ANZ Research

New Zealand Weekly Data Wrap

17 March 2023

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Contact us

See page 7.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Forecast Update: getting an extension
- NZ Property Focus: rain check
- NZ Forecast Update: milk price forecasts revised down

Our other recent publications are on page 2.

What's the view?

- GDP currently constrained by supply more than demand, but that's set to change
- Inflation way above target, and looking sticky
- OCR to 5.25% by May to contain inflation

Our forecasts are on page 4.

Confused by acronyms or jargon? See a glossary here.

Key risks to our view

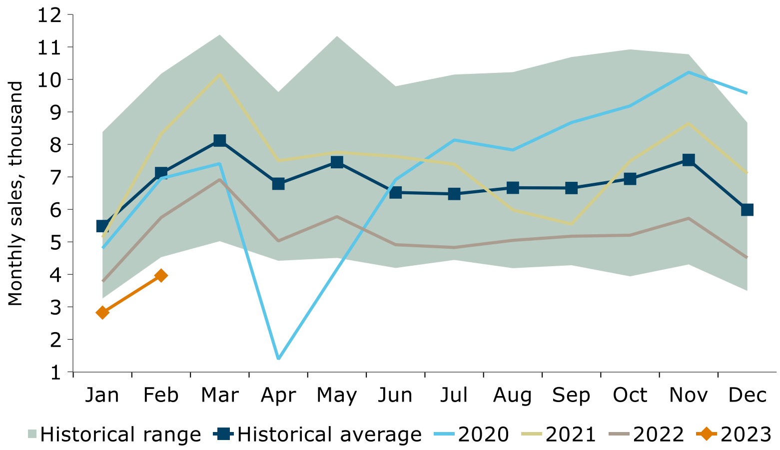
- Global growth risks abound, with central banks still on the warpath.
- The housing slowdown could become disorderly if unemployment rises sharply.
- Negative supply shocks, including weather impacts, could see inflation hold up.
- China's reopening could put upward pressure on commodity prices, pushing up tradables inflation.

What happened this week?

The big economic data this week was the Q4 current account and GDP. The deficit hit a record high and GDP growth surprised to the downside, though we suspect capacity constraints had as much to say as weakening demand. Subsequent changes to our GDP, current account and inflation forecasts can be found here. We've also incorporated some initial flooding and cyclone impacts to the outlook. These are expected to add to economic demand later in the year, result in a wider-than-otherwise current account deficit, and give high inflation a little more persistence. We maintain our OCR call for a peak of 5.25%, but risks are to the upside, assuming global financial sector risks don't crystallise into something ugly.

REINZ data showed the housing market ended the summer on a soggy note, with house prices down 1.1% m/m in February (ANZ seasonal adjustment). Prices are down a little over 16% from their November 2021 peak, and we continue to forecast a 22% peak-to-trough decline. House sales contracted 11.4% m/m on a seasonally adjusted basis in February. And, on a non-adjusted basis, the number of sales was the weakest on record in both January and February, in data going back to 1992 (figure 1).

Figure 1. Unadjusted house sales versus historical range



Source: REINZ, Macrobond, ANZ Research

The carbon market provided a surprise this week when the quarterly auction of NZUs failed to sell any units at all. The issue was not a lack of demand – the bid volume exceeded the units on offer – but rather that the bids did not reach the confidential reserve price. The existence of a confidential reserve price was, in itself, a surprise to many, given the market also has a published floor price and a published reserve price. Once the published reserve price is breached it triggers the release of units from the Cost Containment Reserve (CCR).

