ANZ Research

New Zealand Weekly Data Wrap

1 July 2022

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Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Property Focus: When, not if
- NZ Weekly Data Wrap: Fifty-fifty-fifty-fifty
- RBNZ MPS Review
- NZ Quarterly Economic Outlook: rebalancing act
- NZ Forecast Update: farmgate milk price forecasts revised down

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, but may have peaked in Q2
- Aggressive OCR hikes towards 3.5% 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

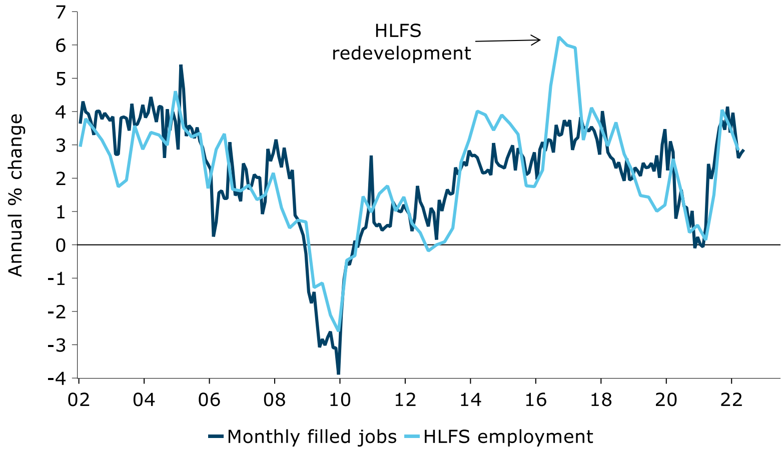
- Falling consumer and business sentiment derail momentum.
- Falling house prices could have a more significant impact on the economy than expected.
- Surging commodity prices cause inflation expectations to become unanchored.
- Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

The (somewhat minimal) data flow this week only reinforced recent themes – the outlook for economic activity is softening, but with the labour market showing no signs of slowing and inflation remaining far too high, there's not much choice but for the RBNZ (and its international peers) to push on with aggressive interest rate rises.

First out the door was Stats NZ's monthly employment indicator for May. This data is a reliable and timely indicator of the employment trend in New Zealand, coming from IRD filings (rather than the relatively small sample of households used in the Household Labour Force Survey, where the official unemployment data come from). With filled jobs up 0.3% m/m in May (and 0.5% m/m in April) it's clear hiring has bounced back from the lull seen in Q1 (which we assume reflected the impact of Omicron disruption). In annual terms, filled jobs are now up 2.9% y/y, versus 2.8% y/y in April. We expect the labour market to start to cool in time as the RBNZ's interest rate hikes flow through the economy. But that takes a while. With NZ job ads remaining high and the Australian labour market heating up (job ads were up 13.8% in the three months to May alone), we see the kiwi labour market tightness as having a little bit further to run. Unemployment is forecast to have fallen to 2.9% in Q2, as insatiable labour demand ran up against a domestic labour supply that's more-or-less tapped out (participation is at near-record levels).

Figure 1. Monthly filled jobs and HLFS employment



Source: Stats NZ, Macrobond, ANZ Research

The labour market continues to show signs of strength, but same cannot be said for economic activity. Our consumer confidence survey for June showed consumers remain very pessimistic – with confidence below levels seen in the GFC, and a net 21% of households saying it's a bad time to buy a major household item. Our latest Business Outlook survey for June shows that a net 9.1% of firms expect their own activity to deteriorate (from a net 4.7% expecting a decline in May). Looking through the impact of the 2020 lockdown, that's the worst reading since 2009. But inflation expectations are still far too high, and when we ask firms what their biggest problems are, supply-side issues dominate. That really reflects the painful position we're in. Economic growth is struggling because the hobbled supply-side of the economy cannot meet demand. That's inflationary, but also inimical to growth. So the RBNZ needs to continue the process of dampening demand until supply and demand are aligned once more. They can't let inflation keep spiralling.

Looking ahead

Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: when, not if
- NZ Insight: He Waka Eke Noa recommendations
- Agri Insight: global food crisis to worsen
- NZ Property Focus: better fundamentals mean softer prices
- 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 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 Agri Focus: heating up
- NZ Insight: Endemic COVID-19 and labour supply
- NZ Insight: The real cost of inflation

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

What are watching?

