

New Zealand Weekly Data Wrap

28 April 2023



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See [page 5](#).

Forecast updates

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

- **NZ Property Focus: nearing the bottom**
- **NZ Forecast Update: getting an extension**
- **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.

Evolving LVR restrictions – they did what?

The Reserve Bank announced this week that they are proposing an easing of the 'speed limits' on high loan-to-value (LVR) restrictions from 1 June.

At the moment, the limits are as follows:

- 10% limit for loans with LVR above 80% for owner occupiers, and
- 5% limit for loans with LVR above 60% for investors.

The RBNZ is proposing easing them to:

- 15% limit for loans with LVR above 80% for owner occupiers, and
- 5% limit for loans with LVR above 65% for investors.

The decision looks startling on the face of it, given the ongoing inflation challenge, and while these are more so 'at the margins' rather sweeping changes, any increase in the availability of credit represents an easing in financial conditions. This risks the Reserve Bank requiring a higher OCR to bring inflation back to target. We're already seeing green shoots emerge in the housing market and have revised up our forecast for house prices to a 18% fall from the November 2021 peak vs 22% previously (see our Property Focus) and the proposal exacerbates the risks of a faster revival.

The easing of restrictions is more significant for first home buyers but the proposal at first glance looks surprising given the housing market is a key channel through which monetary policy operates and thus stimulating the housing market goes against the bank's monetary policy objectives. It's important to note, however, that financial stability tools and monetary policy are separate. It's monetary policy's job to respond to the consequences of macro-prudential policy settings, whatever they may be.

It is difficult to quantify the impacts of the proposed LVR changes, given the uncertainty around the outlook for the housing market. While banks are currently pretty much filling their high LVR-lending allotments, it's not a given that the proposal will see banks lend up to the new limit. We'll be watching lending data closely in the coming months to see how much unmet demand for higher LVR lending is being unmet and what the consequences of unleashing it will be.

Figure 1. House sales and new mortgage lending



Source: RBNZ, REINZ, Macrobond, ANZ Research



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Property Focus: nearing the bottom
- 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

[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

Labour market: yet to turn... but it's coming

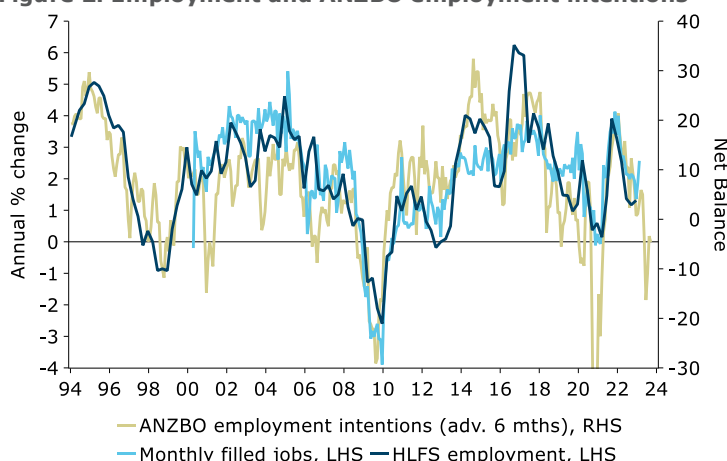
Q1 labour market statistics are released on Wednesday 3 May and we're expecting that the labour market remained exceptionally tight (See our preview [here](#)). While the RBNZ is getting traction with signs of softening domestic demand having emerged in recent months, and inflation indicators gradually moving in the right direction, the labour market typically lags the broader economic cycle.

We're expecting the unemployment rate to dip 0.1ppt to 3.3%, driven by a 0.5% q/q (1.9% y/y) lift in employment, and we see upside risk to this estimate with employment growth possibly printing up to 1.0% q/q. Strong employment growth is not necessarily inflationary if it is matched by a corresponding increase in labour supply, which is likely due to the recent surge in migration. While a further fall in the unemployment rate might look startling, our forecast is based on our assumption that the participation remained at its record high of 71.7% and there are naturally risks both ways.

