

New Zealand Weekly Data Wrap

21 April 2023



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See [page 5](#).

Forecast updates

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

- [NZ Forecast Update: getting an extension](#)
- [NZ Property Focus: rain check](#)
- [NZ Forecast Update: milk price forecasts revised down](#)

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

What's the view?

- GDP transitioning from acute supply constraints to a softening demand pulse.
- Inflation way above target, and looking sticky
- OCR to 5.50% 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 and financial market risks abound, as markets debate the rates outlook.

The housing slowdown could become disorderly if unemployment rises sharply.

Negative supply shocks, including weather impacts, could see inflation hold up.

NZ's large external imbalances could see the market impose a more abrupt adjustment path.

A challenge to the looming recession?

While CPI data this week was by far the most relevant data for the next OCR decision (see [page 2](#)), it's certainly not the only data released over the past week or so that has the potential to move the needle on monetary policy settings over time.

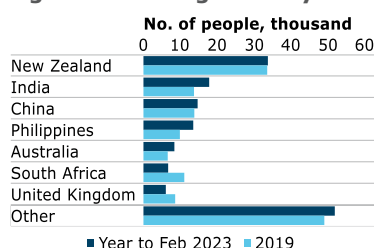
[REINZ housing data for March](#) was consistent with a loose market overall, but one that is on a tightening trajectory. The national-level HPI fell just 0.2% m/m in seasonally adjusted terms vs. an average monthly decline over the prior 15 months of around 1.2%. Some regions reported half decent m/m increases. Meanwhile, sales remain sub-par, but pulled themselves off the floor, and days to sell fell by 4, while still at historically high levels. Taken together with lifting auction clearance rates in Auckland, surging net migration (more below), and the recent decline in some longer-term fixed mortgage rates, these data suggest risks around our forecast for a 22% peak to trough decline in house prices are tilted to the upside.

If green shoots are emerging in housing, the next big question is what this means for household demand, CPI inflation, and therefore interest rates. With inflation as high as it is, the RBNZ may not be willing to tolerate any signs of a turnaround in housing just yet. Their February MPS forecast had house prices falling 23% from their peak – and that outlook will inevitably be impacting their private consumption and residential investment forecasts, where sub-par growth is key for ensuring the output gap turns negative and stays that way for as long as necessary to get inflation down.

Turning to migration, data released last Friday showed monthly net migration came in at a whopping 11,655 in February (figure 2). Fair to say, this is a new upside risk to the activity and housing outlook and a downside risk to wage growth. CPI implications are more ambiguous as migration adds to both demand for goods and services and the supply of labour. We included a Special Topic on migration in our last [Economic Outlook](#), noting our working assumption for 2023 was a net inflow of 40k. If the February pace continued over the coming year, we'd be looking at an annual inflow of around 140k. Assuming 30-60% of migrants enter employment/contribute to production (it tends to vary a lot by visa type and family status), and holding real GDP per capita constant at Q4 2022 levels, this could add 0.6 to 1.2%pts back into our current forecast for GDP to contract 1.1% over the three quarters to March 2024. In short, an extra 100k migrants (depending on the timing) versus our assumption could mean our forecast recession never happens!

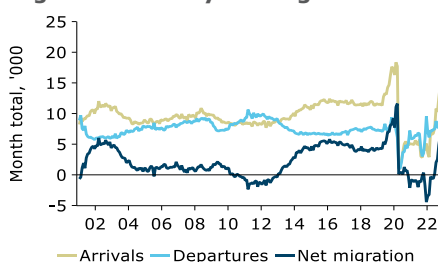
At this stage, we're still expecting pent-up immigration demand dynamics to fade. Arrivals could turn down quickly, potentially just as departures lift further as the New Zealand winter takes hold.

Figure 1. Net migration by citizenship



Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Monthly net migration





Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Agri Focus: a further lift required
- NZ Property Focus: Not a straight line
- NZ Insight: Inflation rotation
- NZ Insight: second wind for the labour market?
- NZ Property Focus: rain check
- NZ Insight: inflationary risks from Gabrielle
- NZ Agri Focus: opportunities and challenges ahead
- NZ Agri Focus: a year of challenges
- NZ 2022 HYEPU: reprioritising
- 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 Insight: 2020 hindsight
- NZ Agri Insight: feeding the world sustainably
- NZ Budget Review: Big Budget

