

New Zealand Weekly Data Wrap

14 April 2022



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See page 5.

Forecast updates

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

- [NZ GDP Forecast Update: walking the tightrope](#)
- [NZ Property Focus: a soft landing as headwinds gather](#)
- [NZ Forecast Update: Farmgate milk price forecast revised up](#)
- [NZ OCR Call Change: back-to-back 50bp hikes in April and May](#)
- [NZ Quarter Economic Outlook: Turning points](#)

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
- Aggressive OCR hikes towards 3.5% in April 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



Falling consumer and business sentiment derail momentum.



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



Surging commodity prices cause inflation expectations to become unanchored.



Omicron outbreak causes severe disruption, shortages, and yet more inflation.

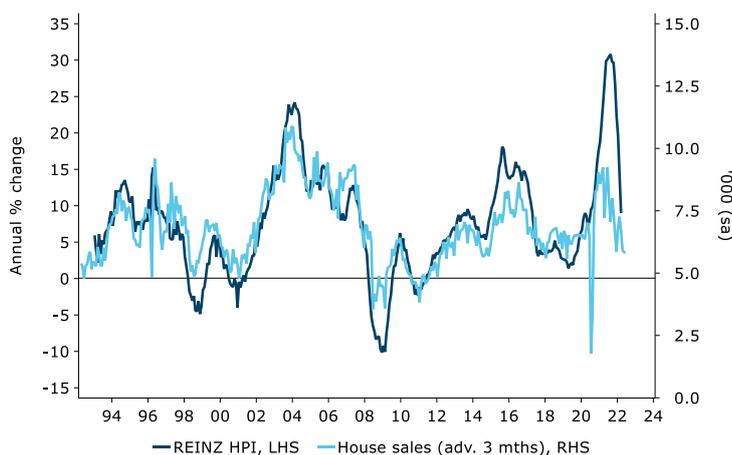
What happened this week?

As the market was largely pricing, though analysts were divided, the RBNZ **lifted the Official Cash Rate (OCR)** 50bps to 1.5% in the Monetary Policy Review this week. The seeds for this move were planted in the Summary Record of Meeting for the February MPS, where “the Committee applied their least regrets framework, noting that 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.” At that meeting, the decision of hiking the OCR 25 or 50 bps was seen as “finely balanced” by “many members” of the Committee. In the weeks since, the risk of inflation expectations becoming unanchored from the 2% target midpoint have only increased – something we discussed at length in a [recent insight note](#).

Clearly, the Monetary Policy Committee agreed with that assessment, noting yesterday that “moving the OCR to a more neutral stance sooner will reduce the risks of rising inflation expectations”. Importantly, the RBNZ noted that they were still happy with the OCR projection contained in the February MPS (which had the OCR peaking at 3.35% in 2024). The “stitch in time” approach means that by lifting the OCR faster now, they hopefully won’t have to raise interest rates as high later on (reducing how much they’ll need to wallop growth to rein in inflation). Markets certainly took that message on board, with market pricing for the level of the OCR by late 2023 easing from around 4¼% before the meeting, to around 3.95% this morning (our forecast is for a 3.5% peak in the OCR over 2023). Despite the RBNZ delivering a 50bp OCR hike, bond yields closed Wednesday down across the curve as markets digested the implication that the OCR may not need to go as high as they were fearing, given the large move now by the RBNZ.

We continue to expect another 50bp OCR hike in the May MPS, which is now consensus. The RBNZ noted in their comments that inflation is likely to “peak around 7%” in the first half of 2022 (the February MPS forecast was for 6.6% in Q1). If we’re right that inflation will actually peak closer to 7½% (see next page) then the pressure will persist for the RBNZ to rapidly normalise policy. That said, house prices **continued to fall** in March, down 1.3% m/m (although the annual rate is still 9.0% - figure 1). However, the RBNZ don’t seem too concerned by falling house prices, noting simply that they are heading “towards a more sustainable level”. No sympathy there.

