

New Zealand Weekly Data Wrap

5 August 2022



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See page 5.

Forecast updates

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

- [NZ Property Focus: hardening headwinds and soft landings](#)
- [NZ CPI Q2 2022 and OCR call change](#)
- [NZ Quarterly Economic Outlook: rebalancing act](#)
- [NZ Forecast Update: farmgate milk price forecasts revised down](#)

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

What's the view?

- GDP constrained by supply more than demand
- Labour market tighter than ever, and very inflationary
- Inflation way above target, but may have peaked in Q2
- Aggressive OCR hikes towards 4.0% in November 2022 needed to contain inflation

Our forecasts are on [page 4](#).

Confused by acronyms or jargon? See a glossary [here](#).

Key risks to our view



Falling consumer and business sentiment derail momentum.



Falling house prices could have a more significant impact on the economy than expected.



Inflation expectations become unanchored, possibly as the labour market remains very tight.



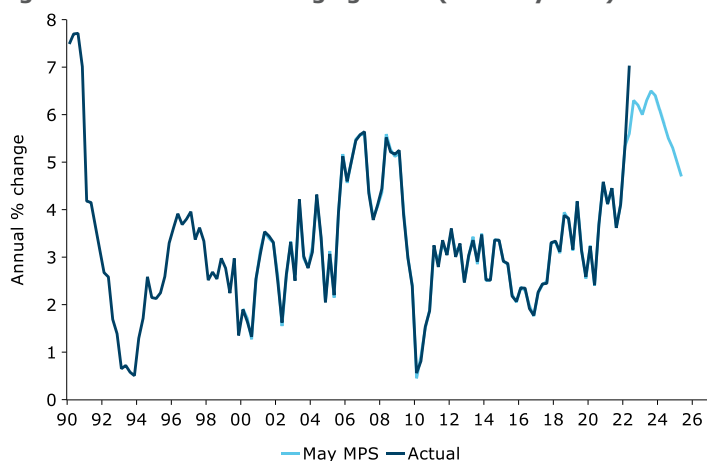
Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

This week we learned that the **unemployment rate rose slightly** to 3.3% in Q2 (3.2% previously). While that's still an incredibly low number, it was higher than the 2.8% we were expecting to see. At first glance, it's challenging to reconcile the fact that unemployment increased with the fact that firms reported in the QSBO that labour shortages were **more of a constraint** on output in Q2 than at any time since the 1970s. It's looking like the domestic labour market has simply reached the limits of its ability to match job seekers with vacant positions (eg due to skills or geographical mismatches). For hiring managers, this means it will likely remain incredibly challenging to find staff – but that may not be reflected in the headline unemployment figure.

The headline labour market numbers may have been a tad disappointing relative to our expectations (albeit still *extremely* solid in absolute terms), but wages blew everyone's forecasts out of the water. Private sector average hourly earnings growth rose a whopping 7.0% y/y – far higher than the 5.6% print the RBNZ expected (figure 1). So we find ourselves giving a 'hawkish surprise' label to a labour market report where unemployment came in 0.5ppts above our expectation. In a very short period of time wage growth has accelerated to almost catch up with CPI inflation (currently running at 7.3%). And it's very likely that private sector wage growth will be running ahead of inflation in the September quarter (ie right now).

Figure 1. Private sector wage growth (ordinary time)



