ANZ Research

New Zealand Weekly Data Wrap

21 October 2022

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Contact us

See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ CPI and OCR call change: 75s now expected for Nov and Feb
- NZ Property Focus: spring bounce or false floor?
- NZ OCR Call Change: more work to do
- NZ Forecast Update: Farmgate milk price forecasts revised up
- NZ Quarterly Economic Outlook: on the edge

Our other recent publications are on page 2.

What's the view?

- GDP currently constrained by supply more than demand
- Labour market still extremely tight, and very inflationary
- Inflation way above target, and looking sticky
- OCR to 5% by Feb to contain inflation

Our forecasts are on page 4.

Confused by acronyms or jargon? See a glossary here.

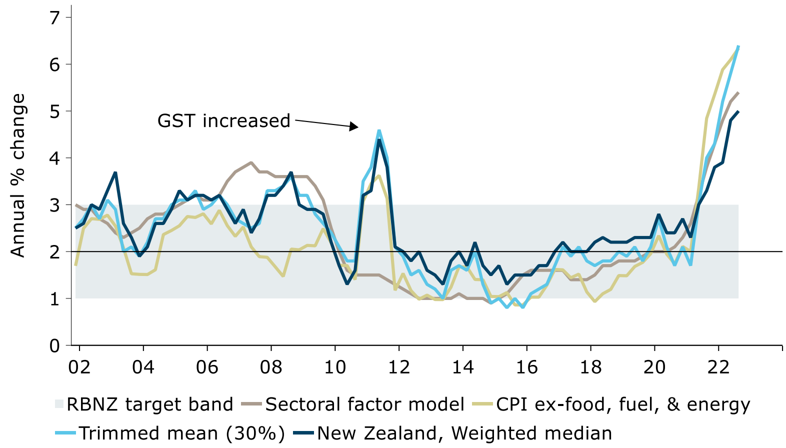
Key risks to our view

- 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.
- The neutral OCR could be increasing faster than estimated.
- Global inflation pressures may not decline as quickly or as far as anticipated.

What happened this week?

This week's CPI inflation report for Q3 was grim. After hitting a multi-decade high of 7.3% in Q2, we had expected annual CPI inflation to ease to 6.6% in Q3 (consensus expectations were for 6.5%, and the RBNZ's August MPS forecast was for 6.4%). Instead, inflation barely budged, down 0.1ppts to 7.2%, and prices were up a whopping 2.2% q/q in Q3 alone. To be sure, there was some significant quarterly volatility in key CPI components that boosted the headline figure, such as a 20% lift in airfares over the quarter that added 0.4ppts to the 2.2% q/q lift in consumer prices. But unfortunately, underneath all the volatility in the data was an alarmingly strong underlying inflation pulse. Measures of core inflation were up across the board, with core inflation measures ranging from 5.0-6.4% y/y (figure 1). Services inflation is also still accelerating, which seems unlikely to change soon, given extremely low unemployment and surging wages. 78% of items in the CPI saw a price rise of over 2% in the past 12 months, and 51% saw a price rise greater than 5%. In short, large price rises continue to become more common, not less.

Figure 1. New Zealand core CPI inflation



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

The surprising strength in underlying inflation is a serious concern for the RBNZ, and in our view pushes the odds in favour of a 75bp OCR hike at the November MPS (especially in the wake of their comment in the October Monetary Policy Review that "the Committee considered whether to increase the OCR by 50 or 75 basis points at this meeting"). With Q3 labour market data (out on 2 November) expected to come in strong, we've also changed our February call to a 75bp hike. That sees the OCR peaking at 5.0% in February 2023, versus our previous peak of 4.75% in May 2023. So a slightly higher peak, and a much quicker path to it. Markets reacted strongly to the CPI data this week, pricing around 150bps of OCR hikes into the next two meetings (consistent with our forecast), and pricing a peak of 5.46% in the OCR in mid-2023 (higher than our forecast of a 5.0% peak, but well within the realm of possibilities given uncertainty about the NZ inflation outlook).