In December the Government announced an increase in the CCR trigger price to $80.64 (from $78.40). This increase was much smaller than the market expected as the Climate Change Commission had earlier advised this price should be lifted to $171 in 2023. By setting a lower trigger price the Government did not tighten the supply of units as much as expected. The units that did not sell at this latest event will roll over and be available at the next quarterly auction.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: Inflation rotation
- NZ Insight: second wind for the labour market?
- NZ Property Focus: rain check
- NZ Insight: inflationary risks from Gabrielle
- NZ Agri Focus: opportunities and challenges ahead
- NZ Insight: early thoughts on the Upper North Island floods
- NZ Agri Focus: a year of challenges
- NZ 2022 HYEFU: reprioritising
- NZ Insight: Risks to the OCR outlook
- NZ Insight: RBA/RBNZ policy divergence back in the spotlight
- NZ Property Focus: six reasons
- RBNZ Formulation and Implementation of Monetary Policy Review
- NZ Insight: our record breaking labour market
- NZ Property Focus: Testing times
- NZ Property Focus: spring bounce or false floor?
- NZ Insight: The inflation outlook and the balance of risks
- NZ Insight: 2020 hindsight
- NZ Budget Review: Big Budget

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

Recent global market volatility and potential implications for New Zealand

Financial market volatility lifted sharply this week in the wake of bank collapses in the US and as contagion later spread to Switzerland. The sequencing of events played a big part in the volatility, with risk appetite getting hit hard late last week and early this week as three US banks failed. That was then followed by a brief period where markets regained some composure in the wake of Fed actions to backstop liquidity and shore up confidence. However, sentiment then soured again late Wednesday local time as credit default spreads on (and the share price of) Credit Suisse (which is classed as a globally systemically important bank, or G-SIB) started to tumble, ultimately forcing the Swiss National Bank to intervene and lend the bank support. By early Friday morning local time, sentiment had again improved significantly, although markets are still pricing in much lower terminal policy rates in most markets.

To illustrate the extent of the volatility, consider the following: last Thursday, before the turmoil, US markets were pricing in a 42bp Fed hike next week as part of an expected cumulative 108bps of hikes, taking the Fed funds rate to 5.65% by September. Things are extremely fluid, but by 7am this morning (Friday), markets were pricing in just a 21bp hike next week as part of only an expected cumulative 39bps of hikes, taking the Fed funds rate to just 4.97% by May. However, cuts are now priced in beyond May, taking the Fed funds rate back to 4.44% by September.

Heightened (but not as extreme) volatility and uncertainty have been seen in the local market too, with the 2yr swap rate falling to a low of 4.94% yesterday, having been up at 5.54% last week. The way financial markets reacted this week was both understandable and logical in the short term. But it's very unclear whether recent sharp falls in interest rates will be sustained, and whether the wobbles are significant enough to derail central bank rate hikes.

From the outset we need to be clear that this is not the time to go ruling anything in or out, and the situation remains very fluid. Uncertainty is high and there are many ways things could pan out. But our sense is that having taken measures to shore up confidence and limit the fallout of this month's bank failures, the Fed has put itself in the best place it can be to be able to pursue its monetary policy remit – ie to continue hiking – even if that means doing so more cautiously.

Like many central banks (including the RBNZ), the Fed has both financial stability and monetary policy remits. While the two do overlap at times (and financial markets often overplay this), the framework we are using to analyse the situation is to separate financial stability tools from monetary policy actions. In that regard, consider the ECB's actions and comments overnight. While they do not directly supervise any bank that has gotten into difficulties this week (they have been US and Swiss), it hiked by 50bps overnight despite recent market wobbles – surprising many, who thought they may go easy and deliver a hike of just 25bps. Perhaps setting a precedent for other central banks like the Fed and the RBNZ, the ECB noted that "the Governing Council is monitoring current market tensions closely and stands ready to respond as necessary to preserve price stability and financial stability in the euro area", adding that "the ECB's policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed and to preserve the smooth transmission of monetary policy." In other words, "we're watching, but for now it's business as usual."

Looking ahead

So, we think it is useful to remember that central banks' financial stability and monetary policy remits are related but separate. In the case of the US, this week has been all about stemming contagion, but that shouldn't prevent the Fed from hiking next week if that's what it thinks is the best way to bring inflation back to target in a timely manner.

