

# New Zealand Weekly Data Wrap

10 March 2023



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See [page 5](#).

## Forecast updates

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

- [NZ Property Focus: rain check](#)
- [NZ Forecast Update: milk price forecasts revised down](#)
- [NZ Economic Outlook: brake point](#)

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

## What's the view?

- GDP currently constrained by supply more than demand, but that's set to change
- Inflation way above target, and looking sticky
- OCR to 5.25% 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 risks abound, with central banks still on the warpath.



The housing slowdown could become disorderly if unemployment rises sharply.



Negative supply shocks, including weather impacts, could see inflation hold up.



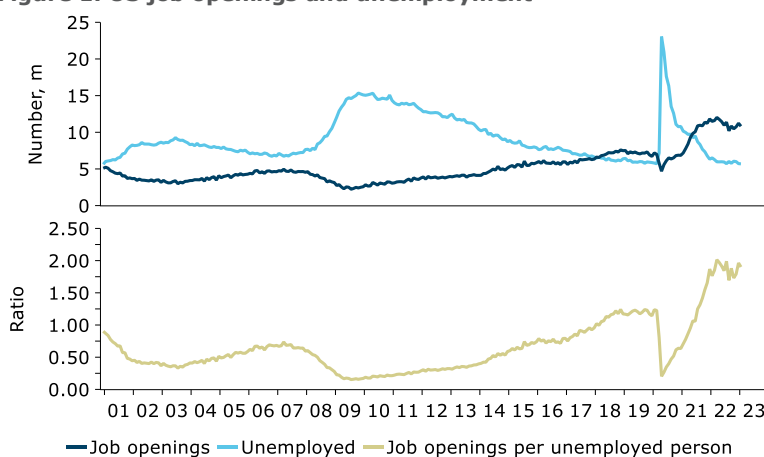
China's reopening could put upward pressure on commodity prices, pushing up tradables inflation.

## What happened this week?

Market expectations for how high (and how fast) the US Federal Reserve will hike interest rates took another leg higher this week in the wake of hawkish testimony by Chair Jerome Powell, as well as ongoing strength in US data. Powell left listeners in no doubt that rates may need to be lifted higher than previously expected (and possibly faster too). While the Fed has recently scaled down hikes back to 25bp moves (from 75bp hikes seen in 2022), Powell said the Fed would be prepared to return to larger hikes if the "totality" of the data suggested it was necessary. Pricing is now leaning towards a 50bp hike being delivered at the next decision (23 March NZT), with 39bp priced into the meeting at the time of writing (vs. 31bp before Powell's testimony).

Powell's hawkish comments were reinforced by another solid month of US job openings data. Openings did fall by around 400k to 10.8 million in January, but that's still extremely high. There are millions more job openings than unemployed people in the US, with the ratio currently standing at 1.9 (figure 1). That needs to be closer to 1.0 for the Fed to have any confidence that labour market imbalances will ease, allowing a sustained return to 2.0% inflation. All up, ANZ maintains its current forecast for a 5.5% peak in the fed funds rate (FFR) ceiling (vs. 4.75% now), but we see a growing risk that the FFR may need to move to a 6.0-6.5% range. Upcoming US labour market and CPI data for February will help to cement expectations for the March FFR decision. Developments in the US rates market tend to determine the overall tone of markets globally, including here in New Zealand – the correlation of daily moves in 10-year bond yields over the past 12 months is 0.66.

**Figure 1. US job openings and unemployment**



Source: BLS, Macrobond, ANZ Research

Domestically, the data flow was a little more mixed this week. The volume of building activity fell 1.6% q/q in Q4, after Q3's upwardly revised 5.3% bounce. Combined with retail sales volumes falling 0.6% q/q in Q4, the data raise the risk that we could see a pretty weak print for Q4 GDP (we'll release our Preview later today). Card spending data for February was soft, with retail spending flat on a monthly basis, after lifting 2.6% m/m in January. Cyclone Gabrielle was likely a contributor to that weakness. One piece of good news for our exporters was the [ANZ World Commodity Price Index](#) lifted 1.3% m/m in February, breaking a 10-month losing streak. A weaker NZD (on a TWI basis) saw the NZD Commodity Price Index bounce 2.0% m/m. Unfortunately, the Global Dairy Trade index fell 1.5% in this week's auction.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- [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 HYEUFU: 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 Property Focus: spring bounce or false floor?](#)
- [NZ Insight: The inflation outlook and the balance of risks](#)
- [NZ Insight: 2020 hindsight](#)
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### ANZ Proprietary data

