

# New Zealand Weekly Data Wrap

7 October 2022



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See page 5.

## Forecast updates

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

- [NZ Property Focus: spring bounce or false floor?](#)
- [NZ OCR Call Change: more work to do](#)
- [NZ Forecast Update: Farmgate milk price forecasts revised up](#)
- [NZ Quarterly Economic Outlook: on the edge](#)

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

## What's the view?

- GDP currently constrained by supply more than demand
- Labour market still extremely tight, and very inflationary
- Inflation way above target, but likely peaked in Q2
- OCR hikes to 4.75% by mid-2023 needed 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, not least in China, our key trading partner.



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



The neutral OCR could be increasing faster than estimated.



Global inflation pressures may not decline as quickly or as far as anticipated.

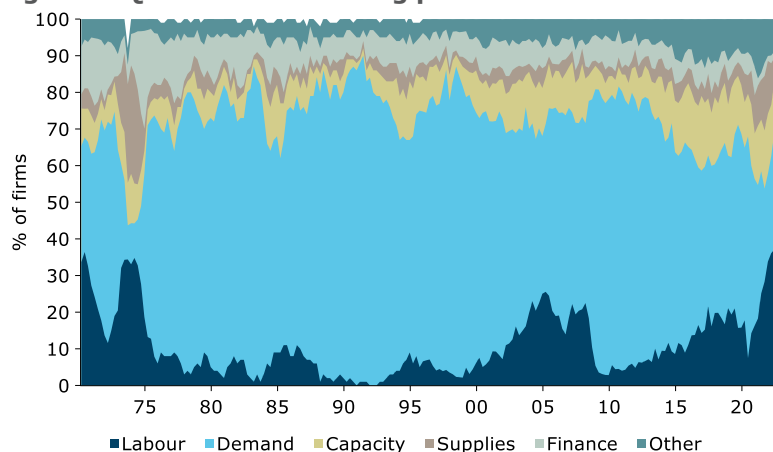
## What happened this week?

The RBNZ delivered their **fifth 50bp rate hike in a row** this week, bringing the Official Cash Rate (OCR) to 3.5% – matching the post-GFC high last seen in 2014/15. The global environment has deteriorated again since the RBNZ last met in August, with the Monetary Policy Committee (MPC) noting “recent indicators suggest the global growth outlook has weakened”. However, unlike their Australian counterparts, who surprised markets by hiking their cash rate just 25bps this week, the RBNZ clearly sees the domestic inflation situation as being serious enough to warrant continued large interest rate hikes. The MPC also noted that “higher global interest rates and increased risk aversion” have contributed to recent New Zealand dollar weakness against key trading partner currencies. That “poses further upside risk to inflation over the forecast horizon”.

So while the risk that the wheels fall off the global economy continues to build, it's clear inflation risks remain significant, and are the primary focus of the MPC. The RBNZ is wary that a wage-price spiral could generate a self-sustaining surge in domestic inflation, as “some members noted that there may be changes in wage setting behaviour in an environment of higher headline inflation”.

The domestic data flow since the August MPS has done nothing to assuage the RBNZ's concerns about domestic inflation risks. Our [Business Outlook](#) survey shows inflation expectations remain uncomfortably high, and the Q3 [Quarterly Survey of Business Opinion](#) (QSBO) contained a battery of capacity pressure indicators that are either still increasing, or falling far too slowly. In particular, the share of firms reporting labour as the primary constraint holding them back from expanding production reached a new record high, in data going back to the 1970s (figure 1).

**Figure 1. QSBO factors limiting production**



Source: NZIER, Macrobond, ANZ Research

All up, when it comes to convincingly signalling an easing in pipeline core inflation, the timely data just isn't there yet. Monthly job ads remain near historic highs, [monthly filled jobs](#) numbers continue to rise, and employment intentions in the QSBO are still pointing to elevated levels of demand for workers. We continue to expect one further 50bp hike to 4.0% in November, followed by three 25bp hikes in the first three meetings in 2023, bringing the OCR to a peak of 4.75% in May next year.