Given these 75bp hikes would come on the back of a whopping five consecutive 50bp OCR hikes, we see the RBNZ calling a halt to further increases after February to see how events unfold. It's a huge amount of monetary policy tightening to deliver in a very short period of time, and given that monetary policy impacts the economy with 'long and variable lags', we haven't yet seen the full impact of the hikes delivered to date (although ongoing softening in the housing market suggests they are having an effect).

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: spring bounce or false floor?
- 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
- NZ Insight: Emissions Reduction Plan
- NZ Insight: new fiscal rules
- 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

Inflation looking more persistent, but set to soften in 2023

Looking at the details of the quarterly inflation numbers, it's hard to escape the conclusion that the domestic inflation surge will take a bit longer to beat than anticipated. Ongoing resource pressure in the construction industry means that cost inflation there is easing at a snail's pace, and rental inflation has been intense too. Indicators suggest both should ease, but with the labour market remaining incredibly tight and inflationary, there's not much else to pin a big drop in non-tradables inflation on except for monetary policy tightening, and we'll feel its full effects over 2023 rather than imminently.

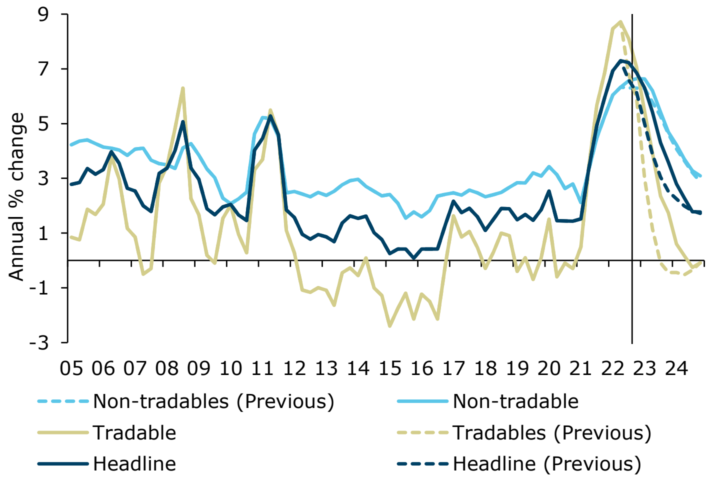
On the tradables side, price rises have also been much more persistent than expected. Petrol prices have fallen relative to their peak in June, but apart from that, tradables inflation remains broad-based and very strong. The significant depreciation in the NZD versus key trading partners (in particular the USD) is also reducing the relief we might otherwise be feeling from the rapid drop in global shipping costs in recent months.

That leaves us with an inflation forecast that sees tradables inflation easing more slowly than expected, and non-tradables inflation remaining high for the next few quarters, before easing significantly over 2023 as the monetary policy tightening really starts to bite. Has inflation peaked? That remains our view; we just think it'll take a little longer to really start to see underlying inflation pressures come off the boil. We're forecasting CPI inflation will ease to 6.9% y/y in Q4, and will be back below 3% in early 2024.

It's worth noting that ongoing weakness in the NZD and constrained supply conditions in global oil markets could easily see petrol prices rise significantly over Q4. If petrol prices lifted by 6% q/q (which would be well within the range of recent quarterly movements), feeding that through mechanically to our CPI forecast would send headline inflation up to a new high of 7.4% y/y. So it wouldn't take much to see inflation hit a fresh peak.

