ANZ Research

New Zealand Weekly Data Wrap

16 December 2022

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See page 7.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Forecast Update: ANZ releases milk price forecast for 2023-24 season
- NZ Weekly Data Wrap: taking stock after the MPS
- NZ Property Focus: six reasons
- RBNZ MPS Review and OCR Call Change: hope is not a strategy
- NZ Economic Outlook: coming in to land

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, and looking sticky
- OCR to 5.75% 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, not least in China, our key trading partner.
- The housing slowdown could become disorderly if unemployment rises sharply.
- Wage-price spiral could necessitate more interest rate hikes than expected.
- Global inflation pressures may not decline as quickly or as far as anticipated.

This is our last *Weekly Data Wrap* for the year. Our first edition for 2023 will be released on 13 January. We would like to wish our readers a safe and enjoyable festive season. *Meri Kirihimete.*

What happened this week?

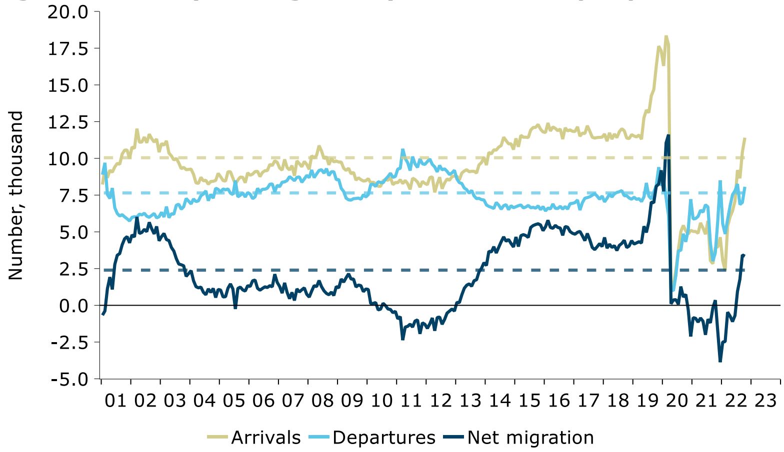
So much for gently easing into the holidays – this was a busy week. In New Zealand, the Half Year Economic and Fiscal Update and Q3 GDP data were released (see page 2), and we've updated our forecasts for GDP (page 3) and the current account deficit (page 4).

The November REINZ house price index was down another 1.9% m/m (ANZ seasonal adjustment), with house prices down around 14% from their November 2021 peak. We continue to expect a 22% peak-to-trough decline in house prices. Sales volumes were down 11.5% m/m, while the median number of days it is taking to sell a house remained high at 46 (47 previously).

Stats NZ also released food and rent price data for November, which confirmed that at least in those areas, inflation pressures are still far too strong. Food prices were up 1.0% m/m (seasonally adjusted), with food groups like fruit and vegetables experiencing much lower seasonal declines in prices than usual, and labour shortages continuing to impact the entire food supply chain, from growers to retailers and restauranteurs. Annual food price inflation lifted to 10.7% y/y (10.1% previously). One ray of hope came through in rent prices. Rents for all tenancies were up 0.2% m/m (4.0% y/y) in November, but rents for new tenancies were up just 0.7% y/y (versus closer to 5 or 6% over much of 2021 and 2022).

Net migration data for October was also released, showing that arrivals, departures, and net migration are all now above their pre-pandemic averages (figure 1). The data are heavily subject to revision for the first few months, but at the margin, they are pointing to rapid normalisation.

Figure 1. Monthly net migration (dashed lines = pre-pandemic average)



Source: Stats NZ, Macrobond, ANZ Research

Overseas, US CPI inflation eased to 7.1% y/y in November (7.7% previously). The US Fed stepped down the pace of rate hikes yesterday, lifting the fed funds rate (FFR) by 'just' 50bp to a range of 4.25-4.5%, after four 75bp hikes in a row. However, the Fed is not done hiking rates, with the median FOMC participant now expecting a 5.1% peak in the midpoint of the FFR corridor, versus 4.6% in September.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ 2022 HYEFU: 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: 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

Click here for more.

ANZ Proprietary data

Check out our latest releases below.