## Looking ahead



### Recent Publications

ANZ produces a range of in-depth insights.

- 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: 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 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 Insight: the RBNZ's inflation expectations headache
- NZ Insight: how is NZ's agri sector impacted by the Russian invasion
- NZ Insight: Endemic COVID-19 and labour supply

Click here for more.



### ANZ Proprietary data

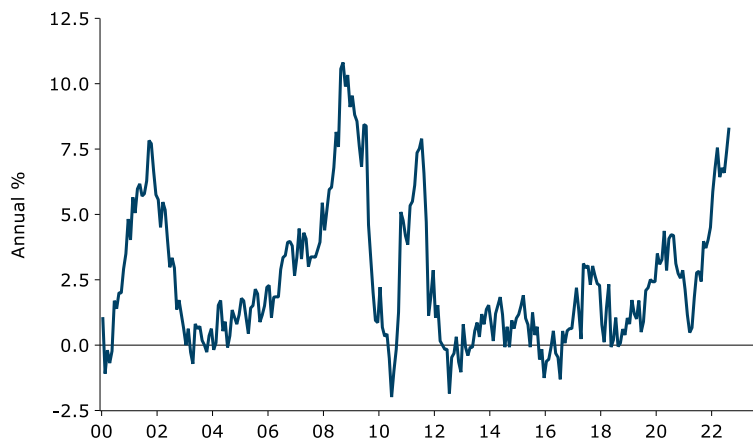
Check out our latest releases below.

- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

### What are we watching?

Next week brings an array of monthly indicators for the New Zealand economy, including food and rent price data for September – the final pieces of the puzzle before Q3's CPI inflation figure is published on 18 October. Inclement weather and surging domestic costs have contributed to soaring food prices in New Zealand, with annual food price inflation hitting a painful 8.3% in August, the highest since 2009 (figure 2). The Russian invasion of Ukraine has also contributed to the rapid rise in food prices over 2022. However, strong increases in the 'restaurant meals and ready-to-eat food' category, which is classed as non-tradable (ie domestic) highlight that a significant chunk of the food price inflation we're seeing is home-grown, and related to domestic cost pressures (including surging wage bills). While recent falls in petrol prices mean a fall in the headline CPI inflation figure is likely in Q3, ongoing strength in food and rent prices highlights that the period of elevated inflation we're going through is far from over.

Figure 2. Annual food price inflation



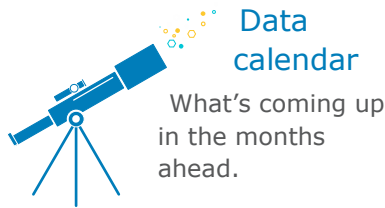
Source: Stats NZ, Macrobond, ANZ Research

House prices are where the impact of the RBNZ's rapid OCR hikes has been most visible. As at August, prices were down 9.5% from their November 2021 peak, and we expect next week's REINZ property report will confirm prices continued to ease in September. **We're expecting** to see prices fall 15% from peak to trough. A cooling housing market should eventually feed through into an easing in construction cost inflation. And that's an important pre-requisite for domestic inflation to start to ease, given construction costs were up 18.3% y/y in Q2, contributing 1.7ppts to the 7.3% CPI inflation figure. Unfortunately, there's not much evidence to suggest building cost pressures eased in Q3, and in fact this week's QSBO showed a net 92% of building firms reported higher average costs, up from 85% in Q2.

