

New Zealand Weekly Data Wrap

19 May 2023



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See page 5.

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 to 5.50% at May 24th decision, 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.

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.

Budget 2023

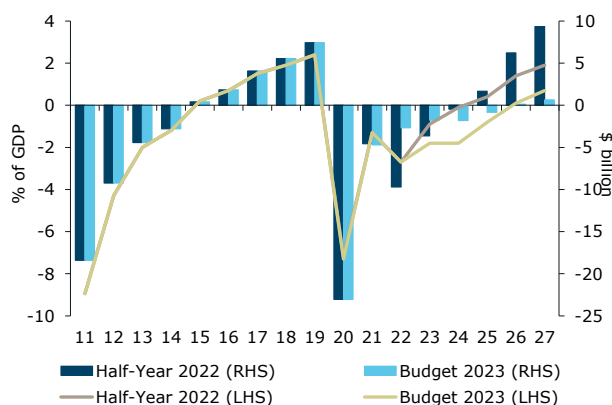
Budget 2023 is another big budget with a focus on the cyclone rebuild and the cost of living. Responding to the cyclone is absolutely the right thing to do, but current macroeconomic conditions mean that because this isn't going to be paid for with higher taxes or more significant reprioritisations, it implies more macroeconomic stimulus, more pressure on CPI inflation, and therefore upside risk to the OCR outlook.

Spending (both operational and capital) is higher. After accounting for reprioritisations and the usual reshuffling of Government spending between fiscal years (owing to delays etc), Budget 2023 injects a little more than \$5bn of additional spending (opex and capex) into the economy in the very near term (year to June 2024) compared to the Half-Year Update. That's about 1.4% of GDP over the next year for the RBNZ to consider next week.

The Treasury's updated economic outlook no longer has the economy entering recession. But with the economy facing ongoing capacity constraints, any boost to demand will likely culminate in further inflation pressures. All up, the Treasury's forecasts look optimistic to us, particularly insofar as if things do start to evolve as they expect, that would in all likelihood elicit a more aggressive response from the RBNZ.

As expected, the forecast return to surplus has been delayed by another year to 2026. But at just \$0.6bn, it wouldn't take much (given the Treasury's rosy economic forecast) to push this out to 2027. Six years of deficits (as currently forecast by the Treasury) is the same duration as following the GFC and the Canterbury earthquakes. But as we note in our [Budget Preview](#), the economy was in a very different place then in terms of its ability to absorb extra demand.

Figure 1. Total Crown OBEGAL



Source: The Treasury

The current macroeconomic context is not conducive to further fiscal expansion, particularly in the near term. A near record-low unemployment rate shows there is currently little spare economic resource to accommodate additional demand. There's also the record-wide current account deficit that's signals an economy living beyond its means. Additional fiscal stimulus won't help with that either.

The Treasury's own report states "Our rule of thumb for the impact of fiscal policy on inflation and interest rates is that an additional fiscal stimulus equal to 1% of GDP would cause the OCR to rise by an additional 30 basis points". That's something the RBNZ will have to consider next week.



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](#)
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- [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](#)
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[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](#)

Rate tightening cycle still has some way to go

We expect the RBNZ will raise the Official Cash Rate (OCR) 25bp to 5.50% at its Monetary Policy Statement (MPS) next Wednesday. But with Government spending earmarked to inject another 1.4% of GDP into the economy over the coming fiscal year, the odds of another 50bp hike have risen, and a pause seems (even) less likely. We'd now put the chance of a 50bp lift as high as 40%. We'd also put greater odds on the May MPS showing a higher OCR forecast peak than our 5.7% expectation. A 6-handle can't be ruled out.

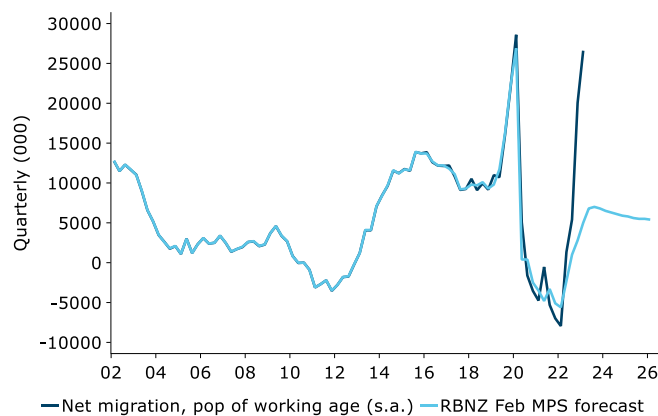
Just this week we added one more 25bp hike (in July) to our OCR forecast, taking it to a peak of 5.75%. The (relatively) happy place to sit and "watch, worry and wait" keeps inching out of reach.

