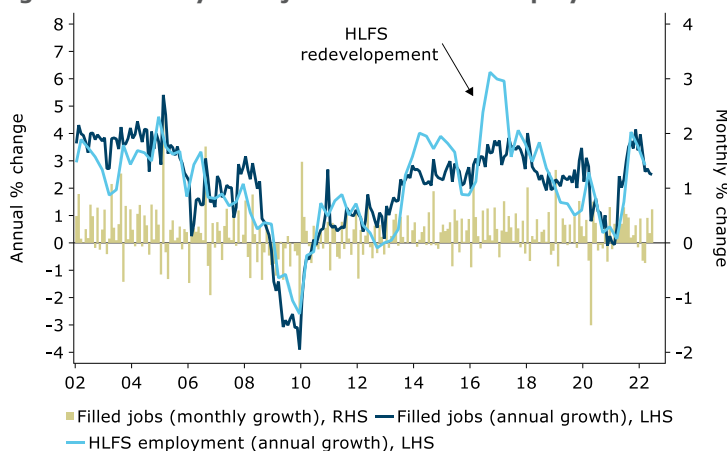
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

What are we watching?

Next week, attention turns to the other side of the RBNZ's dual mandate – the labour market. Here, too, things are looking pretty uncomfortable for the RBNZ. Labour demand remains far ahead of labour supply – despite what's close to record-high labour force participation. **We're forecasting** that a 0.8% q/q increase in employment helped send the unemployment rate to a fresh record low of 2.8% in Q2 (versus 3.2% in Q1). Finding workers remains the #1 constraint facing Kiwi businesses. With the Australian labour market heating up significantly in recent months, the difficulty associated with finding labour seems unlikely to ease in the near term.

Particularly notable this week was the increase in monthly filled jobs over June – up 0.6% m/m (2.5% y/y). The data show that after falling in February and March, hiring has bounced back solidly in the three months to June. And it's been a reasonably broad-based increase in jobs, with the number of filled jobs in the services and goods-producing industries both up by 0.7% m/m (although primary sector employment fell 0.3% m/m). The filled jobs numbers don't track HLFS employment figures exactly, but they're a good steer on the underlying trend (figure 2). Combining this strong data print with other solid prints like the Q2 QSBO and job vacancies brings us to our forecast for a 0.8% q/q lift in employment in Q2 (versus 0.1% in Q1). However, uncertainty is high – and the HLFS employment numbers are nothing if not volatile. Whatever the headline, we expect the details of the jobs report will confirm the message of surveys and anecdotes: labour is a critical constraint, and that constraint probably worsened in Q2 2022.

Figure 2. Monthly filled jobs versus HLFS employment



Source: Stats NZ, Macrobond, ANZ Research

For the RBNZ, good news will be bad news when looking at next week's labour market report. Every incremental tightening in the labour market locks in more domestic inflation pressure. At the May MPS, the RBNZ expected unemployment to dip slightly to 3.1% in Q2, before rising thereafter to just under 5% in 2025. If we're right that the unemployment rate fell to 2.8%, that will lower the bar for ongoing 50bp OCR hikes. We're expecting 50s at the August, October, and November meetings, bringing the OCR to 4% by year-end (vs. 2.5% currently). However, we continue to expect that signs of slowing demand in the economy over the second half of 2022 will be increasingly hard to discount – and should give the RBNZ the leeway to pause interest rate hikes after a final 50bp hike at the November MPS. By that point we will be well over a year past the 2021 trough in mortgage rates, and the RBNZ will (we think) have delivered 375bps of rate hikes in just 13 months. It takes time for the full impact of monetary policy to flow through the economy, and we haven't seen that full impact yet. When it hits, we'll certainly feel it.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
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 17 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
Fri 2 Sep (10:45am)	Terms of Trade – Q2
Mon 5 Sep (10:45am)	Building Work Put in Place – Q2
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 7 Sep (early am)	GlobalDairyTrade auction
Thu 8 Sep (10:45am)	Economic Survey of Manufacturing – Q2
Fri 9 Sep (10:00am)	ANZ Truckometer – Aug
Fri 9 Sep (10:45am)	Electronic Card Transactions – Aug