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Surging wages sounds like great news for working Kiwis – it's undoubtedly a relief for households who have been watching their real purchasing power fall. But if you're a central bank with a 1-3% inflation target, while core inflation measures are 5-6%, this report is deeply concerning. Rapidly rising wages (not backed by higher productivity) only reinforce the risk of a wage price spiral. It's clear that with labour demand still insatiable, high inflation is being incorporated into wage and price-setting behaviour. The fact is, higher wages are taking the edge off the squeeze that current mortgage rates are delivering – and the RBNZ is on a mission to squeeze households. We **continue to expect** the OCR will reach 4% by year-end. But the neutral OCR is clearly lifting as the economy inflates (in 2006, with similar household debt/income levels and much lower CPI and wage inflation, the RBNZ's estimate of neutral was low-5%!). Accordingly, the risk is clearly that 4% may not be the end of it for the OCR, for all that we fully expect momentum to turn soggy by year-end.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [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 Property Focus: better fundamentals mean softer prices](#)
- [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?](#)
- [NZ Agri Focus: mixed blessings](#)
- [NZ Insight: the RBNZ's inflation expectations headache](#)
- [NZ temp fuel tax changes knock 0.5% off Q2 CPI](#)
- [NZ Insight: how is NZ's agri sector impacted by the Russian invasion](#)
- [NZ Insight: The Reopening II – shifting economic sands](#)
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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](#)

What are we watching?

The next major domestic macroeconomic event in New Zealand will be the RBNZ's Monetary Policy Statement on 17 August. [We're expecting](#) the Monetary Policy Committee will deliver a fourth 50bp interest rate hike, bringing the OCR to 3%. We think headline inflation probably peaked at 7.3% in Q2 (conditional on our forecast that the RBNZ will lift the OCR to a peak of 4% by year-end). But the problem with inflation in New Zealand is that so far, we've seen the domestic inflation pulse continue to intensify. Non-tradables inflation (just over 60% of the CPI basket) increased 0.3ppts to 6.3% y/y in Q2, and has shown no signs of easing. When you add an even stronger-than-expected wage pulse into the mix (see page 1), it's clear that domestic inflation will be challenging for the RBNZ to rein in.

The Q2 labour market report may have disappointed at a headline level, with unemployment increasing 0.1ppts to 3.3%. But it's worth noting that the suite of labour market indicators the RBNZ monitors still points to a labour market that is well beyond being consistent with low and stable inflation. Almost every indicator in Q2 2022 was stronger than in 2019 Q4, when the RBNZ noted the labour market was "at or slightly above" maximum sustainable employment (figure 2). On a more positive note, the Māori unemployment rate dropped to a record low of 5.7% in Q2 (ANZ seasonal adjustment). However, Māori unemployment remains much higher than average.

Figure 2. RBNZ maximum sustainable employment indicators

	2019 Q4	2020 Q2	2020 Q3	2022 Q1	2022 Q2
Medium term unemployment rate (%)	2.3	2.5	3.3	1.8	1.8
Youth unemployment rate (15-24 years, %)	11.1	10.8	13.5	9.3	9.5
Total unemployment rate (%)	4.1	4.0	5.3	3.2	3.3
Underemployment rate (%)	3.2	4.3	4.5	3.1	3.1
Underutilisation rate (%)	10.1	12.0	13.2	9.3	9.2
Average hours worked gap (% pts)	0.5	-6.6	0.1	-0.4	0.2
Job finding rate (%)	32.7	30.9	38.8	37.8	38.4
Job separation rate (%)	1.0	1.3	1.4	0.8	0.8
Vacancy-unemployment ratio (Index)	100.0	49.9	62.0	169.5	167.8
Difficulty finding skilled labour (Net %)	42.9	-18.9	18.5	70.4	69.8
Difficulty finding unskilled labour (Net %)	24.8	-43.1	-6.1	67.8	69.4
Labour as a limiting factor (%)	15.3	6.8	15.4	36.2	36.8
Maori unemployment rate (%)	8.3	6.8	9.1	6.0	5.7
Pasifika unemployment rate (%)	7.4	6.5	8.6	5.8	5.7

Source: Stats NZ, NZIER, MBIE, Macrobond, ANZ Research

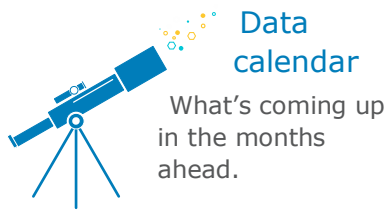
Note: The more orange (blue) the shading the stronger (weaker) the data is relative to average. 2019Q4 is shown on the chart as it was the last time the RBNZ said we were at or slightly above maximum sustainable employment.