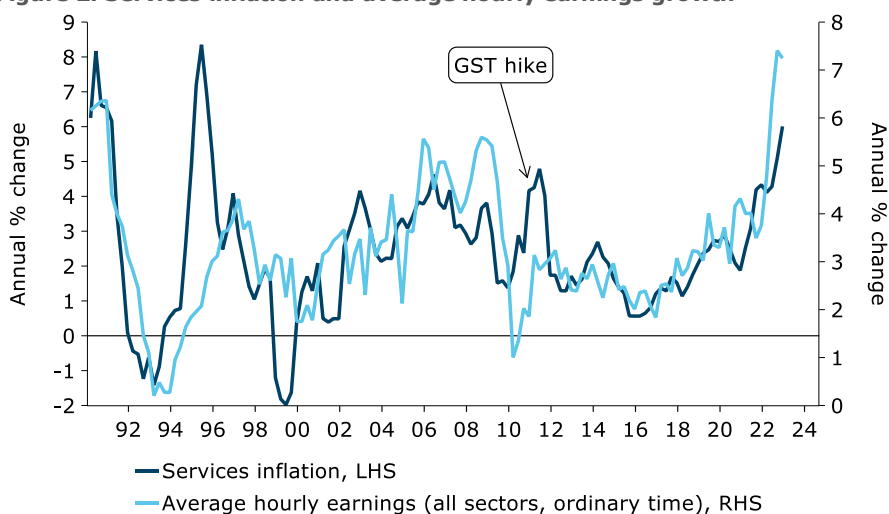
Check out our latest releases below.

- [ANZ Business Outlook](#)
- [ANZ-Roy Morgan Consumer Confidence](#)
- [ANZ Truckometer](#)
- [ANZ Commodity Price Index](#)

### A services inflation headache for the RBNZ

This week we published an [Insight Note](#) looking at how inflation pressures are rotating away from goods prices, and into sticky services prices. Goods inflation has started to fade, both overseas and in New Zealand. That's in part because the intense disruptions triggered by the COVID-19 pandemic have eased, with shipping costs falling rapidly from the highs seen over 2021 and 2022. Any sign of inflation easing is encouraging, but it's too early to celebrate just yet. That's because goods prices have passed the inflationary baton over to services. This is a challenge for central banks because services inflation can be sticky, and tends to be closely related to developments in the labour market and wage growth (figure 2).

**Figure 2. Services inflation and average hourly earnings growth**



Source: Stats NZ, Macrobond, ANZ Research

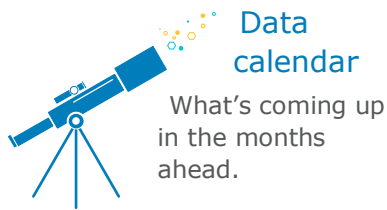
Services prices are already contributing around 2ppt to headline CPI inflation (with no signs of slowing), which means that even if annual goods price inflation returns to the pre-COVID average of 2.1%, we could see CPI inflation get stuck above the RBNZ's 1-3% target band. And there's no guarantee that goods inflation will actually continue to drop away in a well-behaved manner. China's reopening, geopolitical tensions, rethinking of supply chains, climate change, and demographics all represent upside risks to goods inflation.

We are clearly not out of the inflation woods yet, and the feedback loop between a super-tight labour market and surging services inflation will be a key determinant of how far (and how quickly) the RBNZ will raise interest rates. We continue to forecast an OCR peak of 5.25% by May 2023 (with 25bp hikes in April and May), but risks are tilted to the upside – eventually at least, even if the RBNZ does pause relatively soon.