It'd be a push to say that having set up liquidity facilities that the Fed can now just press ahead with earlier signalled hikes, because economic confidence has indisputably taken a hit. But equally, the Fed has yet to truly get on top of inflation. US CPI inflation is still at 6% – while that's down from a peak of 9%, core inflation has stabilised at around 5½% and compositional aspects suggest it might be sticky. Reduced access to credit and/or declining consumer confidence are likely to help get inflation down more quickly, but by how much and how soon remains to be seen. In the absence of recent instability, we'd have said that February US payroll and CPI prints released in recent days would have justified a 50bp Fed hike next week. However, we suspect that might be too aggressive in the current environment. With markets on edge and confidence fragile, the Fed is unlikely to want to exacerbate stresses in the system; hence our forecast for a 25bp hike.

In terms of market psychology, it's natural in the face of such uncertainty that the US market has lost its resolve regarding a strong view about the next few meetings, and is now almost solely focussed on the next meeting. The prevailing market narrative suggests the Fed has now taken policy to the point where things are starting to break. With increased risk that more things start to break and more stresses emerge with every hike, it's understandable that markets are reluctant to embrace their erstwhile view that the Fed will just keep on hiking. That view made sense when nothing was broken and the economy was adjusting gradually (ie things were "going to plan") but it is less appealing now. Many in the market had long thought that the Fed would hike until something broke, and now that that's happened, there's more caution. So while there is still a very good chance that the Fed funds rate may yet need to get to our current forecast (which pre-dates recent bank failures), don't expect markets to price that in now. Recent strong US data and last night's 50bp ECB hike have kept markets alert to the prospect of the Fed hiking at least one more time, as one would expect given that they have taken fairly bold steps to stem financial contagion risks.

How things affect New Zealand is even more uncertain. Not only are things playing out in real time, which means that the RBNZ themselves likely don't have a firm view of what they'll do in April (or in May and beyond), but we have to contend with existing issues like post-cyclone rebuilding too. Soft Q4 GDP data (-0.6% q/q) has muddied the waters somewhat, but that looks to have been partly caused by capacity pressures, and there was also a decent amount of payback evident after Q3's stellar +1.7% q/q gain.

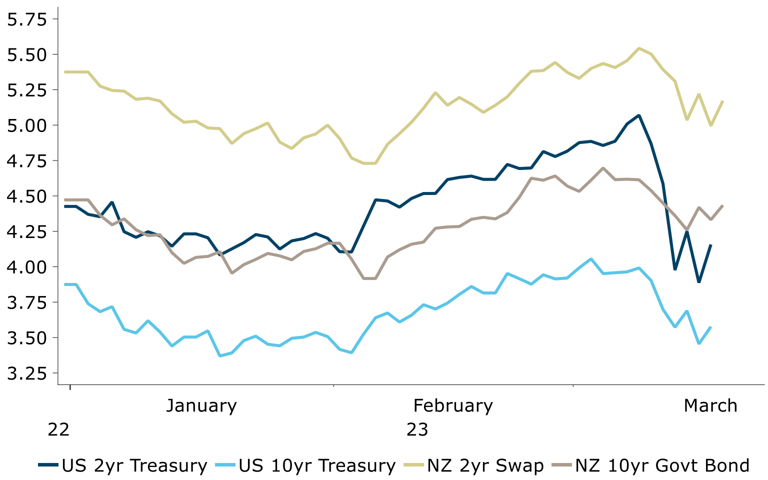
When we changed our OCR forecast in January (downgrading our February forecast from a 75bp hike to a 50bp hike, subsequently delivered), we also took down our forecast for the peak OCR from 5.75% to 5.25%. In the weeks that followed, very little went the RBNZ's way on that front. We had the cyclone, which brings with it immediate inflation risks and the prospect of a bounce in construction activity as the rebuild gets underway; global inflation readings surprised to the upside; food and rent prices lifted sharply; filled jobs jumped; and consumer, business, PMI and PSI sentiment readings all lifted. As a consequence, we characterised the risks to our terminal OCR forecast as to the topside, as did the RBNZ when they published the February MPS.

Looking ahead

However, financial instability issues this week have caused considerable angst, and while much stronger prudential oversight of local banks makes it far less likely that we see local banks get into difficulty, bank funding spreads are widening globally. Standard and Poor's has also warned that New Zealand's credit rating may come under pressure if our current account deficit (which hit a record 8.9% of GDP in Q4) remains wide. Offshore confidence in New Zealand is crucial given our reliance on offshore funding markets. So while swap rates have fallen (representing an easing in financial conditions), this has been negated by rising funding spreads, and it could take some time to see where the dust settles. For us, that's enough to stick with our forecast of a 25bp OCR hike in April, even against the backdrop of heightened inflation risks.

