

New Zealand Weekly Data Wrap

25 November 2022



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Contact us

See [page 5](#).

Forecast updates

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

- RBNZ MPS Review and OCR Call Change: hope is not a strategy
- NZ Economic Outlook: coming in to land
- NZ Property Focus: Testing times
- NZ Forecast Update: Farmgate milk price forecasts revised up

Our other recent publications are on [page 2](#).

What's the view?

- GDP currently constrained by supply more than demand
- Labour market still extremely tight, and very inflationary
- Inflation way above target, and looking sticky
- OCR to 5.75% by May to contain inflation

Our forecasts are on [page 4](#).

Confused by acronyms or jargon? See a glossary [here](#).

Key risks to our view



Global growth risks abound, not least in China, our key trading partner.



The housing slowdown could become disorderly if unemployment rises sharply.



Wage-price spiral could necessitate more interest rate hikes than expected.

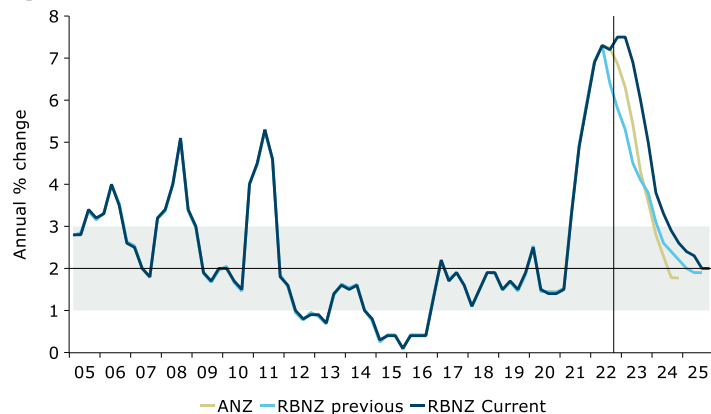


Global inflation pressures may not decline as quickly or as far as anticipated.

Engineering a recession

The RBNZ's November Monetary Policy Statement (MPS) dominated headlines this week. The Monetary Policy Committee (MPC) delivered a 75bp hike to 4.25% (as was widely expected), but they also **out-hawked the hawks** with an OCR track peaking at 5.5% (versus 4.1% in August), a recession predicted for 2023, and the unemployment rate set to rise sharply to 5.7% (3.3% currently). The RBNZ also forecasts that annual CPI inflation will increase to a fresh high of 7.5% in Q4 (above our current pick of 6.9%).

Figure 1. RBNZ CPI inflation forecasts



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

A hawkish turn was **certainly our expectation**, given that in the time since the October Review, the MPC have been surprised significantly to the upside by CPI inflation (both tradables and non-tradables), employment, and wage growth. In addition, inflation expectations across a range of different surveys have either remained stubbornly high, or increased further. In particular, the Q4 Survey of Expectations showed that expectations were sliding towards the 'RBNZ ain't got this' end of the scale. But even so, the scale of the RBNZ's hawkish shift was larger than we anticipated.

Given the risks around inflation expectations becoming unanchored, a developing wage-price spiral, and an upgraded estimate of the neutral interest rate (see next page), the RBNZ has essentially decided they need to generate a policy-induced recession in New Zealand to bring inflation under control. When asked by MPs if the RBNZ was trying to cause a recession, the Governor responded:

"I think that is correct. We are deliberately trying to slow aggregate spending in the economy. The quicker inflation expectations come down, the less work we need to do and the less likely it is that we have a prolonged period of low or negative growth."

The MPS shows a modest peak-to-trough decline in GDP of 1%, starting in Q2 next year, but the RBNZ expect it to have a pretty devastating impact on the labour market, with unemployment rising to 5.7% in 2025. That's only a slightly smaller increase than we saw during the Global Financial Crisis. We certainly hope that this amount of damage is not needed to get inflation under control. But hope is not a strategy. Given the RBNZ's hawkish stance, we have **revised up our forecast OCR track**, adding to our existing 75bp hike in February a 50bp hike in April and a 25bp hike in May, which would take the OCR to a peak of 5.75% (5.0% previously expected).



