

New Zealand Weekly Data Wrap

3 February 2023



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See page 5.

Forecast updates

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

- [NZ Weekly Data Wrap: a slower pace](#)
- [NZ CPI and OCR call change: much better than feared](#)
- [NZ Property Focus: key themes for 2023](#)
- [NZ Forecast Update: ANZ releases milk price forecast for 2023-24 season](#)

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

What's the view?

- GDP currently constrained by supply more than demand, but that's changing
- 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, despite a recent flurry of optimism.



The housing slowdown could become disorderly if unemployment rises sharply.



The shock value of the November MPS could result in a more sudden stop.



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

What happened this week?

The past week has seen historic rainfall and flooding across large parts of the North Island. Lives have been lost, homes and businesses destroyed, and infrastructure damaged. The economic cost of this event is, as yet, unknown. Our [initial view](#) is that the floods are unlikely to be a game-changer for the broader economic outlook, but the event is likely to be inflationary overall. We will likely see additional cost pressure focused around food prices, rents, insurance, and construction (although the magnitude is impossible to accurately quantify at this early stage).

This week, data showed that the New Zealand labour market remained extremely tight in Q4, portraying conditions that the RBNZ would no doubt still assess as being beyond 'maximum sustainable employment'. Unemployment is at historically low levels and wage growth is at historically high levels.

But in a similar theme to last week's Q4 CPI report, the data [just weren't as strong](#) as the RBNZ predicted back in November. Unemployment rose 0.1ppt to 3.4% (RBNZ: 3.2%), employment lifted 0.2% q/q (RBNZ: 0.4%), and private sector average hourly earnings growth was 8.1% y/y (RBNZ: 9.1%), down from 8.6% in Q3. This certainly isn't evidence of a 'soft' labour market, but combined with Q4 non-tradables inflation coming in significantly lower than the RBNZ feared, it's clear that we're in a better place than the RBNZ expected in the November Monetary Policy Statement. Inflation hasn't re-accelerated, and cracks are starting to appear in previously unstoppable labour market momentum. We expect those cracks to widen over 2023 – see our updated labour market outlook on page 2. The recent inflation and labour market data support our [expectation](#) that the RBNZ will downshift to a 50bp hike at their 22 February meeting, and lift the OCR to a peak of 5.25% by May (versus 4.25% currently).

Other data this week continued to highlight weakness in the New Zealand housing market and residential construction. Annual growth in housing lending dropped to 4.4% in December 2022, down from a peak of 12.1% in July 2021, and the lowest since early 2013 (figure 1). Consents for residential dwellings fell 7.2% m/m in December, offsetting November's 6.7% bounce. The data are volatile from month to month, but the trend in building consents has convincingly turned the corner, and we expect further falls over 2023.

Figure 1. Housing lending growth



Source: RBNZ, Macrobond, ANZ Research



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: early thoughts on the Upper North Island floods](#)
- [NZ 2022 HYEPU: 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](#)
- [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: He Waka Eke Noa recommendations](#)
- [Agri Insight: global food crisis to worsen](#)
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ANZ Proprietary data

Check out our latest releases below.

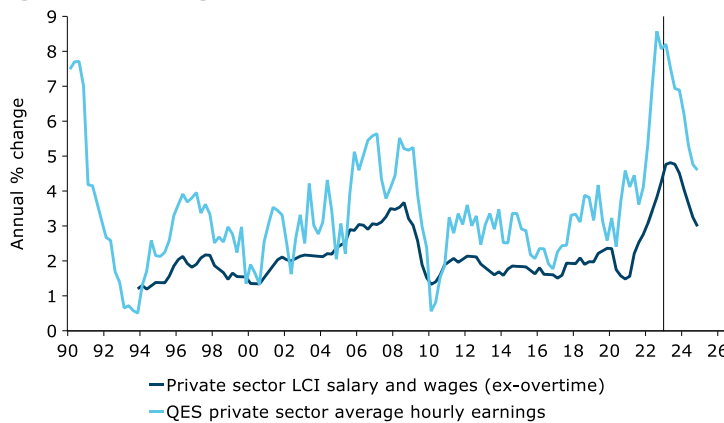
- [ANZ Business Outlook](#)
- [ANZ-Roy Morgan Consumer Confidence](#)
- [ANZ Truckometer](#)
- [ANZ Commodity Price Index](#)

Labour market forecasts updated

The Q4 labour market data were, on balance, a bit weaker than expected (both by us and the RBNZ), with the shine coming off the labour market a little faster than anticipated. With the data now under our belts, we've updated our labour market outlook. Forward indicators of labour demand have eased significantly in recent months, and we expect to see unemployment continue to creep slightly higher over the first half of 2023, before rising more quickly over the second half of the year as sharply higher interest rates see the economy contract. Unemployment is forecast to lift to a peak of 5.4% in 2024, versus 3.4% currently (see [figure 6](#)).

