

New Zealand Weekly Data Wrap

18 November 2022



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See page 5.

Forecast updates

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

- [NZ Economic Outlook: coming in to land](#)
- [NZ Property Focus: Testing times](#)
- [NZ CPI and OCR call change: 75s now expected for Nov and Feb](#)
- [NZ Forecast Update: Farmgate milk price forecasts revised up](#)

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.



The construction slowdown could have broader impacts than assumed.



The neutral OCR could be increasing faster than estimated as wages lift.



Global inflation pressures may not decline as quickly or as far as anticipated.

What happened this week?

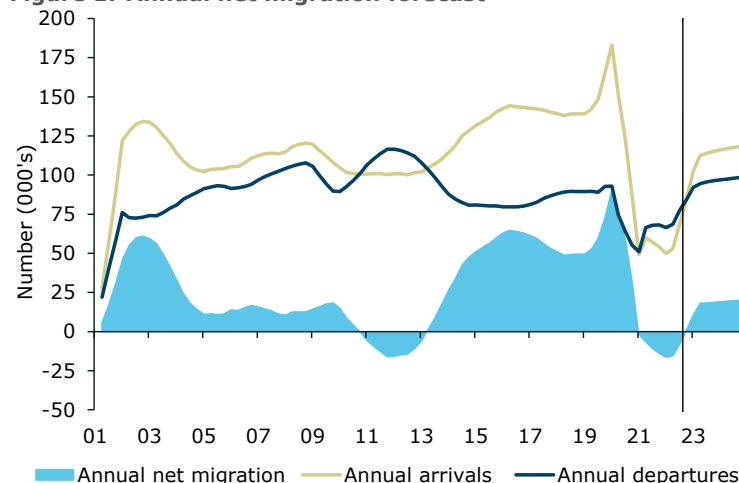
REINZ house price data for October confirmed that the housing market is **continuing to soften**. House prices fell another 1.0% m/m (ANZ seasonal adjustment), and are now down around 12% from their November 2021 peak. Forward indicators of price momentum (sales and days to sell) continue to ease, pointing to ongoing moderation. We continue to forecast an 18% peak-to-trough decline in prices.

The October Performance of Services Index bounced to 57.4 (55.9 previously, 50 being par), with all sub-indices convincingly in expansionary territory. Employment stood out, bouncing to 57.0 (50.8 previously). Services momentum is looking solid (doing a disservice to the RBNZ).

With passenger movements picking up, net migration data is back to its old tricks: revisions are significant and a decent read of the migration pulse will therefore be delayed until the dust has settled (at least three months after the first cut of the data has been released). But crunching the data as it landed in Q3 shows a stronger monthly gain in September than we had pencilled in (+2,176) and upwards revisions to prior months (+1,000 give or take), leaving a net inflow in the quarter of around +4,600.

Assuming relatively stable growth in both arrivals and departures over the next few months, annual net migration will be back in positive territory by the end of the year. Our previous assumption had this occurring in mid-2023. Looking beyond the near-term noise, we assume net migration will stabilise at a net annual inflow of around 20,000 (figure 1). Departures are assumed to hit marginally higher levels than pre-pandemic (as the tight Australian labour market [beckons](#)), but arrivals are expected to be a little softer owing to tighter policy settings. Given insatiable demand for labour at present, higher net migration is helpful. But given data volatility, forecast uncertainty, and the incredibly tight starting point for the labour market, we don't see these developments as a game changer for monetary policy. After all, while migrants add to labour supply, they also add to demand for goods and services. That being said, in the August MPS, the RBNZ noted "we assume that supply-chain bottlenecks continue to ease and that labour supply is bolstered by the resumption of migration, resulting in a negative output gap in the latter part of the projection."

Figure 1. Annual net migration forecast



Source: Stats NZ, ANZ Research



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- 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 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?

Click [here](#) for more.



ANZ Proprietary data

Check out our latest releases below.

