ANZ Research

New Zealand Weekly Data Wrap

16 September 2022

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See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Forecast Update: farmgate milk price forecasts revised up
- NZ Property Focus: no place for green shoots
- NZ Quarterly Economic Outlook: on the edge

Our other recent publications are on page 2.

What's the view?

- GDP constrained by supply more than demand
- Labour market extremely tight, and very inflationary
- Inflation way above target, but likely 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

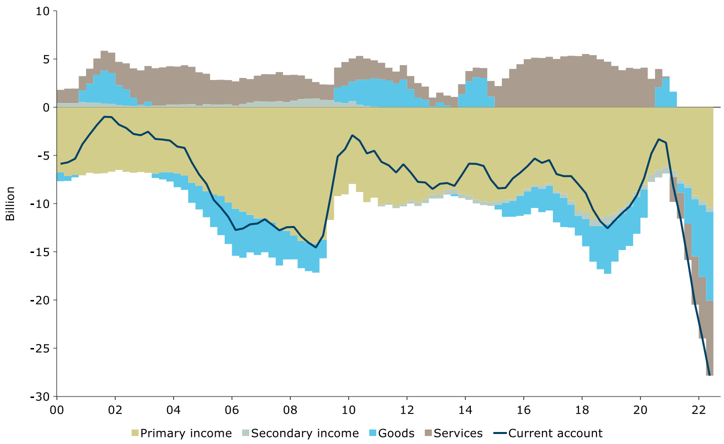
- Global growth risks abound, not least in China, our key trading partner.
- Falling house prices could have a more significant impact on the economy than expected.
- Neutral OCR is higher than the RBNZ's 2% estimate, necessitating more hikes than otherwise.
- Global inflation pressures don't decline as quickly as anticipated.

What happened this week?

REINZ housing data for August suggests spring arrived early this year (from a buying perspective at least), with sales lifting 9.4% m/m on a seasonally adjusted basis. That said, listings are yet to undergo their typical seasonal rise, which will test the market. Meanwhile, the House Price Index fell another 1.3% on a seasonally adjusted and the number of days it is taking to sell a house lifted to an even cooler 46 (sa). That suggests the impacts of rising mortgage rates continue to bite. All up, with prices now around 9.5% off their November peak, we're almost two thirds of the way into our (lightly pencilled in) forecast for a peak-to-trough decline of 15%.

The Q2 Balance of Payments showed the annual current account deficit widened to 7.7% of GDP, clearly demonstrating the impacts of the closed border (which has turned our usual services surplus into a deficit) and the impacts of too much domestic stimulus (driving very strong demand for imported goods). Looking forward, the reopening of our border is expected to see the services balance improve just as tightening monetary conditions take the heat out of domestic demand (weighing on imports). However, the rising global interest rate environment will act as a headwind to a narrowing current account, by widening the income deficit, all else equal. But one thing's for sure, NZ's deteriorating external balance shows that too-high CPI inflation isn't the only headache that's resulted from excessive fiscal and monetary stimulus.

Figure 1. Annual current account deficit



Source: Stats NZ, Macrobond, ANZ Research

The big domestic event this week was Q2 GDP, where growth surprised our expectations firmly to the upside at 1.7% q/q. But looking at the details, there's nothing in these data to suggest underlying economic momentum is stronger than we previously thought. Rather, the bulk of the surprise looks more like unseasonably strong pockets of activity in winter, which after seasonal adjustment led to much larger contributions to growth than expected. The bottom line is the quarterly growth figure is more noise than signal, but it is noise that will still have to come out of the wash eventually (implying some payback over coming quarters). Given the noise, and the fact that GDP landed very close to the RBNZ's August MPS forecast of 1.8%, it's hard to see these data having any major implications for the RBNZ's thinking at the October Monetary Policy Review or the November Monetary Policy Statement. Wage and CPI inflation pressures are far more important and way too elevated not to continue hiking the OCR to at least 4%.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- 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