Interest rate markets

Wholesale interest rates are down across the curve in what's largely been a US story. Weak activity numbers and what markets saw as a dovish tilt from the Fed raised expectations that a slowing US economy might see the Fed hiking by less (and cutting rates earlier) than expected. The US Fed hiked the fed funds rate another 75bps yesterday (to a target range of 2.25-2.5%), but noted that further outsized hikes would be data dependent, and that it would be appropriate to slow hikes "at some point". But the biggest contributor to the drop in interest rates this week was Q2 GDP data for the US, which showed the economy contracted for a second quarter in a row, down 0.9% (seasonally adjusted annualised rate). Other soft data throughout the week, including US housing market data, helped reinforce the idea of a lower peak in the Fed funds rate. US data on wages, core inflation, and inflation expectations out tonight will be key for markets as the trade-off between supporting growth and controlling inflation gets ever starker. In New Zealand, the 10-year yield was 3.40% at the time of writing, after opening the week at 3.69%. Next week's NZ Q2 labour market report will be watched closely. [We're expecting](#) unemployment fell to a new record low of 2.8%, which would keep our expectation for a peak OCR of 4% firmly alive despite continued weakness in the timely activity indicators, such as our [Business Outlook](#).

FX markets

The NZD made gains against the AUD and USD this week, with weaker-than-expected data prints in both countries seeing markets revise down expectations for rate hikes from both the RBA and US Fed. The DXY continues to lose its lustre, now back down to levels seen in the first week of July. In Australia, Q2 annual CPI inflation came in at 'just' 6.1%, versus market expectations for a 6.3% lift. That saw markets move away from the idea of a 75bp cash rate hike from the RBA next week, with around 43bps currently priced (versus 58bps before the data). The NZD/AUD was back around 0.90 this morning, after dropping below 0.895 earlier. However, we see downside to the NZD/AUD as the inflation and interest rate gaps between the two countries continue to close.

Key data summary

ANZ Business Outlook – July. [Business confidence](#) lifted 6 points to -56.7, but remains very weak. Residential construction intentions continue to plumb new lows, and inflation pressures remain intense (although they show signs of topping out).

ANZ Roy Morgan Consumer Confidence – July. [Consumer confidence](#) lifted 1.4 points in July to 81.9, still very low. Consumer inflation expectations eased to 4.9% (5.6% previously) – that's a win.

The week ahead

RBNZ sectoral lending data – March (Friday 29 April, 3:00pm). Housing lending is gradually slowing, while business lending has been on a tear – it's comfortably above pre-COVID levels.

Building Permits – June (Monday 1 August, 10:45am). Further declines (from high levels) are likely as higher interest rates and a cooling housing market ease construction demand. But the monthly data are noisy.

GlobalDairyTrade auction (Wednesday 3 August, early am). Retracing from recent highs.

Labour Market Statistics – Q2 (Wednesday 3 August, 10:45am). We expect unemployment fell to 2.8% in Q2 (3.2% in Q1). See our [Preview](#).

ANZ Commodity Price Index – July (Wednesday 3 August, 1:00pm).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZD/USD	0.652	0.621	0.629	0.650	0.660	0.660	0.660	0.650	0.650
NZD/AUD	0.907	0.904	0.900	0.890	0.880	0.868	0.868	0.867	0.867
NZD/EUR	0.609	0.597	0.617	0.619	0.600	0.589	0.584	0.570	0.560
NZD/JPY	83.4	84.7	84.6	84.5	84.5	83.8	83.2	81.3	79.3
NZD/GBP	0.517	0.513	0.517	0.537	0.537	0.532	0.524	0.512	0.508
NZ\$ TWI	72.3	70.5	71.4	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
	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	4.00	4.00	4.00	4.00	4.00
NZ 90 day bill	2.47	2.86	3.14	3.93	4.10	4.10	4.10	4.10	4.10
NZ 2-yr swap	3.92	4.06	3.75	4.37	4.21	3.99	3.93	3.82	3.76
NZ 10-yr bond	3.61	3.86	3.40	4.25	4.00	4.00	3.75	3.75	3.75

