

New Zealand Weekly Data Wrap

9 September 2022



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See [page 5](#).

Forecast updates

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

- NZ Forecast Update: farmgate milk price forecasts revised up
- NZ Property Focus: no place for green shoots
- NZ Quarterly Economic Outlook: on the edge

Our other recent publications are on [page 2](#).

What's the view?

- GDP constrained by supply more than demand
- Labour market extremely tight, and very inflationary
- Inflation way above target, but likely 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



Global growth risks abound, not least in China, our key trading partner.



Falling house prices could have a more significant impact on the economy than expected.



Neutral OCR is higher than the RBNZ's 2% estimate, necessitating more hikes than otherwise.

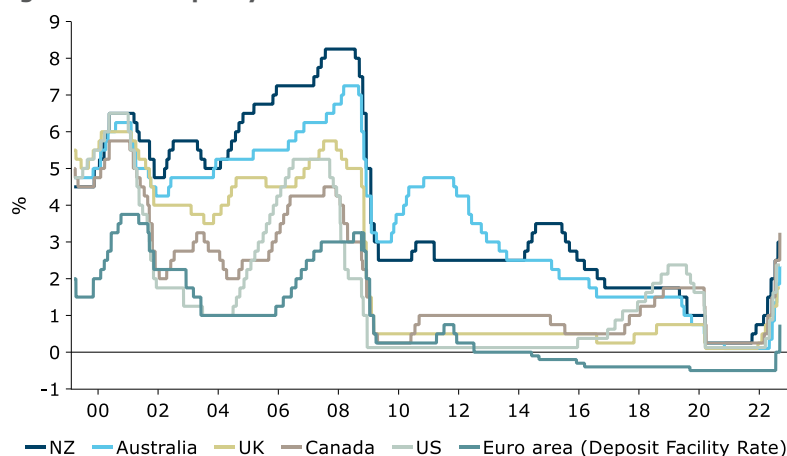


Global inflation pressures don't decline as quickly as anticipated.

What happened this week?

A number of central banks lifted interest rates this week, with 50 and 75bp hikes remaining the preferred increments (figure 1). The Reserve Bank of Australia lifted the cash rate 50bps to 2.35%, the Bank of Canada lifted their policy rate 75bps to 3.25%, and the ECB hiked 75bps as well (with the Deposit Facility Rate now at 0.75%, versus the record low of -0.5% seen in recent years). Fighting inflation remains the priority for central banks globally, and with labour markets remaining extremely tight in many of our trading partners (not to mention the energy crisis in Europe), risks are tilted towards inflation remaining high for longer, for all that commodity prices are weaker.

Figure 1. Global policy rates



Source: RBNZ, RBA, BoE, Fed, ECB, BoC, Macrobond, ANZ Research

The next key decision will be the US Federal Reserve on 22 September. Recent data have, if anything, shown domestic demand remaining pretty resilient in the US. Job openings in the US [bounced back](#) in July (and still outnumber the unemployed by about 2:1), while the August ISM services index was driven higher by new orders and rising employment. As in New Zealand, good news is 'bad' news for overseas central banks who are trying to slow demand down, and that includes the Fed. It highlights the risk that they will need to lift interest rates even higher than anticipated to bring inflation back to target. Markets are currently pricing 72bps for the Fed's September meeting, and next week's August CPI print will be key for determining whether the Fed continues to hike in 75bp increments, or feels comfortable enough to return to 'only' hiking in 50bp steps.

Domestically the partial GDP indicators continued to roll in ahead of next Thursday's Q2 GDP data. We've [finalised our pick](#), and now expect GDP increased by just 0.4% q/q in the three months to June 2022, a downgrade from our previous forecast of 1.0%, and much weaker than the RBNZ's August MPS forecast of 1.8%. The data are still noisy, and the challenge, again, is determining the extent to which supply and demand are driving fluctuations in activity. Right now, the inability of supply to meet demand appears to be the main issue. That means that, as in Q1, weak GDP growth can still be paired with strong inflation pressures, and the RBNZ is therefore unlikely to view weaker GDP as a sign they need to hike rates by any less. Of course, the optics of hiking rates aggressively into weak GDP aren't great. But that's the bitter medicine needed to ensure a timely return to target for inflation. And as we discuss on the next page, risks are firmly tilted towards inflation remaining too high for too long.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: The inflation outlook and the balance of risks
- NZ Insight: 2020 hindsight
- NZ Agri Insight: feeding the world sustainably
- NZ Agri Focus: it's raining, it's pouring
- NZ Insight: the Australian labour market and the RBNZ
- 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 Budget Review: Big Budget
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- NZ Property Focus: regional rollercoaster
- NZ Insight: how widespread is labour market tightness?
- NZ Insight: the RBNZ's inflation expectations headache
- NZ Insight: how is NZ's agri sector impacted by the Russian invasion
- NZ Insight: Endemic COVID-19 and labour supply

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?