Private sector wage inflation is expected to slow over 2023 (figure 2). Average hourly earnings growth has likely already peaked, easing to 8.1% y/y in Q4 (8.6% previously). We're forecasting that the labour cost index (productivity adjusted, ordinary time) will peak at 4.8% y/y over the first half of 2023 (versus 4.3% in Q4).

Figure 2. ANZ wage inflation forecasts



Source: Stats NZ, Macrobond, ANZ Research

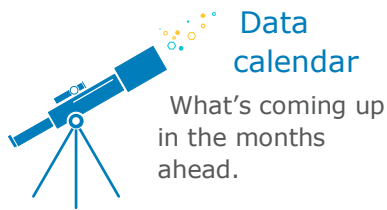
The labour market has been characterised by a massive mismatch between labour demand and supply over the past year. This year we expect to see that mismatch start to ease meaningfully. This partly reflects stronger net migration boosting labour supply, but the big driver is the contractionary impact of tighter monetary policy settings. With inflation increasingly rotating into services prices (which are influenced more by domestic labour market conditions) a reduction in the supply-demand mismatch in the labour market is needed to bring domestic inflation pressures back inside the RBNZ's 1-3% target range. Ideally, that would come through a sharp drop in job vacancies, rather than outright layoffs. But monetary policy is a blunt tool, and that means unemployment is likely to continue rising.

Cost of living support, floods, and our inflation forecast

This week the Government [announced](#) an extension to the cost of living support measures introduced last year (including the 25 cents/litre reduction in fuel excise duty). The policies are now due to finish at the end of Q2 (previously Q1). We estimate that this will shave 0.5ppt off our annual CPI inflation forecast for Q2, but add 0.5ppt to inflation in Q3. Given that the unwind of these cost of living supports has been pushed back several times, there's no guarantee the policy will actually be unwound at the end of Q2, but our forecast incorporates the policy as announced. We have also attempted to factor in some impact from the North Island weather events via CPI components like fruit and vegetable prices, insurance, and used cars. This would see quarterly inflation print about 0.1ppt higher in Q1 and Q2, with annual CPI inflation forecast to hold up at 7.1% y/y in Q1 ([figure 4](#)). In our upcoming Quarterly Economic Outlook we will discuss the impact of the flooding on our activity outlook.



Financial markets update



Date	Data/event
Tue 7 Feb (1:00pm)	ANZ Commodity Price Index – Jan
Wed 8 Feb (early am)	GlobalDairyTrade auction
Thu 9 Feb (10:00am)	ANZ Truckometer – Jan
Fri 10 Feb (10:30am)	BusinessNZ Manuf PMI – Jan
Fri 10 Feb (10:45am)	Electronic Card Transactions – Jan
Mon 13 Feb (10:30am)	Performance Services Index – Jan
Tue 14 Feb (10:45am)	Food Price Index – Jan
Tue 14 Feb (10:45am)	Rental Price Index – Jan
Tue 14 Feb (3:00pm)	RBNZ 2Yr Inflation Expectation – Q1
Thu 16 Feb (10:45am)	Net Migration – Dec
Wed 22 Feb (early am)	GlobalDairyTrade auction
Wed 22 Feb (10:45am)	Merchandise Trade – Jan
Wed 22 Feb (2:00pm)	RBNZ Monetary Policy Statement
Mon 27 Feb (10:45am)	Retail Sales – Q4
Tue 28 Feb (1:00pm)	ANZ Business Outlook – Feb
Tue 28 Feb (3:00pm)	RBNZ Sectoral Lending – Jan
Wed 1 Mar (10:45am)	Building Permits – Feb
Thu 2 Mar (10:45am)	Terms of Trade – Q4
Fri 3 Mar (10:00am)	ANZ-RM Consumer Confidence – Feb
Mon 6 Mar (10:45am)	Building Work Put in Place – Q4
Mon 6 Mar (1:00pm)	ANZ Commodity Price Index – Feb
Wed 8 Mar (early am)	GlobalDairyTrade auction
Thu 9 Mar (10:00am)	ANZ Truckometer – Feb
Thu 9 Mar (10:45am)	Electronic Card Transactions – Feb
Fri 10 Mar (10:30am)	BusinessNZ Manuf PMI – Feb
Fri 10 Mar (10:45am)	Economic Survey of Manufacturing – Q4
Mon 13 Mar (10:30am)	Performance Services Index – Feb