One important data point that we are still to receive ahead of the August MPS is the RBNZ's Survey of Expectations (out next week). A key part of this data is inflation expectations. The sample size is small (just over 30 professional forecasters and business people), but it does provide another lens for how inflation expectations are developing. If inflation expectations do continue to increase, that would be a serious concern for the RBNZ, given how strong actual CPI and wage inflation data have been. With high inflation increasingly being incorporated into wage and price-setting behaviour by firms, higher inflation expectations would be of huge concern. But there are reasons to be a bit optimistic. In our [Consumer Confidence](#) survey there's been a reasonably convincing reduction in inflation expectations. It's been a little more mixed in our [Business Outlook](#) survey, but even there, inflation and cost expectations are looking peaky (albeit while remaining far too high). If inflation expectations ease in the RBNZ's survey, that would be welcome news.

Bringing it all together, we've seen nothing in the recent inflation and labour market data that will dissuade the RBNZ from delivering another 50bp OCR hike in two weeks' time. Such is the underlying momentum in inflation that they are likely to continue hiking at double speed through the rest of 2022 – despite the [significant cooling](#) we're seeing in the housing market.



Financial markets update



Date	Data/event
Mon 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectation – Q3
Tue 9 Aug (10:00am)	ANZ Truckometer – Jul
Tue 9 Aug (10:45am)	Electronic Card Transactions – Jul
Thu 11 Aug (10:45am)	Net Migration – Jun
Fri 12 Aug (10:30am)	BusinessNZ Manuf PMI – Jul
Fri 12 Aug (10:45am)	Food Price Index – Jul
Fri 12 Aug (10:45am)	Rental Price Index – Jul
Mon 15 Aug (10:30am)	Performance Services Index – Jul
Wed 17 Aug (early am)	GlobalDairyTrade auction
Wed 17 Aug (2:00pm)	RBNZ Monetary Policy Statement
Fri 19 Aug (10:45am)	Merchandise Trade – Jul
Thu 25 Aug (10:45am)	Retail Sales – Q2
Fri 26 Aug (10:00am)	ANZ-RM Consumer Confidence – Aug
Wed 31 Aug (10:45am)	Building Permits – Jul
Wed 31 Aug (1:00pm)	ANZ Business Outlook – Aug
Wed 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Fri 2 Sep (10:45am)	Terms of Trade – Q2
Mon 5 Sep (10:45am)	Building Work Put in Place – Q2
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 7 Sep (early am)	GlobalDairyTrade auction
Thu 8 Sep (10:45am)	Economic Survey of Manufacturing – Q2
Fri 9 Sep (10:00am)	ANZ Truckometer – Aug
Fri 9 Sep (10:45am)	Electronic Card Transactions – Aug
Mon 12 Sep (10:45am)	Net Migration – Jul
Tue 13 Sep (10:45am)	Food Price Index – Aug
Tue 13 Sep (10:45am)	Rental Price Index – Aug
Wed 14 Sep (10:45am)	Balance of Payments – Q2

Interest rate markets

US and local interest rates are little changed compared to a week ago, but as has been the case for much of the year, that masks significant intra-week volatility. The bellwether US 10yr Treasury bond yield traded a wide and whippy 2.51/2.85% range. More volatility is likely in store over the next week, with US July labour market data due tonight and CPI data next week. US recession fears remain the key driver of lower rates and more inverted yield curves, but if any recession isn't accompanied by a fall in nominal incomes, markets may end up being surprised that central banks don't blink (posing upside risks to interest rates). Local markets took wages data this week in their stride, but we think the data will ring alarm bells at the RBNZ, and see local upside risks being the most prevalent, especially with market expectation for the OCR (which peak at just 3.86% in February) below our forecast.