More than anything though, we need to again stress that things are fluid. What has happened over the past week has sent shockwaves through financial markets and markets continue to fear that some of the issues facing the small number of banks that have failed or are starting to look wobbly may be more widespread – we just don't know. But our working assumption is that financial stability interventions will be successful in reducing stress, allowing the Fed (and other central banks) to remain focused on the still very important job of getting inflation back to target. As time passes, falling consumer and business confidence is likely to help bring demand back into line with supply across the global economy, and that may limit how much more monetary tightening is needed. But it is hard to be as confident as we normally would be of any macroeconomic thesis at the moment amid current volatility and financial stability concerns. Keeping an open mind and being nimble is crucial.

Figure 2. US and New Zealand interest rate movements in 2023



Source: Bloomberg, Macrobond, ANZ Research

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Tue 21 Mar (10:45am)	Merchandise Trade – Feb
Wed 22 Mar (early am)	GlobalDairyTrade auction
Thu 23 Mar (10:00am)	ANZ Truckometer – Feb
Thu 30 Mar (10:45am)	Building Permits – Feb
Thu 30 Mar (1:00pm)	ANZ Business Outlook – Mar
Fri 31 Mar (10:00am)	ANZ-RM Consumer Confidence – Mar
Tue 4 Apr (10:00am)	NZIER QSBO – Q1
Wed 5 Apr (early am)	GlobalDairyTrade auction
Wed 5 Apr (2:00pm)	**RBNZ Monetary Policy Review**
Thu 6 Apr (1:00pm)	ANZ Commodity Price Index – Mar
Wed 12 Apr (10:45am)	Electronic Card Transactions – Mar
Fri 14 Apr (10:30am)	BusinessNZ Manuf PMI – Mar
Fri 14 Apr (10:45am)	Net Migration – Feb
Mon 17 Apr (10:45am)	Food Price Index – Mar
Mon 17 Apr (10:45am)	Rental Price Index – Mar
Wed 19 Apr (early am)	GlobalDairyTrade auction
Thu 20 Apr (10:45am)	**CPI – Q1**
Wed 26 Apr (10:00am)	ANZ Truckometer – Mar
Wed 26 Apr (10:45am)	Merchandise Trade – Mar
Thu 27 Apr (1:00pm)	ANZ Business Outlook – Apr
Fri 28 Apr (10:00am)	ANZ-RM Consumer Confidence – Apr
Wed 3 May (early am)	GlobalDairyTrade auction
Wed 3 May (10:45am)	**Labour Market – Q1**
Thu 4 May (10:45am)	Building Permits – Mar
Thu 4 May (1:00pm)	ANZ Commodity Price Index – Apr
Tue 9 May (10:45am)	Electronic Card Transactions – Apr
Thu 11 May (10:45am)	Food Price Index – Apr

Interest rate markets

Bond market volatility remains elevated in the wake of heightened financial instability offshore as this week draws to a close. Although financial markets are starting to regain their composure following steps taken by the Fed and Swiss National Bank to address liquidity concerns, and after the ECB decision to hike rates last night, nervousness remains high. Inflation remains high, and we think more tightening is needed, but central banks will need to tread more carefully. All else equal that still speaks to interest rates drifting higher again, but markets are likely to play central bank meetings as they come on a case by case basis, and be mindful of the downside risks emanating from instability. We continue to expect the RBNZ two more hikes this cycle, but the risks are now more balanced than a week ago (when they were skewed to the upside).

FX markets

FX markets have been less volatile, with bond markets bearing the brunt of financial instability fears. A likely Fed hike next week may give the USD a mild boost, but we continue to expect the NZD to appreciate over 2023, supported by higher interest rates, rising migration and post-cyclone rebuilding activity.

Key data summary

Performance of Services Index – February. Up again, this time to 55.8 (54.7 previously), with a strong showing across most services indicators.