Figure 1. House sales and house price inflation



Source: REINZ, Macrobond, ANZ Research



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: how widespread is labour market tightness?
- NZ Agri Focus: mixed blessings
- NZ Insight: the RBNZ's inflation expectations headache
- NZ Property Focus: A soft landing as headwinds gather
- NZ temp fuel tax changes knock 0.5% off Q2 CPI
- NZ Insight: how is NZ's agri sector impacted by the Russian invasion
- 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 2021 HYEFU: Wind change
- NZ Agri Focus: Higher prices for Christmas
- NZ Insight: The real cost of inflation
- NZ Insight: The Reopening

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ANZ Proprietary data

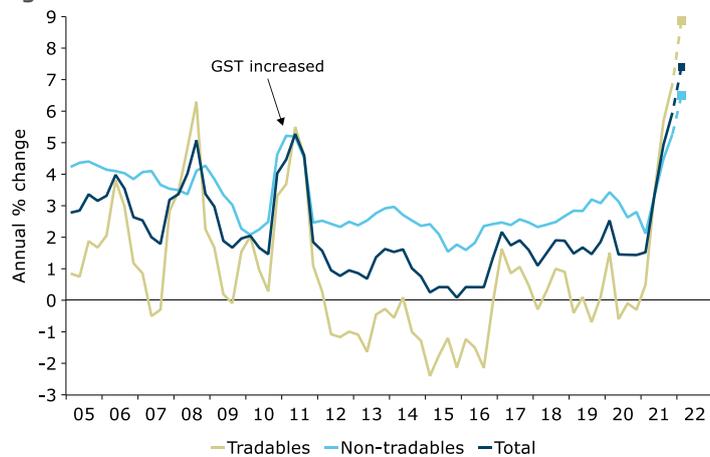
Check out our latest releases below.

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

What are we watching?

Q1 CPI inflation is released next week, hot on the heels of the April Monetary Policy Review. **We're forecasting** that consumer prices rose 7.4% in the year to March 2022 (figure 2), the highest annual inflation print since 1990. But uncertainty is extreme right now. Not only did the Omicron wave hit us in Q1; the tragic Russian invasion of Ukraine has created turmoil in global commodity markets. Oil prices have surged, and global food price inflation is rising aggressively. We expect that will show up in a whopping 8.9% lift in tradables prices (just under 40% of the CPI basket) in the year to March – but it could easily be higher.

Figure 2. CPI inflation forecast



Source: Stats NZ, Macrobond, ANZ Research

Even more concerning for the RBNZ will be if we are correct that annual non-tradables (ie domestic) inflation lifted to 6.5% in Q1, up from 5.3% in Q4 2021. This is the kind of inflation that sticks around, and with labour market tightness currently **extreme and very widespread** (table 1), wage inflation is set to accelerate this year. That will give even more impetus to domestic inflation, ramping up pressure on the RBNZ to continue raising interest rates. The strength in the labour market is both a comfort and a concern for the RBNZ, since it means the economy should be able to handle higher interest rates – but it's also a source of inflation as firms bid up wages to attract and retain staff. Either way, it's clearly a reason to get on with hiking the OCR aggressively to rein in inflation before it spirals further away from target.

Table 1. Regional labour market indicators heatmap

	Underutilisation rate (%)	Unemployment rate (%)	Employment growth (% y/y)	Labour force growth (% y/y)
Northland	8.7	3.3	5.4	2.9
Auckland	8.7	3.1	4.8	2.3
Waikato	9.8	3.3	2.3	0.6
Bay of Plenty	10.2	4.1	2.9	1.5
Gisborne/Hawke's Bay	10.7	3.7	-5.1	-7.0
Taranaki	10.1	3.9	2.4	0.1
Manawatu-Whanganui	9.2	2.7	5.1	3.0
Wellington	9.1	2.9	4.3	2.4
Tasman/Nelson/Marlborough/West Coast	10.5	2.9	2.2	2.3
Canterbury	9.2	3.3	4.8	3.6
Otago	10.0	2.7	3.6	2.4
Southland	10.0	3.3	0.3	0.3