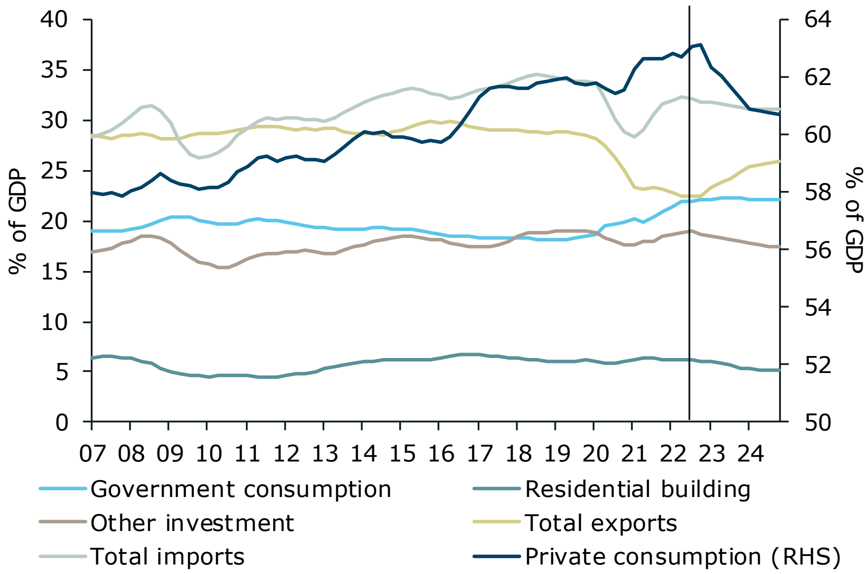
Updated GDP forecast

Q2 GDP growth came in significantly stronger than expected, but with so much noise in the data it would be a very big call to pin this on underlying momentum (we certainly haven't). The data showed a recovery underway for travel-related industries (as the border reopens), but this wasn't news; it has been in our forecast for a long time. The Q2 surprise (with services exports up a whopping 60.7% q/q) was more about how the timing of that fits in on a seasonally adjusted basis. In fact, given the seasonality noise, we think stronger Q2 growth lends itself to weaker growth over the coming summer (on the expectation that services exports – eg international tourism – will take more than one summer to experience a full recovery). Accordingly, we've taken the surprise strength in Q2 growth out of our quarterly growth forecast for the coming summer. That leaves us with an outlook that, once you look though the additional volatility in the quarterly growth profile, is little changed from that outlined in our latest Quarterly Economic Outlook.

Indeed, a stronger starting point driven largely by seasonal quirkiness doesn't change the fact that growth headwinds are intensifying. We continue to see a period of belt tightening ahead for households as higher interest rates bite. As figure 2 shows, that's expected to see private consumption as a share of GDP pull back meaningfully. Both residential and business investment are highly sensitive to rising interest rates and are expected to soften too. In fact, we expect an all-out contraction in both of these components over 2023 (with the relatively small government investment component holding up). Government consumption is expected to remain elevated, but given inflation pressures, fiscal consolidation is long overdue, so perhaps Budget 2023 won't include yet another increase in government spending. Indeed, while the Government's new looser fiscal strategy would likely allow for that, the fact that the RBNZ will just meet more fiscal expansion with a higher-than-otherwise OCR suggests further fiscal stimulus would contribute little to overall growth.

The big good news story in our forecast is the normalisation in services exports as international tourism and education recover. We're not talking seasonally adjusted noise here, we're talking New Zealand summers with actual international visitors. Combined with a softer domestic demand pulse (which will see demand for imported goods slow), we've pencilled in a strong net exports recovery that will hopefully (touch wood) keep the economy out of recession.

Figure 2. Expenditure GDP components share of GDP (annual)



Source: Stats NZ, ANZ Research

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 19 Sep (10:30am)	Performance Services Index – Aug
Wed 21 Sep (early am)	GlobalDairyTrade auction
Thu 22 Sep (10:45am)	Merchandise Trade – Aug
Thu 29 Sep (1:00pm)	ANZ Business Outlook – Sep
Fri 30 Sep (10:45am)	Building Permits – Aug
Fri 30 Sep (10:00am)	ANZ-RM Consumer Confidence – Sep
Fri 30 Sep (3:00pm)	RBNZ Sectoral Lending – Aug
Tue 4 Oct (10:00am)	NZIER QSBO – Q3
Wed 5 Oct (early am)	GlobalDairyTrade auction
Wed 5 Oct (2:00pm)	**RBNZ Monetary Policy Review**
Thu 6 Oct (1:00pm)	ANZ Commodity Price Index – Sep
Tue 11 Oct (10:00am)	ANZ Truckometer – Sep
Tue 11 Oct (10:45am)	Electronic Card Transactions – 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)	**CPI – Q3**
Wed 19 Oct (early am)	GlobalDairyTrade auction
Fri 21 Oct (10:45am)	Merchandise Trade – Sep
Wed 26 Oct (1:00pm)	ANZ Business Outlook – Oct
Fri 28 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Tue 1 Nov (10:45am)	Building Permits – Sep
Wed 2 Nov (early am)	GlobalDairyTrade auction
Wed 2 Nov (10:45am)	**Labour Market – Q3**
Thu 3 Nov (1:00pm)	ANZ Commodity Price Index – Oct

