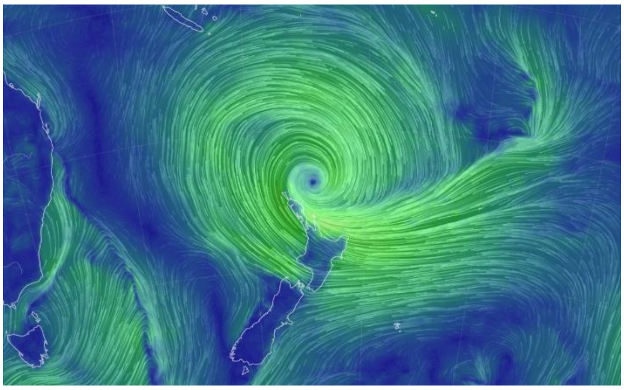
First View
Kiwibank economics.

Cyclone Gabrielle will add to the cost of recent weather-related damage at the top of NZ.

- Cyclone Gabrielle is working its way down the country. There is already significant damage, and there is likely to be more. Though the immediate impact is largely unknown, as it is ongoing.
- Financial markets were largely in a risk-off mood last week as hawkish central bank speech flooded the newswires. The RBNZ takes the stage next week. A 50bp hike and hawkish tone are expected – though moderated due to the recent wild weather events.
- Jan housing market data from REINZ is due out this week and data already released for the month (see COTW) points to a soft start to the year.



The economic impact of severe weather across the North Island continues to mount. After severe flooding two weeks ago, Cyclone Gabrielle is now working its way down the country. A state of emergency is in place in Auckland, Northland and Coromandel. Nearly 30,000 homes are without power in Northland. International and domestic flights are being cancelled in Auckland, the gateway to New Zealand, with the exception of a few long-haul flights. And the Auckland harbour bridge is being shut down intermittently with high winds. Most schools in the regions are shut. And people are being asked to stay (safe) at home. The worst of the cyclone is expected over the next 48 hours. The immediate impact of the severe weather is largely unknown, as it is ongoing. Lost economic activity (income for businesses) is ongoing, and there will be a huge clean-up and rebuilding effort. There is already significant damage, and there is likely to be more. Kiwi businesses will of course come out the other side, and bounce back. There will be a surge in economic activity as large parts of the country clean up and repair. The severe weather over the last few weeks suggest a more cautious approach from the RBNZ next week.

Last week, a choir of central bank officials were out singing the same hawkish tune. From US Fed Chair Jerome Powell to the RBA's latest policy update, the main message is this: Inflation is still too high and labour market dynamics remain out of whack (demand continues to outstrip supply). More rate hikes are coming. Monetary policy settings must remain tight until the job is done. The job being a convincing return of inflation to target. Doubling-down on the "higher rates for longer" campaign, financial market participants were largely in a risk off mood. Equities were dumped and the little Kiwi flyer (NZD) lost air, falling to a low of 62.75USc (albeit has since recovered and appears well-supported at the 63USc mark). Bond yields were shunted higher as markets recalibrated expectations of future rate increases. Another two 25bp Fed hikes are priced in coming months to 5.0-to-5.25%. Some even see the fed funds rate peaking at 6%! The yield on the US 2year treasury note jumped to above 4.50%, exceeding the 10year yield by the widest margin since the early 1980s. Kiwi rates followed the move, with the 2year wholesale swap rate up 40bp last week alone.

The next test for the markets is the upcoming January US CPI inflation print (due Tuesday). The market consensus is for a continued slowing in the headline rate to 6.2%yoy from 6.5%yoy. However, the recent rise in oil prices and surprisingly robust consumer demand may see a gain in the monthly and core CPI readings. Nonetheless, a surprise in either direction will rock markets.

Last week, the RBA lifted its cash rate by another 25bp to 3.35%, and signalled that "*further increases in interest rates will be needed over the months ahead*". The RBNZ will take the stage next week. We expect similar messaging. A softer-than-forecast outturn of inflation and labour market data supports a step down from November's historic 75bp hike. However, with inflation still high above target, the RBNZ will likely continue to shake its hawkish tailfeathers. Like their peers, the job is not done yet.

The domestic data release of keen interest this week will be the RBNZ's survey of inflation expectations for the March quarter – out Tuesday afternoon. Previously, all measures from 1 to 10 years ahead lifted. The 2-year ahead measure in particular jumped from 3.1% to 3.6% - the highest in recent history. However, a reversal in expectations is likely this time around. It follows a softer-than-expected December quarter CPI print. Kiwi inflation may be sitting near 30-year highs, but it is peaking now. The outlook for inflation is improving, with downward momentum building. An easing in expectations will reinforce our call for a smaller than signalled 50bp hike to the cash rate next week.