But we should stress that risks to the inflation outlook are not one-sided. The sensitivity of the domestic and global economies to the monetary tightening delivered thus far remains uncertain. If it turns out that central banks have overdone the tightening (just as they, with the benefit of hindsight, overdid the loosening in 2020), then demand could fall away much faster than expected, taking inflation (and the 'soft landing') with it. The geopolitical environment remains volatile, and COVID-zero is having a dampening effect on consumer demand in China – our biggest trading partner. But right now, downside risks to inflation have not materialised, while the timely data points to a more persistent domestic inflation pulse. You have to play the cards you've got; that will likely see more aggressive rate rises being delivered by the RBNZ.

Figure 2. CPI inflation forecast



Source: Stats NZ, ANZ Research

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Wed 26 Oct (1:00pm)	ANZ Business Outlook – Oct
Fri 28 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Mon 31 Oct (3:00pm)	RBNZ Sectoral Lending – Sep
Tue 1 Nov (10:45am)	Building Permits – Sep
Wed 2 Nov (early am)	GlobalDairyTrade auction
Wed 2 Nov (10:45am)	**Labour Market – Q3**
Thu 3 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Tue 8 Nov (10:00am)	ANZ Truckometer – Oct
Tue 8 Nov (3:00pm)	RBNZ 2Yr Inflation Expectation – Q4
Wed 9 Nov (10:45am)	Electronic Card Transactions – Oct
Fri 11 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Fri 11 Nov (10:45am)	Food Price Index – Oct
Fri 11 Nov (10:45am)	Rental Price Index – Oct
Mon 14 Nov (10:30am)	Performance Services Index – Oct
Tue 15 Nov (10:45am)	Net Migration – Sep
Wed 16 Nov (early am)	GlobalDairyTrade auction
Tue 22 Nov (10:45am)	Merchandise Trade – Oct
Wed 23 Nov (2:00pm)	**RBNZ Monetary Policy Statement**
Fri 25 Nov (10:00am)	ANZ-RM Consumer Confidence – Nov
Fri 25 Nov (10:45am)	Retail Sales – Q3
Wed 30 Nov (10:45am)	Building Permits – Oct
Wed 30 Nov (1:00pm)	ANZ Business Outlook – Nov
Fri 2 Dec (10:45am)	Terms of Trade – Q3
Tue 6 Dec (1:00pm)	ANZ Commodity Price Index – Nov
Wed 7 Dec (early am)	GlobalDairyTrade auction
Thu 9 Dec (10:00am)	ANZ Truckometer – Nov
Thu 9 Dec (10:45am)	Economic Survey of Manufacturing – Q3

Interest rate markets

This week was one for the history books, with many economists (including us) now expecting the RBNZ to up the tightening ante in November with a 75bp hike. Markets have gone a step further, and with 80bps priced for November; they are now clearly testing the possibility of a 100bp hike. Part of the reason that this has occurred is markets are worried Q3 labour market data due on 2 November might come in stronger than expected, as we suspect it might, if recent gains in data like the monthly employment indicator are anything to go by. Markets are also pricing in a much higher terminal OCR now (the peak in market expectations now stands at 5.46%). Volatility has been high and liquidity poor, and together with an almost universal upgrade in economists' forecasts, that has contributed to a ~40bp lift in the 2yr swap rate since last Friday. Our new, higher, OCR forecasts also have implications for all of our other interest rate forecasts, which have all been upgraded (see overleaf). But as pressing as inflation risks are, this far into the hiking cycle, and with the OCR already at (or close to) contractionary levels, this isn't without risk, so don't expect volatility to die down anytime soon. It has also been a volatile week globally, with UK bond yields sharply lower in the wake of the Government's mini-budget U-turn and then the resignation of the PM overnight. The 10-year gilt yield has fallen from last week's high of 4.6% to around 3.9% today. Meanwhile, the bellwether US 10-year yield marches on, up around 24bps over this week, rounding out our sense that interest rate markets will remain challenging for some time yet.