Interest rate markets

Global interest rates resumed their upward march this week, led by US short-end rates, which are now pricing in a 4.45% peak in the Fed Funds rate by March next year. That's up from 3.93% last Friday, with the move gaining momentum in the wake of this week's stronger-than-expected US CPI data. Markets remain split as to whether the Fed will hike by 75 or 100bps next week, but the bigger change in market pricing has been the rise in the aforementioned terminal rate assumption, and the "pricing out" of assumed cuts over 2023. The Fed will also publish its so-called dot-plot projections for the fed funds rate, growth and inflation next week. These, alongside the broad tone of the FOMC Statement will be crucial for how markets react. As tempting as it might be for markets to drive longer bond yields lower if the Fed's tone is seen as too hawkish (on recession fears), it is notable that US long-term rates have generally moved in lock-step with terminal rate expectations over the past six weeks or so. That leaves us cautious about the prospect of US (and by extension, local) long-term rates coming off any time soon. Local short-end rates continue to rise too. That's entirely consistent with the risks around inflation. The bellwether 2-year swap rate is already roughly where we see it peaking early next year, but with the risks skewed to more OCR hikes (and/or it remaining on hold wherever it peaks for longer), the risks are skewed toward further upside for short-end rates.

FX markets

The Kiwi has now made a convincing break below the key psychological and technical 0.60 level, having oscillated around 0.5970 in the two hours prior to us going to print. While much of the poor performance of the NZD/USD has been a function of USD strength, the Kiwi is also losing ground on crosses as EUR and GBP rebound off lows. Markets are factoring in military gains by Ukraine and putting UK political uncertainty behind them, and the AUD is rising to the fore as the preferred Antipodean currency on the perception that the Australian economy is in better shape than New Zealand. Markets continue to favour the USD, and it's difficult to stand in the way of that for the time being.

Key data summary

Net Migration – July. At -376, July brought more of the same. Given loosening border restrictions, the data will get interesting from August.

REINZ House Prices – August. Sales bounced strongly for this time of year, albeit off a weak base. Price momentum remains southbound.

Food Prices – August. Up a solid 1.1% m/m, stronger than expected.

Rental Price Index – August. Up 0.3% m/m, also stronger than expected.

Current Account Balance – Q2. Widened to 7.7% of GDP.

GDP – Q2. A noisy 1.7% q/q lift. See our Review.

Performance of Manufacturing Index – August. Lifted outside its recent range to 54.9, with all sub-indexes in expansionary territory.

The week ahead

Performance of Services Index - August (Monday 19 September, 10:30am). Fell 3.5 points in July to a still-expansionary 51.2.

GlobalDairyTrade auction (Wednesday 21 September, early am). Prices are expected to lift another 3% as buyers show renewed interest at lower prices (prices have eased 25% since the peak in March).

Overseas Merchandise Trade – August (Thursday 22 September, 10:45am). A trade deficit of $1.1 billion is pencilled in for August as export returns are seasonally low whilst the cost of imports remains high.

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jul-22	Aug-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZD/USD	0.628	0.612	0.596	0.620	0.620	0.630	0.630	0.630	0.630
NZD/AUD	0.900	0.893	0.891	0.886	0.886	0.875	0.863	0.863	0.863
NZD/EUR	0.614	0.613	0.596	0.626	0.633	0.649	0.630	0.618	0.600
NZD/JPY	83.7	84.9	85.4	86.8	88.0	89.5	88.2	85.1	81.9
NZD/GBP	0.516	0.527	0.520	0.534	0.539	0.553	0.548	0.538	0.534
NZ$ TWI	71.1	70.7	69.7	71.5	71.9	72.6	71.9	71.4	70.8
Interest rates	Jul-22	Aug-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZ OCR	2.50	3.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00
NZ 90 day bill	3.14	3.47	3.62	3.93	4.10	4.10	4.10	4.10	4.10
NZ 2-yr swap	3.74	4.32	4.32	4.20	4.20	4.25	4.25	4.20	4.10
NZ 10-yr bond	3.42	3.98	4.00	4.10	4.10	4.00	4.00	3.75	3.75