A final key data point will be the August net migration figures. This will be the first set of monthly net migration data with borders fully open, and as such, will be particularly interesting. The most recently published net migration numbers are always provisional (and subject to significant revisions), but it'll still be worth watching to see if the current outflow of people from New Zealand (running at an annual rate of -12k in July) reverses, or even accelerates. One thing's for sure – the reopening of the border is unlikely to be the magic bullet that solves New Zealand's labour shortage. One reason for this, as we explored in a previous **insight note**, is that many other countries have extremely tight labour markets as well. Australian job vacancies are still close to historical highs, and now that Kiwis can travel to and from New Zealand without fear of getting stranded overseas, we may see a lot more pressure on our already-stretched labour market as Australian employers try to fill nearly half a million job openings with OE-hungry Kiwis.



# Financial markets update



Date	Data/event
Tue 11 Oct (10:00am)	<a href="#">ANZ Truckometer – Sep</a>
Tue 11 Oct (10:45am)	Electronic Card Transactions – Sep
Wed 12 Oct (09:00am)	REINZ Housing Data – Sep
Wed 12 Oct (10:45am)	Net Migration – Aug
Thu 13 Oct (10:45am)	Food Price Index – Sep
Thu 13 Oct (10:45am)	Rental Price Index – Sep
Fri 14 Oct (10:30am)	BusinessNZ Manuf PMI – Sep
Mon 17 Oct (10:30am)	Performance Services Index – Sep
Tue 18 Oct (10:45am)	<b>CPI – Q3</b>
Wed 19 Oct (early am)	GlobalDairyTrade auction
Fri 21 Oct (10:45am)	Merchandise Trade – Sep
Wed 26 Oct (1:00pm)	<a href="#">ANZ Business Outlook – Oct</a>
Fri 28 Oct (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Oct</a>
Mon 31 Oct (3:00pm)	RBNZ Sectoral Lending – Sep
Tue 1 Nov (10:45am)	Building Permits – Sep
Wed 2 Nov (early am)	GlobalDairyTrade auction
Wed 2 Nov (10:45am)	<b>Labour Market – Q3</b>
Thu 3 Nov (1:00pm)	<a href="#">ANZ Commodity Price Index – Oct</a>
Tue 8 Nov (10:00am)	<a href="#">ANZ Truckometer – Oct</a>
Tue 8 Nov (3:00pm)	RBNZ 2Yr Inflation Expectation – Q4
Wed 9 Nov (10:45am)	Electronic Card Transactions – Oct
Fri 11 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Fri 11 Nov (10:45am)	Food Price Index – Oct
Fri 11 Nov (10:45am)	Rental Price Index – Oct
Mon 14 Nov (10:30am)	Performance Services Index – Oct
Tue 15 Nov (10:45am)	Net Migration – Sep
Wed 16 Nov (early am)	GlobalDairyTrade auction

## Interest rate markets

Global interest rates resumed their upward march this week, with US 10-year Treasury bond yields back up at 3.8% this morning, having corrected to a low of around 3.55% as global bond markets reacted to intervention by the Bank of England, and slumping equities. Fed speakers remain hawkish, and that has reset the tone in the US, but much also depends on US non-farm payroll data tonight, and US CPI data next Thursday night. That data will figuratively speak for itself, and while we worry that it is more likely than not to be strong, let's see how it goes. The RBNZ's hawkish tone has also added upward pressure at the short end, and we think there's more upside yet. Bottom line: our forecasts have most interest rates making new highs before the cycle is done.

## FX markets

FX volatility ticked up a notch this week, and that looks to be overshadowing directionality. US drivers continue to trump local drivers, but the NZD's beta to USD moves has been elevated, creating significant volatility on crosses too. From here things are mixed. The ball remains in the USD's court amid hawkish Fed speak, but how far things go depends on upcoming jobs and CPI data, and we are a bit surprised the NZD didn't capitalise on the hawkish RBNZ MPR. NZ now has the highest policy rate in the G10 again; that's a key leg of support.

## Key data summary

**RBNZ sectoral lending data – August.** Annual housing lending growth eased slightly to 6.1% (6.2% previously), while the decline in personal consumer lending slowed, with an annual fall of 2.3% (5.7% previously).