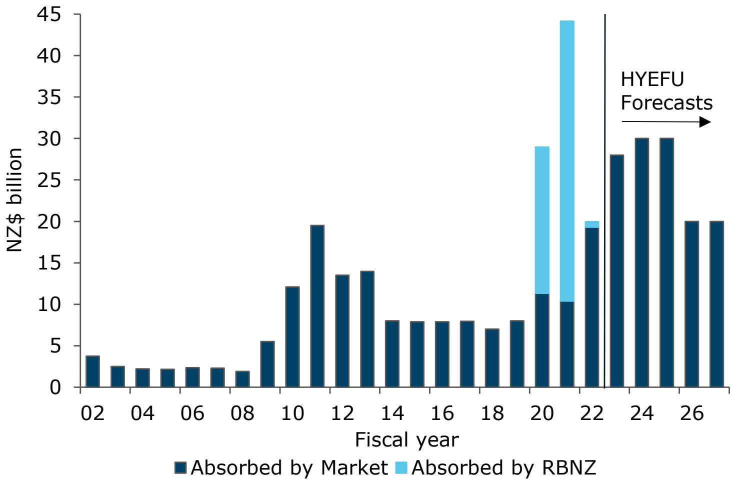
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

GDP bounces, Government focuses on reprioritisation

On Wednesday the 2022 Half-Year Economic and Fiscal Update showed that the Treasury is still forecasting a return to surplus in the 2024/25 fiscal year. The Treasury's updated economic forecasts include higher interest rates, weaker economic activity, but also more inflation than was anticipated at the May Budget. Given the high inflation environment, forecast core Crown tax revenue and core Crown expenses are both expected to be higher over the entire projection. High inflation is raising the cost of delivering key government services, but the Government has decided to stick with its previously-signalled (and sizable) $4.5bn operating allowance in Budget 2023, and focus on reprioritisations, rather than simply meeting high inflation with higher discretionary spending. Given economic capacity is extremely stretched and the current account deficit has widened to a new record 7.9% of GDP, that's the right thing to do from a macro-balance perspective.

NZDM has lifted bond issuance guidance from $25bn in the current fiscal year to $28bn. Thereafter, each year has been given a $5bn bump, with NZDM signalling a $30bn programme for 2023/24 and 2024/25, and $20bn programmes for 2025/26 and 2026/27 (figure 2). The upgrade to bond issuance reflects that the funding required by Kāinga Ora's will now be met by NZDM. In addition, higher interest rates and spending have both put upwards pressure on the bond programme.

Figure 2. NZGB issuance



Source: NZDM, RBNZ, ANZ Research

Thursday brought us Q3 GDP data, which continues to be extremely volatile as the reopening border normalisation takes place. The economy expanded 2.0% q/q, higher than our expectation of 1.1%, market expectations of 0.9%, and the RBNZ's November MPS forecast of 0.8%. On an annual basis the economy expanded 6.4%, but that's inflated by the fact that the economy shrank this time last year due to the lockdown. Digging into the details, it's clear that a lot of the strength in the GDP data is either on borrowed time (for example residential investment lifted 2.7% q/q, but timely consents and construction intentions data suggest a construction downturn is coming) or is a reflection of the resumption of international travel (with services exports up 25.7% q/q). Other details were less positive. Private consumption contracted 0.1% q/q (on top of Q2's 3.4% fall), suggesting that household sector momentum is southbound. The inflationary environment was reflected in the household consumption deflator, which lifted 6.3% y/y (5.8% previously), in contrast to CPI inflation which eased 0.1ppt to 7.2% in Q3.

The data remain extremely noisy, but we are seeing evidence of a slowing in domestic demand (starting with household consumption), and a normalisation in services exports. Given the noise, and current inflation pressures, this data isn't exactly a game changer for the monetary policy outlook.