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	1.7	1.9	0.9	0.7	0.7	0.8	0.5	0.6
CPI (% yoy)	6.9	7.3	7.0	6.4	5.3	4.4	3.3	2.8	2.7
Employment (% qoq)	0.1	0.8							
Employment (% yoy)	2.8	2.6	<i>Under review</i>						
Unemployment Rate (% sa)	3.2	2.8							

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

Figure 4. Production GDP

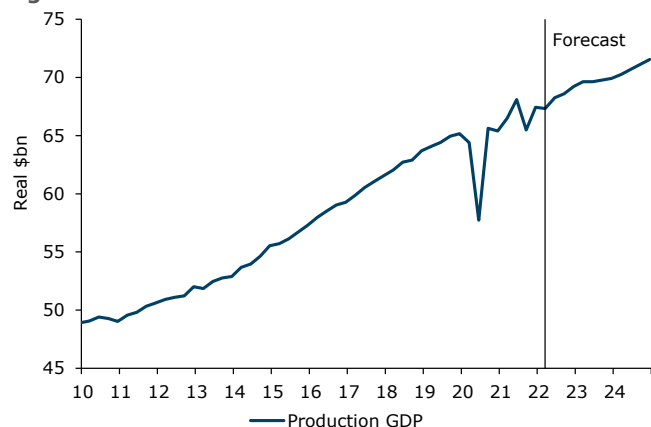


Figure 5. CPI inflation components

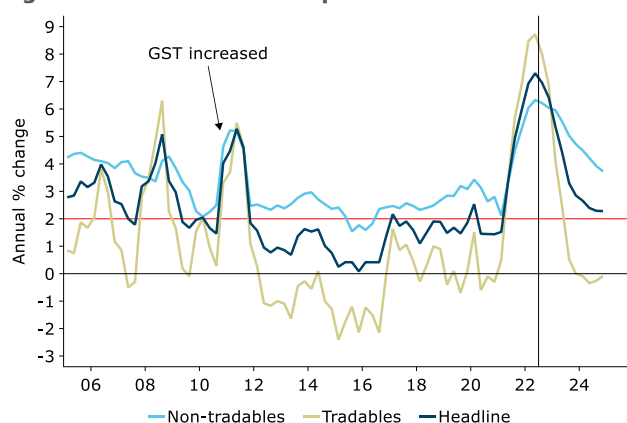


Figure 6. ANZ OCR forecast

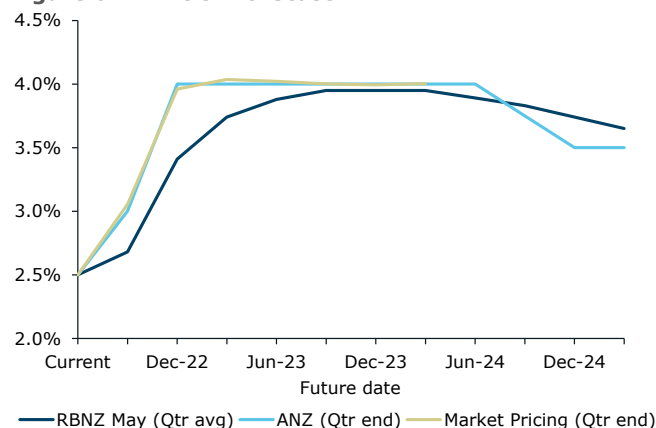
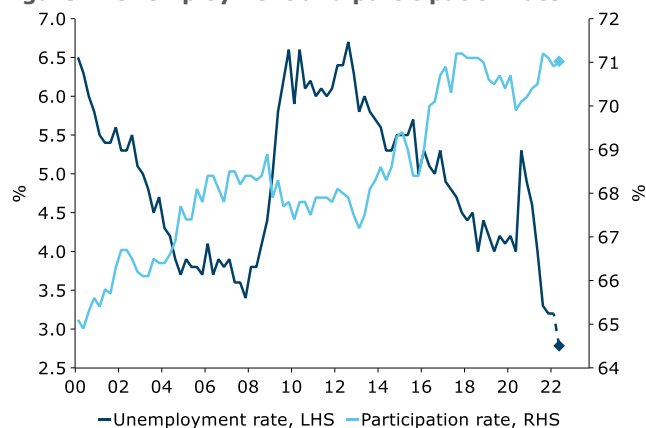


Figure 7. Unemployment and participation rate



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



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