FX markets

With market pricing for the RBNZ taking a step up, carry has quickly become a larger consideration for Kiwi. But despite all the domestic excitement this week, global forces still appear to be at the helm, with broad USD strength still pretty unrelenting. The NZD has been moving with the ebb and flow of global risk assets, but global growth vulnerabilities aren't going away in a hurry. Hard-landing risks only intensify with each positive inflation surprise (that will keep central banks tightening by more and/or for longer). But that also increases the odds that something will eventually break. The risk-sensitive NZD is stuck in the middle of that, suggesting volatility will linger for a while yet. All else equal, NZD should find some support from a more aggressive OCR outlook, but this is risky business. This week's 'shout out' currency has to be the GBP. UK September inflation rose to 10.1% y/y, the highest in 40 years. Recession is looming, fiscal policy has been re-normalised and the BoE needs to hike hard and enter QT. It remains an ugly backdrop for sterling, which still has plenty of headwinds to navigate.

Key data summary

Performance of Services Index – September. Fell 2.8pts to a still-solid 55.8. Like our Heavy Traffic Index, the composite PMI/PSI is pointing to upside risk to our Q3 GDP forecast of 0.4% q/q.

CPI – Q3. Way too strong at the core. See our Review.

GlobalDairyTrade auction. Downwards pressure in the market is showing no sign of letting up, with dairy prices down a further 4.6% this week. Offer volumes are seasonally high at this time of the season, but were smaller than the volumes offered at the same event a year ago.

The week ahead

ANZ Business Outlook – October (Wednesday 26 October, 1:00pm).

ANZ Roy Morgan Consumer Confidence – October (Friday 28 October, 10:00am).

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Aug-22	Sep-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD/USD	0.612	0.560	0.568	0.590	0.570	0.570	0.580	0.590	0.600
NZD/AUD	0.893	0.874	0.904	0.894	0.891	0.891	0.892	0.894	0.882
NZD/EUR	0.613	0.571	0.580	0.608	0.600	0.600	0.598	0.590	0.583
NZD/JPY	84.9	81.0	85.2	86.7	85.5	85.5	85.8	85.6	85.2
NZD/GBP	0.527	0.501	0.505	0.527	0.518	0.518	0.513	0.504	0.504
NZ$ TWI	70.7	67.8	68.5	70.0	68.6	68.6	68.9	69.1	69.1
Interest rates	Aug-22	Sep-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZ OCR	3.00	3.00	3.50	4.25	5.00	5.00	5.00	5.00	5.00
NZ 90 day bill	3.47	3.85	4.15	4.85	5.10	5.10	5.10	5.10	5.10
NZ 2-yr swap	4.32	4.67	5.38	5.30	5.30	5.30	5.20	5.20	5.10
NZ 10-yr bond	3.98	4.30	4.71	5.00	5.00	4.75	4.75	4.75	4.50

Economic forecasts

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
GDP (% qoq)	1.7	**0.4**	**0.2**	**0.3**	**0.7**	**0.2**	**0.2**	**0.3**	**0.4**
GDP (% yoy)	0.4	**5.0**	**2.1**	**2.6**	**1.6**	**1.4**	**1.4**	**1.4**	**1.1**
CPI (% qoq)	1.7	2.2	**1.1**	**1.2**	**0.8**	**1.0**	**0.4**	**0.5**	**0.3**
CPI (% yoy	7.3	7.2	**6.9**	**6.3**	**5.4**	**4.3**	**3.6**	**2.8**	**2.3**
Employment (% qoq)	0.0	**0.1**	**0.1**	**0.1**	**0.1**	**-0.3**	**-0.4**	**-0.4**	**0.1**
Employment (% yoy)	1.6	**-0.1**	**0.1**	**0.3**	**0.3**	**0.0**	**-0.5**	**-1.0**	**-1.0**
Unemployment Rate (% sa)	3.3	**3.3**	**3.4**	**3.4**	**3.6**	**4.0**	**4.5**	**4.8**	**4.9**

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. Click here for full ANZ forecasts