A key uncertainty is around the inflationary/disinflationary impacts of the current surge in net migration. We noted last week that [the labour market appears to be getting a second wind](#) (and the 0.9% m/m lift in Seek job ads in February reinforces that theme). But there is a chance that the lift we're seeing in filled jobs, job ads, and hiring intentions is simply a reflection of a recovery in the supply-side of the labour market as migration picks up again. People could be advertising more roles simply because it's now a realistic prospect that you might be able to find someone. If that's the case, then current labour market strength might not be particularly persistent. But, it's worth remembering that migrants add to demand in the economy, as well as boosting labour supply. The net impact on inflation is uncertain, especially in the wake of the unprecedented border closure, so we'll be watching rental and housing market indicators to see if they're picking up in tandem.



## Financial markets update



Date	Data/event
Mon 13 Mar (10:30am)	Performance Services Index – Feb
Mon 13 Mar (10:45am)	Food Price Index – Feb
Mon 13 Mar (10:45am)	Rental Price Index – Feb
Tue 14 Mar (10:45am)	Net Migration – Jan
Wed 15 Mar (10:45am)	Current Account – Q4
Thu 16 Mar (10:45am)	<b>GDP – Q4</b>
Tue 21 Mar (10:45am)	Merchandise Trade – Feb
Thu 23 Mar (10:00am)	<a href="#">ANZ Truckometer – Feb</a>
Thu 30 Mar (10:45am)	Building Permits – Feb
Thu 30 Mar (1:00pm)	<a href="#">ANZ Business Outlook – Mar</a>
Fri 31 Mar (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Mar</a>
Tue 4 Apr (10:00am)	NZIER QSBO – Q1
Wed 5 Apr (early am)	GlobalDairyTrade auction
Wed 5 Apr (2:00pm)	<b>RBNZ Monetary Policy Review</b>
Thu 6 Apr (1:00pm)	<a href="#">ANZ Commodity Price Index – Mar</a>
Fri 14 Apr (10:30am)	BusinessNZ Manuf PMI – Mar
Fri 14 Apr (10:45am)	Net Migration – Feb
Mon 17 Apr (10:45am)	Food Price Index – Mar
Mon 17 Apr (10:45am)	Rental Price Index – Mar
Wed 19 Apr (early am)	GlobalDairyTrade auction
Thu 20 Apr (10:45am)	<b>CPI – Q1</b>
Wed 26 Apr (10:00am)	<a href="#">ANZ Truckometer – Mar</a>
Wed 26 Apr (10:45am)	Merchandise Trade – Mar
Thu 27 Apr (1:00pm)	<a href="#">ANZ Business Outlook – Apr</a>
Fri 28 Apr (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Apr</a>
Wed 3 May (early am)	GlobalDairyTrade auction
Wed 3 May (10:45am)	<b>Labour Market – Q1</b>

### Interest rate markets

Market expectations for Fed policy ratcheted up a notch following hawkish and upbeat comments by chair Powell in testimony earlier this week, but they have come back in the past 24hrs as equities have softened and markets jockey for position ahead of key US nonfarm payroll data tonight. Our global team sees risks to that data as skewed to the topside, and as such we are circumspect about how sustainable the recent retracement in global interest rates will prove to be. Local short-end rates rose to new post-GFC highs this week. We think that's justified given global and post-cyclone rebuild-related inflation risks, but more volatility seems likely in the lead-up to the April OCR decision.

### FX markets

The Fed's hawkish tone gave the USD a boost this week. While that and US data poses near-term downside risks to the Kiwi, we expect the RBNZ to broadly keep pace with the Fed, which should offset potential USD strength.

### Key data summary

**Building Work Put in Place – Q4.** Overall building activity fell 1.6% q/q, led by a 2.6% q/q fall in residential construction. Our [Business Outlook](#) survey points to further sharp declines in 2023.

**ANZ Commodity Price Index – February.** The ANZ World [Commodity Price Index](#) lifted 1.3% m/m, a welcome lift after 10 consecutive monthly falls.

**GlobalDairyTrade auction.** The GDT price index fell 1.5% at the latest auction, with whole milk powder prices down 2.0%.

**ANZ Truckometer – February.** *Postponed until 23 March due to interruptions in the data supply.*

**Electronic Card Transactions – February.** Retail spending was unchanged in February, while total spending fell 1.7% m/m.