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- RBNZ Formulation and Implementation of Monetary Policy Review
- NZ Insight: our record breaking labour market
- NZ Property Focus: Testing times
- NZ Property Focus: spring bounce or false floor?
- NZ Insight: The inflation outlook and the balance of risks
- NZ Insight: 2020 hindsight
- 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
- 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?

[Click here for more.](#)



ANZ Proprietary data

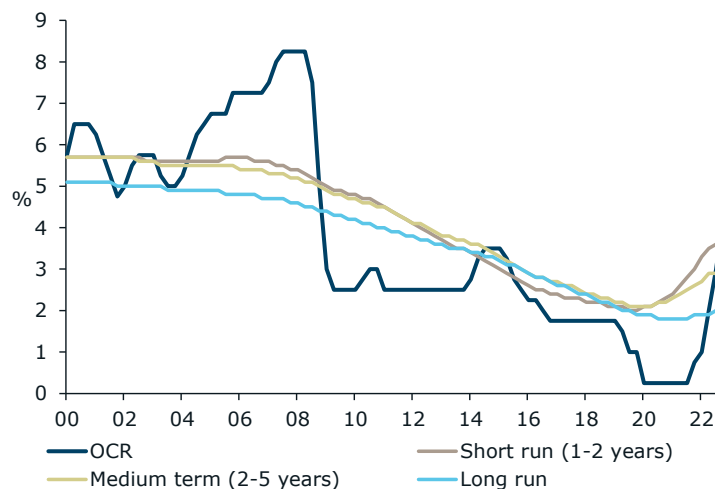
Check out our latest releases below.

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

OCR only just contractionary

As if there weren't already enough reasons for the RBNZ to ratchet up the hawkishness, they've also crunched the numbers on how the surge in inflation expectations has impacted the neutral OCR (ie the level of the OCR that is neither expansionary nor contractionary for the economy). Feeding in longer-run measures of inflation expectations continues to generate a nominal neutral interest rate of around 2% (although that has been gradually creeping up in recent months). However, when they feed in two- to five-year-ahead measures of inflation expectations, that number rises to 2.9%. And when they feed in shorter-term inflation expectations (one- to two-years-ahead), the neutral estimate is even higher at 3.6% (figure 2).

Figure 2. RBNZ estimates of the neutral OCR at different horizons



Source: RBNZ

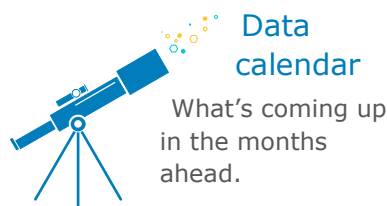
Estimating neutral interest rates (which by definition are unobservable) is inherently uncertain. And it's worth noting that while the RBNZ estimates the medium-term neutral rate is around 2.9%, that comes with a range of 1.6% to 4.6%, so this is not a precise science (although economics never is!).

However, by the RBNZ's best estimates, it's clear that the recent surge in short- and medium-term inflation expectations means monetary policy has not in practice been as contractionary as was previously assumed. That's another reason for the RBNZ's expectation that inflation will actually re-accelerate to 7.5% in Q4. Essentially, they're estimating that only *now* is the OCR, at 4.25%, in contractionary territory (and since their estimated range for the short-run neutral goes as high as 5.4%, it may not even be there yet!). The MPC thought they'd been pumping the brakes on inflation, but their updated analysis suggests all they had actually achieved in lifting the OCR to 3.5% by October was easing off the accelerator.