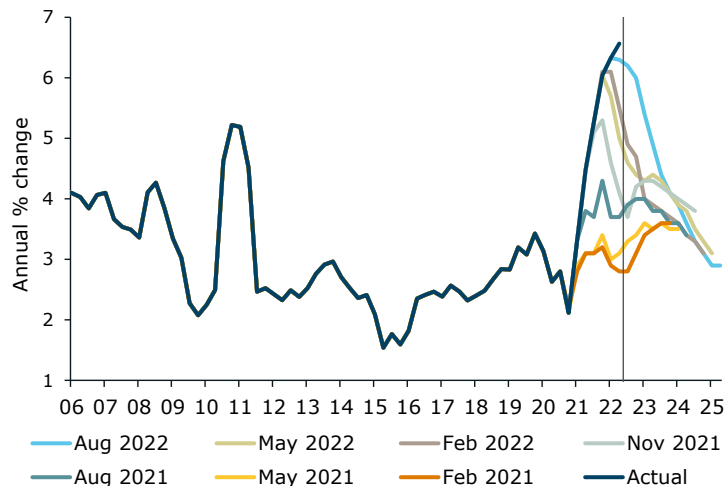
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

Stepping up the pace

The Reserve of New Zealand (RBNZ) will unveil its November Monetary Policy Statement (MPS) on Wednesday next week. We expect the Monetary Policy Committee (MPC) to **step up the pace of interest rate rises** by delivering a 75bp OCR hike to 4.25% – well on the way to the 5.0% peak that we're forecasting will be reached in February next year.

At their last Review in October (where the OCR was hiked 50bp to 3.5%), the MPC noted that they had considered a 75bp hike, though how seriously is unknown. Since then, there has been a string of inflationary data surprises on both aspects of the dual mandate. Q3 CPI inflation **was a scorcher**, with headline inflation coming in at 7.2% y/y (7.3% previously), versus the RBNZ's August MPS forecast for a sharp decline to 6.4%. Core inflation measures accelerated to new highs, while non-tradables inflation once again surprised to the upside, hitting a new record high of 6.6%. Domestic (non-tradables) inflation has consistently surprised the RBNZ (and us) with its strength. The Q3 outturn was just the latest addition to the pile (figure 2).

Figure 2. RBNZ non-tradables inflation forecasts since 2021



Source: Stats NZ, RBNZ, ANZ Research

The Q3 labour market data also **came in hot**, with the employment and participation rates surging to new record highs, private sector wage growth jumping to new highs, and **plenty of other records being set**.

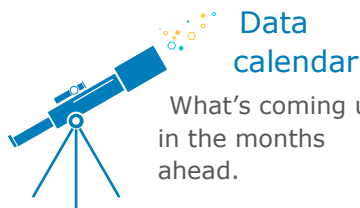
Finally, the RBNZ's Q4 **Survey of Expectations** saw the 2-year-ahead measure of inflation expectations lift to 3.62% (3.07% previously), and the 5-year-ahead measure lifted to 2.44% (2.33% previously). This joins other **consumer** and **business** survey measures of inflation expectations that remain far too high to be consistent with inflation returning to 2% any time soon.

The arguments for a 75bp OCR hike are clearly compelling. But the data is not entirely one-sided. The housing market continues to slow; the Performance of Manufacturing Index is back in contractionary territory (although the Services Index has bounced); the extent of future fiscal stimulus remains hard to gauge; and oil prices have eased from their Q2 highs.

The global picture points to caution as well. Downside risks to global growth are significant (although solid **retail sales data** for October highlighted the resilience of the US consumer) and we've seen declines in shipping costs, supply chain disruptions, and commodity prices (although this isn't really 'news' for the RBNZ). Global risks need to be watched, but at the end of the day, no significant disinflationary risks have crystallised, while actual upside inflation surprises continue to bombard the RBNZ. With an increasingly developed wage-price spiral, the RBNZ can't afford to go easy on inflation.



Financial markets update



Date	Data/event
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
Thu 9 Dec (10:45am)	Electronic Card Transactions – Nov
Mon 12 Dec (10:45am)	Net Migration – Oct
Tue 13 Dec (10:45am)	Food Price Index – Nov
Tue 13 Dec (10:45am)	Rental Price Index – Nov
Wed 14 Dec (10:45am)	Current Account – Q3
Wed 14 Dec (1:00pm)	Half Year Economic and Fiscal Update
Thu 15 Dec (10:45am)	GDP – Q3
Fri 16 Dec (10:30am)	BusinessNZ Manuf PMI – Nov
Mon 19 Dec (10:30am)	Performance Services Index – Nov
Tue 20 Dec (10:45am)	Merchandise Trade – Nov
Tue 20 Dec (1:00pm)	ANZ Business Outlook – Dec
Wed 7 Dec (early am)	GlobalDairyTrade auction
Wed 21 Dec (10:00am)	ANZ-RM Consumer Confidence – Dec
Wed 4 Jan (early am)	GlobalDairyTrade auction
Thu 12 Jan (10:45am)	Building Permits – Nov
Wed 18 Jan (10:45am)	Electronic Card Transactions – Dec