**Performance of Manufacturing Index – February.** Lifted to 52.0 (51.2 previously), with the employment sub-index up to 54.0 (51.6 previously).

**Economic Survey of Manufacturing – Q4.** Manufacturing volumes fell 4.7% q/q. It's another downside risk for Q4 GDP.

### The week ahead

**Performance of Services Index – February (Monday 13 March, 10:30am).** Bounced to 54.5 in January, after slowing sharply in November and December.

**Food Prices – February (Monday 13 March, 10:45am).** We've pencilled in a 0.5% m/m (10.9% y/y) lift, which is at the upper end of usual moves in February. Disruption to data collection due to the cyclone means it's unclear whether the Food Price Index will fully reflect cyclone impacts on food prices.

**Rental Price Index – February (Monday 13 March, 10:45am).** We expect a seasonal 0.4% m/m (3.8% y/y) lift in total rents. Recent strength in new rents suggests overall rental inflation may be slower to ease than expected.

**REINZ House Prices – February (Tuesday 14 March, 9:00am).** We retain our [forecast](#) for a 22% peak-to-trough decline in house prices, and expect housing market weakness persisted in February.

**Net Migration - January (Tuesday 14 March, 10:45am).** Net migration has surged in recent months; we'll be watching closely to see whether that surge persists as data revisions flow through.

**Current Account Balance – Q4 (Wednesday 15 March, 10.45am).** Our Preview will be released later today.

**GDP – Q4 (Thursday 16 March, 10.45am).** Our Preview will be released later today.



## Key forecasts and rates

	Actual			Forecast (end month)					
	Jan-23	Feb-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
<b>FX rates</b>									
NZD/USD	0.641	0.616	0.610	0.640	0.650	0.660	0.660	0.670	0.670
NZD/AUD	0.918	0.915	0.926	0.901	0.890	0.892	0.880	0.870	0.859
NZD/EUR	0.593	0.580	0.576	0.587	0.586	0.584	0.579	0.578	0.568
NZD/JPY	83.6	84.2	83.0	83.2	83.2	83.2	81.8	81.7	80.4
NZD/GBP	0.521	0.509	0.512	0.525	0.524	0.528	0.524	0.523	0.519
NZ\$ TWI	71.7	70.8	70.5	71.2	71.2	71.7	71.1	71.4	70.8
<b>Interest rates</b>									
NZ OCR	4.25	4.75	4.75	4.75	5.25	5.25	5.25	5.25	5.25
NZ 90 day bill	4.91	5.13	5.22	5.27	5.35	5.35	5.35	5.35	5.35
NZ 2-yr swap	5.00	5.37	5.47	5.50	5.60	5.75	5.75	5.60	5.60
NZ 10-yr bond	4.17	4.57	4.50	4.70	5.00	4.90	4.55	4.25	4.25

### Economic forecasts

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	
GDP (% qoq)	2.0	<i>Under review</i>								
GDP (% yoy)	6.4	<i>Under review</i>								
CPI (% qoq)	2.2	1.4	<b>1.6</b>	<b>0.9</b>	<b>2.0</b>	<b>0.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.6</b>	
CPI (% yoy)	7.2	7.2	<b>7.1</b>	<b>6.3</b>	<b>6.1</b>	<b>5.1</b>	<b>4.0</b>	<b>3.5</b>	<b>2.1</b>	
Employment (% qoq)	1.3	0.1	<b>0.1</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.1</b>	
Employment (% yoy)	1.2	1.3	<b>1.4</b>	<b>1.5</b>	<b>-0.2</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-0.8</b>	
Unemployment Rate (% sa)	3.3	3.4	<b>3.4</b>	<b>3.6</b>	<b>4.1</b>	<b>4.5</b>	<b>5.0</b>	<b>5.3</b>	<b>5.4</b>	

