

New Zealand Weekly Data Wrap

25 February 2022



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Forecast updates

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- [NZ Property Focus: At your service](#)
- [NZ Quarter Economic Outlook: Turning points](#)
- [NZ Labour Market Forecast Update: applying pressure](#)
- [NZ Update: Farmgate milk price forecast revised up](#)
- [NZ OCR Call Change: 3% by April 2023](#)

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
- Further OCR hikes towards 3.0% by April 2023 needed to contain inflation

Our forecasts are on [page 3](#).

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.



Surging costs, inflation expectations, and highly inflationary labour market could be hard to rein in.

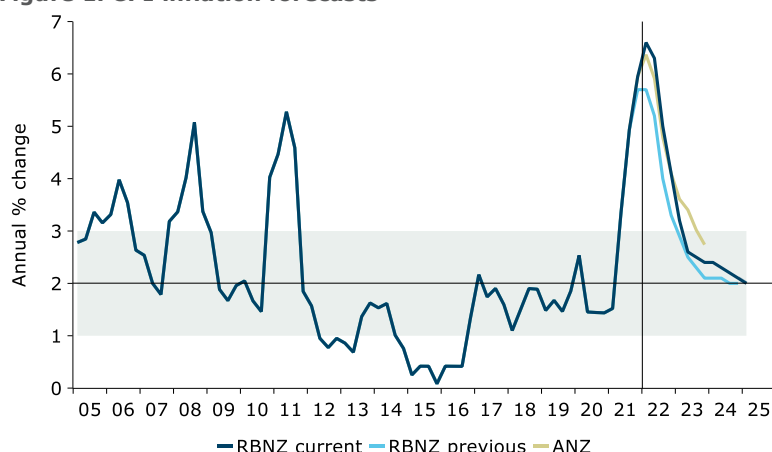


Omicron outbreak causes severe disruption and shortages.

What happened this week?

As was almost universally expected, the RBNZ **lifted the Official Cash Rate (OCR)** 25bps to 1.0%. They also announced quantitative tightening (see next page). Inflation pressures have continued to worsen since the RBNZ last met in November – and the RBNZ is clearly becoming more concerned, noting in the record of meeting that “when deciding whether to move the OCR up by 25 or 50 basis points, many members saw this as a finely balanced decision.” The OCR endpoint has been revised up about 75bps to 3.35% (2.6% previously) – but even with higher interest rates in the forecast, the RBNZ still thinks inflation will only just get back to target in the first quarter of 2025 (figure 1). Forecasting at that horizon is obviously highly uncertain even in normal times, but it demonstrates that getting inflation back to target won't be a quick fix.

Figure 1. CPI inflation forecasts



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

The RBNZ is now forecasting inflation will peak at 6.6% in Q1. That's a touch higher than our current forecast of 6.4%, but we're definitely seeing upside risk. Russia's invasion of Ukraine has seen oil prices surge – WTI futures briefly broke above USD100/barrel overnight. We could see CPI inflation break the 7% mark, as it has in the US, and is expected to do in the UK.

Usually, such an oil price 'shock' wouldn't be enough to shift the monetary policy outlook – the RBNZ normally looks through temporary volatility in global commodity prices. But, these are not normal times – and the RBNZ noted “the most significant risk to be avoided at present was longer term inflation expectations rising above the target and becoming embedded in future price setting.” Oil prices are particularly visible to consumers, since they show up pretty quickly in petrol prices. In a situation where business and consumer inflation expectations are already worryingly elevated, it doesn't take much for expectations to become unanchored. And that's the kind of situation where larger (ie 50bp) OCR hikes start to look more necessary. The RBNZ has certainly signalled they stand ready to move more aggressively if needed.

Key data summary

RBNZ Monetary Policy Statement – February. See our [Review](#).

Overseas Merchandise Trade – January. The trade deficit grew to NZD1.1bn – larger than our pick of NZD0.8bn.

Retail Trade Survey – Q4. [Retail trade rose](#) 8.6% q/q.



Looking ahead



Recent Publications

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- [NZ Insight: The 'great resignation' in New Zealand](#)
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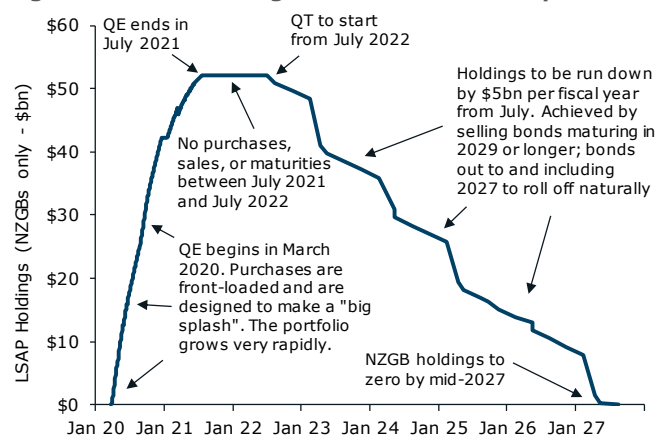
Data calendar

