

New Zealand Weekly Data Wrap

26 May 2023



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Forecast updates

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

- **NZ Property Focus: nearing the bottom**
- **NZ Forecast Update: getting an extension**
- **NZ Forecast Update: milk price forecasts revised down**

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

What's the view?

- GDP transitioning from acute supply constraints to a softening demand pulse.
- Labour market still tight, but expected to cool.
- Inflation way above target and looking sticky.
- OCR on hold at 5.50% until November 2023.

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, as markets debate the rates outlook.



Soaring net migration could see house prices start to rise again.



Booming migration plus fiscal stimulus could see inflation hold up for longer.



NZ's large external imbalances could see the market impose a more abrupt adjustment path.

On pause...for now. We now expect the next hike in November

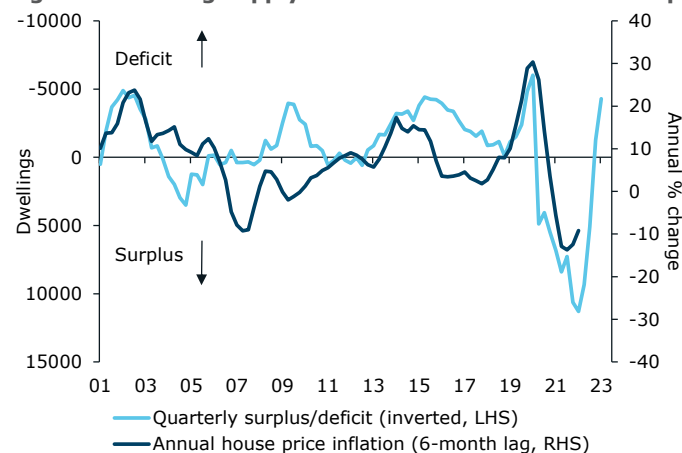
As expected, the Reserve Bank raised the OCR 25bp to 5.5% this week, but the tone of the MPS was much less hawkish than either we or the market were expecting. They sounded sanguine on the risks from surging migration and expansionary fiscal policy, and the RBNZ's projections show the OCR topping out at 5.5%, putting them in "watch, worry and wait" mode.

Last week's big Budget, which injects over \$5 billion of stimulus in the year to June 2024, saw markets price in about a 50bp increase and a peak of 5.9%. However, it didn't seem to concern the RBNZ, despite their warnings in April that it was an upside risk to inflation. While fiscal policy was categorized as "less contractionary" than in February, the RBNZ expect it to dampen demand across the projection period as a whole.

It's true that inflation is hitting the Government too, meaning the Government is using less of the economy's capacity for the same nominal spend. But an injection of 1.4% of GDP next fiscal year in an economy that continues to run up against capacity constraints seems likely to culminate in stronger inflation pressures. The RBNZ expects that weaker private sector consumption and investment will create space for the stronger government spending. Could be. But at this point that looks like a pretty big ask.

Then there was the migration puzzle. After identifying it as an upside risk to medium-term activity and inflation in April, the RBNZ sounded far more unsure this month. The RBNZ has tripled its assumption for annual net migration (working age) for 2023 to 75,200. While that's likely to ease constraints in the labour market and put downward pressure on wages, we are wary of the impacts on general demand and house prices and rents in particular, just as the housing market is showing signs of life. With the housing market being a key channel for monetary policy, the RBNZ are unlikely to tolerate a pickup in house prices if they estimate that it will boost spending via the wealth effect.

Figure 1. Housing supply-demand imbalance and house price inflation



Source: REINZ, Stats NZ, ANZ Research

Given these upside risks, we still think further hikes are on the table, but it's a high hurdle for the RBNZ to recommence tightening having called a pause now. Looking at the key incoming data before the next few meetings, we don't see it as being enough to sway the RBNZ from holding rates at 5.50%. But we expect these demand effects will continue to build, and by November the case for further hikes will be clear. Let's lay it out release by release.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Economic Outlook: moving parts
- NZ Insight: divergence across the Tasman, recession for NZ but not for Oz
- NZ Property Focus: nearing the bottom
- NZ Agri Focus: a further lift required
- NZ Property Focus: Not a straight line
- 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 Agri Focus: a year of challenges
- NZ 2022 HYEFO: 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 Insight: 2020 hindsight

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

Before the next OCR decision on 12 July the RBNZ will have the following, which we currently don't see as moving the dial:

Q1 GDP (15 Jun): Q1 retail sales volumes came in much weaker than expected at -1.4% q/q, and that's a downside risk to both our and the RBNZ's Q1 GDP forecast. However, the regional breakdown suggests to us that temporary cyclone-related disruption played a big role. That could result in payback in Q2, when the RBNZ is expecting the economy to enter recession.

