

New Zealand Weekly Data Wrap

9 December 2022



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See [page 5](#).

Forecast updates

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

- [NZ Forecast Update: ANZ releases milk price forecast for 2023-24 season](#)
- [NZ Weekly Data Wrap: taking stock after the MPS](#)
- [NZ Property Focus: six reasons](#)
- [RBNZ MPS Review and OCR Call Change: hope is not a strategy](#)
- [NZ Economic Outlook: coming in to land](#)

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.



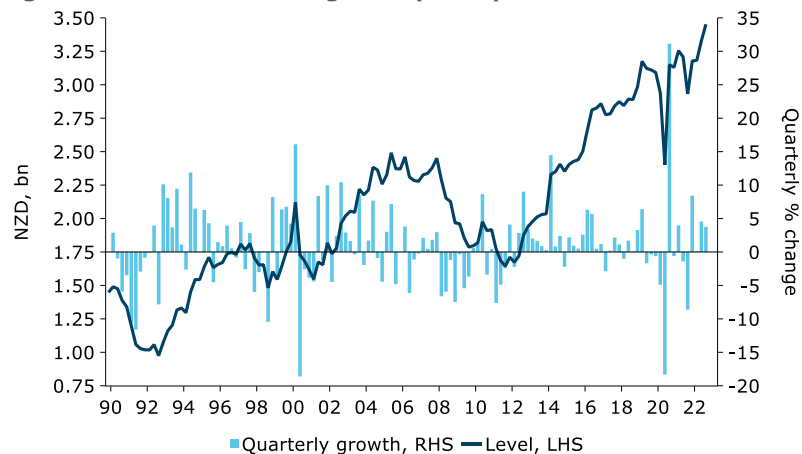
Global inflation pressures may not decline as quickly or as far as anticipated.

What happened this week?

Next week brings an array of economic data to keep us busy heading into the Christmas period, including the Half-Year Economic and Fiscal Update, the November REINZ housing market data (see next page), and Q3 GDP.

This week the data flow was a little light, with the highlight being Stats NZ releasing more partial indicators ahead of next week's Q3 GDP release. Particularly notable was the Q3 work put in place data, which showed the volume of building activity lifting an impressive 3.8% q/q (figure 1), considerably stronger than our expectation for a 0.5% q/q lift. Strong gains were seen in both the residential (+3.1% q/q) and non-residential space (+4.9%). Given that these data cover the September quarter, they can be considered a little 'dated', especially since we already have [consents data](#) for October and [construction intentions](#) for November, which both point to a considerable softening in construction activity in coming months.

Figure 1. Volume of building work put in place



Source: Stats NZ, Macrobond, ANZ Research

Timeliness (and volatility) aside, however, the data do highlight just how strong construction activity has been over the past few years (lockdowns notwithstanding). Annual dwelling consent issuance has been coasting along at record highs for much of 2022, and we've never added more houses to the national housing stock. As we noted in our recent [Property Focus](#), the strength in building activity has seen new housing supply vastly outstripping new demand for most of the past two years. Unfortunately, as we look towards 2023, that boom is likely to turn to bust, with higher interest rates and a rapidly cooling housing market making for a very soft outlook for residential construction activity in particular. That's reflected in the RBNZ's November MPS forecast, where residential investment activity was forecast to fall 11% below Q2 2022 levels by mid-2024.

We also released our initial [farmgate milk price forecast](#) for the 2023-24 season this week, which currently stands at NZD9.00/kg MS. We retain our forecast of NZD8.75/kg MS for the 2022-23 season, since the fall in dairy commodity prices in recent months has been in line with our forecast. Demand for dairy products is soft globally, and that's unlikely to change as we head into 2023 and headwinds to growth continue to strengthen. However, milk production also remains relatively weak around the world, helping to offset the impact of weak demand on prices.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [NZ Insight: Risks to the OCR outlook](#)
- [NZ Insight: RBA/RBNZ policy divergence back in the spotlight](#)
- [NZ Property Focus: six reasons](#)
- [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](#)
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ANZ Proprietary data