This week we published a pair of insight notes taking a deep dive into inflation in New Zealand. [In the first note](#), we look at why, after three decades of being relatively low and stable, inflation in New Zealand has surged to 7.3%. There are many competing explanations, including COVID, global supply disruptions, geopolitical tensions, high government spending, tight labour markets, and central bank policy stimulus. All of these have had a part to play, and there is no single factor that can explain the inflation we now see. In over-simplified terms, the economy has been hit by a perfect storm of supply-side constraints, while demand has been overstimulated by what in hindsight was an overly powerful policy response. The task now for the RBNZ (and most other central banks around the world) is to restore price stability.

[In the second insight note](#), we briefly outline the outlook for CPI inflation (ie how we see it getting back to 2%), as well as the many risks around that forecast. We think it's quite likely that annual CPI inflation peaked at 7.3% in the June quarter 2022, and will fall from here ([figure 4](#)). Recent falls in global commodity prices, oil in particular, should see to that. But we see significant domestic and global risks that could cause inflation to remain too high for too long. Even in our central forecast, where the OCR is hiked to 4% by year-end, inflation only just gets back to the 2% midpoint of the RBNZ's target band of 1-3% in mid-2024.

On the domestic side of things, the extremely tight labour market is a key source of concern from an inflation-targeting perspective. Supply remains constrained by a close to record-high participation rate and annual net migration outflows of -11.5k. Demand, on the other hand, remains overstimulated. The result is a rapid increase in wage growth. Figure 2 shows what could happen to CPI inflation if labour cost growth were to prove even stronger and more persistent than currently expected (based on the historical relationship between the two variables). The light blue line shows the impact of labour cost inflation rising to a peak of 5.5% in Q2 2023 (ie peaking a little more than 1% higher than our forecast), while the yellow line shows the impact of labour cost inflation rising to a peak of 6.5% in Q3 2023. In both scenarios, the OCR is assumed to hit a peak of 4% (ie our central forecast). And in both cases, with wages stronger and more persistent than expected, inflation doesn't even return to the 1-3% target band before the end of our forecast horizon in Q4 2024, let alone to 2%. Medium-term global risks are also looking increasingly inflationary, with extremely tight labour markets, climate change, geopolitical tensions, energy shortages, and trade disruption threatening to create a period of sustained high global inflation going forward.

Figure 2. CPI inflation scenarios



Source: Stats NZ, ANZ Research

Note: See our [Insight Note](#) for more details on the scenarios.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 12 Sep (10:45am)	Net Migration – Jul
13 Sep (09:00am)	REINZ Housing Data – Aug
Tue 13 Sep (10:45am)	Food Price Index – Aug
Tue 13 Sep (10:45am)	Rental Price Index – Aug
Wed 14 Sep (10:45am)	Balance of Payments – Q2
Thu 15 Sep (10:45am)	GDP – Q2
Fri 16 Sep (10:30am)	BusinessNZ Manuf PMI – Aug
Mon 19 Sep (10:30am)	Performance Services Index – Aug
Wed 21 Sep (early am)	GlobalDairyTrade auction
Thu 22 Sep (10:45am)	Merchandise Trade – Aug
Thu 29 Sep (1:00pm)	ANZ Business Outlook – Sep
Fri 30 Sep (10:00am)	ANZ-RM Consumer Confidence – Sep
Fri 30 Sep (3:00pm)	RBNZ Sectoral Lending – Aug
Tue 4 Oct (10:00am)	NZIER QSBO – Q3
Wed 5 Oct (early am)	GlobalDairyTrade auction
Wed 5 Oct (2:00pm)	RBNZ Monetary Policy Review
Thu 6 Oct (1:00pm)	ANZ Commodity Price Index – Sep
Tue 11 Oct (10:00am)	ANZ Truckometer – Sep
Tue 11 Oct (10:45am)	Electronic Card Transactions – Sep
Wed 12 Oct (10:45am)	Net Migration – Aug
Thu 13 Oct (10:45am)	Food Price Index – Sep
Thu 13 Oct (10:45am)	Rental Price Index – Sep
Fri 14 Oct (10:30am)	BusinessNZ Manuf PMI – Sep
Mon 17 Oct (10:30am)	Performance Services Index – Sep
Tue 18 Oct (10:45am)	CPI – Q3
Wed 19 Oct (early am)	GlobalDairyTrade auction
Fri 21 Oct (10:45am)	Merchandise Trade – Sep