There's a lot more than just the Budget for the RBNZ to ponder. Data since the April Review has been mixed but firmly tilted to the upside overall, in our view. On the downside, Q1 CPI data were mixed but clearly good news relative to the RBNZ's expectations. Both headline (6.7%) and non-tradable inflation (6.8%) came in lower than the RBNZ was anticipating (7.3% and 7.1% respectively). That's still far too high, but with ANZBO and the RBNZ surveyed inflation expectations easing (consumer measures have proven stubborn), and the weaker LCI wage inflation in Q1, there's encouraging signs for the RBNZ that inflation is on its way down, albeit gradually.

On the other hand, the labour market remains broadly tighter than the RBNZ's expectations, with labour demand still holding up. But forward-looking indicators (job ads and employment intentions) are easing, and we'd characterise the strong Q1 employment data as pent-up demand for workers finally being met, and thus don't expect that strength to persist for long.

In the first three months of the year alone, net migration has already exceeded the RBNZ's assumption for all of 2023 (figure 2). While boosting labour supply, all those new workers will also add to demand in other areas of the economy, and the RBNZ has stated they view migration as inflationary in the medium term. We're likely already seeing impacts with [April's REINZ data](#) suggesting house prices are on the verge of bottoming out. We're not expecting them to take off again, but the RBNZ's tolerance for any housing market pick-up is likely to be limited.

Figure 2. Net migration of working age vs. RBNZ assumption

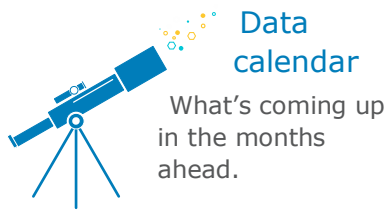


Source: Stats NZ, Macrobond, RBNZ, ANZ Research

All up, we still see a 25bp hike at next week's MPS as the likeliest choice. First, it's what they said they thought they would do. Second, monetary policy is working, as you would expect after a 500bp hike in 18 months! That gives the RBNZ scope to take a steady-as-she-goes approach to further moves. However, another 50bp hike certainly can't be ruled out; nor can a much more aggressive OCR forecast than we are assuming. Buckle up.



Financial markets update



Date	Data/event
Tue 23 May (10:00am)	ANZ Truckometer – Apr
Wed 24 May (10:45am)	Retail Sales – Q1
Wed 24 May (2:00pm)	RBNZ MPS
Fri 26 May (10:00am)	ANZ-RM Consumer Confidence – May
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

Interest rate markets

US 10yr bond yields are back up at levels not seen since March. This has been driven by hawkish Fed comments, better-than-expected data showing the resilience of the US economy, and optimism that the US debt ceiling will be extended. The knock-on effect of that has been felt here too, but it has also been exacerbated by fears that the RBNZ may take the OCR higher (or even deliver a 50bp hike next week, as discussed on page 2), and supply fears driving local bond yields higher, with the Budget calling for a \$20bn uplift in government bond issuance. We had already lifted our terminal OCR assumption (adding an extra 25bp hike in July) earlier in the week, but the Budget poses additional upside risks beyond that, and we don't expect interest rate market nervousness to let up any time soon. Markets are navigating a difficult phase at the moment: all the little things (which are meaningful when added up) point to higher rates, but a couple of smaller things (eg US debt ceiling, regional bank woes) have the potential to drive rates sharply and suddenly lower, all of which speaks to volatility. Finally, note that we have revised up all of our interest rate forecasts, having lifted our OCR forecasts, and considered additional bond supply in the Budget.

FX markets

The USD is being supported by higher US bond yields and has had a decent bounce this week. Higher NZ interest rates may provide the NZD support on crosses, and carry (which will get another boost when the RBNZ hikes next week) is likely the main reason NZD/AUD is so elevated despite Australia's better fundamentals. But markets are worried about fiscal expansion at a time when NZ's current account deficit is so wide.

Key data summary

RBNZ Inflation Expectations – Q2. The 2-year ahead measure fell from 3.3% to 2.79%, consistent with a falling inflation profile in the medium term and the downside surprise in Q1.

Performance Services Index – April. Fell 4.0pts to 49.8 into contractionary territory for the first time since the Omicron outbreak in February.

Global Dairy Trade auction. Dairy prices fell 0.9% at the Global Dairy Trade event, indicating dairy demand is still fragile. Whole milk powder and butter prices firmed but skim milk powder and cheese prices fell.

NZ Budget 2023. Budget 2023 will inject a bit more fiscal stimulus into the economy, adding upside risk to the OCR outlook. See our [Review](#).

Overseas Merchandise Trade – April (Friday 19 May, 10:45am). April's \$0.4bn surplus marks the first positive surprise we've seen in these data for some time. We expected a deficit of \$1bn.

The week ahead

ANZ Truckometer – April (Tuesday 23 May, 10:00am).

Retail sales – Q1 (Wednesday 24 May, 10:45am). Four out of five of our best-performing indicator models suggest an uptick in the quarter, but regional cyclone impacts on the aggregate level are a wild card. We've pencilled in a 0.2% q/q increase in volumes.

