

New Zealand Weekly Data Wrap

2 September 2022



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See [page 5](#).

Forecast updates

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

- NZ Property Focus: no place for green shoots
- NZ Quarterly Economic Outlook: on the edge
- 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 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



Low consumer and business sentiment derail momentum.



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.

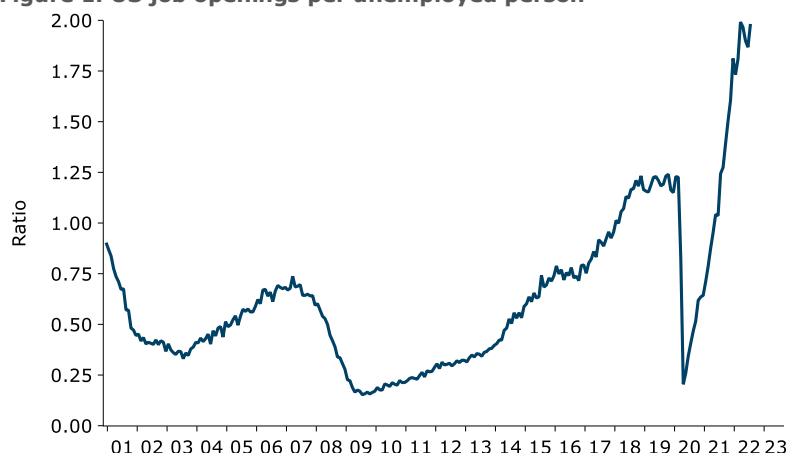


Global inflation pressures don't decline as quickly as anticipated.

What happened this week?

Market moves were dominated by global developments this week. Last Friday night (NZ time) Fed Chair Powell delivered a [hawkish speech](#) at the Jackson Hole symposium. He took the opportunity to deliver a short, sharp message to markets: the "overarching focus right now is to bring inflation back down to our 2 percent goal". He highlighted that "the employment costs of bringing down inflation are likely to increase with delay as high inflation becomes more entrenched in wage and price setting", and invoked the name of Volcker – the Fed's Chairman from 1979 to 1987 who oversaw the harrowing process of restoring price stability to the US. Just because lower oil prices saw US inflation ease slightly to 8.5% in July (9.1% previously) and growth numbers have softened, that doesn't mean the Fed's job is done. Interest rates will need to remain in contractionary territory for some time yet before the Fed can be comfortable that inflation will ease back to the 2% target. This week's July JOLTS report only reinforced the appropriateness of Powell's hawkish tone, with the number of job openings in the US lifting to 11.2 million (10.7 million previously) – well ahead of expectations for a further drop to 10.4 million. There remain roughly two job openings per unemployed person in the US (figure 1). That's not a situation in which any credible inflation-targeting central bank would feel comfortable easing off the interest rate brakes.

Figure 1. US job openings per unemployed person



Source: BLS, Macrobond, ANZ Research

Some officials at the European Central Bank (ECB) also put on their hawkish hats this week, with annual inflation there rising to 9.1% in August, versus 8.9% previously. While a large chunk of that reflects ongoing food and energy pressures in the wake of Russia's invasion of Ukraine, core inflation (excluding food and energy) lifted to 4.3%, up from 4.0% in July. With policy interest rates in the euro area still extremely low, the pressure is on the ECB to get ahead of this inflation surge. Several policymakers have already expressed the desire to hike rates by 75bps (versus 50bps at their last meeting). Market pricing already implies a 68bp rate hike at next week's ECB meeting, and it would be well justified by the scale of the inflation challenge facing Europe. The growth outlook is grim, but monetary policy can't save that.

The ripples of Powell's Jackson Hole speech last Friday night, combined with renewed hawkishness from ECB policymakers, sees the US 10-year yield now up to around 3¼%, versus 3% at the end of last week. Rising global interest rates have flowed through to New Zealand, with the 10-year government bond yield at 4.05% this morning, versus 3.88% last Friday.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [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](#)
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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?