**NZIER Quarterly Survey of Business Opinion – Q3.** See our [review](#).

**GlobalDairyTrade auction.** The Global Dairy Trade Price Index fell 3.5% at the latest auction, led by a 7.0% fall in the price of butter.

**RBNZ OCR Review – October.** The RBNZ hiked 50bps – see our [review](#).

**ANZ Commodity Price Index – September.** Down 0.5% m/m in world price terms, up 3.3% in NZD terms thanks to the weaker currency.

## The week ahead

**ANZ Truckometer – September (Tuesday 11 October, 10:00am).**

**Electronic Card Transactions – September (Tuesday 11 October, 10:45am).** A softer read from August's 0.9% m/m print is likely, but the data are still pretty noisy.

**REINZ House Prices – September (Wednesday 12 October, 9:00am).**

We anticipate ongoing monthly declines in house prices for the rest of 2022, with a 15% peak-to-trough fall in prices remaining our [central view](#).

**Net Migration – August (Wednesday 12 October, 10:45am).** The first month of data with an open border. While the initial estimates are always subject to large revisions, it'll still be one to watch.

**Food Prices – September (Thursday 13 October, 10:45am).** Food prices tend to fall from September through to the end of the year (we've pencilled in a 0.2% m/m drop), but domestic cost pressures and inclement weather pose upside risks.

**Rental Price Index – September (Thursday 13 October, 10:45am).**

We've pencilled in a seasonal 0.2% m/m lift in the stock of rents. New rents have fallen sharply in recent months, suggesting less pressure on rent prices could be in the pipeline.

**Performance of Manufacturing Index – September (Friday 14 October, 10:30am).** The PMI has bounced in the past few months. Another strong result would add to other timely indicators suggesting domestic momentum remains resilient to OCR hikes delivered so far.



## Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Aug-22	Sep-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD/USD	0.612	0.560	0.565	0.590	0.570	0.570	0.580	0.590	0.600
NZD/AUD	0.893	0.874	0.882	0.894	0.891	0.891	0.892	0.894	0.882
NZD/EUR	0.613	0.571	0.577	0.608	0.600	0.600	0.598	0.590	0.583
NZD/JPY	84.9	81.0	82.0	86.7	85.5	85.5	85.8	85.6	85.2
NZD/GBP	0.527	0.501	0.507	0.527	0.518	0.518	0.513	0.504	0.504
NZ\$ TWI	70.7	67.8	67.5	70.0	68.6	68.6	68.9	69.1	69.1
Interest rates	Aug-22	Sep-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZ OCR	3.00	3.00	3.50	4.00	4.25	4.75	4.75	4.75	4.75
NZ 90 day bill	3.47	3.85	3.86	4.27	4.77	4.85	4.85	4.85	4.85
NZ 2-yr swap	4.32	4.67	4.66	4.80	4.95	4.95	4.95	4.95	4.85
NZ 10-yr bond	3.98	4.30	4.26	4.50	4.75	4.75	4.75	4.75	4.50

### Economic forecasts

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
GDP (% qoq)	1.7	<b>0.4</b>	<b>0.2</b>	<b>0.3</b>	<b>0.7</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>
GDP (% yoy)	0.4	<b>5.0</b>	<b>2.1</b>	<b>2.6</b>	<b>1.6</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.1</b>
CPI (% qoq)	1.7	<b>1.6</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>
CPI (% yoy)	7.3	<b>6.7</b>	<b>6.1</b>	<b>5.0</b>	<b>3.9</b>	<b>3.1</b>	<b>2.5</b>	<b>2.3</b>	<b>2.0</b>
Employment (% qoq)	0.0	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.3</b>	<b>-0.4</b>	<b>-0.4</b>	<b>0.1</b>
Employment (% yoy)	1.6	<b>-0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>	<b>-0.5</b>	<b>-1.0</b>	<b>-1.0</b>
Unemployment Rate (% sa)	3.3	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>4.0</b>	<b>4.5</b>	<b>4.8</b>	<b>4.9</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 forecast level