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

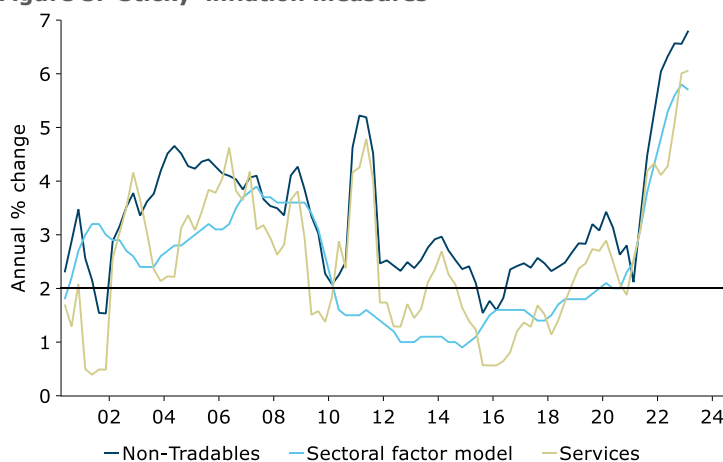
Inflation: Q1 outturn and updated forecast

The [Q1 CPI release](#) came in below our (and the RBNZ's) expectation by a decent clip (ANZ: 1.7% q/q; RBNZ: 1.8% q/q; Actual: 1.2% q/q). However, the surprise came largely from the volatile tradables component, meaning the good news from a persistent underlying inflation perspective is limited.

After accounting for the starting point, our inflation outlook is little changed from previously. We have retained previous cyclone impact assumptions (see more on this [here](#)) and still see plenty of underlying inflation pressures stemming from the too-tight (but loosening) labour market. On our forecast, headline CPI inflation peaked at 7.3% in June 2022, but it'll take a while to get back to the 2% target midpoint (late 2025). Annual tradables inflation (largely influenced by global factors and the NZD) is expected to continue decelerating, and quite quickly too, slowing from a peak of 8.7% y/y in June 2022 to just 0.8% y/y come late 2025. Non-tradables inflation (the domestic and 'sticky' kind) is expected to slow from a peak of 6.8% in Q1 2023, to 3% by late 2025, reflecting a further unwinding of housing-related inflation and diminishing labour cost pressures (via a looser labour market). See figure 4 on page 4 for our CPI forecasts.

For the RBNZ, it's the potential persistence in sticky inflation, such as non-tradables and services inflation, that will be keeping the Committee up at night. The RBNZ will be cognisant of the risk that while reducing non-tradables inflation from 6.8% to 5% is likely to prove relatively easy given base effects (particularly with regards to housing-related costs), getting it from 5% to 3% may require further work. The Q1 CPI data certainly didn't provide much relief on the sticky inflation front. The RBNZ's sectoral factor model may have slowed marginally, but some measures of core inflation lifted. Meanwhile, both annual non-tradables inflation and services inflation accelerated. As we noted last week, a lot still needs to go right for the RBNZ's inflation and OCR outlooks to materialise.

Figure 3. 'Sticky' inflation measures

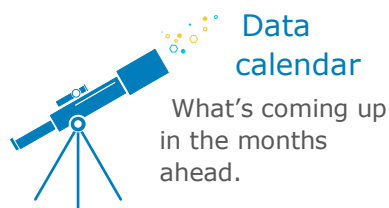


Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Bottom line: the Q1 CPI data does mean a slightly softer starting point for non-tradables inflation than the RBNZ's February forecast, which is very welcome. But while that reduces the risk of the OCR needing to go higher than the 5.5% peak we are forecasting, there are offsets. There could be more fiscal stimulus to lean against come Budget day, and the RBNZ may yet have more cyclone-related inflation to bake into their outlook (as signalled in the April Monetary Policy Review). We continue to expect a 25bp hike at next month's MPS. The Q1 CPI data is likely not going to be seen by the RBNZ as warranting a pause, but it should rule out another 50bp hike.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Wed 26 Apr (10:00am)	ANZ Truckometer – Mar
Wed 26 Apr (10:45am)	Merchandise Trade – Mar
Thu 27 Apr (1:00pm)	ANZ Business Outlook – Apr
Fri 28 Apr (10:00am)	ANZ-RM Consumer Confidence – Apr
Fri 28 Apr (3:00pm)	RBNZ Sectoral Lending – Mar
Wed 3 May (early am)	GlobalDairyTrade auction
Wed 3 May (10:45am)	Labour Market – Q1
Thu 4 May (10:45am)	Building Permits – Mar
Thu 4 May (1:00pm)	ANZ Commodity Price Index – Apr
Tue 9 May (10:45am)	Electronic Card Transactions – Apr
Thu 11 May (10:45am)	Food Price Index – Apr
Thu 11 May (10:45am)	Rental Price Index – Apr
Fri 12 May (10:30am)	BusinessNZ Manuf PMI – Apr
Fri 12 May (10:45am)	Net Migration – Mar
Fri 12 May (3:00pm)	2Yr Inflation Expectations – Q2
Mon 15 May (10:30am)	Performance Services Index – Apr
Wed 17 May (early am)	GlobalDairyTrade auction
Thu 18 May (2:00pm)	NZ Budget 2023
Fri 19 May (10:45am)	Merchandise Trade – Apr
Tue 23 May (10:00am)	ANZ Truckometer – Apr
Wed 24 May (10:45am)	Retail Sales
Wed 24 May (2:00pm)	RBNZ MPS
Fri 26 May (10:00am)	ANZ-RM Consumer Confidence – May
Tue 30 May (10:45am)	Building Permits – Apr
Wed 31 May (1:00pm)	ANZ Business Outlook – May
Wed 31 May (3:00pm)	RBNZ Sectoral Lending – Apr
Fri 2 Jun (10:45am)	Terms of Trade – Q1