FX markets

The NZD has been range-bound either side of 0.63 this week, but the strength it mustered over late July was largely courtesy of the USD, which has been beset by lower bond yields there. We see upside risks to local interest rates, and think that if anything, the RBNZ has more, not less, work to do. But if US markets start thinking the same way, we may not have seen the last of USD strength. US jobs and inflation data tonight and next week will set the scene for FX markets over the next few days.

Key data summary

RBNZ sectoral lending data – June. Housing lending growth continues to slow, with lending up 6.9% y/y in June, versus 7.4% in May.

Building Permits – June. Eased 2.3% m/m – the third fall in a row.

GlobalDairyTrade auction. Dairy prices fell 5%, with prices now down 27% from their recent peak in March.

Labour Market Statistics – Q2. Unemployment increased to 3.3% (3.2% previously), but wages are soaring. See our [review](#).

ANZ Commodity Price Index – July. The ANZ [World Commodity Price Index](#) fell 2.2% in July, with prices easing across the majority of export sectors.

The week ahead

RBNZ Inflation Expectations – Q3 (Monday 8 August, 3:00pm). The RBNZ will be hoping to see inflation expectations ease, especially with three 50bp rate hikes under their belt.

ANZ Truckometer – July (Tuesday 9 August, 10:00am).

Electronic Card Transactions – July (Tuesday 9 August, 10:45am). Our internal spend data suggests spending was reasonably flat in July.

Net Migration – June (Thursday 11 August, 10:45am). Likely to remain very low.

Performance of Manufacturing Index – July (Friday 12 August, 10:30am). Slipped into contractionary territory in June (for the first time since the August 2021 lockdown). Further declines would indicate downside risks for GDP growth over H2 2022.

Food Prices – July (Friday 12 August, 10:45am). Usual seasonality would point to a 0.5%-1.0% m/m lift in prices.

Rental Price Index – July (Friday 12 August, 10:45am). Usual seasonality points to a 0.3% m/m gain in prices.

REINZ House Prices – July (10-17 August, 9:00am). We expect house prices will continue to fall, with a 15% [peak-to-trough decline](#) now forecast.



Key forecasts and rates

	Actual			Forecast (end month)					
	Jun-22	Jul-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
FX rates									
NZD/USD	0.621	0.628	0.630	0.630	0.630	0.640	0.650	0.650	0.650
NZD/AUD	0.904	0.900	0.904	0.887	0.875	0.865	0.867	0.867	0.867
NZD/EUR	0.597	0.614	0.615	0.618	0.600	0.598	0.591	0.580	0.575
NZD/JPY	84.7	83.7	83.8	84.4	83.2	83.2	83.2	82.6	81.9
NZD/GBP	0.513	0.516	0.518	0.521	0.512	0.516	0.516	0.512	0.508
NZ\$ TWI	70.5	71.1	71.4	71.0	70.2	70.4	70.7	70.3	69.9
Interest rates									
NZ OCR	2.00	2.50	2.50	3.00	4.00	4.00	4.00	4.00	4.00
NZ 90 day bill	2.86	3.14	3.21	3.93	4.10	4.10	4.10	4.10	4.10
NZ 2-yr swap	4.06	3.74	3.77	4.37	4.21	3.99	3.93	3.82	3.76
NZ 10-yr bond	3.86	3.42	3.39	4.25	4.00	4.00	4.00	3.75	3.75

Economic forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (% qoq)	-0.2	1.4	0.5	0.9	0.6	0.0	0.2	0.2	0.5
GDP (% yoy)	1.2	0.3	4.8	2.7	3.4	2.0	1.7	1.0	0.9
CPI (% qoq)	1.8	1.7	1.9	0.9	0.7	0.7	0.8	0.5	0.6
CPI (% yoy)	6.9	7.3	7.0	6.4	5.3	4.4	3.3	2.8	2.7
Employment (% qoq)	0.0	0.0							
Employment (% yoy)	2.7	1.6	<i>Under review</i>						
Unemployment Rate (% sa)	3.2	3.3							

