

New Zealand Weekly Data Wrap

24 March 2023



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See [page 5](#).

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 and financial market 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.

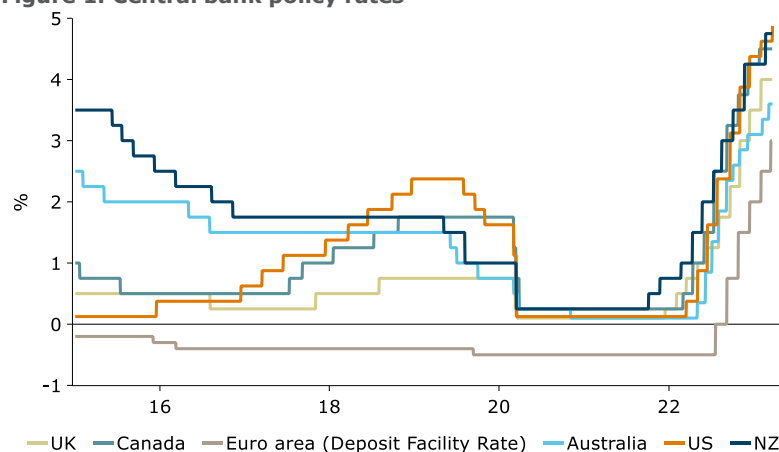


China's reopening could put upward pressure on commodity prices, pushing up tradables inflation.

What happened this week?

The global banking sector remained in focus this week as markets waited to see how the US Federal Reserve would factor recent developments (including the failure of SVB and acquisition of Credit Suisse by UBS) into their monetary policy decision and outlook. On the day, the Fed hiked the fed funds rate (FFR) by 25bp to a range of 4.75-5.0%. The move was widely anticipated by markets (with an 80% chance of a 25bp hike priced in just before the meeting). The Fed tweaked their forward guidance slightly, noting "the Committee anticipates that some additional policy firming may be appropriate", versus the previous wording "that ongoing increases in the target range will be appropriate", signalling a more cautious outlook for policy. The dot plots for 2023 still imply 5.1% peak in the midpoint of the FFR. The Fed is back to leading the pack on rate hikes amongst key central banks.

Figure 1. Central bank policy rates



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

Fed Chair Powell's comments during the press conference highlighted that while the macroeconomic data in recent months pointed to the FFR rising by more than anticipated, the potential for a tightening in credit conditions in the wake of stresses in the US banking sector may end up doing some of that tightening for the Fed (hence the unchanged FFR peak in 2023 in the dot plot). However, Powell reiterated that inflation in the US remains far too strong, and while goods price inflation has eased, there has been no progress on services inflation ex-housing. Should current tightness in financial conditions fail to drive core inflation lower, the Fed may still find themselves hiking by more than expected. It remains a very uncertain environment, which speaks to central bank caution, but the Fed still has a job to do.

The Fed's interest rate decisions impact financial markets globally, including New Zealand. With markets interpreting the Fed's forecasts as implying we could be getting very close to the end of their hiking cycle (only one more hike is implied by the dot plots), wholesale interest rates in New Zealand followed US rates lower on Thursday. Markets continue to price interest rate cuts from the Fed and the RBNZ over 2023, but given the stickiness of CPI inflation here and overseas, we're not convinced these central banks will be able to cut rates for some time. Our forecast has the RBNZ hiking the OCR to a peak of 5.25% in May 2023, and holding it at that contractionary level for the rest of our forecast horizon (which ends in December 2025). It's a long and bumpy road back to the RBNZ's 1-3% target for CPI inflation.



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 HYEPU: 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](#)
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- [NZ Insight: The inflation outlook and the balance of risks](#)
- [NZ Insight: 2020 hindsight](#)
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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](#)

Emissions Trading Scheme review announced

This week the Ministry for the Environment announced the Emissions Trading Scheme [will be reviewed](#) to assess changes required to encourage emitters of CO₂ to reduce their emissions, rather than just offsetting polluting activities by planting trees. The cabinet papers released on this issue highlight the issue that current policy settings incentive net removals of carbon (ie investment in forestry), rather than gross reductions in emissions.

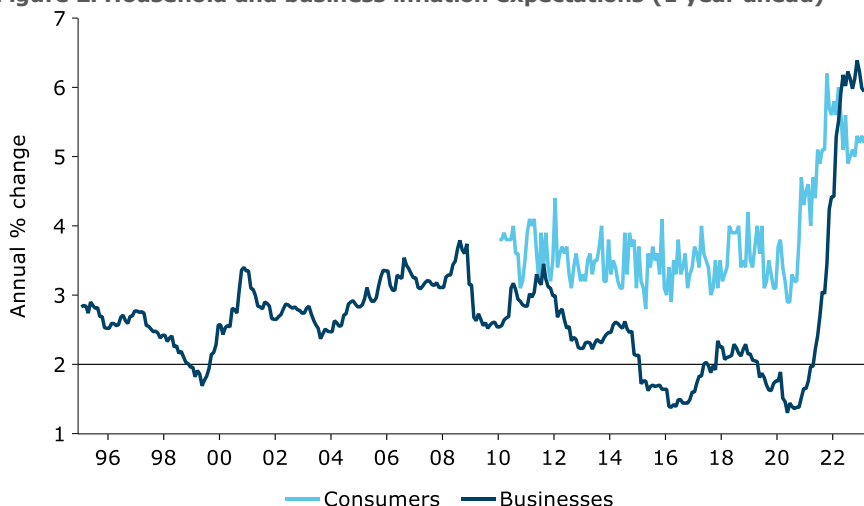
Indeed, under the current ETS settings, the papers estimate that between 410,000 and 670,000 ha of land would be converted to exotic forests by 2035, or roughly 2000 farms. At this point no specific solutions have been proposed, but previously raised ideas have included limiting the proportion of emissions that can be offset by exotic forestry. While the review is being undertaken, we are likely to see significant disruption in the existing carbon markets and markets for real estate that may have been destined for afforestation. That's in addition to last week's [failed auction of New Zealand Units](#).