Figure 3. GDP forecast level

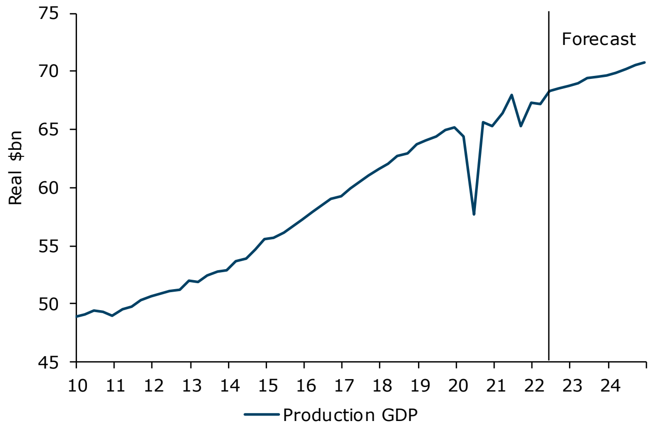


Figure 4. CPI inflation components

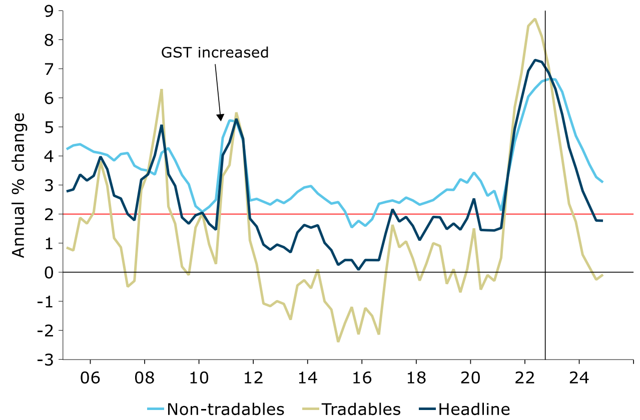


Figure 5. ANZ OCR forecast

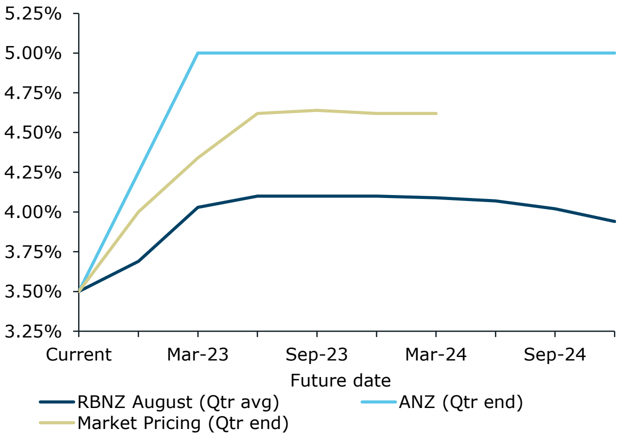
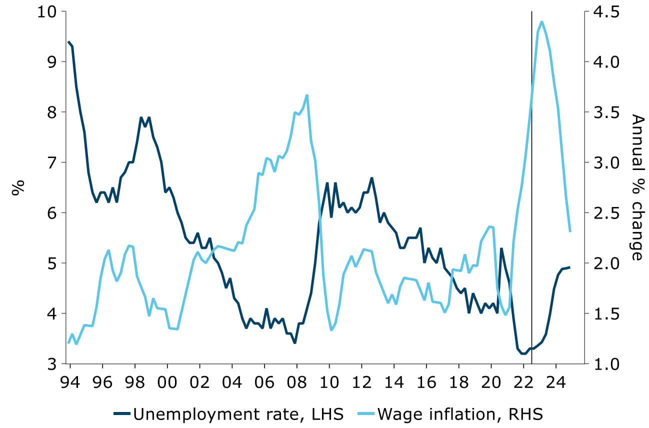


Figure 6. Unemployment and wage inflation



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

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