

New Zealand Weekly Data Wrap

5 May 2023



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- [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.



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.

What happened this week?

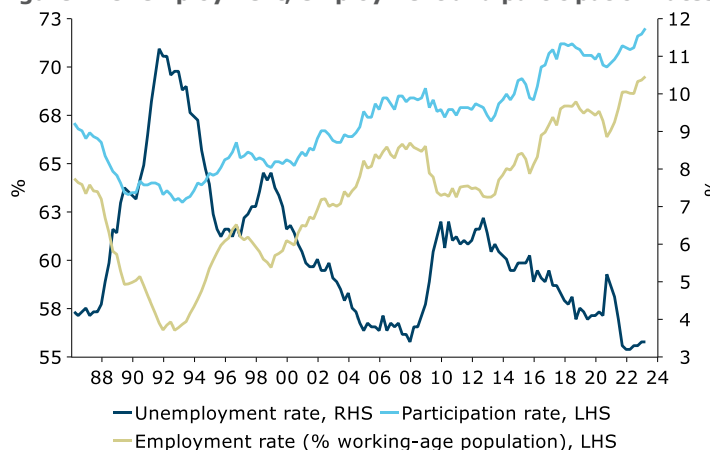
Wednesday's labour market data offered little to suggest that momentum turned meaningfully south in Q1. The unemployment rate gave away no secrets, being unchanged at 3.4%, but underlying that were strong details. Bumper employment growth of 0.8% q/q outpaced migration-driven growth in the working age population of 0.5% q/q, seeing the employment rate rise 0.2%pts to a fresh record high of 69.5% (and 80.4% for those aged 15-64, which is 3%pts higher than Australia, for comparison). However, in terms of the unemployment rate, this was offset by a lift in the labour force participation rate to a fresh record high of 72.0%. If participation had held at its previous level, the unemployment rate would have fallen to 3.1%.

The strength of employment thus in part reflects an improvement in labour supply, and there's likely an element of 'catch up' occurring, with previously unmet labour demand now being worked through. So, it would be a mistake to read the data as a sign that labour demand is gaining fresh momentum. Nonetheless, it's clear that labour demand remained strong in Q1.

Wage growth accelerated, although annual growth in the private sector Labour Cost Index at 4.5% came in lower than expected by either us (4.8%) or the RBNZ (4.7% y/y). This will be welcomed by the RBNZ, given the importance of wage inflation to the outlook for non-tradables inflation.

All up, we don't see the outturn as a game change for the RBNZ, as although the starting point for the labour market is broadly tighter than they expected in February, there are lots of moving parts on the supply side; this is very much a look in the rear-view mirror; and forward-looking indicators do signal waning labour market pressures over the rest of the year.

Figure 1. Unemployment, employment and participation rates



Source: Stats NZ, Macrobond, ANZ Research

This week's RBNZ's [Financial Stability Report](#) was at pains to point out that while some very highly leveraged borrowers would be struggling with high interest rates, they were a small proportion of total. But the impact of higher rates has been clear on the construction outlook. Total dwelling consents lifted 7.0% in March, breaking a three-month run of large declines. But the data are volatile, and we're still expecting a substantial slowdown in construction activity over the rest of the year. Despite the monthly lift, dwelling consents were down 25% on a year ago. That's likely to see job losses in the construction sector in time.



Looking ahead



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- [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 HYEFU: reprioritising](#)
- [NZ Insight: Risks to the OCR outlook](#)
- [NZ Insight: RBA/RBNZ policy divergence back in the spotlight](#)
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Revising our labour market forecasts

This themes of this week's Q1 labour market statistics were in line with our expectation, and we've revised our forecasts only at the margins. While employment growth was stronger than we expected, we're attributing that to a combination of supply and demand factors. We've revised up employment growth in Q2 by 0.1ppt to 0.3% to reflect improvements in labour supply and that there is likely a little more unmet demand to be worked through.

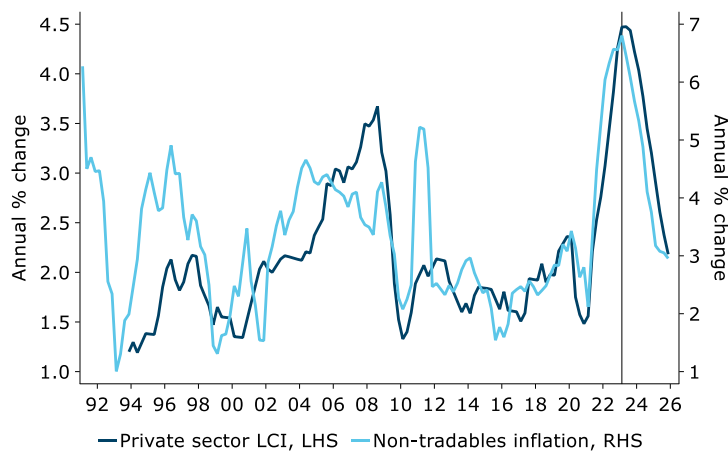
However, we continue to expect employment to fall in the second half of the year, in line with a contraction in economy activity and consistent with declining job ads and firms intending to reduce headcounts, according to our Business Outlook survey. Weaker demand as supply continues to improve is expected to cause the unemployment rate to rise from 3.4% currently to 5.4% by the end of 2024.