RBNZ Chief Economist reinforces February MPS messages

RBNZ chief Economist Paul Conway delivered a speech yesterday titled "[The path back to low inflation in New Zealand](#)". As well as providing another perspective on how we actually got to these high levels of inflation, the speech also hammered home some of the key messages from the February Monetary Policy Statement, with Conway noting "we remain deeply committed in our work of bringing inflation down and keeping it low and stable in future". Amongst the key messages was a warning that if business and workers "try to push up their real profit margins to make up for the inflationary impact of the pandemic, the war, and the storms" monetary policy would need to do more heavy lifting with interest rates, "resulting in a deeper recession".

The challenge for the RBNZ is that our survey measures of inflation expectations for both [households](#) and [businesses](#) are still far too high (and not really showing much sign of returning to the low levels that prevailed before the pandemic). At the end of the day, high inflation is becoming normalised, so it's only natural that business and workers will attempt to extract inflation compensation in the form of substantially higher prices and wages. This inflationary cycle doesn't just end by itself. Unless some other event comes out of left field (say a credit crunch, a more pertinent risk than a fortnight ago), the RBNZ will end up doing the heavy lifting. Right now, we think that involves a 5.25% OCR peak. But sticky inflation expectations are a risk to the upside.

Figure 2. Household and business inflation expectations (1 year ahead)



Source: Macrobond, ANZ Research



Financial markets update



Date	Data/event
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
Fri 31 Mar (3:00pm)	RBNZ Sectoral Lending – Feb
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
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
Thu 11 May (10:45am)	Rental Price Index – Apr
Fri 12 May (10:30am)	BusinessNZ Manuf PMI – Apr
Fri 12 May (10:45am)	Net Migration – Mar

Interest rate markets

US bond yields fell sharply in the wake of this week's Fed meeting. Buyers jumped on to the Committee's comment that "recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation". Alongside much more conditional forward guidance (additional hikes "may" rather than "will" be needed), the Fed's words strongly hint that it thinks (a) it may be near the end of its tightening cycle, and (b) that it expects inflation and the labour market to cool. The vibe essentially is that financial instability might do some work for the Fed. US 10yr bond yields haven't made new 2023 lows, but they aren't far off it as we go to print this morning. What happens next remains uncertain – if inflation remains stubborn, which we think is fairly likely, the Fed may well have to resume hikes later on. But that thesis will take months to be proven, and in the meantime, markets have shown a clear preference for trading in a late-cycle style, inverting yield curves and buying bonds on dips. Our forecasts (which pre-date this week's decision) have yields drifting higher, but that view is clearly being challenged by the Fed's current tone. Wider credit spreads and worsening liquidity have seen local financial conditions tighten, but this has thus far been more than offset (we think) by lower outright interest rates. We expect NZ yield curves to remain inverted, but the extent to which global events might curtail RBNZ hikes remains to be seen given local specific factors, including cost of living benefit adjustments, cyclone rebuilding activity and green shoots in the housing market. Things remain fluid, and we're keeping an open mind.

FX markets

The Kiwi has performed well this week, and remains in a multi-week uptrend alongside EUR and GBP, courtesy of the weak USD. Our forecasts have the Kiwi appreciating mildly further over 2023, but imbalances like the current account deficit are weighing on sentiment. NZD/AUD continues to benefit from the hawkish RBNZ/dovish RBA vibe, which is now heavily dependent on Aussie monthly CPI data next week and RBA decision the following week.

Key data summary

Overseas Merchandise Trade – February. The annual merchandise trade deficit was flat at -\$15,644m (-\$15,645m previously).

Global Dairy Trade event. The Global Dairy Trade Price index fell 2.6% in the latest auction. Chinese demand is supporting whole milk powder prices to some extent (down 'just' 1.5% at the auction).

ANZ Truckometer – February. The [Light Traffic Index](#) rose 2.9% in February, while the Heavy Traffic Index fell 0.7%.

The week ahead

Building Permits – February (Thursday 30 March, 10:45am). Fell 1.5% m/m in February. Our [Business Outlook survey](#) points to more falls in 2023.

ANZ Business Outlook – March (Thursday 30 March, 1:00pm).