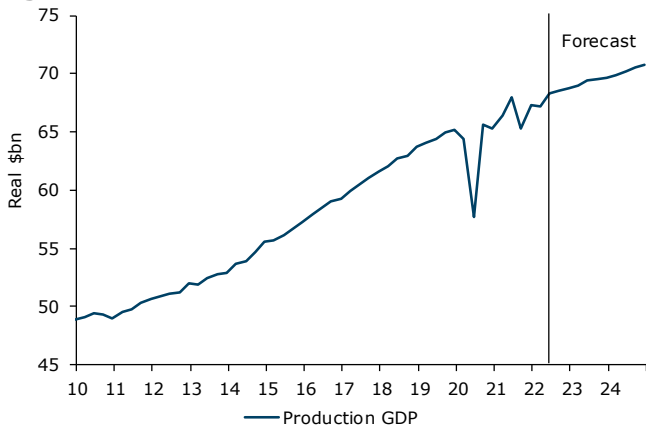


Figure 4. CPI inflation components

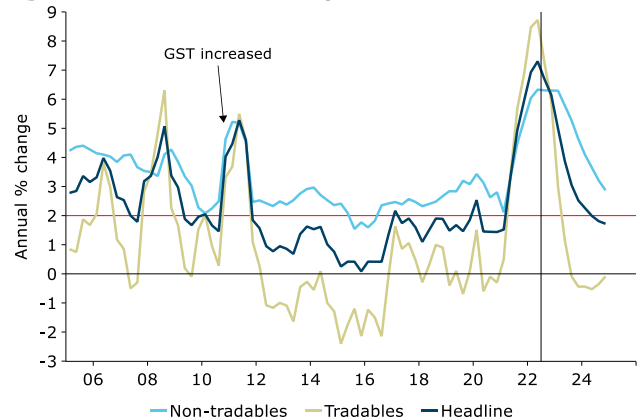


Figure 5. ANZ OCR forecast

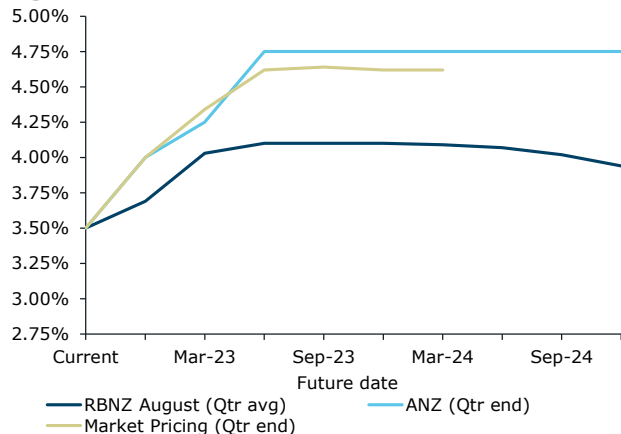
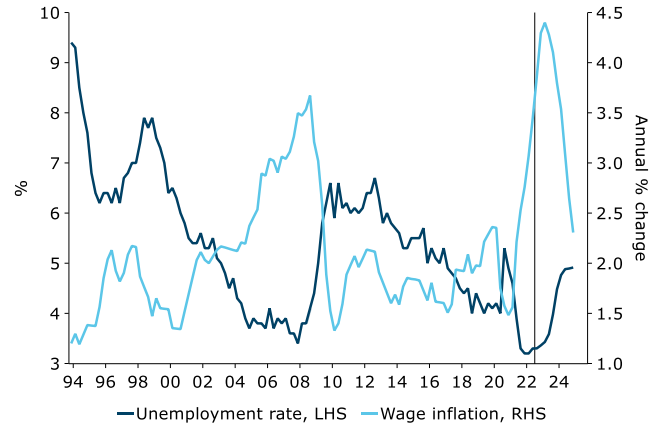


Figure 6. Unemployment and wage inflation



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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