Date	Data/event
Mon 28 Feb (1:00pm)	ANZ Business Outlook – Feb
Mon 28 Feb (3:00pm)	RBNZ Sectoral Lending – Jan
Wed 2 Mar (early am)	GlobalDairyTrade auction
Wed 2 Mar (10:45am)	Building Permits – Jan
Wed 2 Mar (10:45am)	Terms of Trade – Q4
Thu 3 Mar (1:00pm)	ANZ Commodity Price Index – Feb
Fri 4 Mar (10:00am)	ANZ-RM Consumer Confidence – Feb
Tue 8 Mar (10:45am)	Building Work Put in Place – Q4
Wed 9 Mar (10:00am)	ANZ Truckometer – Feb
Wed 9 Mar (10:45am)	Manufacturing Activity – Q4
Thu 10 Mar (10:45am)	Electronic Card Transactions – Feb
Fri 11 Mar (10:30am)	BusinessNZ Manuf PMI – Feb
Fri 11 Mar (10:45am)	Food Price Index – Feb
Fri 11 Mar (10:45am)	Rental Price Index – Feb

What are we watching?

The RBNZ's monetary policy decision wasn't limited to hiking the OCR 25bps. They also announced they would begin to sell some of the bonds that they purchased as part of their Large Scale Asset Purchase (LSAP) programme. Bond purchases (ie quantitative easing, or QE) were ended in July 2021, and they will now embark on 'quantitative tightening' (QT) by selling those bonds. This follows the Bank of England formally announcing they will be selling bonds, and expectations of a similar announcement from the US Fed, whose QE programme concludes before their March meeting. Starting in July (2023 fiscal year), the RBNZ plans to sell NZD5bn of NZGBs to NZ Debt Management (NZDM) each year – conditional on market conditions, and monetary policy settings at the time. By selling NZGBs back to NZDM, the RBNZ will speed up the unwinding of the LSAP portfolio, relative to just letting the bonds mature. The RBNZ indicated that this could see their holdings of NZGBs return to zero by the end of 2027 (figure 2).

Figure 2. NZGB holdings in the RBNZ's LSAP portfolio through QE and QT



Source: RBNZ, ANZ Research

So how will QT impact the economy? The RBNZ will only be selling back to NZDM (to ensure there's only one government agency selling bonds to market), but all else equal, NZDM will likely need to increase bond issuance to fund the purchase of these bonds. That could put some upward pressure on longer-term bond yields, and thereby other rates. Ultimately, the impacts are highly uncertain. But if they're significant, then the RBNZ may not need to hike the OCR as far as we currently expect – but we won't know until they actually get underway with selling their bonds.

The week ahead

ANZ Business Outlook – February (Monday 28 February, 1:00pm).

RBNZ sectoral lending data – January (Monday 28 February, 3:00pm).

Business and housing lending were still growing strong in December (sa, ANZ estimate), while consumer lending is lagging well below pre-COVID levels.

GlobalDairyTrade auction (Wednesday 2 March, early am). Fonterra's reduced milk powder offerings should support another 5% lift in the GDT Index.

Building Permits – January (Wednesday 2 March, 10:45am). Annual consents were at record levels in 2021. That may not last through 2022.

Overseas Trade Indices – Q4 (Wednesday 2 March, 10:45am). Terms of trade should stabilise as a 4% lift in export prices in Q4 offsets a similar lift in import prices.

ANZ Commodity Price Index – February (Thursday 3 March, 1:00pm).

ANZ Roy Morgan Consumer Confidence – February (Friday 4 March, 10:00am).