Looking ahead

GDP forecast downgraded

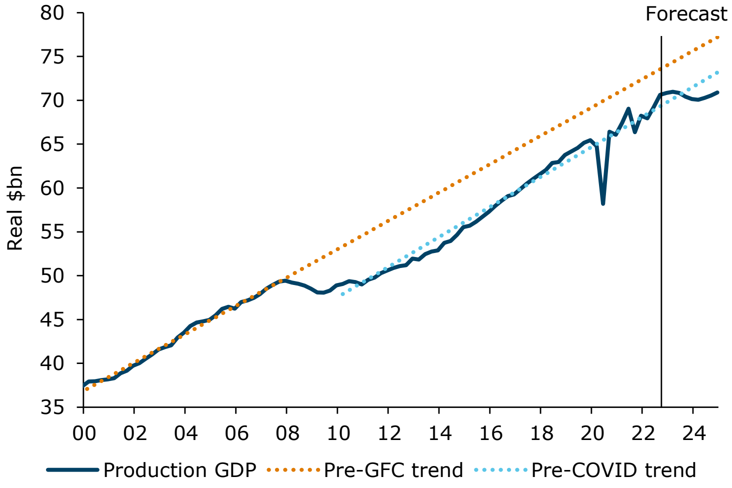
This is a bit of an unfortunate note to end 2022 on, but with Q3 GDP now in tow, it's time to incorporate these data, and the impacts of our recent OCR call change (for a peak OCR of 5.75%) into our outlook for economic activity.

In a nut shell, our outlook for 2023 and 2024 is largely the inverse of the recent post-pandemic experience, where monetary and fiscal stimulus pushed domestic demand to the limits of economic capacity, causing the housing market to take off like a rocket, and inflation to surge to a multi-decade high. Meanwhile, with our borders closed, international tourism and education exports fell off a cliff. That's now being flipped on its head, with households looking to tighten their belts, the residential investment pipeline shrinking, and businesses wary. All the while, services exports (eg tourism and education) are well on the path to recovery.

Incorporating a higher OCR outlook into our GDP forecast doesn't really change the broad story, but it does add a little more duration and magnitude to the slowdown we've been forecasting for some time now. And because the services exports recovery is a little more advanced than we previously thought, there is now less scope in 2023 for an exports recovery to offset weaker domestic demand and keep the economy out of recession.

Our updated forecast has the economy entering recession in Q2 2023, with an overall decline in economic activity of 1.3% between Q2 2023 and Q1 2024. That's a smaller break from trend compared to the GFC (figure 3), but for some households it'll still be tough going. But the upshot is with capacity this stretched (particularly in the labour market), this slowdown will be needed to get inflation down and the economy on a sustainable path once more. That's certainly the RBNZ's take, and given they have the tool to make it happen (the OCR), we're hardly going to argue.

Figure 3. Production GDP

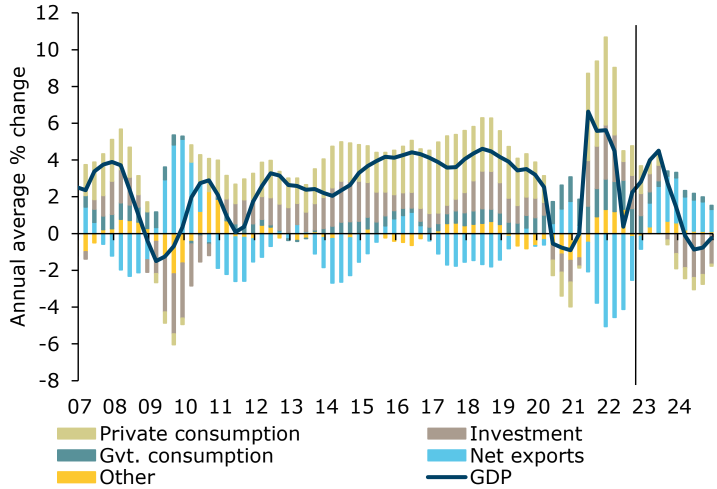


Source: Stats NZ, ANZ Research

Looking to the broad composition of our outlook (figure 4, over page), it's pretty standard turn-of-cycle stuff. The most interest rate sensitive pockets of the economy (residential and business investment) are expected to contract the most, while private consumption falls by less. Meanwhile, the softer domestic demand pulse causes imports of goods to pull back from their recent high level, which alongside further recovery in exports sees net exports (exports less imports) make a positive contribution to growth overall. Government consumption makes a small positive contribution, but we assume this is relatively constrained given the importance of returning to surplus and current macroeconomic imbalances (high inflation and a record-wide current account deficit).

