

New Zealand Weekly Data Wrap

4 March 2022



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Forecast updates

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

- [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.

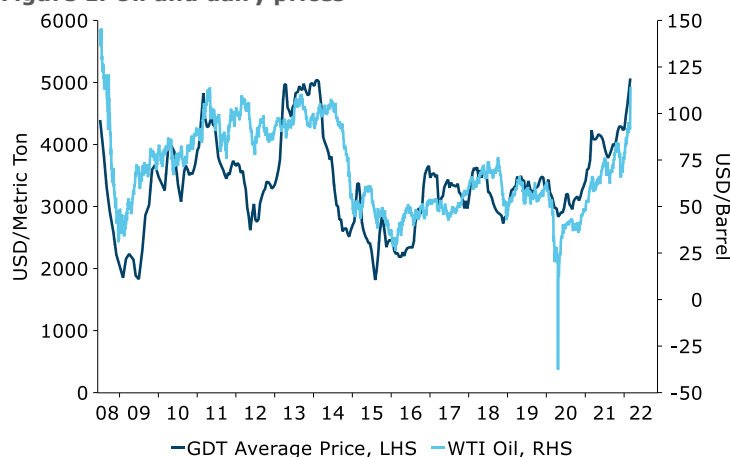


Omicron outbreak causes severe disruption and shortages.

What happened this week?

The data flow this week maintained its high-inflation, peaky-growth vibe. On the inflation front, import and export prices both [posted solid gains](#) in Q4. Import price rises won, pushing the terms of trade down 1%, but our Commodity Price Index for February hit another all-time high, and this week's GDT auction posted a new record. So there's likely plenty of strength to come on the export side. However, the same goes for imports, with oil prices above USD110/bbl this week as the Ukraine crisis deepens (figure 1). For Kiwis, the most immediate impact will be at the pump, but this will also add to transport costs (already sky high) and likely weigh on global economic sentiment – something of which a small open economy such as NZ should be wary.

Figure 1. Oil and dairy prices



Source: Global Dairy Trade, Bloomberg, Macrobond, ANZ Research

In contrast to prices, activity indicators soured. January's 9.2% m/m fall in building permits suggests construction demand has peaked, and our February [Business Outlook](#) and [Consumer Confidence](#) made for pretty grim reading too, with both business and consumer sentiment tanking. But inflation expectations remain sky-high for households, and businesses' pricing intentions have spiked aggressively higher. Combined with surging commodity prices, it's a recipe for even more inflation. It's looking increasingly likely that inflation will peak at or above 7% (our current forecast is 6.4%), and for a Monetary Policy Committee who were already tossing up a 50bp hike last week, these developments could well be enough to tip the balance in favour of moving more aggressively.

Key data summary

ANZ Business Outlook – February. Activity dropped, inflation indicators [lifted](#).

RBNZ sectoral lending data – January. Housing lending growth is gradually slowing, while business lending is still rising.

GlobalDairyTrade auction. The GDT Price Index rose 5.1% to reach an all-time high in a market that's traded since 2008. Prices are up 19.5% since January.

Building Permits – January. Down 9.2% m/m, suggesting the slowing housing market and capacity pressures are weighing.

Overseas Trade Indices – Q4. The [terms of trade](#) fell 1% q/q.

ANZ Commodity Price Index – February. Surged 3.9% to a [new record high](#).

ANZ Roy Morgan Consumer Confidence – February. [Plunged](#) 16 points.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: The Reopening II – shifting economic sands
- NZ Property Focus: At your service
- NZ Insight: Terms of trade: risks and opportunities
- NZ Agri Focus: heating up
- NZ Insight: Endemic COVID-19 and labour supply
- NZ Property Focus: Coming back to earth
- NZ Agri Focus: Higher prices for Christmas
- NZ Insight: The real cost of inflation
- NZ Insight: The Reopening
- NZ Property Focus: Risks building
- NZ Insight: NZ-UK Free Trade Agreement
- NZ Insight: The 'great resignation' in New Zealand
- NZ Insight: States of the world

Click [here](#) for more.