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

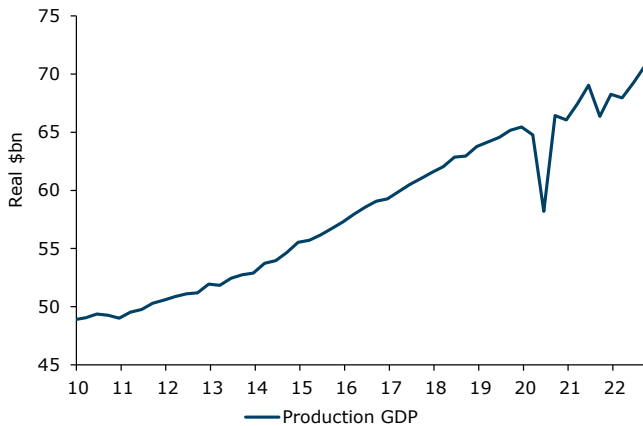


Figure 4. CPI inflation components

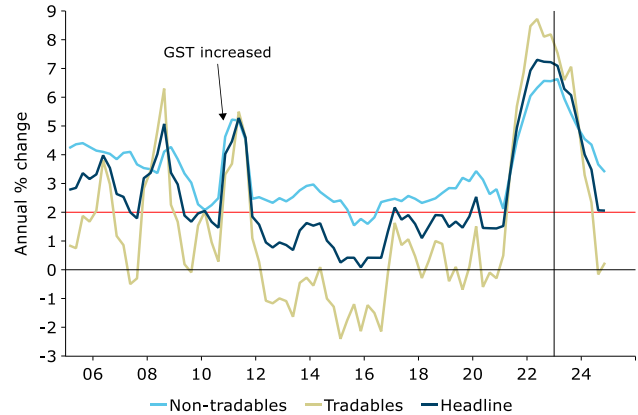


Figure 5. OCR forecast

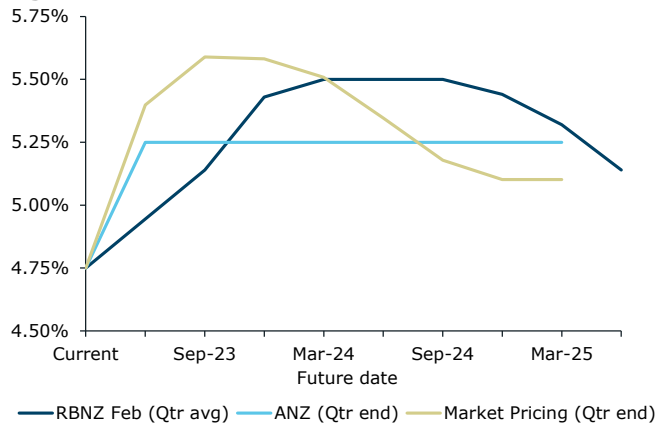
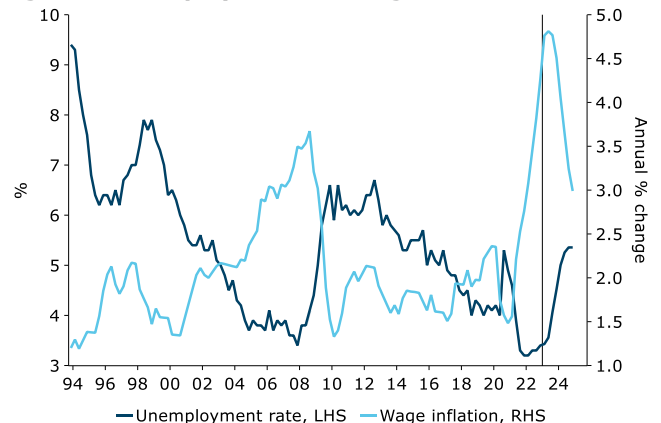


Figure 6. Unemployment and wage inflation



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



## Contact us

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**Sharon Zollner**  
Chief Economist

Follow Sharon on Twitter  
[@sharon\\_zollner](#)

Telephone: +64 9 357 4094  
Email: [sharon.zollner@anz.com](mailto:sharon.zollner@anz.com)

General enquiries:  
[research@anz.com](mailto: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](mailto: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](mailto: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](mailto:miles.workman@anz.com)



**Finn Robinson**  
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553  
Email: [finn.robinson@anz.com](mailto:finn.robinson@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](mailto: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](mailto:natalie.denne@anz.com)



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