The upshot of all this is that to deliver the same amount of tightening, the OCR needs to go considerably higher than it would have several years ago. Back in 2019, for example, inflation expectations were actually drifting downwards, and were a key reason for the RBNZ's surprise 50bp cut back in August 2019. That meant an OCR of just 1.75% in early 2019 was actually pretty close to neutral (and was therefore not really pushing inflation back up to two percent). It is the gap between the 'neutral' and the 'actual' OCR that determines how inflationary (or disinflationary) monetary policy settings are. With the actual OCR now comfortably above the RBNZ's updated estimates of neutral, the MPC is more confident that as they head into the summer break, monetary policy settings are in contractionary territory. The question now is how the economy will weather this interest rate storm as we head into 2023 and households roll into ever higher mortgage rates.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Wed 30 Nov (10:45am)	Building Permits – Oct
Wed 30 Nov (1:00pm)	ANZ Business Outlook – Nov
Wed 30 Nov (3:00pm)	RBNZ Sectoral Lending – Oct
Fri 2 Dec (10:45am)	Terms of Trade – Q3
Tue 6 Dec (1:00pm)	ANZ Commodity Price Index – Nov
Wed 7 Dec (early am)	GlobalDairyTrade auction
Thu 9 Dec (10:00am)	ANZ Truckometer – Nov
Thu 9 Dec (10:45am)	Economic Survey of Manufacturing – Q3
Thu 9 Dec (10:45am)	Electronic Card Transactions – Nov
Mon 12 Dec (10:45am)	Net Migration – Oct
Tue 13 Dec (10:45am)	Food Price Index – Nov
Tue 13 Dec (10:45am)	Rental Price Index – Nov
Wed 14 Dec (10:45am)	Current Account – Q3
Wed 14 Dec (1:00pm)	Half Year Economic and Fiscal Update
Thu 15 Dec (10:45am)	GDP – Q3
Fri 16 Dec (10:30am)	BusinessNZ Manuf PMI – Nov
Mon 19 Dec (10:30am)	Performance Services Index – Nov
Tue 20 Dec (10:45am)	Merchandise Trade – Nov
Tue 20 Dec (1:00pm)	ANZ Business Outlook – Dec
Wed 21 Dec (early am)	GlobalDairyTrade auction
Wed 21 Dec (10:00am)	ANZ-RM Consumer Confidence – Dec
Wed 4 Jan (early am)	GlobalDairyTrade auction
Thu 12 Jan (10:45am)	Building Permits – Nov
Wed 18 Jan (10:45am)	Electronic Card Transactions – Dec
Thu 19 Jan (10:45am)	Food Price Index – Dec
Thu 19 Jan (10:45am)	Rental Price Index – Dec
Fri 20 Jan (10:30am)	BusinessNZ Manuf PMI – Dec

Interest rate markets

Local interest rates shot higher in the immediate aftermath of Wednesday's RBNZ MPS, with the short end leading the way, as one would expect. But it was not the 75bp hike that caught the market out – indeed, most in the market were expecting it – rather, it was the magnitude of the lift in the RBNZ's OCR projection that surprised. It is a technical projection that is contingent on a whole host of variables, and isn't supposed to signal that policy is on a pre-set course. However, if we do back-solve it for upcoming RBNZ meetings, it implies another 75bps in February, followed by another 50bp hike in April (or back-to-back 25bp hikes in April and May). Markets aren't fully on board, and are pricing in policy easing over late 2023, but we think that's premature, and still see upside risks to short-end interest rates. We are also forecasting a slightly higher OCR peak than the RBNZ. In contrast, global rates have fallen, dragging down local long-end rates, and further inverting local swap and bond yield curves. That's understandable given increased US recession fears, and an expectation that the Fed will slow the pace of hikes (to 'just' a 50bp hike next month). However, the Fed has also warned of a higher terminal rate and said that the policy rate is likely to remain at that terminal rate for a long time, and we think that poses upside risks to US and NZ long-end rates.