In line with the continued tightness in labour market, plus elevated household inflation expectations that have proved stubborn, we're expecting a (short-lived) re-acceleration in private sector nominal wage growth. Private sector average ordinary time earnings are forecast to increase 2.1% q/q (8.3% y/y) and the productivity adjusted private sector labour cost index to lift 1.2% q/q (4.8% y/y).

Although we expect a solid labour market report in Q1, it should be seen as something of a "last hurrah." Forward looking indicators all point to slowing from here. At the February MPS, the RBNZ forecast the unemployment rate to rise to 3.5% in Q1, and while we don't see that forecast eventuating (yet), we don't expect a stronger outturn in line with our forecast to sway the RBNZ from delivering one further 25 bps hike to the OCR at the May meeting. The labour market does traditionally lag developments in economic activity and a stronger outturn than the RBNZ's expectation certainly isn't a sign that monetary policy isn't working.

Figure 2. Employment and ANZBO employment intentions



Source: Stats NZ, Macrobond, ANZ Research

Bottom line: If our forecast eventuates, we don't see it as a game-changer for the RBNZ. It's very much a look in the rear-view mirror and there are clear signs of slowing ahead. That being said, if we were to see a stronger-than-expected labour outturn, that would certainly present upside risk to our terminal rate call of 5.50%.



Financial markets update



Date	Data/event
Fri 28 Apr (3:00pm)	RBNZ Sectoral Lending – Mar
Wed 3 May (early am)	GlobalDairyTrade auction
Wed 3 May (9:00am)	RBNZ Financial Stability Report
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 – Q1
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
Fri 2 Jun (10:45am)	Building Work Put in Place – Q1
Tue 6 Jun (1:00pm)	ANZ Commodity Price Index – May
Wed 7 Jun (early am)	GlobalDairyTrade auction

Interest rate markets

US 10yr bond yields have range-traded over the past week. They initially fell as regional bank woes weighed on sentiment, but in the past 24 hours, they have rebounded in the wake of data which showed that core PCE inflation (an expenditure-based measure and the one the Fed watches) accelerated Q1 even as GDP growth slowed. That hasn't just created volatility locally, but it has also got local markets asking whether they can count on slowing growth to deliver sufficiently lower inflation here. Without doubt, last week's downside miss in Q1 CPI will be something the RBNZ will welcome, but core measures were elevated and domestic inflation actually accelerated. This is at the heart of our view that the risks to the OCR remain skewed to the upside still, even with 500bps of hikes already delivered. We have also revised up our house price forecast (we now expect prices to bottom out in June, having come off 18% from their highs, which compares to our earlier forecast of a 22% fall). All else equal, that makes a soft landing more likely, and may, in time, add to upside OCR risks. We know growth is slowing, but we are careful not to automatically assume that means that inflation risks have evaporated, and so remain wary of higher interest rates.

FX markets

NZD/USD came to within a cent of its March low this week, and while 0.61 has held so far, the Kiwi has struggled against EUR and GBP. Correlations mean that AUD weakness in the wake of soft CPI data has been partly to "blame", with markets now fully embracing an RBA pause next week (which we also expect). This event is thus key. NZ has high interest rates, and that would likely be more of a benefit had US interest rates not been almost as high, but NZ's real Achilles heel – which markets are starting to fret about – is our world-beating current account deficit. It should recover as tourism recovers, but projected fiscal deficits only add to the level of concern.

Key data summary

ANZ Truckometer – March. The [Heavy Traffic Index](#) rose 2.7%, while the Light Traffic Index rose 4.6% in March.

Overseas Merchandise Trade – March. Annual deficit rose to a fresh record of \$16.4 billion, symptomatic of demand still running hot.

ANZ Business Outlook – April. [Activity indicators](#) were steady, while inflation indicators continued to inch lower as the RBNZ will be expecting.

ANZ Roy Morgan Consumer Confidence – April. [Confidence](#) lifted 1 point, downtrend in inflation expectations not yet evident.

The week ahead

RBNZ sectoral lending data – March (Friday 28 April, 3:00pm).

Mortgage lending growth is expected to slow again, with the housing market still to bottom out, but we're close – see our [Property Focus](#).

GlobalDairyTrade auction (Wednesday 3 May, early am). Prices expected to firm a further 2% as we near the end of the dairy production season and the volume of product on offer starts to decrease.