Interest rate markets

Global bond yields have continued to track lower, led by the US, with the bellwether 10-year Treasury bond yield back to around 3.4%. That matches the January low and also rounds out a circa 50bp decline since the end of 2022. All of this has occurred despite the US Fed chair Powell reiterating that they have “a couple of more rate hikes to get to that level we think is appropriately restrictive”, and that “the historical record cautions strongly against prematurely loosening policy”. As clarion as that message was, Powell also noted that things are going their way and that the actual path of policy will depend on the data. And with the US data pulse slowing, markets are betting that cuts will be needed in H2. While the risk of yields backing up can’t be understated, market sentiment is such that yields are likely to remain capped as traders lock horns with the Fed, and that in turn is likely to cap local long end yields for now. Local short end rates are also lower, with markets now fully embracing a 50bp, rather than 75bp RBNZ hike on the 22nd. We see limited further downside from here – like the Fed – the RBNZ are not in a position to hail “mission accomplished” on inflation (especially with the labour market still very tight), but absent a catalyst, yields are likely to remain low for the next few weeks. Some reassessment is likely following the MPS, with the market now pricing in an OCR peak of just 5.2%, vs the RBNZ’s track at 5.5%.

FX markets

This week has mostly been about the USD, which continues to soften, with the DXY hitting a 9mth low yesterday as US rates fell. NZD drivers are starting to fade with the slowing data pulse, but the NZD is benefitting from bullish AUD sentiment, with the RBA expected to hike on Tuesday. US non-farm payroll data tonight will set the scene for the USD, either reversing recent weakness if it’s strong, or adding further tailwinds to its demise if it’s weak. NZD/AUD briefly fell below 0.90 this week; but likely needs a fresh catalyst (which the RBA may provide) for a sustained move below that level.

Key data summary

ANZ Business Outlook – January. [Business confidence](#) bounced 18 points in January as the shock of the November Monetary Policy Statement wore off a bit. The overall read remains very subdued.

Overseas Merchandise Trade – December. The annual merchandise trade deficit narrowed slightly to NZD14.5bn (15.0bn previously).

RBNZ sectoral lending data – December. Housing lending growth dropped to 4.4% y/y (4.8% in November), down from a 12.1% peak in July 2021, and the slowest rate of growth since early 2013.

Labour Market Statistics – Q4. Unemployment lifted very slightly to 3.4% (3.3% previously) – see our [review](#).

Building Permits – December. Consents declined 7.2% m/m, offsetting November’s 6.7% bounce. Further falls are expected over 2023.

The week ahead

ANZ Commodity Price Index– January (Tuesday 7 February, 1:00pm).

GlobalDairyTrade auction (Wednesday 8 February, early am). Dairy prices have had a slow start to 2023, but Chinese demand is expected to improve this year, following the removal of lockdown measures.

ANZ Truckometer – January (Thursday 9 February, 10:00am).

Performance of Manufacturing Index – January (Friday 10 February, 10:30am). Has been in contractionary territory since October, and as OCR hikes weigh, that’s unlikely to change significantly in the near term.

Electronic Card Transactions – January (Friday 10 February, 10:45am). ANZ spending data for January suggest consumers continue to rein in spending as rising prices and higher interest rates bite.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Dec-22	Jan-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD/USD	0.635	0.641	0.648	0.610	0.610	0.620	0.630	0.640	0.640
NZD/AUD	0.932	0.918	0.915	0.938	0.924	0.912	0.900	0.889	0.877
NZD/EUR	0.593	0.593	0.593	0.604	0.592	0.590	0.594	0.593	0.582
NZD/JPY	83.3	83.6	83.3	79.3	78.1	78.1	78.1	78.1	76.8
NZD/GBP	0.525	0.521	0.529	0.530	0.521	0.521	0.516	0.516	0.508
NZ\$ TWI	72.1	71.7	72.0	70.6	69.6	69.7	70.0	70.2	69.5
Interest rates	Dec-22	Jan-23	Today	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZ OCR	4.25	4.25	4.25	4.75	5.25	5.25	5.25	5.25	5.25
NZ 90 day bill	4.65	4.91	4.91	5.27	5.35	5.35	5.35	5.35	5.35
NZ 2-yr swap	5.38	5.00	4.72	4.85	4.85	4.65	4.60	4.55	4.45
NZ 10-yr bond	4.47	4.17	4.00	4.25	4.20	4.15	4.05	4.05	4.00