Source: Stats NZ, Macrobond, ANZ Research

Note: The heatmap indicates how strong each labour market indicator is relative to its own historical average. For example, although the unemployment rate is higher in Gisborne/Hawke's Bay than it is in Southland, it is further below its historical average than Southland is. When calculating the historical average for unemployment, employment, and the labour force, data since 2000 is used, to avoid the structural changes over the 1980s and 1990s. Underutilisation starts in 2004. The more orange (blue) the cell is the stronger (weaker) the labour market indicator is compared to the past two decades. We've seasonally adjusted the underutilisation and unemployment rates.



Looking ahead



Data calendar

What's coming up in the months ahead.

Date	Data/event
Wed 20 Apr (early am)	GlobalDairyTrade auction
Thu 21 Apr (10:45am)	CPI – Q1
Thu 28 Apr (10:45am)	Merchandise Trade – Mar
Thu 28 Apr (1:00pm)	ANZ Business Outlook – Apr
Fri 29 Apr (10:00am)	ANZ-RM Consumer Confidence – Apr
Fri 29 Apr (3:00pm)	RBNZ Sectoral Lending – Mar
Tue 3 May (10:45am)	Building Permits – Mar
Wed 4 May (early am)	GlobalDairyTrade auction
Wed 4 May (10:45am)	Labour Market – Q1
Wed 4 May (1:00pm)	ANZ Commodity Price Index – Mar
Tue 10 May (10:00am)	ANZ Truckometer – Apr
Tue 10 May (10:45am)	Electronic Card Transactions – Apr
Thu 12 May (10:45am)	Food Price Index – Apr
Thu 12 May (10:45am)	Rental Price Index – Apr
Thu 12 May (3:00pm)	RBNZ 2Yr Inflation Expectation – Q2
Fri 13 May (10:30am)	BusinessNZ Manuf PMI – Apr
Mon 16 May (10:30am)	Performance Services Index – Apr
Wed 18 May (early am)	GlobalDairyTrade auction
Thu 19 May (2:00pm)	NZ Budget 2022
Tue 24 May (10:45am)	Merchandise Trade – Apr
Tue 24 May (10:45am)	Retail Trade – Q1
Wed 25 May (2:00pm)	RBNZ Monetary Policy Statement
Fri 27 May (10:00am)	ANZ-RM Consumer Confidence – May
Tue 31 May (10:45am)	Building Permits – Apr
Tue 31 May (1:00pm)	ANZ Business Outlook – May
Thu 2 Jun (10:45am)	Terms of Trade – Q1

Interest rate markets

Global interest rate volatility remains high, and the impact of that continues to be felt locally. Indeed, although the yield on the bellwether US 10-year Treasury bond (around 2.70% this morning) is only a few basis points above where it was when we last published the Data Wrap, it reached a high of 2.83% on Tuesday, and that coincided with a mini-capitulation locally. Relative calm has since been restored in the wake of the recent correction, and the RBNZ's decision to deliver the bigger 50bp for which we were calling. We think it's wholly appropriate that we have seen a correction lower in key short-term rates like the 2-year given how panicked markets were ahead of yesterday's proactive hike. By going hard early, the RBNZ is unlikely to have to hike as much later. That's a key message the RBNZ clearly wanted to send, and the market has acknowledged it. But let's not lose sight of the big picture and the global context. Indeed, ahead of what is likely to be another big CPI print next week, growing calls for the RBA to hike earlier, the Bank of Canada joining the 50bp club overnight, and the Fed also on track to hike by 50bp in May (and possibly June), we remain cautious. We think corrective moves lower in rates are likely to be just that – corrections, rather than directional shifts.