Interest rate markets

Volatility trumped directionality at both ends of the New Zealand yield curve this week as interest rates moved in both directions. However, global markets have been more directional, with US 30yr Treasury bond yields moving to an 8-year high amid a constant barrage of hawkish Fed comments and ongoing fears about persistent inflation and tight labour markets. The ECB and BOC both hiked by 75bps this week, undeterred by clear downside growth risks. We still see upside risks to New Zealand interest rates given the skew of risks around inflation (as discussed on page 2), but this could be a slow burn as markets await upcoming data and debate the persistence of inflation.

FX markets

Markets remain almost singularly focussed on the USD in the lead-up to US CPI data next week and the Fed meeting the following week. The USD DXY hit a multi-decade high as the Kiwi dipped below 0.60 this week. While it is about 3 cents below our two year-forward estimate of fair value (0.63), it's hard to stand in the way of USD dominance amid unique issues facing Europe, Japan and the UK. Recent data has generally supported the idea that the US economy still has resilience; that's yet another tick in the box for the USD.

Key data summary

Overseas Trade Indices – Q2. The OTI goods [terms of trade](#) fell 2.4% q/q.

Building Work Put in Place – Q2. Building activity increased 2.6% q/q.

ANZ Commodity Price Index – August. The ANZ World [Commodity Price Index](#) fell 3.3% in August, primarily driven down by weaker dairy prices.

GlobalDairyTrade auction. The GDT price index rose 4.9% in the latest auction, with whole milk powder prices up 5.1% to USD3,610/metric tonne.

Economic Survey of Manufacturing – Q2. Manufacturing volumes fell 4.9% in Q2 due to a change in the classification of petroleum to wholesale trade.

ANZ Truckometer – August. Both the light and the [heavy traffic](#) indexes bounced sharply, likely reflecting easing COVID strains.

Electronic Card Transactions – August. Retail card spending increased 0.9% m/m.

The week ahead

Net Migration – July (Monday 12 September, 10:45am). The border reopening was completed at the end of July, so from August, these data will start to get particularly interesting.

REINZ House Prices – August (Tuesday 13 September, 9:00am). House prices are down about 8% from their November 2021 peak, and we anticipate a 15% fall in total. But uncertainty remains high.

Food Prices – August (Tuesday 13 September, 10:45am). We expect a 0.3% m/m lift in food prices, after July's 2.2% increase.

Rental Price Index – August (Tuesday 13 September, 10:45am). Rent prices (stock measure) are expected to have increased 0.2% m/m in August.

Current Account Balance – Q2 (Wednesday 14 September, 10:45am). [We expect](#) the current account deficit widened to 7.5% of GDP (6.5% in Q1).

GDP – Q2 (Thursday 15 September, 10:45am). [We expect](#) GDP increased 0.4% q/q.

Performance of Manufacturing Index – August (Friday 16 September, 10:30am). Ticked up in July, and has largely remained in expansionary territory since the August lockdown last year.



Key forecasts and rates

		Actual			Forecast (end month)				
FX rates	Jul-22	Aug-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZD/USD	0.628	0.612	0.607	0.620	0.620	0.630	0.630	0.630	0.630
NZD/AUD	0.900	0.893	0.897	0.886	0.886	0.875	0.863	0.863	0.863
NZD/EUR	0.614	0.613	0.606	0.626	0.633	0.649	0.630	0.618	0.600
NZD/JPY	83.7	84.9	87.3	86.8	88.0	89.5	88.2	85.1	81.9
NZD/GBP	0.516	0.527	0.527	0.534	0.539	0.553	0.548	0.538	0.534
NZ\$ TWI	71.1	70.7	70.6	71.5	71.9	72.6	71.9	71.4	70.8
Interest rates	Jul-22	Aug-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZ OCR	2.50	3.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00
NZ 90 day bill	3.14	3.47	3.54	3.93	4.10	4.10	4.10	4.10	4.10
NZ 2-yr swap	3.74	4.32	4.29	4.20	4.20	4.25	4.25	4.20	4.10
NZ 10-yr bond	3.42	3.98	4.00	4.10	4.10	4.00	4.00	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	0.4	<i>under review ahead of Q2 GDP</i>						
GDP (% yoy)	1.2	-0.7							
CPI (% qoq)	1.8	1.7	1.6	0.9	0.7	0.6	0.8	0.4	0.4
CPI (% yoy)	6.9	7.3	6.7	6.1	5.0	3.9	3.1	2.5	2.3
Employment (% qoq)	0.0	0.0	0.1	0.1	0.1	0.1	-0.3	-0.4	-0.4
Employment (% yoy)	2.7	1.6	-0.1	0.1	0.3	0.3	0.0	-0.5	-1.0
Unemployment Rate (% sa)	3.2	3.3	3.3	3.4	3.4	3.6	4.0	4.5	4.8