Economic forecasts

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
GDP (% qoq)	2.0	0.3	0.2	-0.2	-0.6	-0.4	-0.1	0.3	0.4
GDP (% yoy)	6.4	3.8	4.5	2.3	-0.3	-1.0	-1.3	-0.8	0.2
CPI (% qoq)	2.2	1.4	1.6	0.9	2.0	0.5	0.6	0.4	0.6
CPI (% yoy)	7.2	7.2	7.1	6.3	6.1	5.1	4.0	3.5	2.1
Employment (% qoq)	1.3	0.1	0.1	0.0	-0.4	-0.4	-0.4	-0.1	0.1
Employment (% yoy)	1.2	1.3	1.4	1.5	-0.2	-0.7	-1.2	-1.3	-0.8
Unemployment Rate (% sa)	3.3	3.4	3.4	3.6	4.1	4.5	5.0	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

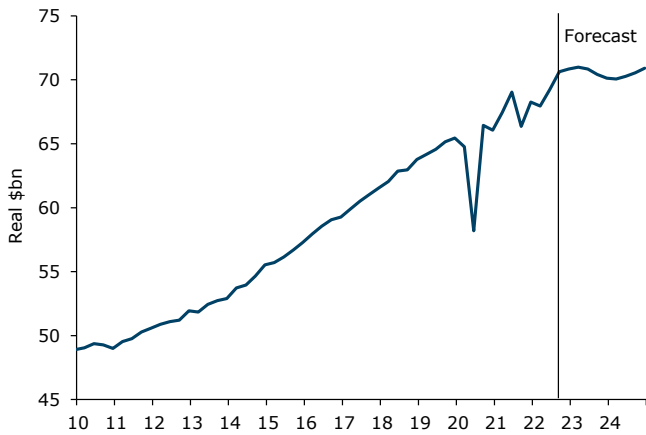


Figure 4. CPI inflation components

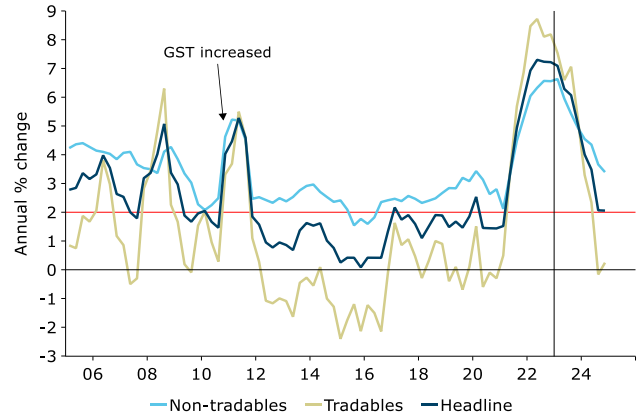


Figure 5. OCR forecast

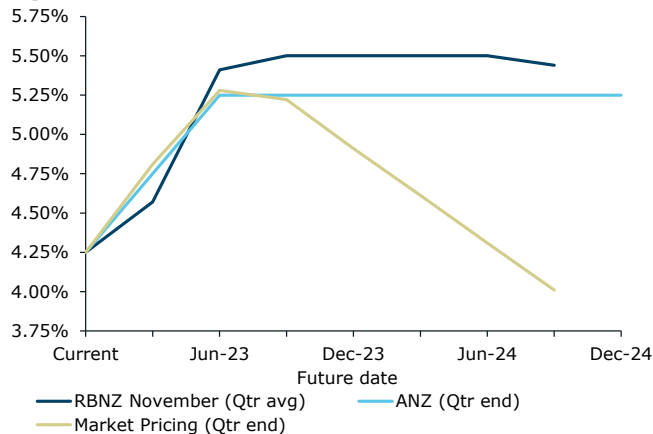
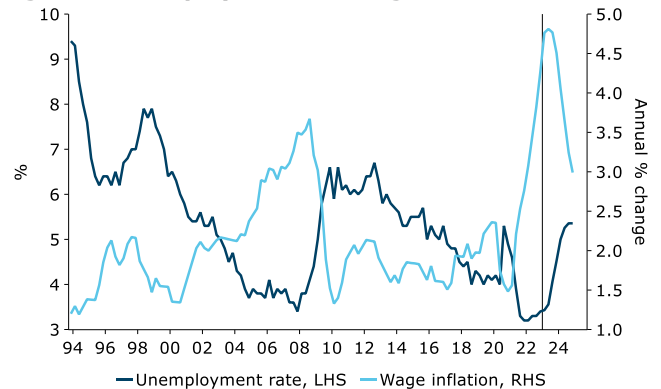


Figure 6. Unemployment and wage inflation



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



Contact us

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