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 4. Production GDP

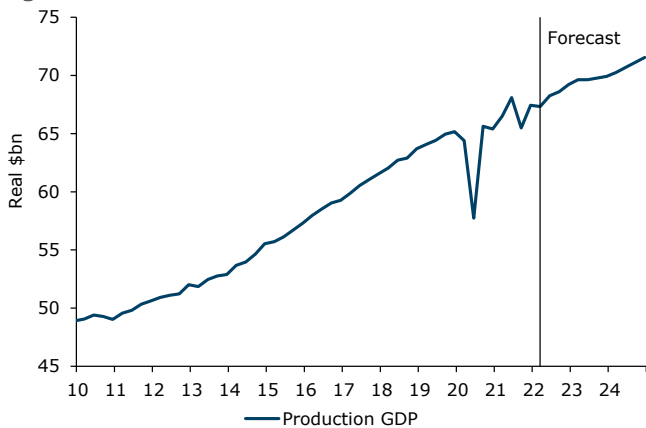


Figure 5. CPI inflation components

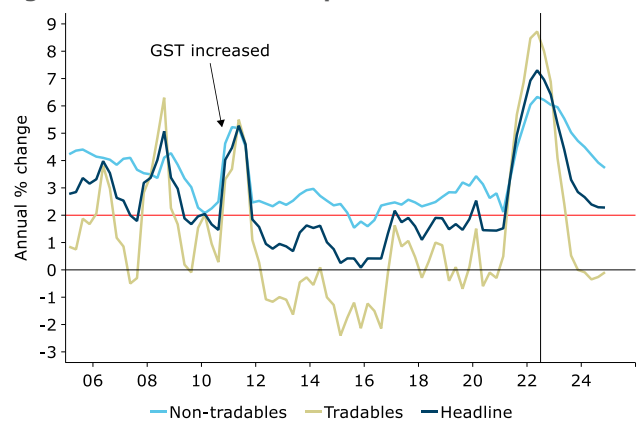


Figure 6. ANZ OCR forecast

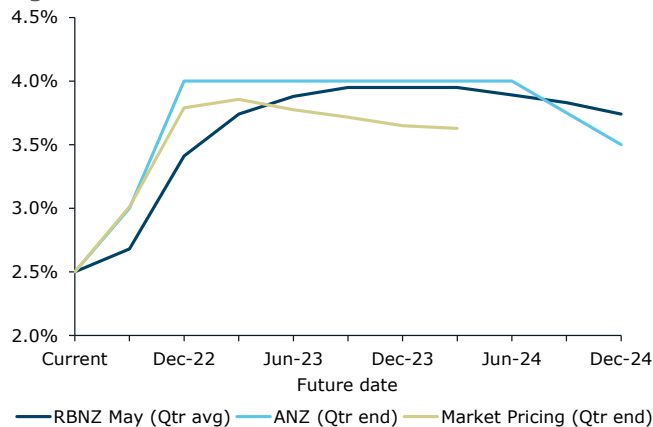
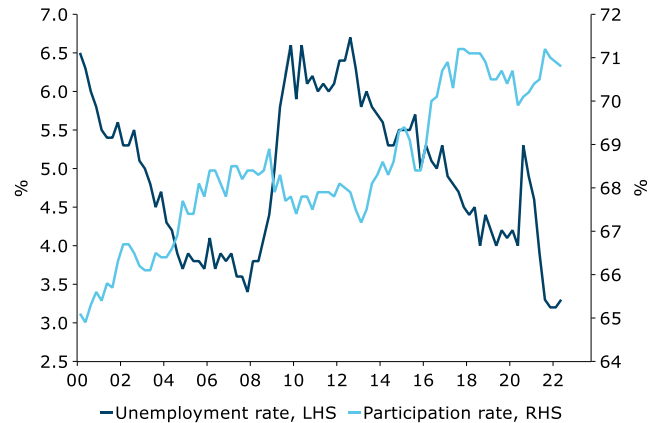


Figure 7. Unemployment and participation rate



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



Contact us

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