Looking ahead

Figure 4. Expenditure GDP

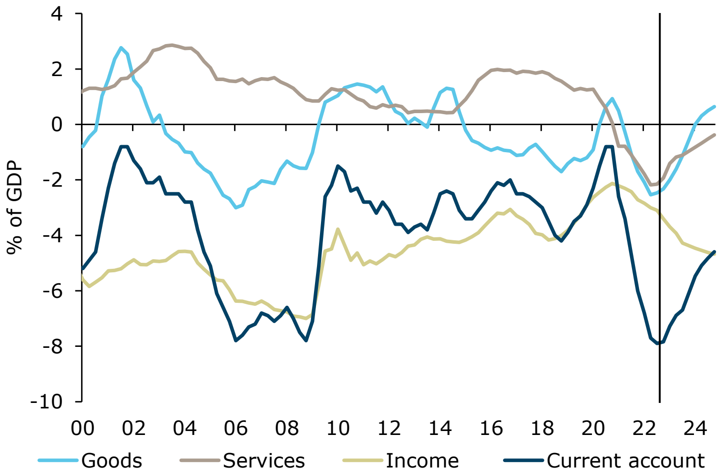


Source: Statistics NZ, ANZ Research

Speaking of the current account, our updated forecast is a smidgen more optimistic than previously. That's largely because the services exports recovery is a little more advanced than we previously thought, which all else equal, will see the annual services balance improve a little faster. However, given services imports have been trending higher, the required recovery in services exports (eg international education and tourism) needs to exceed pre-pandemic levels before services trade is back in the black. That's expected to take a little longer than our approximately 2-year ahead forecast (figure 5). Meanwhile, with goods imports contracting on the back of weaker domestic demand and the terms of trade (the ratio of export prices to import prices) trending higher, the annual goods deficit is expected to flip into surplus.

Offsetting the improving goods and services balance is an expectation that the income deficit will widen from here. As a net borrower from the rest of the world, rising net income outflows are part and parcel of a rising global interest rate environment, and risks are skewed to these providing a larger offset to an improving trade balance than expected.

Figure 5. Annual current account



Source: Statistics NZ, ANZ Research

All up, we see the annual current account deficit narrowing in early 2023 from around current levels (7.9% of GDP) to around 4.5% by the end of our forecast. That may happen a little slower, but at least conditions are in place for an improvement (less stimulatory fiscal settings and monetary tightening).

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 19 Dec (10:30am)	Performance Services Index – Nov
Tue 20 Dec (10:45am)	Merchandise Trade – Nov
Tue 20 Dec (1:00pm)	ANZ Business Outlook – Dec
Wed 21 Dec (early am)	GlobalDairyTrade auction
Wed 21 Dec (10:00am)	ANZ-RM Consumer Confidence – Dec
Wed 4 Jan (early am)	GlobalDairyTrade auction
Wed 11 Jan (1:00pm)	ANZ Commodity Price Index – Dec
Thu 12 Jan (10:00am)	ANZ Truckometer – Dec
Thu 12 Jan (10:45am)	Building Permits – Nov
Tue 17 Jan (10:00am)	NZIER QSBO – Q4
Wed 18 Jan (early am)	GlobalDairyTrade auction
Wed 18 Jan (10:45am)	Electronic Card Transactions – Dec
Thu 19 Jan (10:45am)	Food Price Index – Dec
Thu 19 Jan (10:45am)	Rental Price Index – Dec
Fri 20 Jan (10:30am)	BusinessNZ Manuf PMI – Dec
Fri 20 Jan (10:45am)	Net Migration – Nov
Tue 24 Jan (10:30am)	Performance Services Index – Dec
Tue 24 Jan (10:45am)	Merchandise Trade – Dec
Wed 25 Jan (10:45am)	**CPI – Q4**
Wed 1 Feb (10:45am	**Labour Market – Q4**
Thu 2 Feb (10:45am)	**Building Permits – Dec**
Fri 3 Feb (10:00am)	ANZ-RM Consumer Confidence – Jan
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 (10:45am)	Electronic Card Transactions – Jan
Tue 14 Feb (10:45am)	Food Price Index – Jan

Interest rate markets

New Zealand short end interest rates rose sharply this week in the wake of strong GDP data and under the shadow of hawkish messages from the Fed and the ECB. Recession fears have helped contain longer term global bond yields, and that's contributed to a more inverted New Zealand yield curve. However, that just means local long end rates have risen by less than their shorter counterparts, and they remain under pressure from additional bond supply (announced at the HYEFU), trepidation around rising short end rates, and tepid bidding interest at NZGB tenders. We've been expecting rates to rise to more logical levels for some time now, and this move has gotten the term structure to levels that we think are more appropriate to the economic outlook. However, positioning remains a problem, and it remains to be seen how quickly the turn in growth, inflation and policy rates will come. Against that backdrop, further volatility seems likely over the holiday period.