RBNZ Monetary Policy Statement – May (Wednesday 24 May, 2:00pm). We expect a 25bp hike taking the OCR to 5.50%. See our [Preview](#).

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



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	0.624	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.936	0.935	0.941	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.577	0.561	0.579	0.568	0.571	0.570	0.560	0.551	0.542
NZD/JPY	83.1	84.3	86.5	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.507	0.492	0.503	0.496	0.500	0.500	0.492	0.485	0.478
NZ\$ TWI	71.3	70.4	72.0	70.7	70.6	70.5	70.0	69.6	69.0
Interest rates	Mar-23	Apr-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	4.75	5.25	5.25	5.50	5.75	5.75	5.75	5.75	5.50
NZ 90 day bill	5.23	5.56	5.79	5.85	5.85	5.85	5.85	5.68	5.18
NZ 2-yr swap	5.03	5.05	5.45	5.50	5.40	5.24	5.00	4.75	4.55
NZ 10-yr bond	4.20	4.09	4.42	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

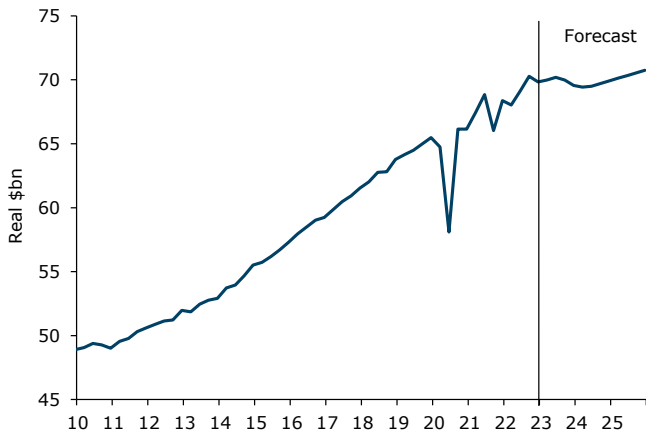


Figure 4. CPI inflation components

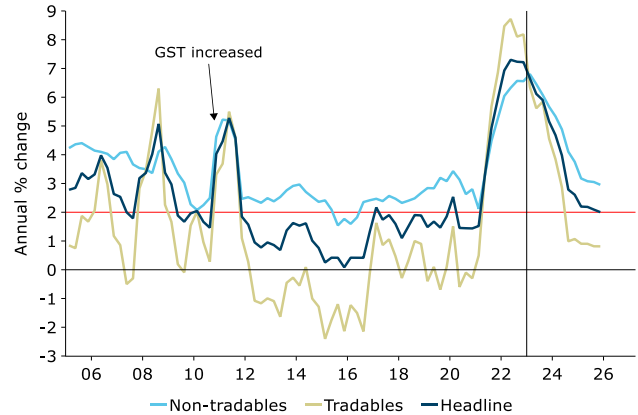


Figure 5. OCR forecast

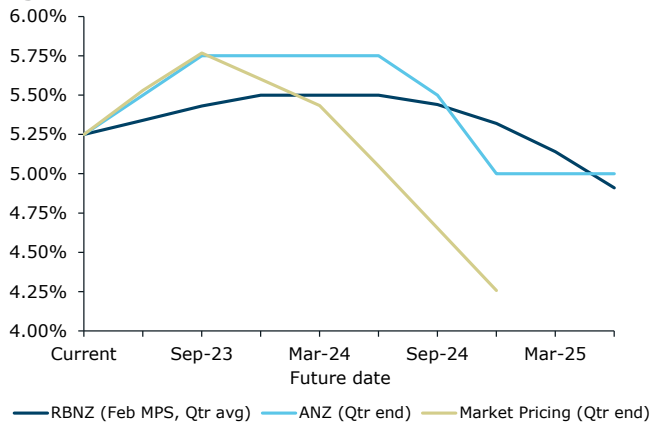
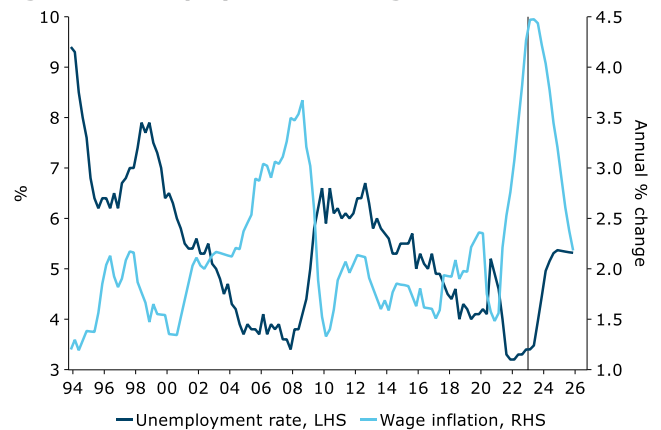


Figure 6. Unemployment and wage inflation



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



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