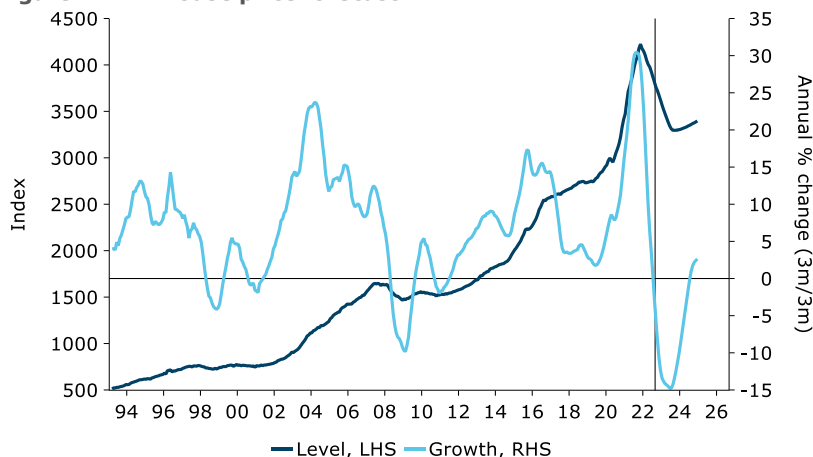
Check out our latest releases below.

- [ANZ Business Outlook](#)
- [ANZ-Roy Morgan Consumer Confidence](#)
- [ANZ Truckometer](#)
- [ANZ Commodity Price Index](#)

A busy week ahead

First up next week is the November REINZ housing market report on Tuesday. On average, house prices have declined 1.1% each month since their peak in November 2021 (ANZ seasonal adjustment), and we expect the downtrend continued in November 2022. That would mark 12 consecutive months of house price falls – a longer streak than the 10-month run of price falls over 2008. The ongoing decline in house sales, the rise in the number of days it is taking to sell a house, and further lifts in mortgage rates all point to house prices falling further in coming months. House prices are down 12% from their November 2021 peak, and [we're forecasting](#) they will fall 22% in total (figure 2). We continue to describe this as a 'soft landing' for the housing market, but things could easily gap lower should the labour market start to soften by more than expected (see last week's edition of the [Data Wrap](#) for our latest labour market forecast update).

Figure 2. ANZ house price forecast



Source: REINZ, Macrobond, ANZ Research

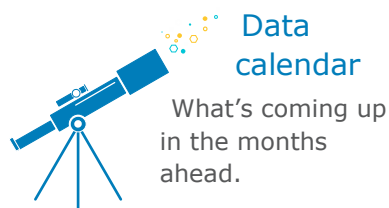
Wednesday brings the [Half Year Economic and Fiscal Update \(HYEFU\)](#). We expect the Treasury's updated economic forecasts will contain more near-term inflation, higher interest rates, and less economic activity. It's worth noting that the Treasury's forecasts would likely have been finalised before the hawkish November MPS, so the projections could well have a slightly less aggressive interest rate outlook than most forecasters currently expect (which would imply a touch of downside risk to their economic and fiscal outlooks).

Domestic inflation pressures have been relentless over 2022, and the super-tight labour market has driven wage inflation to multi-decade highs. That is making it more expensive to deliver government services, which could see the Government decide to increase spending allowances. However, in this inflationary environment, they may also look to reprioritise spending instead, which would be less inflationary. From a macroeconomic perspective, it's time for fiscal policy to "cool the jets". Running structural deficits in a capacity-constrained economy is not helpful from an inflation perspective, and our rapidly widening current account deficit makes the broader economy vulnerable to correction too.

As ever, the interaction between fiscal and monetary policy matters. As noted in the Summary Record of Meeting in the RBNZ's November MPS, "the Committee agreed that fiscal policy can also act to reduce demand in the economy", and "on balance, members viewed the risks to inflation pressure from fiscal policies as skewed to the upside given the ongoing real demand for services". With a central bank on the warpath against inflation, further increases in government spending would increase the risk that the Monetary Policy Committee decides they need to increase the OCR by even more than currently expected (5.5% in the November MPS, versus our expectation for 5.75%, and the current level of 4.25%).