FX markets

The Fed's hawkish message gave the USD DXY a lift this week, and alongside a sinking feeling that risk assets face a tough period ahead, that's seen a circa 2 cent fall in the Kiwi off Wednesday's peak. We expect the holidays to be punctuated by volatility, and this week is just the start of that. New Zealand has high bond yields and recovering exports, but the US has a higher policy rate and safe haven considerations. Amid volatility, that may extend the USD's bounce.

Key data summary

Net Migration - October. Broadly flat at 3343 after September's upwardly revised 3430 print. Net-migration is now above its pre-pandemic average.

REINZ House Prices – November. Fell 1.9% m/m (ANZ seasonal adjustment), with prices now down 14% from their November 2021 peak.

Food Prices – November. Were unchanged in November as we expected (a month when they often fall 0.5-1.0%). Food price inflation hit 10.7% (10.1% previously).

Rental Price Index – November. Lifted 0.2% m/m (4.0% y/y) as expected. New rents were up 0.7% y/y, pointing to pipeline weakness in rent inflation.

Current Account Balance – Q3. The current account deficit widened to 7.9% of GDP.

Half-Year Economic and Fiscal. See our Review.

GDP – Q3. The economy expanded 2.0% q/q in Q3. See our Review.

The week ahead

Performance of Services Index – November (Monday 19 December, 10:30am). Has been on a tear over 2022, and with tourism finally making a comeback over the summer, we may continue to see strength in the PSI.

Overseas Merchandise Trade – November (Tuesday 20 December, 10:45am). Imports are expected to have outpaced exports again in November resulting in a trade deficit near NZD650million.

ANZ Business Outlook – December (Tuesday 20 December, 1:00pm).

GlobalDairyTrade auction (Wednesday 21 December, early am). Dairy prices are forecast to firm about 1% at the final event for 2022.

ANZ Roy Morgan Consumer Confidence – December (Wednesday 21 December, 10:00am).

Key forecasts and rates

FX rates	Actual Oct-22	Nov-22	Today	Forecast (end month) Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD/USD	0.580	0.624	0.635	0.630	0.610	0.610	0.620	0.630	0.640
NZD/AUD	0.907	0.927	0.947	0.926	0.938	0.924	0.912	0.900	0.889
NZD/EUR	0.584	0.602	0.597	0.606	0.604	0.592	0.590	0.594	0.593
NZD/JPY	86.2	86.6	87.4	86.9	86.6	85.4	84.3	84.4	84.5
NZD/GBP	0.503	0.520	0.521	0.525	0.530	0.521	0.521	0.516	0.516
NZ$ TWI	69.8	72.4	73.1	72.7	70.9	70.0	70.0	70.3	70.5
Interest rates	**Oct-22**	**Nov-22**	**Today**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**
NZ OCR	3.50	4.25	4.25	4.25	5.00	5.75	5.75	5.75	5.75
NZ 90 day bill	4.10	4.42	4.53	4.85	5.77	5.85	5.85	5.85	5.85
NZ 2-yr swap	5.02	5.14	5.33	5.38	5.35	5.35	5.15	5.10	5.05
NZ 10-yr bond	4.19	4.08	4.28	4.25	4.25	4.20	4.15	4.05	4.05

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	**1.3**	**2.0**	**0.8**	**1.0**	**0.6**	**0.7**	**0.4**	**0.6**
CPI (% yoy	7.2	**7.0**	**7.3**	**6.4**	**5.1**	**4.5**	**3.1**	**2.8**	**2.4**
Employment (% qoq)	1.3	**0.3**	**0.2**	**0.1**	**-0.4**	**-0.4**	**-0.4**	**-0.1**	**0.1**
Employment (% yoy)	1.2	**1.5**	**1.8**	**1.9**	**0.2**	**-0.5**	**-1.1**	**-1.2**	**-0.8**
Unemployment Rate (% sa)	3.3	**3.2**	**3.3**	**3.4**	**3.9**	**4.4**	**4.9**	**5.1**	**5.2**