Food Prices – February. Food prices rose 1.5% m/m, in a month where prices are usually flat/falling. Not surprisingly, food prices recorded their fourth highest seasonally adjusted move since 1999 (2.1% m/m). Annual food price growth is now 12% y/y, the highest since 1989. Cyclone impacts are clear, with fruit and vegetable prices surging 23% y/y.

Rental Price Index – February. The stock measure (all tenancies) rose 0.4% m/m, as expected. New tenancies fell 1.3% m/m. Rental stock in tourism hot spots may come under more pressure if landlords eye conversions to short-term accommodation for returning tourists.

REINZ House Prices – February. At the national level, the REINZ house price index (HPI) fell 1.1% m/m in February (ANZ seasonal adjustment), to be down just over 16% from its November 2021 peak.

Net Migration - January. Monthly net migration slowed to 5,170 in January (8,064 previously), but remains very strong, with annual migration growing very quickly. The data are subject to large revisions and this month saw the largest revision to both departures and net migration, making it a very murky picture.

Current Account Balance – Q4. The annual current account deficit hit its widest level in the history of these data – to a whopping -8.9% of GDP.

GDP – Q4. At -0.6% q/q, Q4 GDP came in weaker than our expectation for a 0.3% decline, and much weaker than the RBNZ's February MPS pick of +0.7%. All up, the data show the economy is indeed slowing, but the quarterly pace overstates this.

The week ahead

Overseas Merchandise Trade – February (Tuesday 21 March, 10:45am). The goods trade deficit is expected to ease back in February to $1.2bn for as export returns lift while the cost of imports moderate.

Global Dairy Trade event 328 (Wednesday 22 March). Dairy prices are expected to fall 1%. Fonterra has advised it will be selling more whole milk powder via GDT in the coming year as it optimises product mix.

ANZ Truckometer – February (Thursday 23 March, 10:00am).

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jan-23	Feb-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD/USD	0.641	0.616	0.619	0.640	0.650	0.660	0.660	0.670	0.670
NZD/AUD	0.918	0.915	0.930	0.901	0.890	0.892	0.880	0.870	0.859
NZD/EUR	0.593	0.580	0.584	0.587	0.586	0.584	0.579	0.578	0.568
NZD/JPY	83.6	84.2	82.7	83.2	83.2	83.2	81.8	81.7	80.4
NZD/GBP	0.521	0.509	0.511	0.525	0.524	0.528	0.524	0.523	0.519
NZ$ TWI	71.7	70.8	71.0	71.2	71.2	71.7	71.1	71.4	70.8
Interest rates	Jan-23	Feb-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZ OCR	4.25	4.75	4.75	4.75	5.25	5.25	5.25	5.25	5.25
NZ 90 day bill	4.91	5.13	5.14	5.27	5.35	5.35	5.35	5.35	5.35
NZ 2-yr swap	5.00	5.37	5.17	5.50	5.60	5.75	5.75	5.60	5.60
NZ 10-yr bond	4.17	4.57	4.45	4.70	5.00	4.90	4.55	4.25	4.25

Economic forecasts

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP (% qoq)	-0.6	**0.2**	**0.3**	**-0.3**	**-0.6**	**-0.2**	**0.1**	**0.3**	**0.3**
GDP (% yoy)	2.2	**2.9**	**1.6**	**-0.4**	**-0.4**	**-0.8**	**-1.0**	**-0.4**	**0.5**
CPI (% qoq)	1.4	**1.8**	**1.1**	**2.0**	**0.8**	**0.8**	**0.5**	**0.7**	**0.5**
CPI (% yoy	7.2	**7.3**	**6.7**	**6.6**	**5.8**	**4.7**	**4.0**	**2.7**	**2.5**
Employment (% qoq)	0.1	**0.3**	**0.2**	**-0.4**	**-0.4**	**-0.4**	**-0.1**	**0.1**	**0.2**
Employment (% yoy)	1.3	**1.7**	**2.0**	**0.3**	**-0.3**	**-1.0**	**-1.3**	**-0.8**	**-0.2**
Unemployment Rate (% sa)	3.4	**3.4**	**3.5**	**4.0**	**4.5**	**5.0**	**5.2**	**5.3**	**5.4**