Q2 Quarterly Survey of Business Opinion (4 Jul): The recent surge in migration is making it easier for firms to find labour. That's likely to provide the RBNZ with some comfort that the labour market is turning.

Migration (13 Jun, 12 Jul): We see surging migration as a upside risk to inflation and therefore the OCR. The RBNZ suggested the same in April, but in the May MPS stressed uncertainty about both the numbers and the net impacts. Nonetheless, we'll be watching these releases closely.

House prices (mid Jun): REINZ data is firming. As migration surges, new housing supply slows, fixed mortgage rates settle and LVR restrictions are eased, we see upside risk. The RBNZ is unlikely to tolerate a pick-up in the housing market if it looks like it's changing the vibe for households.

Between July and August meetings, we have:

Q2 CPI (19 Jul): We expect inflation will continue to ease. Base effects will contribute to declines over the next few quarters, but in Q2 we expect that quarterly inflation will still be running at an annualised rate of around 4.5%.

Q2 labour market (2 Aug): We and the RBNZ are both expecting the unemployment rate to remain near record lows, so that wouldn't be new news. That said, there'd need to be some evidence the labour market is turning, given where the RBNZ forecasts the unemployment rate to be by the end of the year.

Overall, we don't see the incoming data between now and August as being enough to sway the RBNZ from holding the OCR steady. By November, however, we'll have Q2 GDP, which we expect to show a bounce-back from cyclone-induced weakness in Q1. We'll have more survey data (QSBO, ANZBO, HLFS) on whether capacity is opening up as rapidly as the RBNZ requires, and the election will be out of the way. We'll have more data on wages and CPI that will reveal how fast inflation pressures are dissipating. We'll also know whether the housing market is trending up, down or sideways.

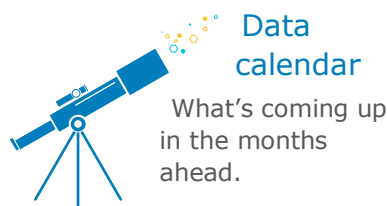
Truth be told, forecasting anything out beyond about the three-month mark is challenging – even if nothing comes out of left field. But we consider the RBNZ to have made best-case-scenario assumptions about recent migration and fiscal surprises, and we see the balance of risks as tilted towards the RBNZ having to do more to finish the job of bringing inflation down sustainably. On the other hand, it's likely a high hurdle to start hiking again. Weighing it up, we've kept the extra 25bp hike in our forecasts but moved it to November.

In past tightening cycles the Reserve Bank has paused before hiking again. In 2005 it paused for six months before hiking twice, then went on hold for over a year before hiking four more times. A pause is not necessarily a peak; the data will dictate. We expect by November the data will show inflation still sticky, and we see the risk of a further follow-up hike. We've pushed back our expectations of cuts a little, to start at the very end of 2024.

A lot could happen before November, and the downside risks certainly haven't gone away. Our expectation is conditional on global financial stresses not returning, net migration inflows not falling off a cliff (although we do expect a gradual easing in H2), and the Government managing to spend most of what it has forecast, given the challenges in delivering capital expenditure.



Financial markets update



Date	Data/event
Tue 30 May (10:45am)	Building Permits – Apr
Wed 31 May (1:00pm)	ANZ Business Outlook – May
Wed 31 May (3:00pm)	RBNZ Sectoral Lending – Apr
Fri 2 Jun (10:45am)	Terms of Trade – Q1
Fri 2 Jun (10:45am)	Building Work Put in Place – Q1
Tue 6 Jun (1:00pm)	ANZ Commodity Price Index – May
Wed 7 Jun (early am)	GlobalDairyTrade auction
Thu 8 Jun (10:45am)	Economic Survey of Manufacturing – Q1
Mon 12 Jun (10:45am)	Electronic Card Transactions – May
Tue 13 Jun (10:45am)	Net Migration – Apr
Wed 14 Jun (10:45am)	Food Price Index – May
Wed 14 Jun (10:45am)	Rental Price Index – May
Wed 14 Jun (10:45am)	Current Account – Q1
Thu 15 Jun (10:45am)	GDP – Q1
Fri 16 Jun (10:30am)	BusinessNZ Manuf PMI – May
Mon 19 Jun (10:30am)	Performance Services Index – May
Wed 21 Jun (early am)	GlobalDairyTrade auction
Thu 22 Jun (10:45am)	Merchandise Trade – May
Fri 23 Jun (10:00am)	ANZ Truckometer – May
Thu 29 Jun (1:00pm)	ANZ Business Outlook – Jun
Fri 30 Jun (10:00am)	ANZ-RM Consumer Confidence – Jun
Mon 3 Jul (10:45am)	Building Permits – May
Wed 5 Jul (early am)	GlobalDairyTrade auction
Wed 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Tue 11 Jul (10:45am)	Electronic Card Transactions – Jun
Wed 12 Jul (10:45am)	Net Migration – May
Wed 12 Jul (2:00pm)	RBNZ MPR