FX markets

The NZD made a new high for the current upswing today, fuelled by higher local interest rates, a renewed risk-on vibe in global markets, and a softer USD as interest rates there ease back. While a hawkish RBNZ has stoked fresh recession fears, FX markets are sensitive to interest rates and carry, and we think higher rates here will be a tailwind for the NZD. Getting on top of inflation also lessens the need for the nominal exchange rate to trade at a discount to the real exchange rate. It looks increasingly likely that we may have seen the low in the Kiwi for the cycle, but if the Fed does project a higher terminal rate next month, we may see a bounce in the USD. Even if the low in the Kiwi is in, don't be surprised if markets remain volatile.

Key data summary

Overseas Merchandise Trade – October. The annual trade deficit grew to NZD12.9bn in October, versus NZD12.0bn in September.

RBNZ Monetary Policy Statement – November. The RBNZ hiked the OCR 75bp to 4.25% in a very hawkish MPS. See our [Review](#).

ANZ Roy Morgan Consumer Confidence – November. [Consumer confidence](#) fell 5 points in November to 80.7.

Retail sales – Q3. Retail sales rose 0.4% q/q in Q3.

The week ahead

Building Permits – October (Wednesday 30 November, 10:45am). Consent numbers continue to be supported by multi-unit dwellings, while consents for single houses are falling.

ANZ Business Outlook – November (Wed 30 November, 1:00pm).

RBNZ sectoral lending data – October (Wednesday 30 November, 3:00pm). Housing lending continues to slow, and with house sales falling sharply in October, that is likely to weigh on credit growth.

Overseas Trade Indices – Q3 (Friday 2 December, 10:45am). Terms of trade are forecast to fall -2.5% q/q in Q3 as import prices remain elevated due to high fuel and fertiliser costs, while export returns have softened.



Key forecasts and rates

FX rates	Actual				Forecast (end month)				
	Sep-22	Oct-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD/USD	0.560	0.580	0.626	0.590	0.570	0.580	0.590	0.600	0.620
NZD/AUD	0.874	0.907	0.926	0.908	0.891	0.892	0.894	0.882	0.886
NZD/EUR	0.571	0.584	0.602	0.608	0.600	0.598	0.590	0.583	0.590
NZD/JPY	81.0	86.2	86.8	86.7	85.5	85.8	85.6	85.2	86.8
NZD/GBP	0.501	0.503	0.517	0.527	0.518	0.513	0.504	0.504	0.517
NZ\$ TWI	67.8	69.8	72.9	71.1	69.2	69.5	69.6	69.6	71.0
Interest rates	Sep-22	Oct-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZ OCR	3.00	3.50	4.25	4.25	5.00	5.75	5.75	5.75	5.75
NZ 90 day bill	3.85	4.10	4.40	4.85	5.77	5.85	5.85	5.85	5.85
NZ 2-yr swap	4.67	5.02	5.21	5.48	5.55	5.50	5.45	5.45	5.40
NZ 10-yr bond	4.30	4.19	4.08	4.50	5.00	4.75	4.75	4.75	4.50

Economic forecasts

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
GDP (% qoq)	1.7	0.4	0.2	0.3	0.7	0.2	0.2	0.3	0.4
GDP (% yoy)	0.4	5.0	2.1	2.6	1.6	1.4	1.4	1.4	1.1
CPI (% qoq)	1.7	2.2	1.1	1.2	0.8	1.0	0.4	0.5	0.3
CPI (% yoy)	7.3	7.2	6.9	6.3	5.4	4.3	3.6	2.8	2.3
Employment (% qoq)	0.0	1.3	0.3	0.2	0.0	-0.4	-0.5	-0.4	0.0
Employment (% yoy)	1.5	1.2	1.5	1.7	1.7	0.1	-0.7	-1.2	-1.2
Unemployment Rate (% sa)	3.3	3.3	3.3	3.3	3.5	4.0	4.5	4.9	4.9

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. Click [here](#) for full ANZ forecasts