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 level

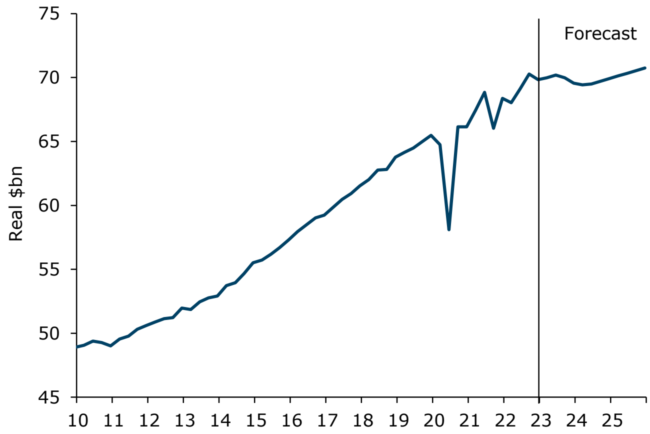


Figure 4. CPI inflation components

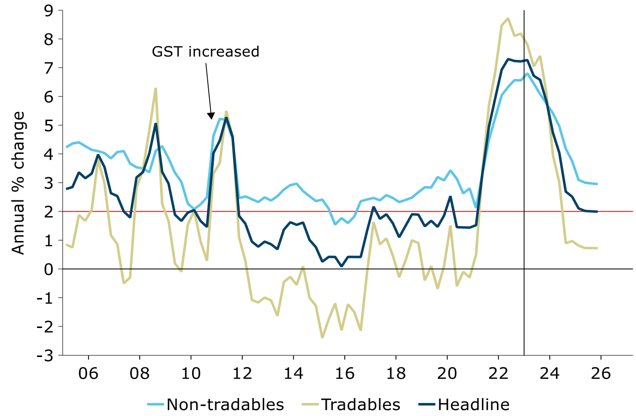


Figure 5. OCR forecast

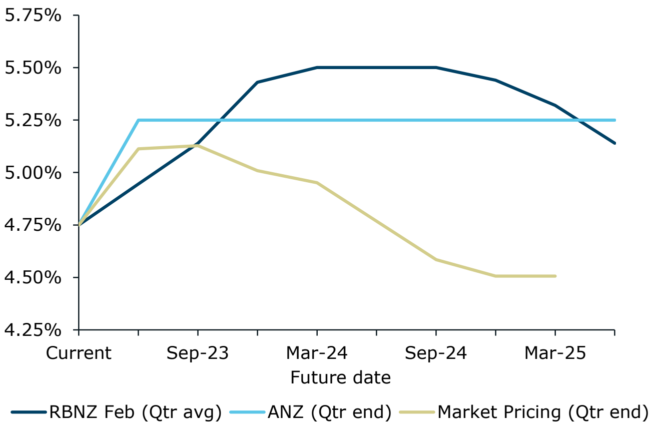
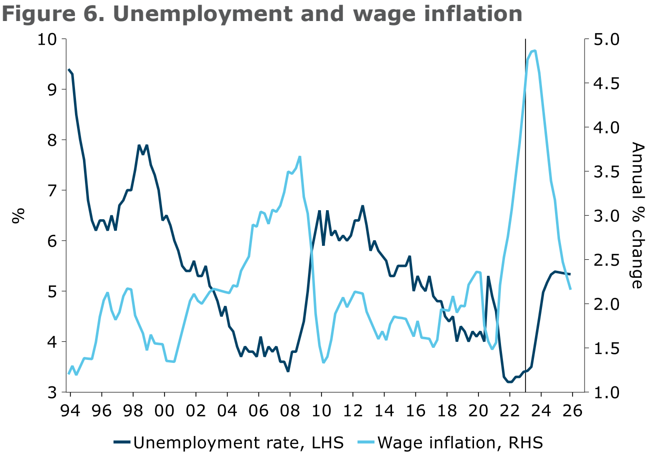


Figure 6. Unemployment and wage inflation



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

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