ANZ Research

New Zealand Weekly Data Wrap

14 April 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 transitioning from acute supply constraints to a softening demand pulse.
- Inflation way above target, and looking sticky
- OCR to 5.50% 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, as markets debate the rates outlook.
- The housing slowdown could become disorderly if unemployment rises sharply.
- Negative supply shocks, including weather impacts, could see inflation hold up.
- NZ's large external imbalances could see the market impose a more abrupt adjustment path.

Q1 CPI: the first of three big events before the May MPS

There are three major domestic events between now and 24 May, when the RBNZ is set to deliver its next Monetary Policy Statement: Q1 CPI (20 April), Q1 labour market statistics (3 May), and Budget 2023 (18 May). All three have the potential to change the RBNZ's assessment of how much inflation is in the system, and how much work they have ahead of them.

Unfortunately, the last of the partial CPI indicators (March food and rent prices) are released on Monday – the same week as Q1 CPI. Together, Monday's data will give us a good steer on about 10% of the Q1 CPI, and given the scope for both food (particularly fruit and vegetables) and rents to be materially but unpredictably impacted by Cyclone Gabrielle, we've decided to hold off publishing our CPI Preview note until after these data are released. For now, this week's Data Wrap serves as a preview of our Preview, outlining the risks to our Q1 forecast versus the RBNZ's February MPS, and how the March food and rents data could move the dial.

While cyclone impacts are expected to be largely transitory, the RBNZ made it clear in the Monetary Policy Review (MPR) that they are worried about what higher-than-otherwise inflation could mean for inflation expectations. At the current juncture these are still at risk of remaining stubbornly high and therefore causing high inflation to become more entrenched in wage and price-setting behaviour – ultimately making the RBNZ's job harder (more on this on page 2).

Our current published forecast for Q1 headline inflation is 1.8% q/q (7.3% y/y), which is the same as the RBNZ's February MPS forecast. However, our non-tradables inflation pick is weaker than the RBNZ's, while our tradables forecast is stronger. Given data monitoring to date, and pencilling in a 0.4% m/m rise in rents and a 1% m/m rise in food prices for March, risks appear skewed towards a marginally weaker headline CPI print of 7.2% (which is where we'd probably land if we had to lock down our Q1 forecast today). But as table 1 shows, that final 10% of data released on Monday could be the difference between annual headline inflation accelerating to a new cycle high (7.4%) or decelerating from Q4's 7.2%.

Table 1. Q1 CPI inflation

	ANZ current published forecast	RBNZ February MPS	ANZ based on monitoring to date	ANZ with strong food and rents (ie larger cyclone impacts)	ANZ with weak food and rents (ie smaller cyclone impacts)
Headline	1.8% q/q (7.3 y/y)	1.8 q/q (7.3% y/y)	1.7% q/q (7.2% y/y)	1.9% q/q (7.4% y/y)	1.7% q/q (7.1% y/y)
Non-tradables	1.7% q/q (6.8% y/y)	1.9% q/q (7.1% y/y)	1.7% q/q (6.7% y/y)	1.8% q/q (6.9% y/y)	1.6% q/q (6.7% y/y)
Tradables	2.1% q/q (7.8% y/y)	1.7% q/q (7.4% y/y)	1.9% q/q (7.6% y/y)	2.1% q/q (7.8% y/y)	1.6% q/q (7.4% y/y)

* Rounding to 1dp may result in a change to the q/q, but not the y/y (and vice versa)

The key takeout from the above is that the bar is looking pretty high for Q1 non-tradable inflation to beat the RBNZ's forecast – but never say never! But as we discuss on page 2, this might not matter if inflation expectations remain high and/or the RBNZ revise up their inflation outlook – perhaps on the back of larger cyclone impacts (as signalled in the April MPR).