Interest rate markets

The theme of this week has been a rethink on the part of global markets regarding when and how quickly the Federal Reserve is likely to cut rates. US March data including retail sales, industrial production and consumer confidence were all resilient (albeit in the context of slowing momentum), challenging the previous consensus of not only “one and done” but also cuts in the second half of the year. Concerns about imminent tightening of financial conditions due to March bank wobbles have also faded. This rethink has flowed through into RBNZ pricing to some extent as well. [CPI data](#) on Thursday interrupted the upward creep, however. Weaker-than-expected headline CPI inflation data was enthusiastically embraced by the market, with the 1-year swap yield down around 10bps initially before rebounding somewhat to currently sit just a couple of bps below where it closed on Wednesday. This perhaps reflects the fact that analysts (including us) continue to expect a further 25bp hike in May. There's little in the way of 'hard data' due locally next week, and the US data calendar is also reasonably light until GDP next Friday night.

FX markets

The NZD's downward trend since its peak on 5 April remains broadly in place, with Thursday's CPI data providing a decent shove lower in NZD/USD. A more convincing downward trend was evident in NZD/AUD over the week, with the RBA minutes suggesting the decision to pause was a close-run thing. Going forward, the NZD faces headwinds: the large current account deficit, weaker commodity prices, and hard landing fears. Supports include carry, and resilience in China's activity data.

Key data summary

Performance of Manufacturing Index – March. Back in contractionary territory (48.1), and back to a level consistent with our outlook.

Net Migration – February. Surged, and presents fresh upside risk to our GDP and housing outlooks.

Performance Services Index – March. Fell to a still-expansionary 54.4.

Food Prices – March. Up 0.8% m/m to be up 12.1% y/y. Fruit and veggies were up 22.2% y/y.

Rental Price Index – March. Up 0.4% m/m and 3.9% in annual terms.

REINZ House Prices – March. Loose, but tightening. The overall vibe was stronger than our expectation. See our [Review](#).

GlobalDairyTrade auction. Prices unexpectedly lifted, with the index gaining 3.2%. Offer volumes were slightly lower than previous events but in line with forecasts and therefore would not have been an influencing factor.

CPI – Q1. Strong, but weaker than expected. Sticky underlying inflation will remain a worry for the RBNZ. See our [Review](#).

The week ahead

ANZ Truckometer – March (Wednesday 26 April, 10:00am).

Overseas Merchandise Trade – March (Wednesday 26 April, 10:45am). A trade deficit in the vicinity of \$1b is forecast as imports continue to outpace exports.

ANZ Business Outlook – April (Thursday 27 April, 1:00pm).

ANZ Roy Morgan Consumer Confidence – April (Friday 28 April, 10:00am).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Feb-23	Mar-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZD/USD	0.616	0.626	0.618	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.915	0.936	0.916	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.580	0.577	0.563	0.573	0.571	0.570	0.560	0.551	0.542
NZD/JPY	84.2	83.1	82.9	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.509	0.507	0.497	0.508	0.512	0.516	0.508	0.504	0.500
NZ\$ TWI	70.8	71.3	70.2	70.5	70.5	70.6	70.1	69.7	69.1
Interest rates	Feb-23	Mar-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	4.75	4.75	5.25	5.50	5.50	5.50	5.50	5.50	5.25
NZ 90 day bill	5.13	5.23	5.59	5.60	5.60	5.60	5.60	5.43	4.93
NZ 2-yr swap	5.37	5.03	5.10	5.25	4.75	4.34	4.25	4.15	4.10
NZ 10-yr bond	4.57	4.20	4.18	4.15	3.75	3.50	3.50	3.75	4.00