Markets and forecasts

What's happening in financial markets

As we go to print this morning, the yield on the bellwether US 10-year Treasury is about where it was this time last week. But that masks a period of significant volatility as bond markets walk a finely balanced tightrope, trading off fears of ever-higher inflation as oil prices rise, with safe-haven demand for less-risky assets as equity prices swing wildly. Ukraine remains front and centre, and volatility has trumped directionality in markets. That seems likely to continue to be the case, as this morning's slump and subsequent retracement in equities, bond yields and the NZD testify. Looking ahead, as sanctions on Russia bite, the risk is that inflation pressures intensify in the energy space, and that comes at a particularly difficult time for the RBNZ and other central banks. Locally, the RBNZ remains the key focus in the wake of this week's "hawkish" MPS. While the RBNZ "only" hiked by 25bps, as we note on page 1, the choice between that and a 50bp hike was described as "finely balanced". While it is hard to envisage a 50bp hike amid the current geopolitical environment, markets will struggle to shake off fears of larger hikes in the future given inflation risks; that also speaks to volatility around data releases. Long-end bonds have taken the announcement of quantitative tightening (QT) fairly well. It is gradual and it won't start till July. But all else equal, it does add \$5bn per year to the Treasury's funding needs for the five fiscal years from 2022/23. There is likely to be some smoothing of this, but markets are wary of the prospect of an increase in bond issuance at the Budget in May, and that's likely to keep upward pressure on long-end rates, especially given the tone of RBNZ rhetoric, and as markets contemplate the Fed's next move, with a hike likely next month.

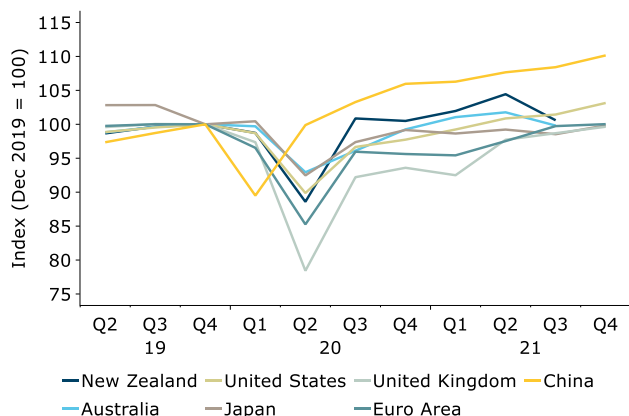
FX rates	Actual			Forecast (end month)					
	Dec-21	Jan-22	Today	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
NZD/USD	0.683	0.657	0.669	0.650	0.660	0.680	0.700	0.700	0.700
NZD/AUD	0.942	0.935	0.933	0.929	0.930	0.932	0.933	0.933	0.933
NZD/EUR	0.600	0.589	0.598	0.580	0.579	0.591	0.598	0.593	0.588
NZD/JPY	78.6	75.9	77.3	73.5	75.2	78.2	81.2	81.2	81.2
NZD/GBP	0.506	0.490	0.500	0.474	0.478	0.486	0.490	0.483	0.483
NZ\$ TWI	73.2	71.0	71.9	69.8	70.5	72.1	73.5	73.3	73.1
Interest rates	Actual			Forecast (end month)					
	Dec-21	Jan-22	Today	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
NZ OCR	0.75	0.75	1.00	1.00	1.50	2.00	2.50	2.75	3.00
NZ 90 day bill	0.97	1.10	1.24	1.52	2.02	2.52	2.77	3.10	3.10
NZ 10-yr bond	2.39	2.60	2.82	2.70	2.90	3.10	3.40	3.50	3.50

Economic forecasts

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
GDP (% qoq)	-3.7	2.5	1.0	0.5	0.5	0.7	1.0	0.6	0.6
GDP (% yoy)	-0.3	2.6	2.1	0.2	4.6	2.7	2.7	2.8	2.9
CPI (% qoq)	2.2	1.4	1.3	0.9	1.2	0.8	0.8	0.7	0.8
CPI (% yoy)	4.9	5.9	6.4	5.9	4.8	4.1	3.6	3.4	3.0
Employment (% qoq)	1.9	0.1	0.2	0.2	0.4	0.4	0.4	0.4	0.4
Employment (% yoy)	4.2	3.7	3.2	2.4	1.0	1.3	1.5	1.7	1.6
Unemployment Rate (% sa)	3.3	3.2	3.1	3.0	2.9	2.9	2.9	3.0	3.0

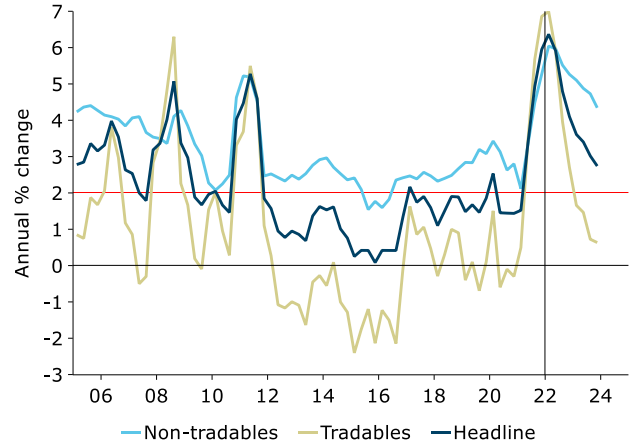
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, ANZ Research

Figure 4. CPI inflation components





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