The REINZ stocktake of the Kiwi housing market for January is also due out this week. We are expecting an ongoing softness to be evident in the data. January figures already released by other market observers suggest that despite new listings remaining weak, the supply of listed property is stuck near 7-year highs. Potential vendors look to be showing caution in a market downturn. And on the other side of the coin, the market still lacks buyer appetite given recent and rapid increases in mortgage rates. Elevated supply and weak sales activity points to further fall in house prices in January. A result that would deliver a 14th consecutive fall in the REINZ house price index (seasonally adjusted). The devastating storm that hit the upper North Island likely disrupted market activity in the closing days of January. Data released from the Auckland-focused real estate firm Barfoot and Thompson recorded a 1.7% monthly fall in sales activity (see our COTW below). However, the bulk of the impact on the housing market from recent adverse weather events will show up in February's figures, and perhaps beyond.

Eventually, the current downturn in the housing market will come to an end. However, we don't expect to see a meaningful shift in mood until late 2023. Even then, any recovery is likely to be modest. By the end of the year the labour market is anticipated to be softening, with the unemployment rate tracking back towards 5% as the economy works its way through an expected recession. Measures of housing market temperament, such as the median number days to sell, remain indicative of a market in a funk. As a result, measures of house prices appear to have further to fall.

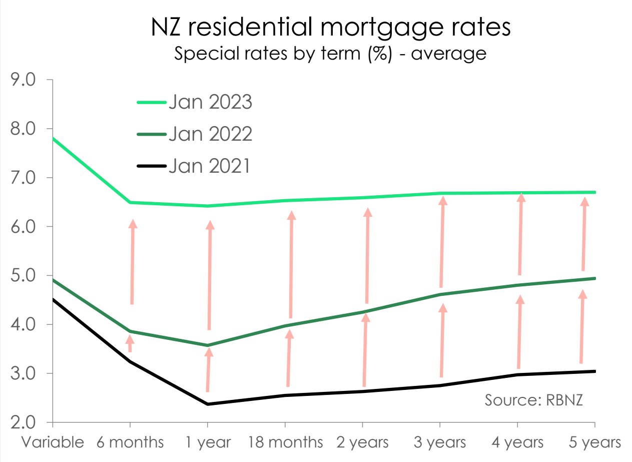
An update on the Kiwibank economics team: This is the final weekly commentary jointly authored by our Senior Economist, Jeremy Couchman. We thank JC for his invaluable contribution to the team over his seven-year strong tenure. Go well, JC. We wish you all the best!

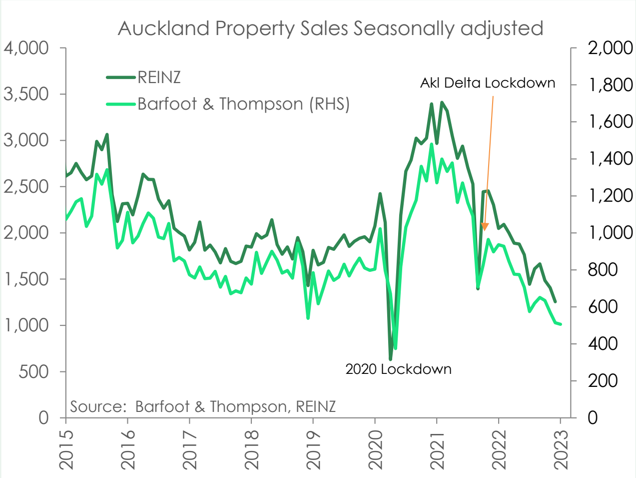
Charts of the week: January looks to have been another weak month in the housing market.

We are expecting the release of January housing market performance data for Aotearoa from REINZ this week. And the rapid rise in mortgage rates over the last year are weighing heavily on the market. Someone taking up a 2-year fixed mortgage rate in Jan 2021 would have signed up for a 2.5-3% rate. Two years later the lowest rate on offer (a 1-year fixed mortgage rates) was closer to 6.5%. A serious jump in debt servicing costs and fall in the amount a potential buyer can borrow.

Data already released indicates the market appears to have had a soft start to 2023. The Auckland-focussed real estate firm, Barfoot and Thompson (B&T), provide a useful early indicator of housing market performance in our largest city each month. Auckland is often seen as a bellwether for other regional markets. B&T's sales in January fell 1.7% in the month to be 46% lower than the same month a year ago and the lowest for a January month for over 20 years. The devastating storm that hit the upper North Island in the closing days of Jan may have played a role in the weak sales numbers. However, we are likely to see more of a hit to the market in February, which will include the disruption from ex-cyclone Gabrielle.

The 920 new listings on B&T's books in January were the lowest number of new listings for a January month in seven years. Potential sellers are likely to be approaching a retreating housing market with some trepidation. Moreover, there is less pressure to sell at present. Selling for some may realise current paper losses. The jobs market is supportive of debt servicing too. Despite a falling number of new listings, the total number of available listings on B&T's books is tracking at a decade high. Elevated supply points to ongoing price falls.





Financial Markets

The comments below were provided by Kiwibank traders. Trader comments may not reflect the view of the research team.