Data calendar

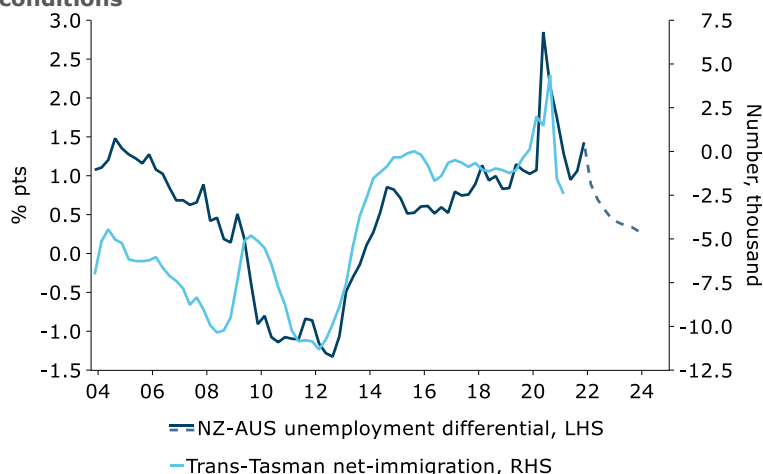
Date	Data/event
Tue 8 Mar (10:45am)	Building Work Put in Place – Q4
Wed 9 Mar (10:00am)	ANZ Truckometer– Feb
Wed 9 Mar (10:45am)	Manufacturing Activity – Q4
Thu 10 Mar (10:45am)	Electronic Card Transactions – Feb
Fri 11 Mar (10:30am)	BusinessNZ Manuf PMI – Feb
Fri 11 Mar (10:45am)	Food Price Index – Feb
Fri 11 Mar (10:45am)	Rental Price Index – Feb
Mon 14 Mar (10:45am)	Net Migration – Jan
Tue 15 Mar (10:30am)	Performance Services Idx – Aug
Wed 16 Mar (early am)	GlobalDairyTrade auction
Wed 16 Mar (10:45am)	Current Account – Q3
Thu 17 Mar (10:45am)	GDP – Q3
Mon 21 Mar (10:45am)	Merchandise Trade – Feb

What are we watching?

Plans to reopen the international border are evolving rapidly as the Omicron wave shifts the relative risks of allowing overseas arrivals into the country. On Monday fully vaccinated Kiwis were able to return from Australia without going through MIQ, on Wednesday self-isolation requirements [were scrapped](#). And as of today, fully vaccinated Kiwis from any country are allowed to return home without needing to go through the MIQ lottery.

However, as we outlined in an [insight note](#) this week, the current plan is still a staggered approach to reopening. As it is [currently stands](#), the reopening process won't actually finish until October of this year for all visa types. And in the meantime, there's a risk that we see significant net outflows of Kiwis to Australia and other countries over mid-2022, given that they no longer have to worry about having to go through MIQ if they need to come home. This risk is particularly pronounced given the outlook for the Australian labour market. We're expecting the Australian unemployment rate will fall from 4.2% in January to just 3.3% by the end of the year – closing the gap rapidly with New Zealand's labour market, which we expect will show a 2.9% unemployment rate by that time. A large net outflow of Kiwi workers across the Ditch could see the labour market tighten even further, driving domestic inflation still higher as well. However, uncertainty is hard to overstate, so this is a risk we're monitoring, rather than our main forecast.

Figure 2. Quarterly trans-Tasman net immigration and relative labour market conditions



Source: ABS, Macrobond, ANZ Research

The week ahead

Building Work Put in Place – Q4 (Tuesday 8 March, 10:45am). An 8% q/q rebound is expected from Q3's 8.6% contraction. There are limits to growth from labour and materials constraints, but also the rapidly cooling housing market.

ANZ Truckometer – February (Wednesday 9 March, 10:00am).

Economic Survey of Manufacturing – Q4 (Wednesday 9 March, 10:45am). Expect another noisy rebound following Q3's 6.4% q/q decline.

Electronic Card Transactions – February (Thursday 10 March, 10:45am). ANZ card spending data suggests a reasonably flat outturn.

Performance of Manufacturing Index – February (Friday 11 March, 10:30am). Has been holding above 50, but below recent highs.

Food Prices – February (Friday 11 March, 10:45am). Usual seasonality would suggest a flat print in February, but there's significant upside risk.

Rental Price Index – February (Friday 11 March, 10:45am). Monthly rent increases have been solid over the past few months – we expect another 0.3% m/m lift in February.