Interest rate markets

The RBNZ caused a stir in rates markets as it pivoted to a data-dependent stance this week, defying economists' expectations of a lift in their OCR projections (including ours). Having gone into the decision half expecting a 50bp hike and banking on an OCR track peaking at around 5.9%, markets were thus taken aback when the RBNZ held its terminal OCR assumption at 5.5%, and rates snapped sharply lower. But of note, markets continue to price in the risk of another hike, with 12bp priced in by August. That's a little sooner than we now think likely (as detailed on page 2), but the broad thrust of the market's thinking seems reasonable given that we haven't yet got the data our forecast hikes are pinned on. As we navigate the data flow we expect volatility, but having paused, and entered what Governor Orr dubs the "watch, worry and wait" phase, the hurdle to a move is higher than it was. But while short-end rates are lower, long-end yields are up, taking their lead from US bond yields, which are responding to (albeit slow) progress on debt-ceiling negotiations, and still-resilient data. Our forecasts have NZ long bond yields rising a little further yet, based on an expectation of tighter-for-longer policy here locally, and as markets digest the sharp lift in planned NZGB issuance.

FX markets

The NZD slumped this week following the RBNZ MPS, but USD strength has also played a role. The MPS was a dovish surprise, but we suspect much of the move was fuelled by stop-loss selling rather than re-rating of NZD. NZ faces some long-term risks (chief of which are our twin deficits), but global system liquidity remains abundant, and we suspect carry will re-emerge as a driver again. On that score, the NZD has the highest interest rates in the G10, and it is the only currency that carries better than the USD.

Key data summary

ANZ Truckometer – April. The [Light Traffic Index](#) (LTI) fell 2.8% m/m in April, while the Heavy Traffic Index (HTI) fell 2.2%.

Retail sales – Q1. Weaker-than-expected [retail volumes](#) in Q1 may reflect greater-than-expected cyclone impacts.

RBNZ Monetary Policy Statement – May. The RBNZ lifted the OCR 25bp to 5.50% as expected. However, overall the tone and OCR forecast was not nearly as hawkish as analysts or the market was expecting. See our [Review](#).

The week ahead

ANZ Roy Morgan Consumer Confidence – May (Friday 26 May, 10:00am).

Building Permits – April (Tuesday 30 May, 10:45am). Consents showed a decent bounce in March, we expect payback in April,

ANZ Business Outlook – May (Wednesday 31 May, 1:00pm).

RBNZ sectoral lending data – April (Wednesday 31 May, 3:00pm). Soggy, and don't see that changing in April.

Overseas Trade Indices – Q1 (Thursday 1 June, 10:45am). Terms of trade are expected to fall 1.1% in Q1 as export prices fall more quickly than import prices.

Building Work Put in Place – Q1 (Friday 2 June, 10:45am). Consents data suggests gravity is calling for residential construction in particular. We've pencilled in a 4% q/q decline, but would like to remind readers that these data gave a bad steer on construction GDP in Q4.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Mar-23	Apr-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZD/USD	0.626	0.618	0.606	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.936	0.935	0.931	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.577	0.561	0.565	0.568	0.571	0.570	0.560	0.551	0.542
NZD/JPY	83.1	84.3	84.9	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.507	0.492	0.492	0.496	0.500	0.500	0.492	0.485	0.478
NZ\$ TWI	71.3	70.4	70.4	70.7	70.6	70.5	70.0	69.6	69.0
Interest rates	Actual			Forecast (end month)					
	Mar-23	Apr-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	4.75	5.25	5.50	5.50	5.50	5.75	5.75	5.75	5.75
NZ 90 day bill	5.23	5.56	5.69	5.60	5.77	5.85	5.85	5.85	5.68
NZ 2-yr swap	5.03	5.05	5.27	5.42	5.48	5.21	4.97	4.73	4.48
NZ 10-yr bond	4.20	4.09	4.41	4.50	4.40	4.30	4.00	4.00	4.00