RBNZ Financial Stability Report – May (Wednesday 3 May, 9:00am). We expect to see more details on the proposed LVR changes, and an update on the RBNZ's assessment of evolving financial risks.

Labour Market Statistics – Q1 (Wednesday 3 May, 10:45am). Yet to turn... but it's coming. See our [Preview](#).

Building Permits – March (Thursday 4 May, 10:45am). Further weakness expected as rising interest weigh on residential investment.

ANZ Commodity Price Index – April (Thursday 4 May, 1:00pm)



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	0.615	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.915	0.936	0.927	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.580	0.577	0.557	0.573	0.571	0.570	0.560	0.551	0.542
NZD/JPY	84.2	83.1	82.2	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.509	0.507	0.492	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
	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	5.56	5.60	5.60	5.60	5.60	5.43	4.93
NZ 2-yr swap	5.37	5.03	5.05	5.25	4.75	4.34	4.25	4.15	4.10
NZ 10-yr bond	4.57	4.20	4.12	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	0.5							
Employment (% yoy)	1.3	1.9	<i>Under review</i>						
Unemployment Rate (% sa)	3.4	3.3							

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 level

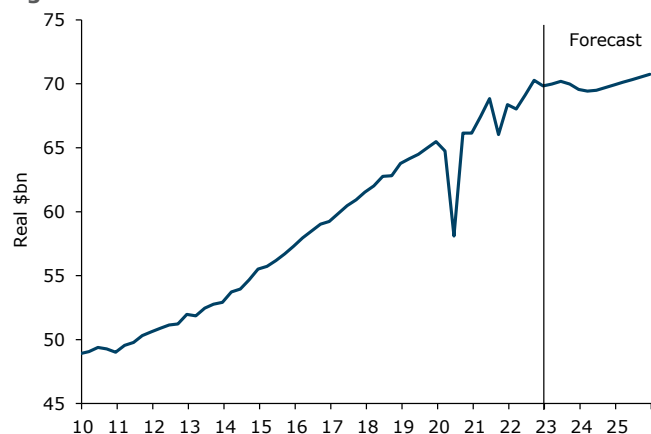


Figure 4. CPI inflation components

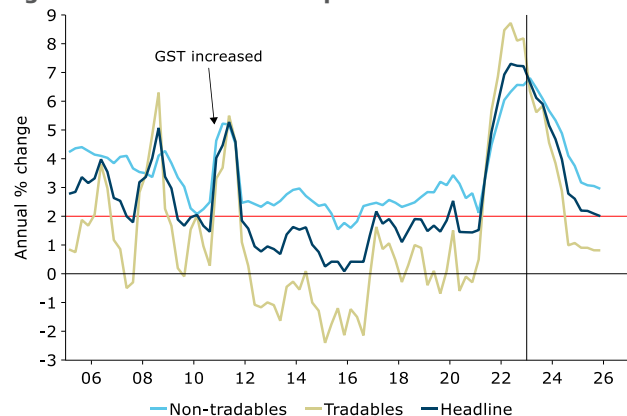


Figure 5. OCR forecast

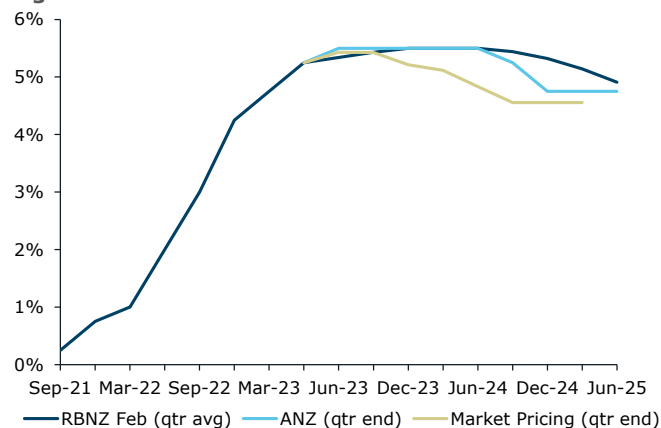


Figure 6. Unemployment and participation rate



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



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