ANZ Roy Morgan Consumer Confidence – March (Friday 31 March, 10:00am).

RBNZ sectoral lending data – February (Friday 31 March, 3:00pm). Mortgage lending growth is expected to slow again, reflecting muted activity in the housing market. House sales and prices [continued to fall](#) in February.



Key forecasts and rates

FX rates	Actual				Forecast (end month)				
	Jan-23	Feb-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD/USD	0.641	0.616	0.625	0.640	0.650	0.660	0.660	0.670	0.670
NZD/AUD	0.918	0.915	0.935	0.901	0.890	0.892	0.880	0.870	0.859
NZD/EUR	0.593	0.580	0.577	0.587	0.586	0.584	0.579	0.578	0.568
NZD/JPY	83.6	84.2	81.6	83.2	83.2	83.2	81.8	81.7	80.4
NZD/GBP	0.521	0.509	0.509	0.525	0.524	0.528	0.524	0.523	0.519
NZ\$ TWI	71.7	70.8	70.9	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
	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	5.15	5.27	5.35	5.35	5.35	5.35	5.35
NZ 2-yr swap	5.00	5.37	4.90	5.50	5.60	5.75	5.75	5.60	5.60
NZ 10-yr bond	4.17	4.57	4.14	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

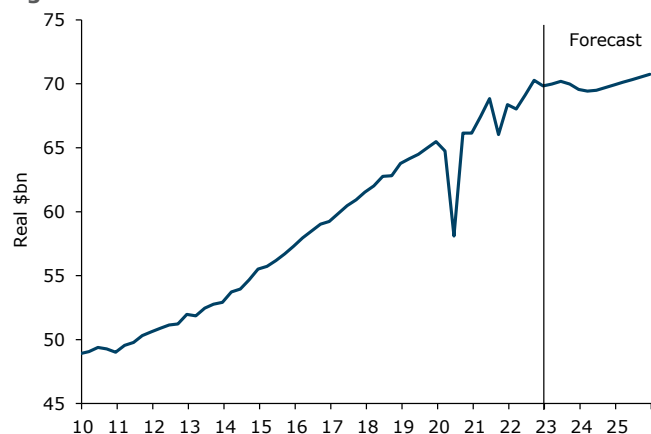


Figure 4. CPI inflation components

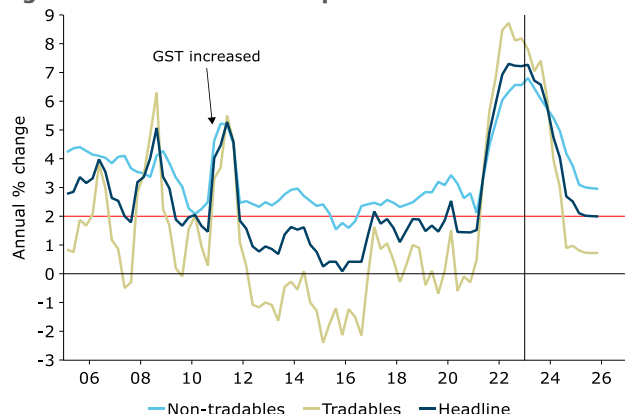


Figure 5. OCR forecast

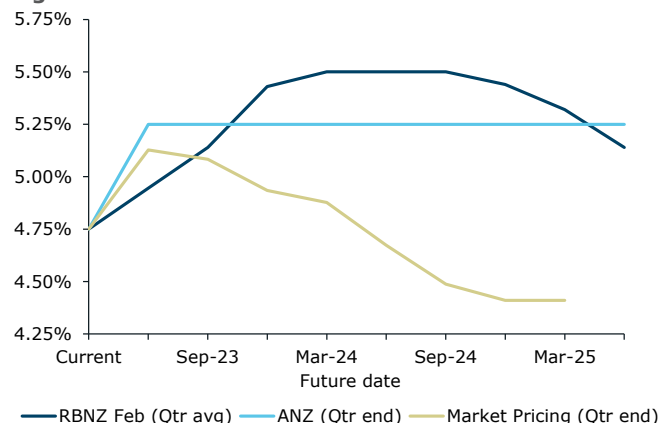
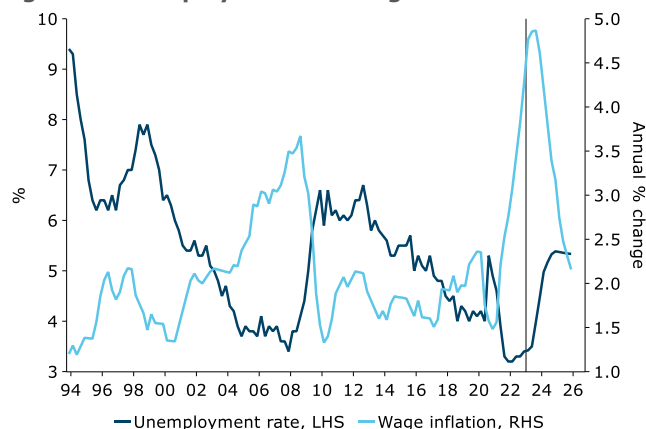


Figure 6. Unemployment and wage inflation



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



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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