Financial markets update



Date	Data/event
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
Wed 11 Jan (1:00pm)	ANZ Commodity Price Index – Dec
Thu 12 Jan (10:00am)	ANZ Truckometer – Dec
Thu 12 Jan (10:45am)	Building Permits – Nov
Tue 17 Jan (10:00am)	NZIER QSBO – Q4
Wed 18 Jan (early am)	GlobalDairyTrade auction
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
Fri 20 Jan (10:45am)	Net Migration – Nov
Tue 24 Jan (10:30am)	Performance Services Index – Dec
Tue 24 Jan (10:45am)	Merchandise Trade – Dec
Wed 25 Jan (10:45am)	CPI – Q4
Wed 1 Feb (10:45am)	Labour Market – Q4

Interest rate markets

Global bond markets remain volatile, which is a theme we expect to persist as the monetary policy cycle matures. Turning points generally tend to be messy and volatile, and we think 2023 will be the same. US 10-year bond yields are at 3½% today, yet by the end of next week, we expect the Fed to lift its policy rate to 4½%, and to signal a 5-5¼% terminal rate. The US bond market is eager to focus on the next (easing) cycle, and yield curves are likely to remain inverted, but we don't think markets are at all well placed for what's likely to be a hawkish tone. NZGBs have struggled under the weight of poor demand at tenders, and markets remain coy about the prospect of additional issuance expected to be announced at next week's [HYEFU](#). We continue to forecast higher interest rates over coming months.

FX markets

The USD remains under pressure as markets embrace what they see as the beginning of the end of the Fed tightening cycle, and US bond yields fall (as above). We suspect the USD has peaked and forecast further weakness in 2023 (page 4), but we think the risk of a USD correction higher following next week's Fed meeting is material, hence our expectation of a NZD pull-back before strength resumes in H2 2023. A simpler way to sum that up might be this: expect volatility as we head into year-end and 2023.

Key data summary

ANZ Commodity Price Index – November. The ANZ World [Commodity Price Index](#) fell 3.9% in November, as prices for food commodities eased. In local currency terms the index plunged 9.1%.

Building Work Put in Place – Q3. Building activity lifted 3.8% q/q, after an upwardly revised 4.6% rise in Q2.

GlobalDairyTrade auction. The Global Dairy Trade Price Index lifted 0.6% at the latest auction, with whole milk powder prices up 0.1% to USD3400/MT.

ANZ Truckometer – November. *Postponed until 12 January due to interruptions in the data supply.*

The week ahead

Net Migration – October (Monday 12 December, 10:45am). Net migration has started to increase in recent months, and we have [recently upgraded](#) our migration forecast.

REINZ House Prices – November (Tuesday 13 December, 9:00am). We [continue to expect](#) house prices to fall 22% relative to their November 2021 peak (they were down 12% in total in October).

Food Prices – November (Tuesday 13 September, 10:45am). For November, we pencil in a flat month (0.0% m/m) which would see annual food price inflation lift to 10.7% (10.1% previously).

Rental Price Index – November (Tuesday 13 September, 10:45am). We expect a 0.2% m/m (4.0% y/y) lift in total rents.

Current Account Balance – Q3 (Wednesday 14 December, 10.45am). Our Preview will be released later today.

Half-Year Economic and Fiscal Update (Wednesday 14 December, 1:00pm). See our [Preview](#).

GDP – Q3 (Thursday 15 December, 10.45am). Our Preview will be released later today.

Performance of Manufacturing Index – November (Friday 16 December, 10:30am). Eased to 49.3 in October (52.0 in September), and we wouldn't be surprised by further weakness as momentum shifts to services.



Key forecasts and rates

	Actual				Forecast (end month)				
FX rates	Oct-22	Nov-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZD/USD	0.580	0.624	0.638	0.630	0.610	0.610	0.620	0.630	0.640
NZD/AUD	0.907	0.927	0.942	0.926	0.938	0.924	0.912	0.900	0.889
NZD/EUR	0.584	0.602	0.604	0.606	0.604	0.592	0.590	0.594	0.593
NZD/JPY	86.2	86.6	87.2	86.9	86.6	85.4	84.3	84.4	84.5
NZD/GBP	0.503	0.520	0.521	0.525	0.530	0.521	0.521	0.516	0.516
NZ\$ TWI	69.8	72.4	73.3	72.7	70.9	70.0	70.0	70.3	70.5
Interest rates	Oct-22	Nov-22	Today	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
NZ OCR	3.50	4.25	4.25	4.25	5.00	5.75	5.75	5.75	5.75
NZ 90 day bill	4.10	4.42	4.48	4.85	5.77	5.85	5.85	5.85	5.85
NZ 2-yr swap	5.02	5.14	5.12	5.48	5.55	5.50	5.45	5.45	5.40
NZ 10-yr bond	4.19	4.08	4.04	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	Under review							
GDP (% yoy)	0.4								
CPI (% qoq)	1.7	2.2	1.3	2.0	0.8	1.0	0.6	0.7	0.4
CPI (% yoy)	7.3	7.2	7.0	7.3	6.4	5.1	4.5	3.1	2.8
Employment (% qoq)	0.0	1.3	0.3	0.2	0.1	-0.4	-0.4	-0.4	-0.1
Employment (% yoy)	1.5	1.2	1.5	1.8	1.9	0.2	-0.5	-1.1	-1.2
Unemployment Rate (% sa)	3.3	3.3	3.2	3.3	3.4	3.9	4.4	4.9	5.1