We continue to watch the weekly flow of data very closely for signs that domestic demand is starting to fade, since that's a prerequisite for inflation to begin falling sustainably back towards 2%. And unfortunately for the RBNZ, if anything, the data was on the stronger side of expectations this week. In the August reading of our [Business Outlook Survey](#) there was a broad-based improvement across most indicators of activity, even if they remain very subdued in absolute terms. Business confidence lifted 9 points to -48, while own-activity recovered 5 points to -4. But, inflation expectations remain far too high, easing just 0.1ppts to 6.1%. With the RBNZ fixated on restoring price stability via cooling demand, 'good' news is a mixed bag, insofar as if the economy looks like it's proving more resilient than expected, the RBNZ will need to hit it harder with the blunt instrument of OCR hikes.

Speaking of resilient, Stats NZ's [monthly employment indicator](#) showed that some Kiwi firms are still managing to add to headcount, with filled jobs increasing 0.5% m/m (2.3% y/y) in July. The monthly employment indicator has shown a reasonably solid rebound over the past few months, although this hasn't yet been reflected in the HLFS employment data (figure 2). Going forward, further increases in employment will be both difficult and inflationary, given the extremely constrained nature of labour supply in New Zealand. Annual net migration outflows are currently running at -11.5k, and labour force participation is still close to record levels. The RBNZ needs to close the gap between labour demand and labour supply in order for domestic inflation pressures to ease. And that job will get [more challenging still](#) with Australia currently sitting on nearly half a million job vacancies and multi-decade lows in unemployment, and eyeing up Kiwi workers keenly.

Figure 2. Monthly filled jobs and HLFS employment growth



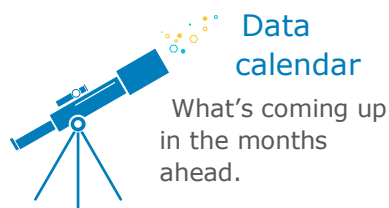
Source: Stats NZ, Macrobond, ANZ Research

Residential dwelling consents data was also stronger than expected, with consents lifting 5.0% m/m in July (-2.2% previously). The overall trend in new consents has flat-lined in recent months, but at very elevated levels. It is our expectation that as tighter monetary policy settings continue to weigh on the housing market and domestic economy, we should see residential investment activity decline. But it's certainly taking a while to roll over.

At the margin, the data flow this week suggests people may be keeping calm and carrying on a little more than the RBNZ would like. Their goal with interest rate hikes is to slow down spending and bring demand in the economy back in line with supply. As we noted last week, there is an increasing risk that a 4% OCR (which remains our central view) may not be sufficient to do the trick. This week's data has done nothing to reduce that risk.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 5 Sep (10:45am)	Building Work Put in Place – Q2
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 7 Sep (early am)	GlobalDairyTrade auction
Thu 8 Sep (10:45am)	Economic Survey of Manufacturing – Q2
Fri 9 Sep (10:00am)	ANZ Truckometer – Aug
Fri 9 Sep (10:45am)	Electronic Card Transactions – Aug
Mon 12 Sep (10:45am)	Net Migration – Jul
Tue 13 Sep (10:45am)	Food Price Index – Aug
Tue 13 Sep (10:45am)	Rental Price Index – Aug
Wed 14 Sep (10:45am)	Balance of Payments – Q2
Thu 15 Sep (10:45am)	GDP – Q2
Fri 16 Sep (10:30am)	BusinessNZ Manuf PMI – Aug
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 (10:00am)	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

Interest rate markets

Interest rates are up across the board this week in the wake of Fed chair Powell's hawkish and to-the-point speech last Friday night (NZ time). His speech left little to the imagination, and was perhaps best summed up by Bloomberg editor Joe Weisenthal, who said "the message out of Jackson Hole [where the speech was delivered] seems to be that it doesn't really matter what's driving the inflation, because the Fed's job is to get it down regardless". Markets got the message, and have re-priced upward, but they are still pricing in cuts beyond March (in the US) and May (in NZ) next year. These expectations face a risk of realignment if inflation proves stickier than anticipated. That speaks to upside risks to short-end rates, even from today's elevated levels. Local factors aren't really impacting, and traders report extremely thin liquidity and a degree of market dysfunction, which isn't helping. There is no significant NZ data in the next 10-12 days, and US non-farm payroll data is the next big risk event. If it beats expectations, it'll just cement the hawkish vibe in markets, but if it's weaker, we'll probably see a reprieve until US CPI data is released the following week (which will be followed a week later by the September Fed meeting).