Interest rate markets

Global long term interest rates have settled into a new, lower range in the wake of last week's softer than expected US CPI data. While the data was a relief against the backdrop of a string of upside surprises, as several US Fed officials have pointed out, core inflation remains too high and further rate hikes are needed to get the Fed funds rate to a level that's sufficient to send inflation reliably back to target in an acceptable time-frame. We continue to expect US and global bond yields to edge higher, but volatility is likely to be high as markets debate whether policy and economic cycles are approaching a turning point. The RBNZ takes centre stage next week. While we believe they will debate 50 and 75bp hikes, we think the arguments and strategic considerations (keeping the pressure on, ensuring that mortgage rates don't fall) favour the latter, and are looking for the RBNZ's judgements to echo what was said in August and October. If we are right, we see upside risks to short end rates given that markets are 50/50 on 50bp or 75bp.

FX markets

The NZD has benefitted significantly from the weaker USD in the wake of softer CPI data there, briefly edging above 0.62 this week. While we are a touch cautious that US interest rates have gotten ahead of themselves (as above), it is not just market expectations that the US policy cycle may be nearing a turn that is weighing on the USD. We have also upgraded our China growth outlook (which should be good for commodities), and expect some of the USD's safe haven premium to unwind following the Biden-Xi meeting in Bali, and as Europe copes with energy issues. That all makes us more comfortable believing that we have likely seen the lows in the NZD.

Key data summary

Performance of Services Index – October. Bounced to 57.4 (55.9 previously) as services momentum takes the baton from manufacturing.

REINZ House Prices – October. [Declined](#) 1.0% m/m, now down about 12% from the November 2021 peak.

Net Migration – September. Monthly net migration lifted to a solid +2,176, and August was revised from +47 to +1,343. Net migration data is highly volatile and subject to large revisions for the first few months.

GlobalDairyTrade auction. Dairy prices lifted in the latest auction, with the Global Dairy Trade Price Index up 2.4%, breaking a three-auction losing streak. Whole milk powder prices rose 3.1% to USD3,397/MT.

The week ahead

Overseas Merchandise Trade – October (Tuesday 22 November, 10:45am). A deficit of \$1bn is expected as a seasonal lift in export volumes offsets lower export prices, but still trails behind elevated imports.

RBNZ Monetary Policy Statement – November (Wednesday 23 November, 2:00pm). We expect the RBNZ to lift the Official Cash Rate 75bp to 4.25%. See our [Preview](#).

ANZ Roy Morgan Consumer Confidence – November (Friday 25 November, 10:00am).

Retail sales – Q3 (Friday 25 November, 10:45am). Q2's 2.3% q/q fall in sales volumes defied our best indicator models, and then the usually-pretty-decent steer from Q2 retail sales to Q2 GDP recorded its largest error ever! The data are clearly still working through COVID-related noise. For what it's worth, we've landed on a 1% q/q rise for retail sales volumes.



Key forecasts and rates

	Actual			Forecast (end month)					
	Sep-22	Oct-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
FX rates									
NZD/USD	0.560	0.580	0.613	0.590	0.570	0.580	0.590	0.600	0.620
NZD/AUD	0.874	0.907	0.916	0.908	0.891	0.892	0.894	0.882	0.886
NZD/EUR	0.571	0.584	0.591	0.608	0.600	0.598	0.590	0.583	0.590
NZD/JPY	81.0	86.2	85.9	86.7	85.5	85.8	85.6	85.2	86.8
NZD/GBP	0.501	0.503	0.517	0.527	0.518	0.513	0.504	0.504	0.517
NZ\$ TWI	67.8	69.8	71.6	71.1	69.2	69.5	69.6	69.6	71.0
Interest rates									
NZ OCR	3.00	3.50	3.50	4.25	5.00	5.00	5.00	5.00	5.00
NZ 90 day bill	3.85	4.10	4.20	4.85	5.10	5.10	5.10	5.10	5.10
NZ 2-yr swap	4.67	5.02	4.91	5.30	5.30	5.30	5.20	5.20	5.10
NZ 10-yr bond	4.30	4.19	4.16	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	1.3	0.3	0.2	0.0	-0.4	-0.5	-0.4	0.0
Employment (% yoy)	1.5	1.2	1.5	1.7	1.7	0.1	-0.7	-1.2	-1.2
Unemployment Rate (% sa)	3.3	3.3	3.3	3.3	3.5	4.0	4.5	4.9	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