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

Figure 3. GDP forecast level

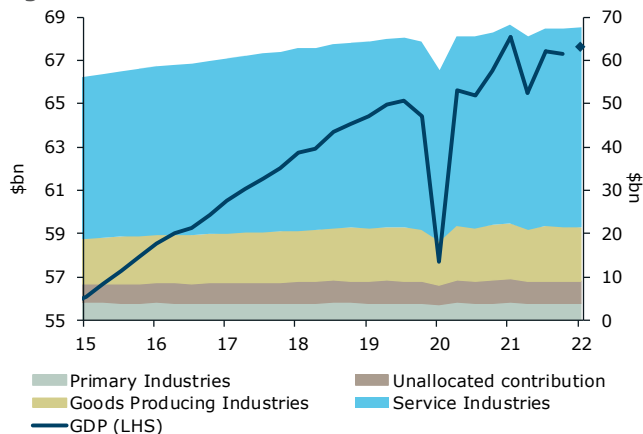


Figure 4. CPI inflation components

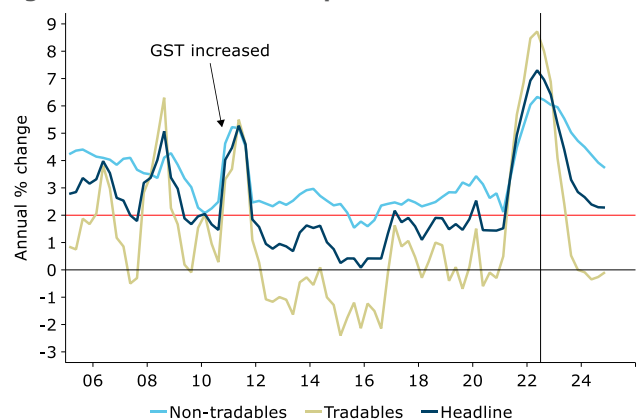


Figure 5. ANZ OCR forecast

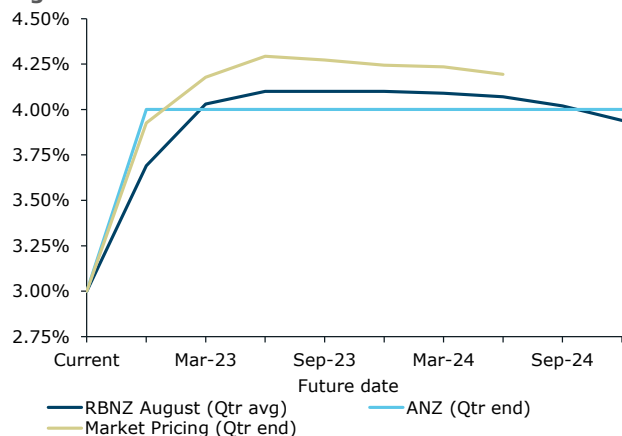
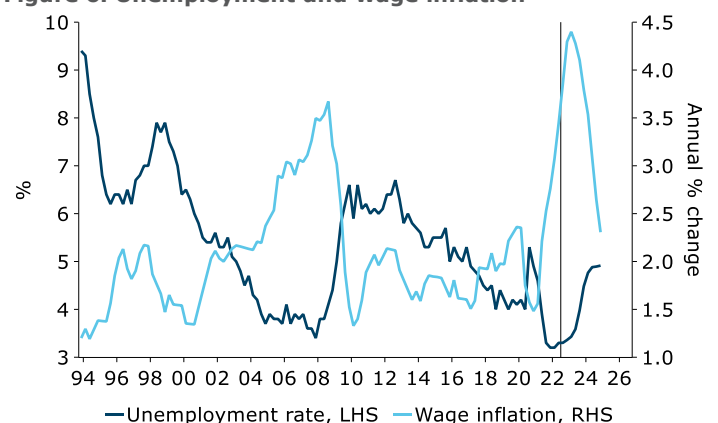


Figure 6. Unemployment and wage inflation



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



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