FX markets

It's all about the USD right now as it goes from strength to strength, with EUR/USD below parity and USD/JPY now above 140. Even at these levels we find it difficult to build a case for USD strength fading as Europe tackles rampant inflation amid slumping confidence and a war on its doorstep, Japan doubles down on its long-held strategy of ultra-easy monetary policy, and the UK struggles under the weight of surging energy prices and political uncertainty. Australia and New Zealand will likely fare better, and our measure of fair value for the NZD is higher, but with the Fed taking back the high ground on fighting inflation, the USD is expected to be stronger for longer, and our new NZD/USD forecasts are now more neutral (page 4).

Key data summary

Building Permits – July. Consents lifted 5.0% in July (-2.2% previously).

ANZ Business Outlook – August. Both [business confidence](#) and expected own activity rose in August.

RBNZ sectoral lending data – July. Housing and business lending growth continues to slow, and that pattern is unlikely to change as the RBNZ carries on with aggressive OCR hikes.

The week ahead

Overseas Trade Indices – Q2 (Friday 2 September, 10:45am). Import price increases are expected to outpace higher export prices due to the sharp rise in the price of energy related imports such as oil and fertiliser.

Building Work Put in Place – Q2 (Monday 5 September, 10:45am). We've pencilled in a 1.5% q/q drop in building activity, after Q1's 3.2% lift.

ANZ Commodity Price Index – August (Monday 5 September, 1:00pm).

GlobalDairyTrade auction (Wednesday 7 September, early am). Dairy prices are set to trend up with futures prices indicating a 5% increase but we expect a more modest 2% lift.

Economic Survey of Manufacturing – Q2 (Thursday 8 September, 10:45am). Manufacturing sales volumes fell 3.5% in Q1, and reasonably muted PMI prints over the June quarter point to soft momentum in Q2.

ANZ Truckometer – August (Friday 9 September, 10:00am).

Electronic Card Transactions – August (Friday 9 September, 10:45am). We expect ECT data will show continued pressure on consumer spending, with spending growth around zero or slightly negative over August.



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	0.608	0.620	0.620	0.630	0.630	0.630	0.630
NZD/AUD	0.900	0.893	0.896	0.886	0.886	0.875	0.863	0.863	0.863
NZD/EUR	0.614	0.613	0.611	0.626	0.633	0.649	0.630	0.618	0.600
NZD/JPY	83.7	84.9	85.2	86.8	88.0	89.5	88.2	85.1	81.9
NZD/GBP	0.516	0.527	0.527	0.534	0.539	0.553	0.548	0.538	0.534
NZ\$ TWI	71.1	70.7	70.5	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	3.47	3.93	4.10	4.10	4.10	4.10	4.10
NZ 2-yr swap	3.74	4.32	4.38	4.20	4.20	4.25	4.25	4.20	4.10
NZ 10-yr bond	3.42	3.98	4.05	4.10	4.10	4.00	4.00	3.75	3.75

Economic forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (% qoq)	-0.2	1.0	0.5	0.8	0.5	0.1	0.2	0.2	0.5
GDP (% yoy)	1.2	-0.1	4.4	2.2	2.8	1.9	1.6	1.0	1.0
CPI (% qoq)	1.8	1.7	1.6	0.9	0.7	0.6	0.8	0.4	0.4
CPI (% yoy)	6.9	7.3	6.7	6.1	5.0	3.9	3.1	2.5	2.3
Employment (% qoq)	0.0	0.0	0.1	0.1	0.1	0.1	-0.3	-0.4	-0.4
Employment (% yoy)	2.7	1.6	-0.1	0.1	0.3	0.3	0.0	-0.5	-1.0
Unemployment Rate (% sa)	3.2	3.3	3.3	3.4	3.4	3.6	4.0	4.5	4.8