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	1.2	1.1	2.0	0.7	0.8	0.5	0.8	0.5
CPI (% yoy)	7.2	6.7	6.1	5.9	5.2	4.7	4.0	2.8	2.6
Employment (% qoq)	0.5	0.8	0.3	-0.4	-0.4	-0.4	-0.1	0.1	0.2
Employment (% yoy)	1.6	2.5	2.8	1.2	0.3	-0.9	-1.3	-0.8	-0.2
Unemployment Rate (% sa)	3.4	3.4	3.5	4.0	4.4	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

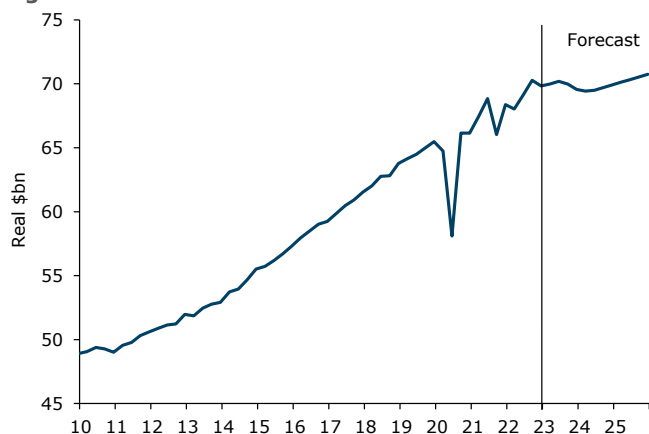


Figure 4. CPI inflation components

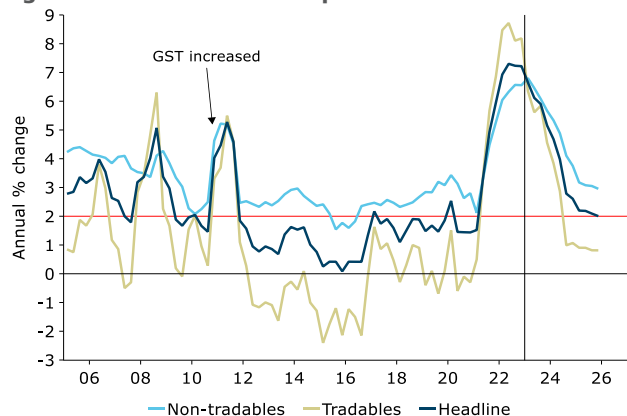


Figure 5. OCR forecast

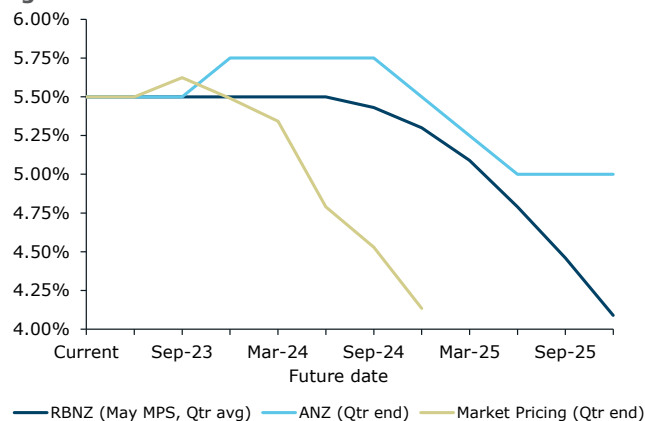
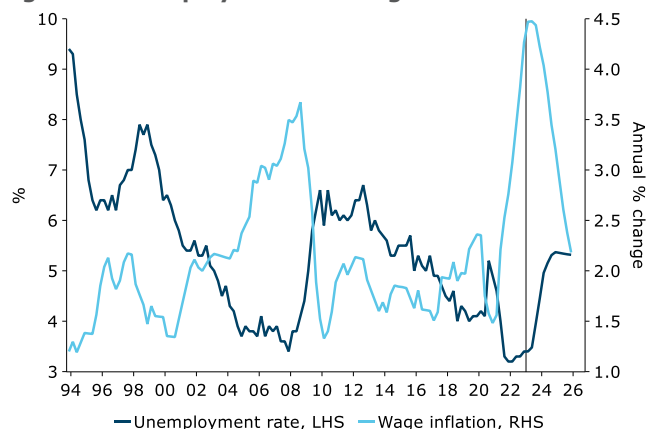


Figure 6. Unemployment and wage inflation



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



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