Economic forecasts

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP (% qoq)	-0.6	0.2	0.3	-0.3	-0.6	-0.2	0.1	0.3	0.3
GDP (% yoy)	2.2	2.9	1.6	-0.4	-0.4	-0.8	-1.0	-0.4	0.5
CPI (% qoq)	1.4	1.2	1.1	2.0	0.7	0.8	0.5	0.8	0.5
CPI (% yoy)	7.2	6.7	6.1	5.9	5.2	4.7	4.0	2.8	2.6
Employment (% qoq)	0.1	0.3	0.2	-0.4	-0.4	-0.4	-0.1	0.1	0.2
Employment (% yoy)	1.3	1.7	2.0	0.3	-0.3	-1.0	-1.3	-0.8	-0.2
Unemployment Rate (% sa)	3.4	3.4	3.5	4.0	4.5	5.0	5.2	5.3	5.4

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

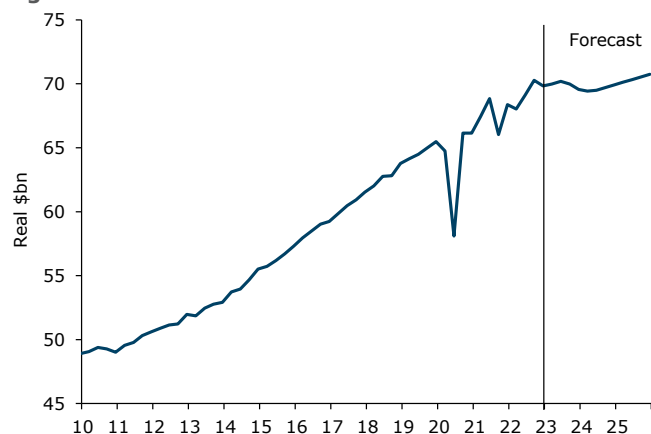


Figure 6. OCR forecast

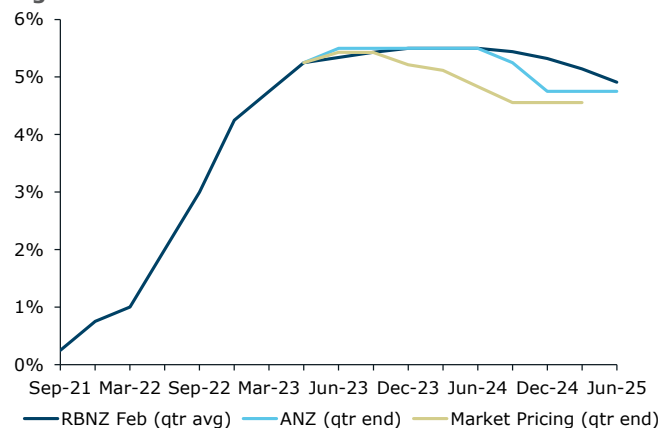


Figure 5. CPI inflation components

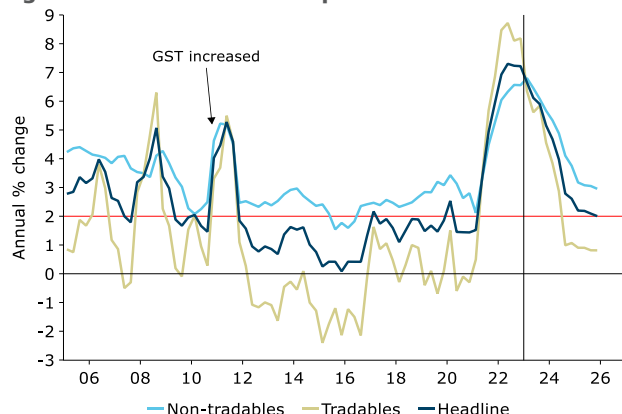
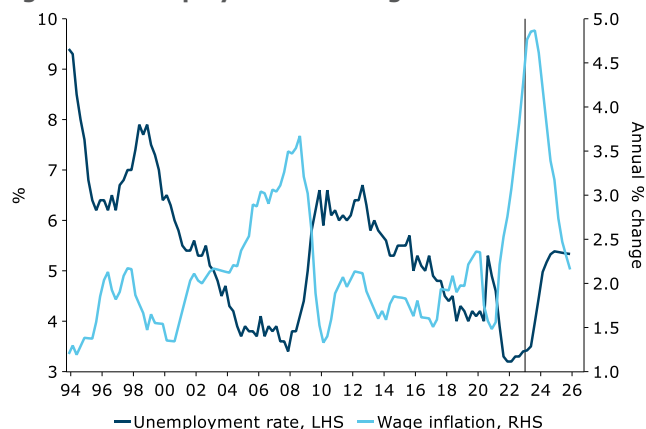


Figure 7. Unemployment and wage inflation



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



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