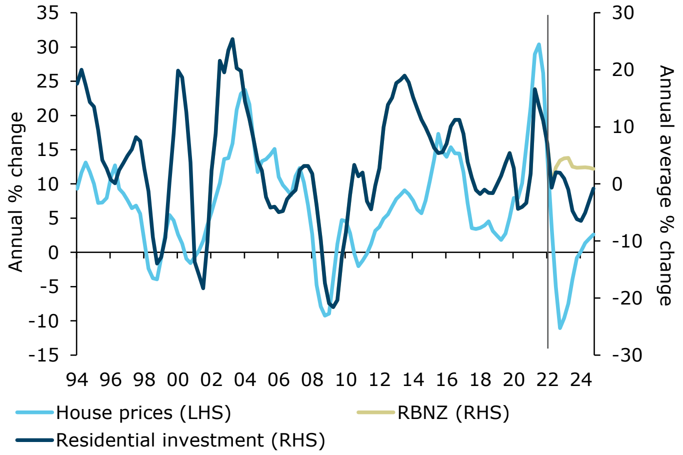
In our latest Property Focus this week we did a deep dive into the outlook for residential investment – and it's not looking flash. A confluence of factors on the demand and supply sides of the housing market are converging to create a soggy outlook for construction activity. On the demand side, interest rates are now more than double their post-pandemic lows of last year. And population growth has slowed to a crawl, with annual net migration drifting into negative territory. On the supply side, simply finding the raw materials (and the people) needed to build a dwelling remains a huge challenge. Given how labour intensive the construction industry is, the difficulty finding labour is a critical constraint. With the Australian labour market only continuing to heat up, this challenge is likely to get worse before it gets better. These supply issues mean it'll be challenging for construction activity to increase much beyond current levels – even though consenting has been holding up at pretty high levels in recent months (but slipping in the past two months).

By the time these supply issues start to work themselves out, it's likely that falling demand (engineered by aggressive interest rate rises from the RBNZ) will start to put more downwards pressure on residential investment. The housing market is a key driver of residential investment activity, and we're already 6 months into a housing downturn. Plus, we have a central bank that is determined to keep raising interest rates to bring inflation under control. That's going to weigh significantly on the building industry.

We're expecting residential investment activity will fall about 6% over 2023 as the pipeline of work starts to shorten, and demand in the economy starts to soften (figure 2). Looking at the correlation between house prices and residential investment, our forecast for an 11% drop in house prices over 2022 does pose downside risks. The construction sector is highly cyclical – and the correlation between construction and the broader economic cycle means the RBNZ will need to remain wary of downside risks stemming from this sector following aggressive interest rate hikes.

Indeed, the strong pass-through of higher interest rates into the housing market and residential investment is one factor behind why we think the OCR will only need to rise to 3.5% by the end of this year – versus the RBNZ's (highly conditional) May OCR track, which topped out a whisker under 4%. While it's obviously highly uncertain, we think the RBNZ will achieve a slightly quicker dampening impact on domestic demand than they anticipate, and that should mean they don't need to keep walloping the economy with outsized rate rises for too much longer. We've pencilled in 50bp hikes in July and August, then 25s until the OCR peaks at 3.5% in November.

Figure 2. House prices and residential investment



Source: Stats NZ, REINZ, RBNZ, ANZ Research

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Tue 5 Jul (10:00am)	NZIER QSBO – Q2
Tue 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Wed 6 Jul (early am)	GlobalDairyTrade auction
Fri 8 Jul (10:00am)	ANZ Truckometer – Jun
Mon 11 Jul (10:45am)	Electronic Card Transactions – Jun
Tue 12 Jul (10:45am)	Net Migration – May
Wed 13 Jul (10:45am)	Food Price Index – Jun
Wed 13 Jul (10:45am)	Rental Price Index – Jun
Wed 13 Jul (2:00pm)	**RBNZ Monetary Policy Review**
Fri 15 Jul (10:30am)	BusinessNZ Manuf PMI – Jun
Mon 18 Jul (10:30am)	Performance Services Index
Mon 18 Jul (10:45am)	**CPI – Q2**
Wed 20 Jul (early am)	GlobalDairyTrade auction
Thu 21 Jul (10:45am)	Merchandise Trade – May
Thu 28 Jul (1:00pm)	ANZ Business Outlook – Jul
Fri 29 Jul (10:00am)	ANZ-RM Consumer Confidence – Jul
Mon 1 Aug (10:45am)	Building Permits – Jun
Wed 3 Aug (early am)	GlobalDairyTrade auction
Wed 3 Aug (10:45am)	**Labour Market – Q2**
Wed 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul
Mon 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectation – Q3
Tue 9 Aug (10:00am)	ANZ Truckometer – Jul
Tue 9 Aug (10:45am)	Electronic Card Transactions – Jul
Thu 11 Aug (10:45am)	Net Migration – Jun
Fri 12 Aug (10.30am)	BusinessNZ Manuf PMI – Jul
Fri 12 Aug (10:45am)	Food Price Index – Jul
Fri 12 Aug (10:45am)	Rental Price Index – Jul