Figure 3. GDP forecast level

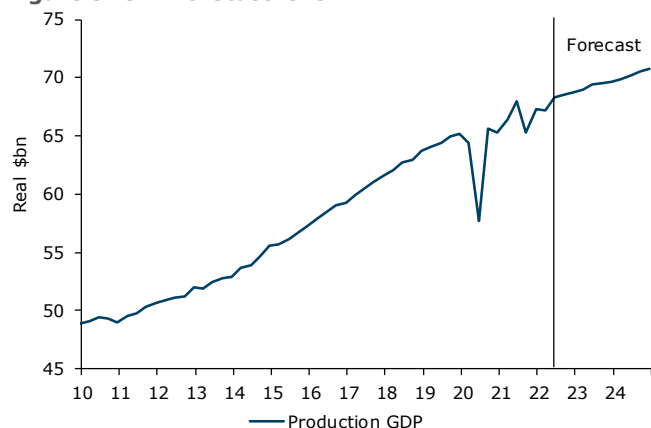


Figure 4. CPI inflation components

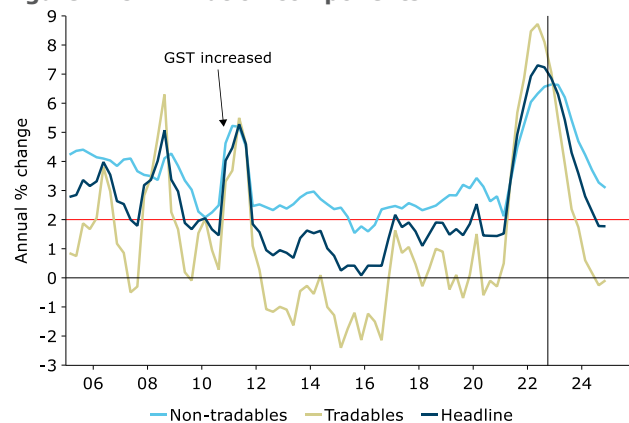


Figure 5. OCR forecast

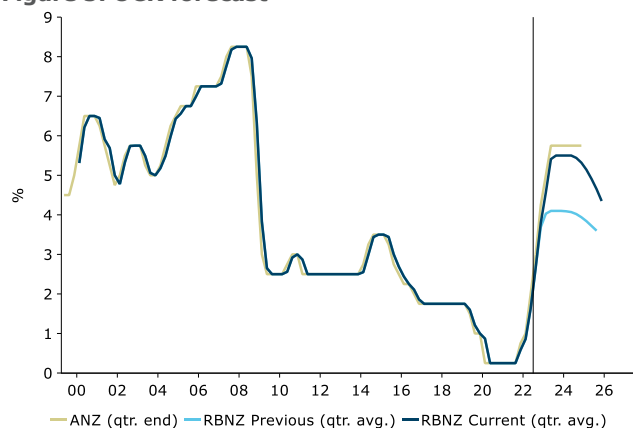
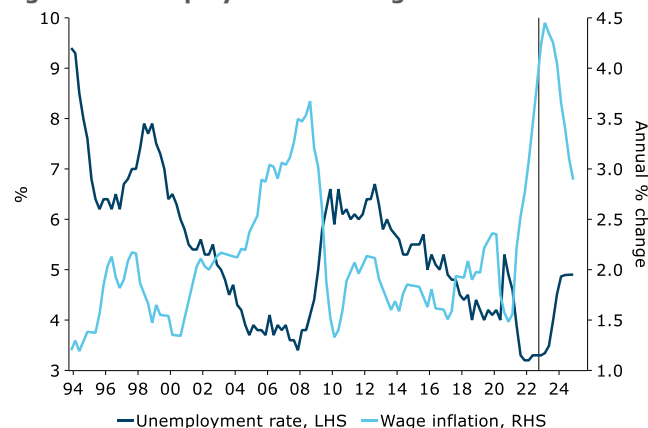


Figure 6. Unemployment and wage inflation



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



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