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. **Click here for full ANZ forecasts**

Figure 6. GDP level

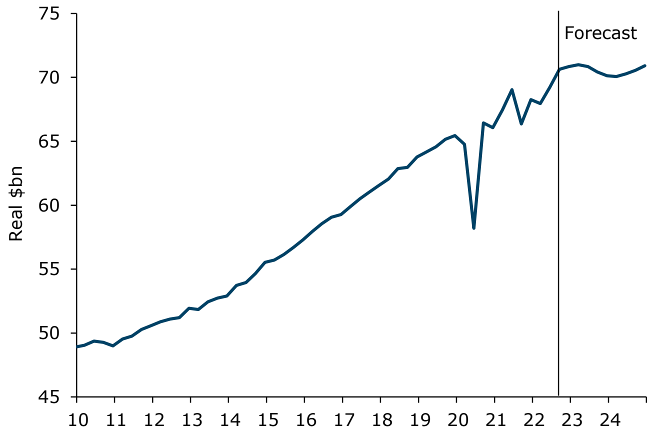


Figure 7. CPI inflation components

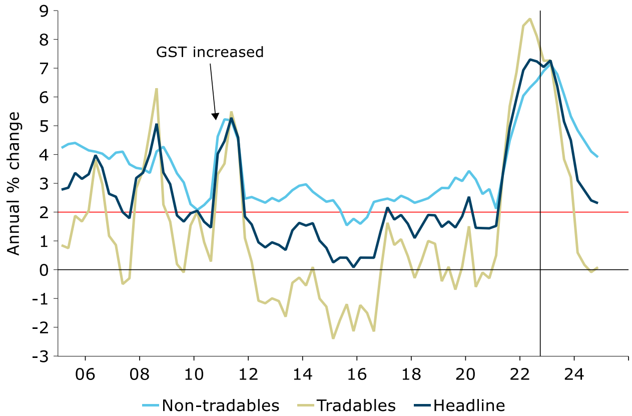


Figure 8. OCR forecast

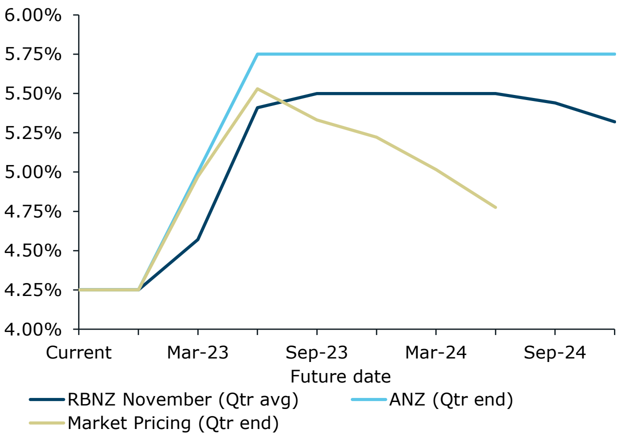
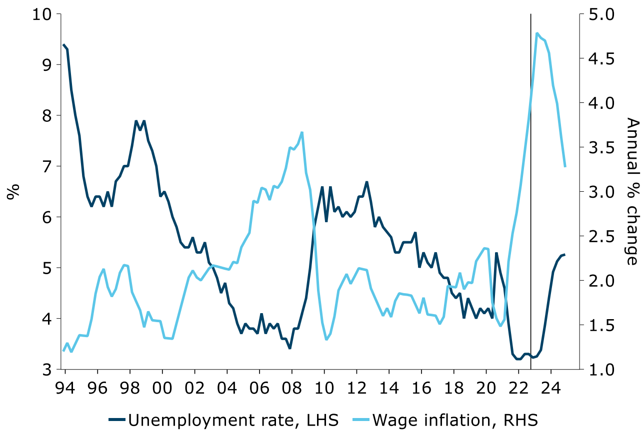


Figure 9. Unemployment and wage inflation



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

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