Interest rate markets

New Zealand interest rates have continued to move lower over the past week. This move has taken the bellwether 2-year swap back to around 4%, down from 4¼% a week ago, and a touch over 4½% a fortnight ago. While that is more consistent with our expectations for the OCR (which we expect to peak at 3½%), the correction lower was as much about market liquidity improving as it was about expectations for policy and the economy moderating. Fears of slower global growth are evident in other markets too, including in the US, where the 10yr Treasury bond yield has fallen back to around 3% (from a high of around 3¼% a week ago and 3½% a fortnight ago). As welcome as this and the moderation in energy prices is, market sentiment remains fickle and the war on inflation isn't won yet. Many developed market yield curves are kinked, indicating that markets are trying to pick a turn (lower in the cycle). While that's inevitable, as we advance through the cycle, we typically see more volatility as markets debate not just where the top of the rates cycle is, but when. We're thus cautious not to declare that we have seen the highs in longer term interest rates.

FX markets

The Kiwi has had a torrid year, and June added insult to injury as markets wiped another 3 cents off it, rounding out a decline of 9% for the year. Tuesday's break lower was an unwelcome development from a technical perspective, and as we go to print the NZD is still in the low-0.62s. The USD itself has been playing a bigger role as US and global drivers eclipse local factors, and there is no obvious reason to expect that to change ahead of the next round of US data, and ahead of the Fed's next meeting at the end of July (where another 75bp hike is expected by many). Our forecasts assume that the USD will soften as the Fed tightening cycle progresses (as it has in past cycles), but this continues to be challenged, and if the NZD doesn't fire before more tangible evidence of slowing domestic growth appears, our forecast (of 0.66 by year-end) will be more difficult to achieve.

Key data summary

ANZ Business Outlook – June. Business confidence fell 7 points to -63% in June, while expected own activity fell 4 points to a net 9% expecting lower activity ahead.

RBNZ sectoral lending data – May. Business lending growth ticked up to 8.9% y/y (8.8% in April). That's the strongest increase since February 2009. Housing lending growth slowed to 7.4% y/y (8.1% in April) as the cooling housing market and rising interest rates weighed.

ANZ Roy Morgan Consumer Confidence – June. The confidence index eased to 80.5 in June (82.3 in May).

Building Permits – May. Fell 0.5% m/m (after an 8.6% fall in April). On an annual basis, consents are still at record levels, with multi-unit dwellings driving the increase. But the outlook for construction is softening.

The week ahead

NZIER Quarterly Survey of Business Opinion – Q2 (Tuesday 5 July, 10:00am). Our ANZBO suggests the QSBO will paint a picture of weaker economic activity, but still-strong inflation and supply-chain pressures.

ANZ Commodity Price Index – June (Tuesday 5 July, 10:00am)

GlobalDairyTrade auction (Wednesday 6 July, early am). Dairy prices should stabilise at the next auction. Fonterra, NZX, and EEX now jointly own GDT with more frequent selling events proposed under the new ownership.

ANZ Truckometer – June (Friday 8 July, 10:00am).

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZD/USD	0.652	0.621	0.624	0.650	0.660	0.660	0.660	0.650	0.650
NZD/AUD	0.907	0.904	0.905	0.890	0.880	0.868	0.868	0.867	0.867
NZD/EUR	0.609	0.597	0.596	0.619	0.600	0.589	0.584	0.570	0.560
NZD/JPY	83.4	84.7	84.7	84.5	84.5	83.8	83.2	81.3	79.3
NZD/GBP	0.517	0.513	0.513	0.537	0.537	0.532	0.524	0.512	0.508
NZ$ TWI	72.3	70.5	70.6	71.9	71.9	71.3	70.9	69.7	69.3
Interest rates	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
NZ OCR	2.00	2.00	2.00	3.00	3.50	3.50	3.50	3.50	3.50
NZ 90 day bill	2.47	2.86	2.85	3.52	3.60	3.60	3.60	3.60	3.60
NZ 2-yr swap	3.92	4.06	3.99	4.22	3.86	3.49	3.43	3.32	3.26
NZ 10-yr bond	3.61	3.86	3.79	4.40	4.25	4.10	4.00	3.80	3.70