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

Figure 3. Production GDP

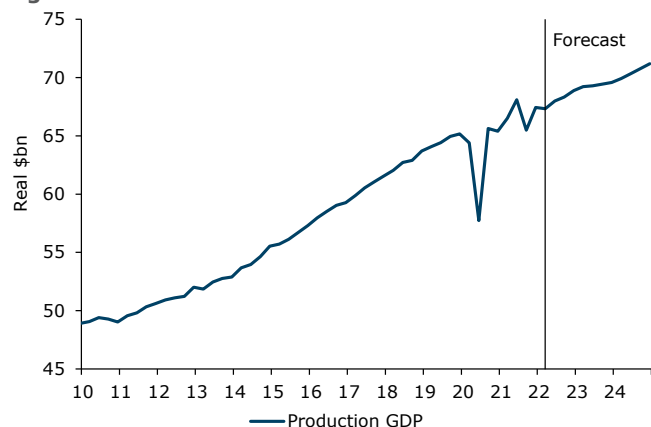


Figure 4. CPI inflation components

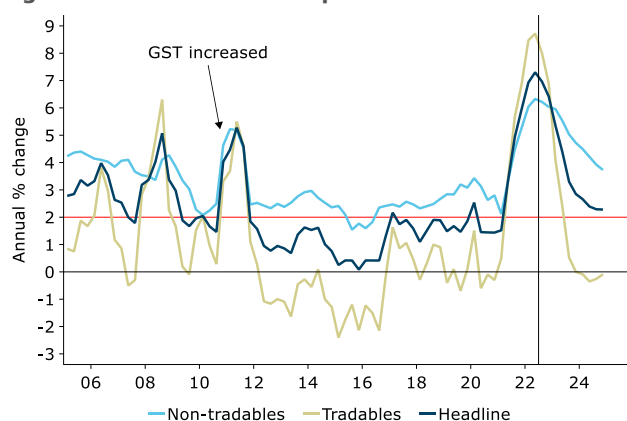


Figure 5. ANZ OCR forecast

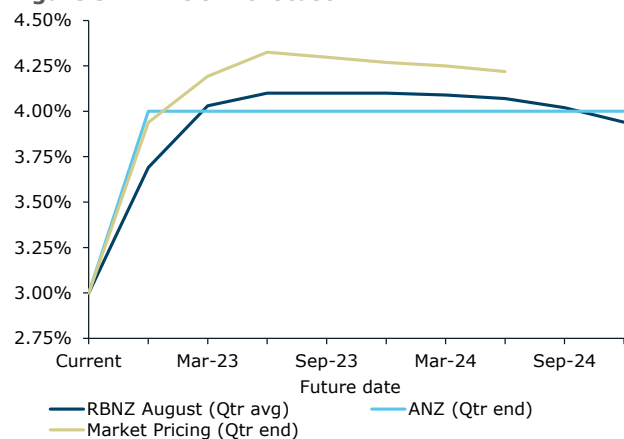
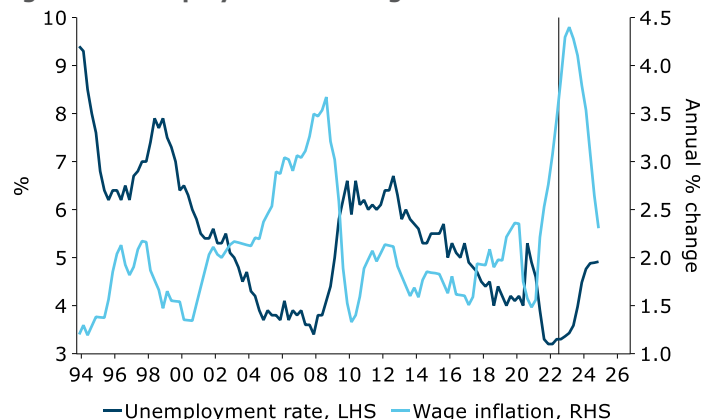


Figure 6. Unemployment and wage inflation



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



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