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- 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 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 Insight: The inflation outlook and the balance of risks
- NZ Insight: 2020 hindsight
- NZ Agri Insight: feeding the world sustainably
- 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

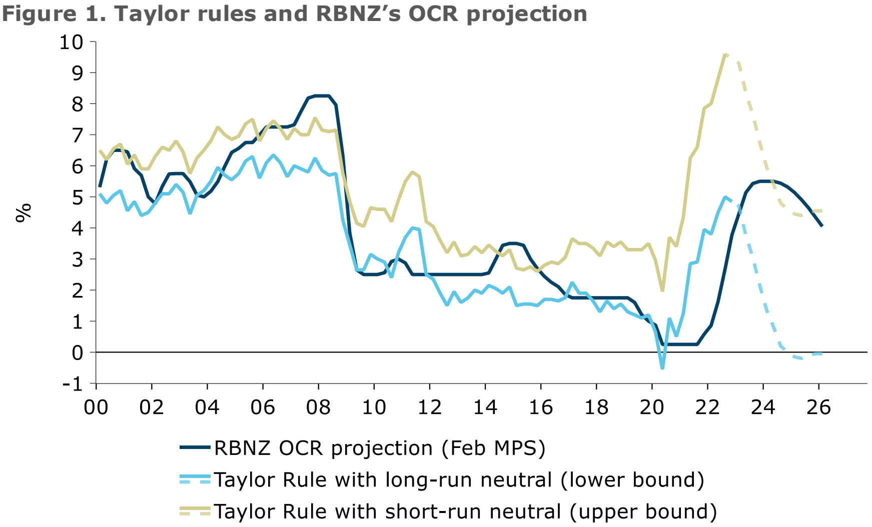
Inflation expectations hold the key

High inflation tends to breed high inflation expectations, which can pave the way to higher inflation – a vicious cycle. A key part of this transition mechanism is via wages. If workers demand inflation compensation, have heightened negotiating power due to the tight labour market, and expect inflation to be high, chances are firms will have to cough up. But because it isn't related to any increase to labour productivity in this situation, firms will either become less profitable (which has natural limits), replace labour input with capital where possible (eg IT investment or machinery), or pass the higher labour cost on to the consumer, fuelling the wage-price spiral that is threatening to become embedded today. The more this happens, the higher the OCR will need to go in order to get the economy back into balance.

One way the RBNZ captures this dynamic is within its estimates of the neutral OCR. The November MPS provided a very useful special topic on the RBNZ's suite of neutral rate estimates, showing that depending on what they base this upon (eg longer-run inflation expectations vs short-run inflation expectations) the neutral OCR can be quite different. Recent estimates range from around 0.8% (lowest estimate of long-run neutral) to 5.4% (highest estimate of short-run neutral), with 'mean estimates' at the different horizons approximately between 2% and 4%. So worst case scenario (ie a neutral rate of 5.4%), suggests the OCR is still potentially stimulatory. You can see why the RBNZ's strategy is to get the OCR to 5.5%: that's where they can be confident monetary conditions are contractionary. The sense check: looking out the window at activity indicators and housing suggests OCR settings are indeed contractionary.

Plugging the RBNZ's inflation, output gap, and low and high estimates of neutral into a simple Taylor Rule equation (holding neutral at 0.8% and 5.4% respectively over the forecast) suggests there is a significant risk that a 5.5% OCR peak may not be high enough for current conditions (figure 1). And while the 'projected' Taylor Rule suggests pressure on the OCR should dissipate over time, this is entirely driven by inflation falling and the output gap turning negative. The catch 22: inflation won't fall this quickly unless monetary policy settings are appropriately restrictive. Any upward revision to the RBNZ's inflation forecast could in fact push the upper bound projected Taylor Rule outside of the RBNZ's OCR guidance. In short: a weaker-than-expected Q1 CPI print next week may not change the RBNZ's path to 5.5% if they revise the inflation outlook higher (as signalled in the MPR).