Economic forecasts

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

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

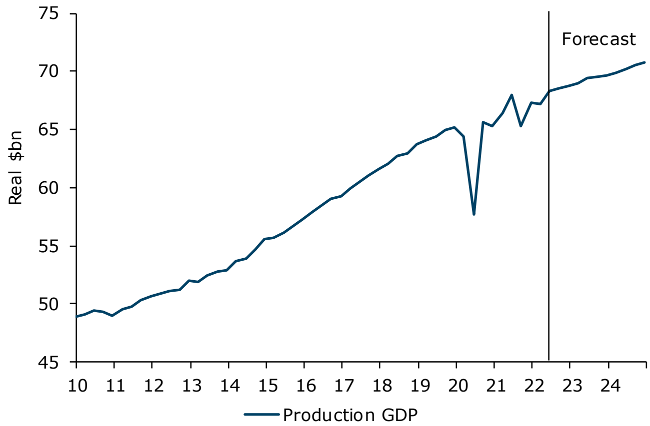


Figure 4. CPI inflation components

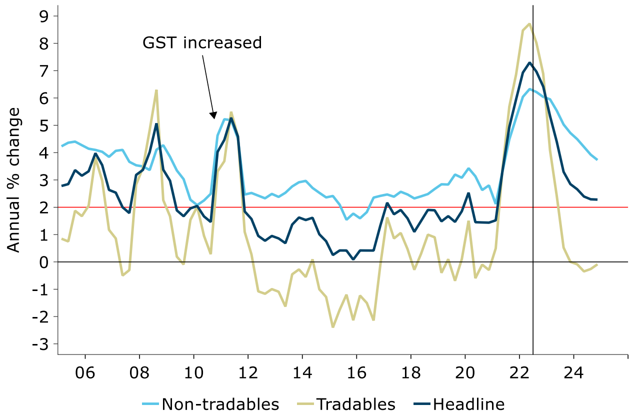


Figure 5. ANZ OCR forecast

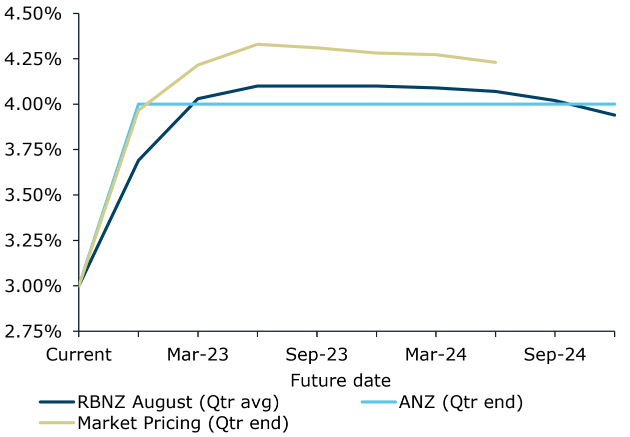
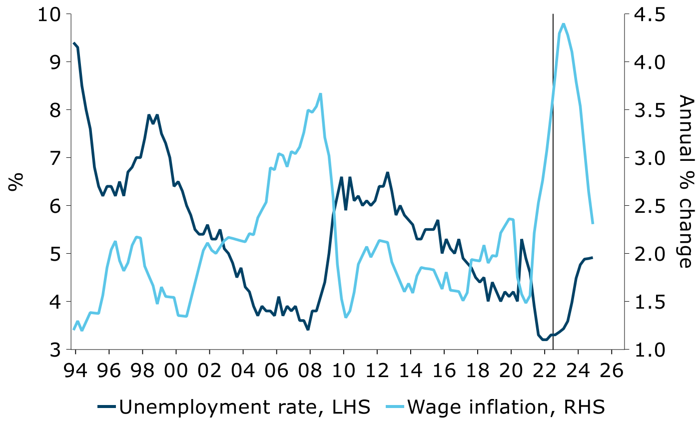


Figure 6. Unemployment and wage inflation



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

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
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

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

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

Finn Robinson
Economist

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

Telephone: +64 21 629 553
Email: **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

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

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