The unemployment rate could rise faster than expected if labour supply continues to surprise on the upside. All else equal, as long as the growth in labour supply outpaces the growth in demand, inflationary pressures emanating from the labour market can unwind without a large drop in employment being required. That said, migration brings demand pressures of its own and can boost inflation pressures – in the housing market in particular. There's no free lunch here; the RBNZ was explicit last month that it considers migration to be on net an upward risk to the medium-term inflation outlook.

As noted on page 1, wage growth came in 0.3%pts below our expectation. Accordingly, reflecting base effects, we're now forecasting that annual growth in the Labour Cost Index (LCI) will remain at its current level of 4.5% y/y, which is a peak that's 0.4%pt lower than our previous forecast.

Lower wage inflation does add some downside risk to our non-tradable inflation forecast, all else equal. But to put it in context, the LCI still remains at a record high, and we're still expecting non-tradables inflation to prove persistent across the second half of the year. As noted above, disinflationary wage impacts from stronger labour supply could be more than offset by the inflationary impacts of associated stronger demand.

Figure 2. Labour cost index and non-tradables inflation

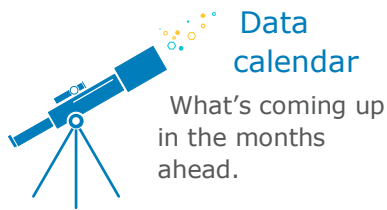


Source: Stats NZ, Macrobond, ANZ Research

Decision time is looming for the RBNZ. Markets are worried about a potential 50-pointer after strong Q1 labour market data, and the RBA's surprise hike this week. But blasting through the previously announced expected OCR peak would be an aggressive move that just doesn't strike us as necessary when 'new news' has been mixed, and rates are there or thereabouts.



Financial markets update



Date	Data/event
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 – 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

Interest rate markets

Global bond yields fell further this week, with the yield on the bellwether US 10yr Treasury bond falling to around 3.3%, close to lows seen in March and April at the most acute period of US bank wobbles. The Fed hiked by 25bp and shifted to a neutral, data-dependent stance, as expected. Although chair Powell struck a hawkish tone at the post-meeting presser, with the policy rate now at the prior-signalled terminal rate, and US banking stocks wobbling, markets are firmly of the view that the Fed is likely done, and that is, in turn, capping bond yields. Markets expect no further Fed hikes; that may change if US payroll data tonight beats expectations, but bank wobbles have emboldened market calls for cuts (with 75% odds of a cut by July now priced in). Meanwhile, strong NZ Q1 labour market data have firmed up market expectations of an OCR hike later this month (at one point this week, markets were pricing in slim odds of a 50bp hike). This all speaks to a more inverted yield curve and a potential increase in rate volatility.

FX markets

The Kiwi has had a strong start to May, charging ahead as short end interest rates have risen and US markets have called time on Fed hikes. NZD/AUD has appreciated despite the surprise RBA hike, a stellar AU trade surplus, media talk of an AU Budget surplus, and [much better AU growth prospects](#). We see this as the biggest disconnect in FX markets at the moment.

Key data summary

RBNZ sectoral lending data – March. Housing lending growth slowed to 3.5% y/y, down from 3.7% in February. We’re expecting the housing market to bottom out shortly, and coupled with the easing of LVR restrictions, we might see the decline in annual growth arrested soon.

GlobalDairyTrade auction. The headline Global Dairy Trade Price Index gained 2.5%, led higher by a 5.0% gain in whole milk powder (WMP) prices.

RBNZ Financial Stability Report – May. “Financial system well positioned to support the economy.”

Labour Market Statistics – Q1. The labour market remained extremely tight in Q1. The unemployment rate was unchanged at 3.4%, bisecting our 3.3% forecast and the RBNZ’s February MPS forecast of 3.5%. See our [Review](#).

Building Permits – March (Thursday 4 May, 10:45am). Total dwelling consents rose 7.0% m/m (s.a.). That likely reflects volatility; we’re still expecting further weakness across the rest of the year.

ANZ Commodity Price Index – April. Fell 1.7% m/m in April (-1.4% m/m in NZD), as higher meat prices were offset by falls in dairy and log prices.

The week ahead

Electronic Card Transactions – April (Tuesday 9 May, 10:45am). Total spending lifted 3.1% m/m in March; April could struggle to match.

Food Prices – April (Thursday 11 May, 10:45am). We’re expecting food prices lifted 0.5% m/m, taking annual food price inflation to 12.5%.

Rental Price Index – April (Thursday 11 May, 10:45am). We’ve pencilled in a 0.4% m/m lift (3.7% y/y).

Manufacturing PMI – April (Friday 12 May, 10:30am). Slipped back into contractionary territory in March (48.1), which is consistent with our outlook.

Net Migration – March (Friday 12 May, 10:45am). Continued strength in migration would present upside risk to our house price and activity forecasts.