FX markets

Global FX markets have been volatile too, with EUR and JPY both struggling and at key levels against the USD. The NZD wasn't able to hold onto post-hike gains, but if we do see interest rates stabilise, it could yet find fresh support. NZD/AUD is approaching multi-year lows. This seems justified given interest rate spreads, and given the way local interest rates reacted to the RBNZ getting underway with hikes, the risk is that the AUD continues to outperform as more (and earlier) rate hikes get priced in across the Tasman.

Key data summary

Electronic Card Transactions – March. Total spending managed only a 1.6% m/m lift from February's 7.6% fall – and retail spending actually fell 1.3% m/m.

NZIER Quarterly Survey of Business Opinion – Q1. Confirmed how intensely capacity constrained (and inflationary) [the economy is](#).

Net Migration – February. On net, 7600 people left New Zealand in the year to February 2022.

Food Prices – March. Food prices rose 0.7% m/m – a tad higher than the 0.6% we'd pencilled in. Prices were up 7.6% on an annual basis.

Rental Price Index – March. Rent prices rose 0.4% m/m as expected, now up 3.7% y/y.

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

REINZ House Prices – March. [House prices fell](#) 1.3% m/m (sa, ANZ est.).

Manufacturing PMI – March. The PMI edged up to 53.8 (53.6 previously). Supply remains an issue – but new orders rose to 61.0 (58.6 previously).

The week ahead

Performance of Services Index (Tuesday April 19, 10:30am). Has remained in contractionary territory since the Delta lockdown.

GlobalDairyTrade auction (Wednesday 20 April, early am). Dairy prices are expected to ease another 2% as China lockdowns cause logistical issues.

CPI – Q1 (Thursday 21 April, 10.45am). We expect annual CPI inflation hit 7.4% in Q1 (5.9% previously). See our [Preview](#).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Feb-22	Mar-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZD/USD	0.674	0.694	0.680	0.660	0.680	0.700	0.700	0.700	0.700
NZD/AUD	0.933	0.926	0.913	0.930	0.932	0.933	0.933	0.933	0.933
NZD/EUR	0.600	0.625	0.624	0.600	0.618	0.636	0.625	0.625	0.614
NZD/JPY	77.9	84.4	85.4	77.9	80.9	84.0	84.0	84.0	84.0
NZD/GBP	0.503	0.529	0.518	0.504	0.515	0.526	0.522	0.519	0.519
NZ\$ TWI	72.2	74.4	73.5	71.2	72.9	74.5	74.2	74.0	73.8
Interest rates	Feb-22	Mar-22	Today	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
NZ OCR	1.00	1.00	1.50	2.00	2.50	3.00	3.25	3.50	3.50
NZ 90 day bill	1.26	1.61	1.79	2.52	3.02	3.27	3.60	3.60	3.60
NZ 10-yr bond	2.75	3.22	3.48	3.40	3.60	3.70	3.90	4.00	3.95

Economic forecasts

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
GDP (% qoq)	3.0	0.5	0.2	0.4	0.7	0.8	0.4	0.5	0.6
GDP (% yoy)	3.1	2.3	0.0	4.1	1.8	2.1	2.3	2.4	2.3
CPI (% qoq)	1.4	2.2	<i>Under review</i>						
CPI (% yoy)	5.9	7.4							
Employment (% qoq)	0.1	0.0	0.1	0.3	0.3	0.4	0.3	0.3	0.3
Employment (% yoy)	3.7	3.0	2.1	0.5	0.8	1.2	1.3	1.3	1.3
Unemployment Rate (% sa)	3.2	3.1	2.9	2.9	3.0	3.1	3.2	3.3	3.4