Economic forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (% qoq)	-0.2	**1.4**	**0.5**	**0.9**	**0.6**	**0.0**	**0.2**	**0.2**	**0.5**
GDP (% yoy)	1.2	**0.3**	**4.8**	**2.7**	**3.4**	**2.0**	**1.7**	**1.0**	**0.9**
CPI (% qoq)	1.8	**1.4**	**1.6**	**0.8**	**0.7**	**0.7**	**0.7**	**0.4**	**0.5**
CPI (% yoy	6.9	**7.0**	**6.4**	**5.8**	**4.6**	**3.9**	**3.0**	**2.5**	**2.3**
Employment (% qoq)	0.1	**0.6**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	2.8	**2.5**	**1.0**	**1.3**	**1.6**	**1.3**	**1.3**	**1.3**	**1.2**
Unemployment Rate (% sa)	3.2	**2.9**	**2.9**	**2.9**	**3.0**	**3.2**	**3.3**	**3.4**	**3.5**

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

Figure 4. Production GDP

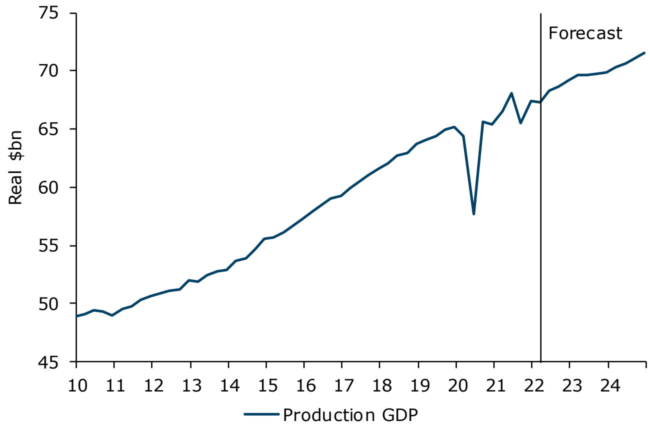


Figure 5. CPI inflation components

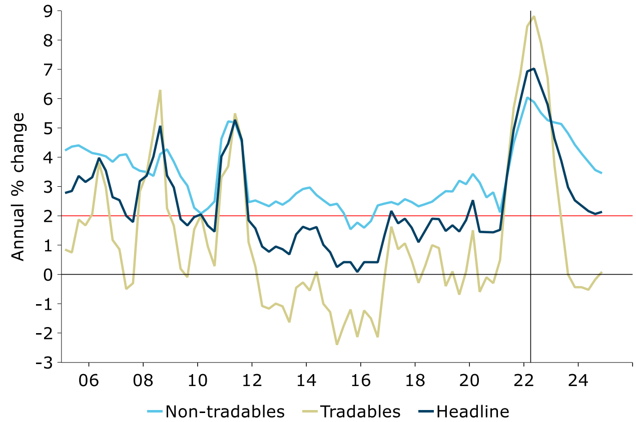


Figure 6. ANZ OCR forecast

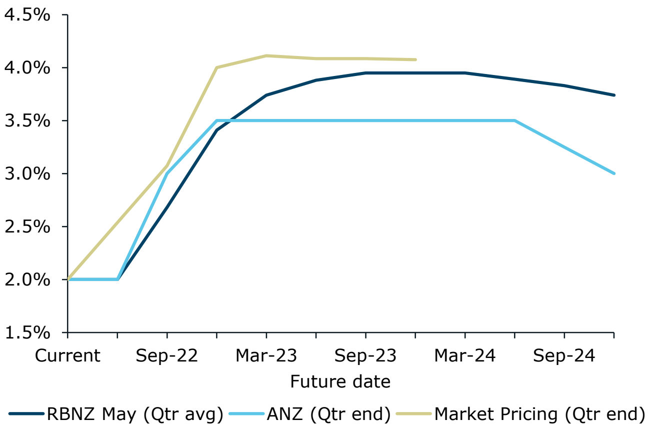
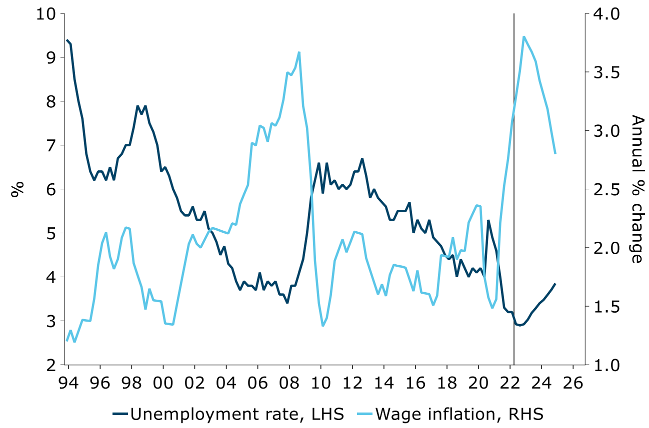


Figure 7. Unemployment rate and wage growth



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

Contact us

Meet the team

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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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