RBNZ Inflation Expectations – Q2 (Friday 12 May, 3:00pm). Lower starting point and declining forecasts suggest near-term measures should fall.



Key forecasts and rates

	Actual			Forecast (end month)					
	Mar-23	Apr-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
FX rates									
NZD/USD	0.626	0.618	0.628	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.936	0.935	0.938	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.577	0.561	0.570	0.573	0.571	0.570	0.560	0.551	0.542
NZD/JPY	83.1	84.3	84.3	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.507	0.492	0.500	0.508	0.512	0.516	0.508	0.504	0.500
NZ\$ TWI	71.3	70.4	71.5	70.5	70.5	70.6	70.1	69.7	69.1
Interest rates									
NZ OCR	4.75	5.25	5.25	5.50	5.50	5.50	5.50	5.50	5.25
NZ 90 day bill	5.23	5.56	5.60	5.60	5.60	5.60	5.60	5.43	4.93
NZ 2-yr swap	5.03	5.05	5.06	5.25	4.75	4.34	4.25	4.15	4.10
NZ 10-yr bond	4.20	4.09	4.08	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	1.2	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

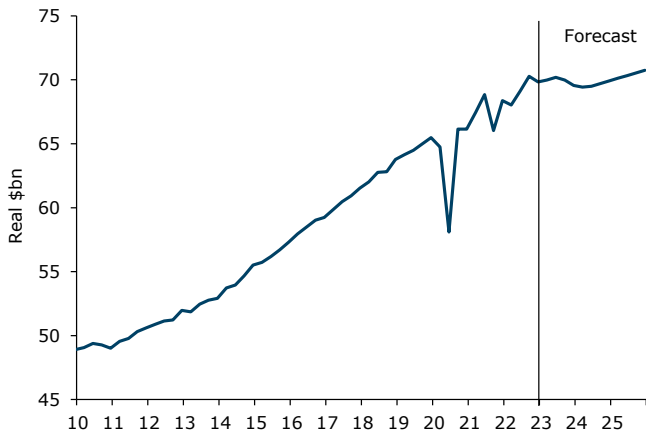


Figure 4. CPI inflation components

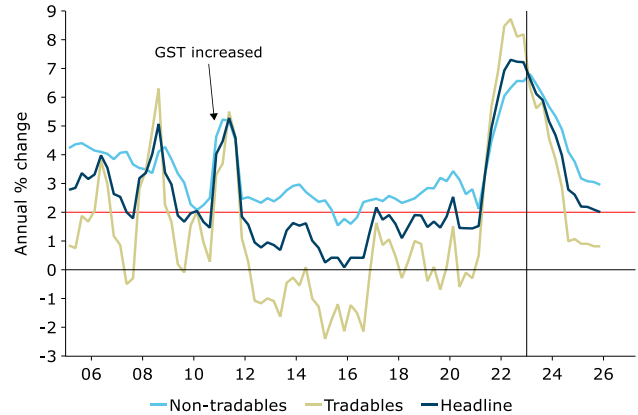


Figure 5. OCR forecast

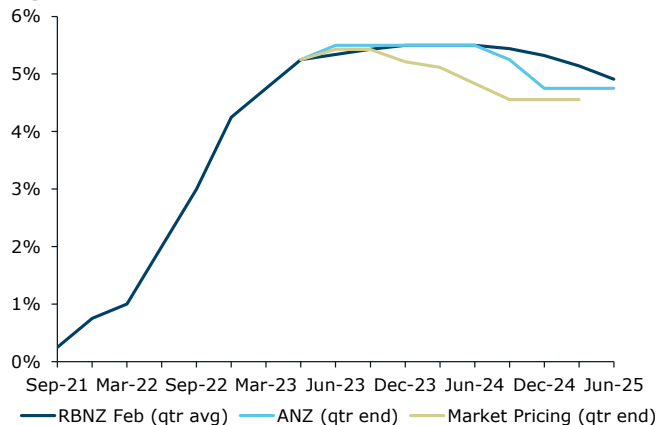
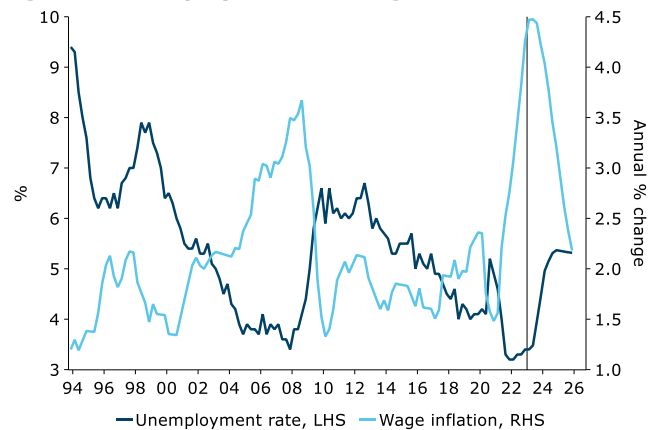


Figure 6. Unemployment and wage inflation



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



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