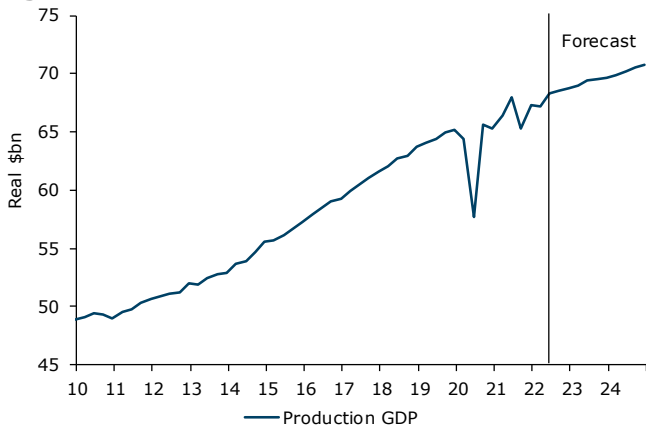


Figure 4. CPI inflation components

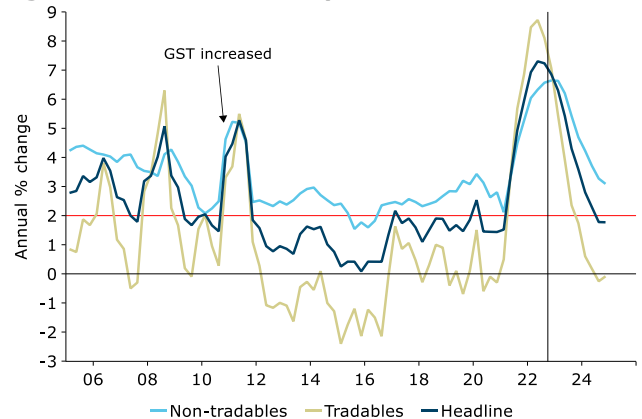


Figure 5. ANZ OCR forecast

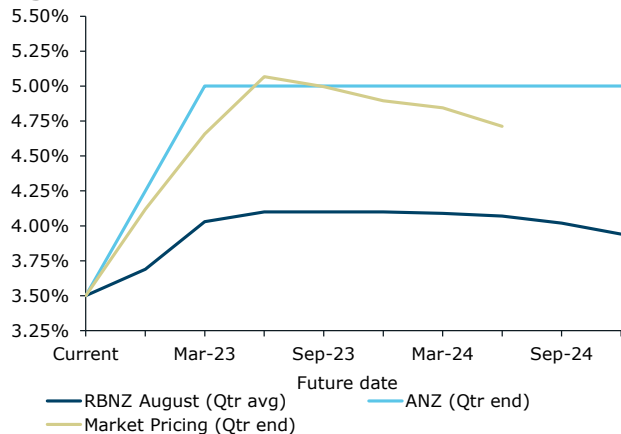
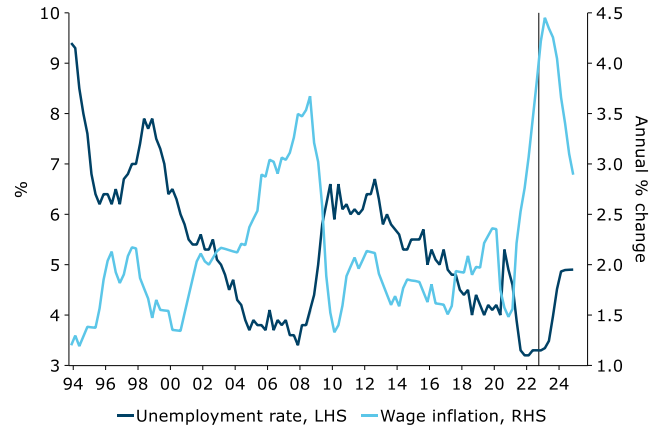


Figure 6. Unemployment and wage inflation



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



Contact us

Meet the team

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