Figure 1. Taylor rules and RBNZ's OCR projection



Source: RBNZ, Macrobond, ANZ Research

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 17 Apr (10:30am)	Performance Services Index – Mar
Mon 17 Apr (10:45am)	Food Price Index – Mar
Mon 17 Apr (10:45am)	Rental Price Index – Mar
Tue 18 Apr (9:00am)	REINZ Housing Data - 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
Fri 12 May (3:00pm)	2Yr Inflation Expectations – Q2
Mon 15 May (10:30am)	Performance Services Index – Apr
Wed 17 May (early am)	GlobalDairyTrade auction
Thu 18 May (2:00pm)	**NZ Budget 2023**
Fri 19 May (10:45am)	Merchandise Trade – Apr
Tue 23 May (10:00am)	ANZ Truckometer – Apr
Wed 24 May (10:45am)	Retail Sales
Wed 24 May (2:00pm)	**RBNZ MPS**

Interest rate markets

Global interest rate markets continue to weigh up risks of a hard landing versus risks that inflation proves persistent. Overall, recession fears are winning out, with the fed funds rate priced to be nearly 90bp lower a year from now than it is currently, despite 19bp of hiking priced in the near term (NZ equivalents: -40bp a year from now via +22bp). Markets continue to assume that the Fed will go screaming into reverse the minute the US economy goes into recession, overlooking the fact that the slowdown is deliberate, the unpleasant medicine prescribed to cure inflation ills. But at the end of the day, central banks will need to have both thick skins and strong stomachs to hold the line as the data worsens and unemployment rises, so the market's reluctance to take their protestations at face value is understandable. Here in NZ, CPI next Wednesday is key, but important context is the line from this month's Monetary Policy Review that "near-term inflationary pressures have increased." Any downward surprise to inflation in Q1 may be cancelled out by a higher forecast for Q2. The RBNZ also identified key upside risks to the medium-term inflation outlook, including the cyclone rebuild and fiscal spend more generally. The battle between central bank comms and markets' instinct looks to have a way to play out.

FX markets

The NZD benefited overnight from an optimistic tone to markets. In the bigger picture, however, the NZD is relatively friendless, with New Zealand's very large current account deficit, falling dairy prices and recession fears weighing. We have revised down our medium-term forecasts for the NZD.

Key data summary

ANZ Commodity Price Index – March. The ANZ World Commodity Price Index increased a further 1.3% m/m in March, but it was a mixed bag amongst the various sectors.

Electronic Card Transactions – March. Up 3.1% m/m, broadly in line with the signal from our internal card spending data.

The week ahead

Performance of Manufacturing Index – March (Friday 14 April, 10:30am). Will the recovery persist, or are headwinds simply too strong?

Net Migration - February (Friday 14 April, 10:45am). At face value, monthly inflows have been coming in strong, and that vibe has been corroborated in improving labour availability in business survey data. But we're on the lookout for large revisions.

Performance Services Index – March (Monday 17 April, 10:30am). Lifted over the first two months of 2023; will March break the trend?

Food Prices – March (Monday 17 April, 10:45am). We've pencilled in a 1% m/m rise, which includes a bump from Cyclone Gabrielle.

Rental Price Index – March (Monday 17 April, 10:45am). A 0.4% m/m lift is expected.

REINZ House Prices – March (Tuesday 18 April, 9:00am). There have been some mixed signals on housing of late. Auction clearance rates in Auckland have lifted, but overall sales remain incredibly weak. We've pencilled in another monthly decline in house prices.

GlobalDairyTrade auction (Wednesday 19 April, early am). Futures pricing points to a further 1% easing in dairy prices at the next event.

CPI – Q1 (Thursday 20 April, 10.45am). Our preview will be published on Monday after the food and rents data are released.

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Feb-23	Mar-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZD/USD	0.616	0.626	0.629	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.915	0.936	0.928	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.580	0.577	0.570	0.573	0.571	0.570	0.560	0.551	0.542
NZD/JPY	84.2	83.1	83.4	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.509	0.507	0.503	0.508	0.512	0.516	0.508	0.504	0.500
NZ$ TWI	70.8	71.3	71.2	70.5	70.5	70.6	70.1	69.7	69.1
Interest rates	Feb-23	Mar-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	4.75	4.75	5.25	5.50	5.50	5.50	5.50	5.50	5.25
NZ 90 day bill	5.13	5.23	5.53	5.60	5.60	5.60	5.60	5.43	4.93
NZ 2-yr swap	5.37	5.03	5.01	5.25	4.75	4.34	4.25	4.15	4.10
NZ 10-yr bond	4.57	4.20	4.06	4.15	3.75	3.50	3.50	3.75	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	**1.8**	**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 2. GDP level