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

Figure 3. Production GDP forecast

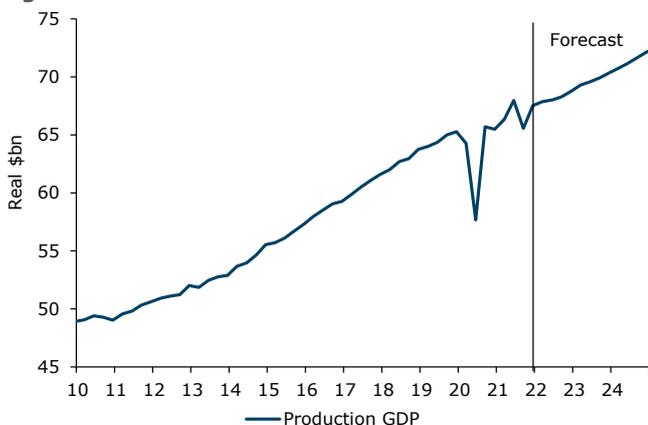


Figure 4. CPI inflation components

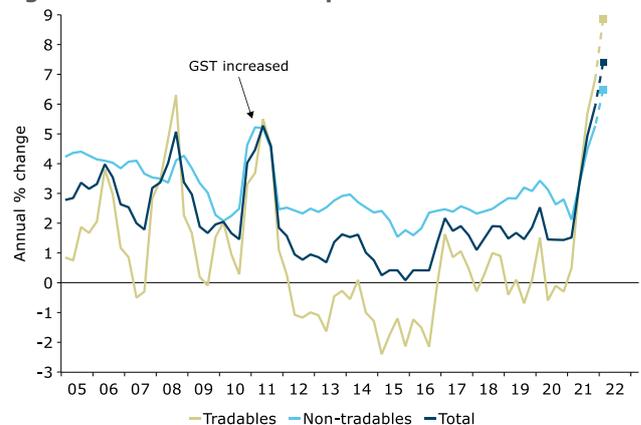


Figure 5. ANZ OCR forecast

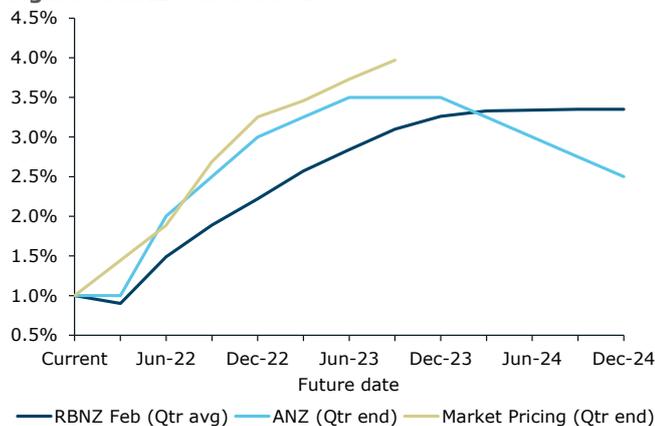
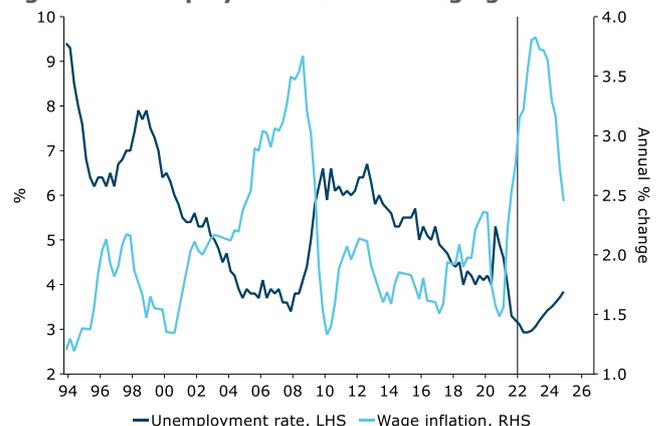


Figure 6. Unemployment rate and wage growth



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



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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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