Markets and forecasts

What's happening in financial markets

Global financial markets remain extremely volatile as they navigate strong tensions between risk aversion and the inflationary implications of the Ukraine crisis. Historic periods of risk aversion have tended to coincide with falling bond yields as investors seek out safe havens. However, the appeal of bonds has been undermined by already-high inflation, recent rises in energy (and broad commodity) prices, and ongoing hawkish central bank rhetoric. All of this makes for difficult trading conditions in markets, but the distinct impression central banks seem to want to leave markets with is that outsized rate hikes are still on the table, despite the terrible geopolitical backdrop. US Fed chair Powell has indicated that he favours a 25bp hike when the Fed embarks on "lift-off" later this month, but like the RBNZ, he seems eager to maintain the optionality of a larger move should inflation continue to surprise to the upside, or they feel that they are "behind the curve" or losing credibility. Volatility aside, that speaks to very limited scope for interest rates to fall here or in the US, and ongoing pressure to rise. The NZD has performed well in FX markets, alongside other commodity currencies like the AUD and to a lesser extent, the CAD. While oil and hard commodities are in the headlines, food commodity prices have also rallied strongly over the past week or so, and if sustained, this should provide a strong base of support for the NZD. NZ interest rate differentials are already wide, and will gradually fall this year as other central banks hike. But if the RBNZ ends up delivering a 50bp hike before other central banks do (which markets are pricing in as very likely, with 67bps of hikes priced in over the next 2 RBNZ meetings), there could be more near-term upside to the NZD and short-end rates.

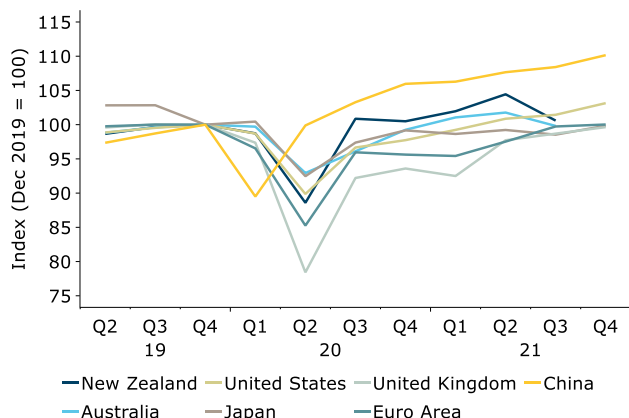
FX rates	Actual			Forecast (end month)					
	Jan-22	Feb-22	Today	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
NZD/USD	0.657	0.674	0.680	0.650	0.660	0.680	0.700	0.700	0.700
NZD/AUD	0.932	0.933	0.928	0.929	0.930	0.932	0.933	0.933	0.933
NZD/EUR	0.589	0.600	0.614	0.580	0.579	0.591	0.598	0.593	0.588
NZD/JPY	75.9	77.9	78.5	73.5	75.2	78.2	81.2	81.2	81.2
NZD/GBP	0.489	0.503	0.509	0.474	0.478	0.486	0.490	0.483	0.483
NZ\$ TWI	71.0	72.2	72.8	69.8	70.5	72.1	73.5	73.3	73.1
Interest rates	Actual			Forecast (end month)					
	Jan-22	Feb-22	Today	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
NZ OCR	0.75	1.00	1.00	1.00	1.50	2.00	2.50	2.75	3.00
NZ 90 day bill	1.10	1.26	1.34	1.52	2.02	2.52	2.77	3.10	3.10
NZ 10-yr bond	2.60	2.75	2.81	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

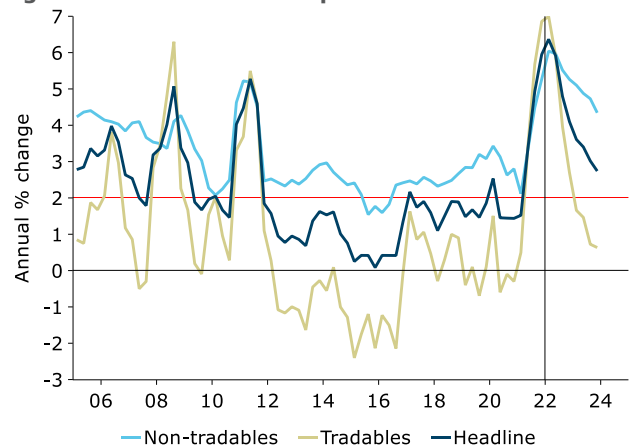
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP levels (Q4 2019= 100)



Source: Macrobond, ANZ Research

Figure 4. CPI inflation components





Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 27 664 3554
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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