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

Figure 4. GDP level

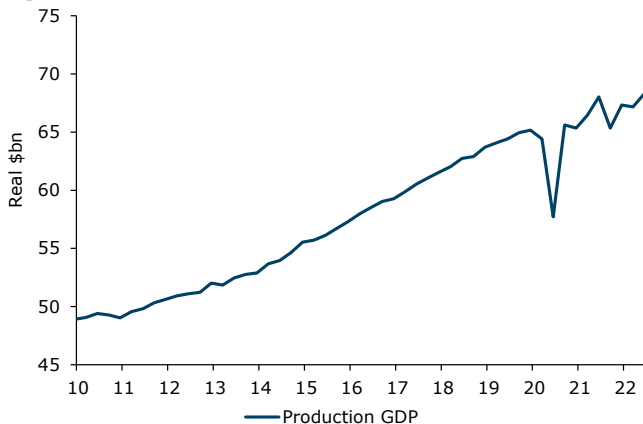


Figure 5. CPI inflation components

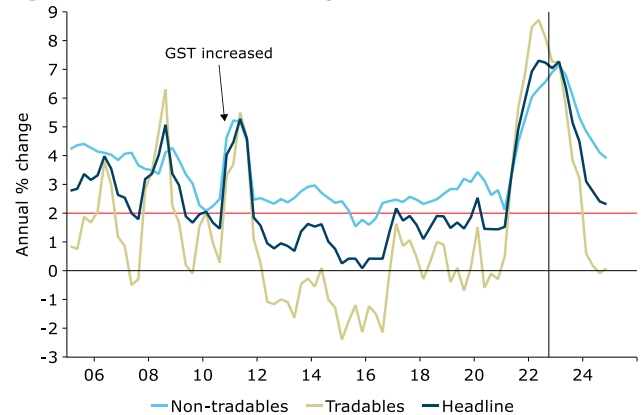


Figure 6. OCR forecast

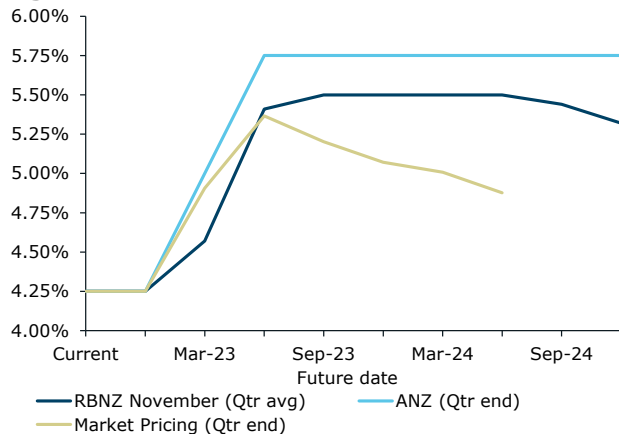
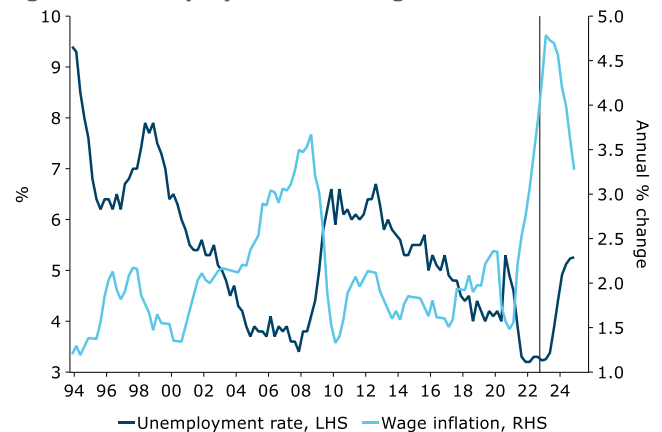


Figure 7. Unemployment and wage inflation



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



Contact us

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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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