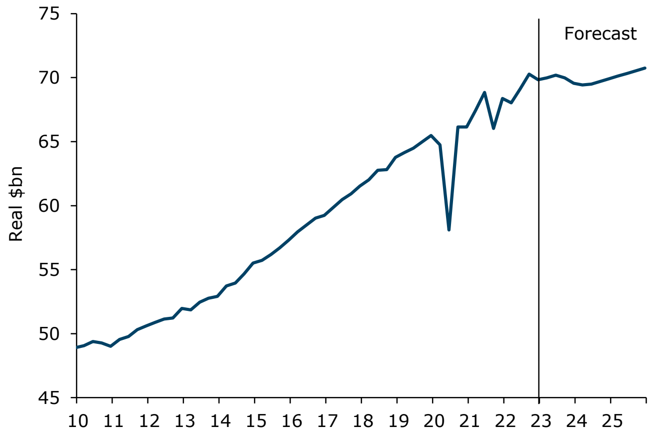


Figure 3. CPI inflation components

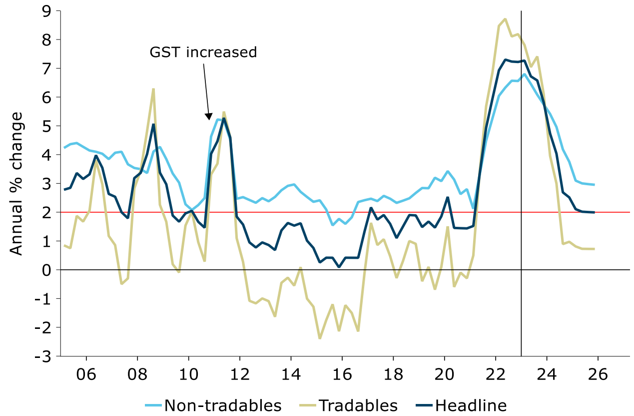


Figure 4. OCR forecast

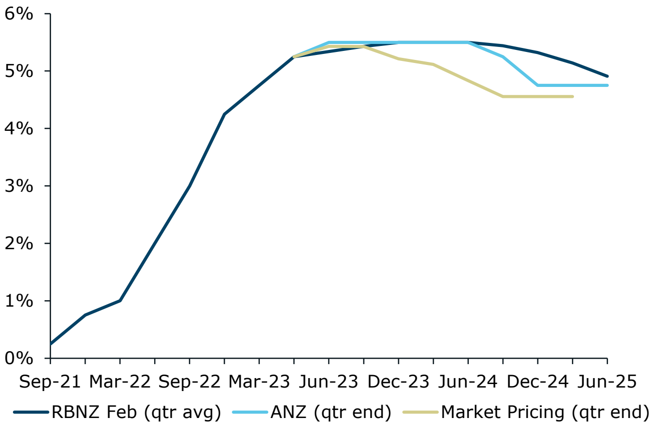
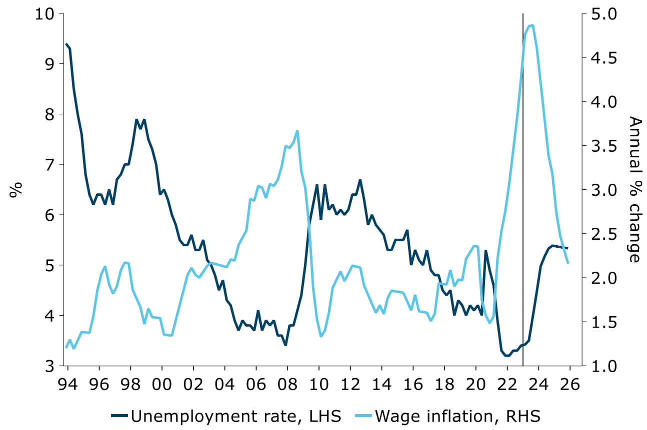


Figure 5. Unemployment and wage inflation



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

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

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

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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