In rates, the end point is in focus:

"Rates have bounced higher as the strong US payrolls/ISM services data coupled with hawkish FED speak continues to echo around markets. The result has seen short end rates pushed higher as the market buys into the Fed's view of two more rate hikes and a chance of a third (+60bp hikes priced). That has seen global yield curves invert further, the key question hangs over markets around timing as central banks push back on the cuts in 2023 view. Back in NZ the market is back to pricing an OCR as high as 5.40%, from the 5.16% level at the end of last week, the 2 year swap was +40bp higher over the week. That move further supported by a further increase to the minimum wage, PMI into positive territory, and electronic cards rising which could keep inflation and short end yields elevated for longer. In saying all this the RBNZ's own inflation expectation survey is released tomorrow along with food prices, and migration later in the week, most of which should cap/slow the sell-off momentum. With the February RBNZ meeting now pricing in +61.5bp of hikes and a total of +115bp of hikes priced to July this year it's getting to levels that will likely entice receivers once again, however the dust will need to settle on thoughts around global central bank outlooks first with US CPI key to that direction Wednesday morning our time. The 57th edition of the Super Bowl may temper the markets interest today." **Ross Weston, Senior Portfolio Manager.**

In currency, all eyes are on US CPI data:

"While the Kiwi dollar has held up relatively well over the past week, supported at the 0.6300 level, we have certainly felt the brunt of a rising US Dollar, in the face of mixed market signals. The US Dollar rose on the back of the outsize non-farm payrolls number a week ago, and has kept onto that momentum. Also commentary from central bankers have indicated that the Federal Reserve is not yet done with its fight on inflation. This week will see some key data out of the US that will see how much of an impact the Feds raising of interest rates has had on putting a lid on inflation. The previous data certainly indicated that inflation has peaked, and comments from J Powell among others has seen the US now moving into a deflationary environment. Any major upside/downsize reading on the CPI this week will put some flurries into market activity. For the Kiwi dollar, we expect that if US inflation does show a decrease as expected, then we may move back towards the 0.6550 level we saw two weeks ago, prior to the surprisingly strong non-farm payrolls number. Of course, any upside surprises to inflation in the US will likely see the US Dollar surge and the Kiwi will head lower, possible to the 0.6150/0.6200 level. The familiar themes around central banks and who is hiking the hardest, or ready to pivot will continue to play out. Next week we have the next Monetary Policy meeting from the RBNZ to take into consideration. Market expectations are currently for a 50 basis point hike, with the potential for 75 still on the cards. For NZDAUD this week, we expect that we will likely remain around the 0.9100 level, with some possible upside towards 0.9200. Next week's MPS is more likely to provide some potential movement for the NZDAUD cross, while this week will be more focused on the US Dollar." **Mieneke Perniskie, Trader - Financial Markets.**

Weekly Calendar

Key Data and Events

• Here at home, the key release is the RBNZ's survey of inflation expectations - out Tuesday 3pm. The latest CPI print was softer than expected, and downward momentum is building. Accordingly, we expect the RBNZ's survey to show some easing in expectations (see the front page). Also, keep an eye out for REINZ data for the month of January. The latest from Barfoot & Thompson suggest that it is likely to have been a soft start to the year for housing activity (see the COTW).

• The main offshore risk event is the US January CPI inflation print. The market is picking the annual inflation rate to slow to 6.2% from 6.5%. But a rise in oil prices and slowing disinflation of goods prices may see a monthly gain in the CPI. An upside surprise would reinforce the Fed's campaign for "higher rates for longer".

• Over in the UK, labour market and inflation data are due out this week. The unemployment rate is picked to remain unchanged over the final quarter of 2022. And UK inflation likely fell again, with the annual rate dropping 0.3%pts to 10.1%.

• Across the ditch, Aussie jobs data for January is due Thursday. Employment is expected to rebound, and for the unemployment rate to remain unchanged at 3.5%. However, a migration-fuelled boost to the working age population could see a lift in the unemployment rate.

• In-between data releases, several officials from the Fed, ECB BoE and RBA are lined up to speak this week. Officials will speak to monetary policy, economic outlooks, and a grilling by Senate is in store for RBA Governor Philip Lowe.

Date		Economic Indicator	Last	Consensus
Mon, Feb 13	**NZ**	Jan BNZ/BusinessNZ Performance of Services Index	52.1	-
Tue, Feb 14	**NZ**	Jan REINZ House Sales (% yoy)	-39.0	-
		Jan Food Prices (% mom)	1.1	-
		Mar Qtr RBNZ 2year-Ahead Inflation Expectations (%)	3.6	-
	AU	Feb Consumer Confidence (SA % mom)	5.0	-
		Jan Business Confidence Index	-1.0	-
	JN	Dec Qtr GDP Annualised (% qoq)	-0.8	2.0
	UK	Dec ILO Unemployment Rate 3Mths	3.7	3.7
	US	Jan CPI (% mom)	-0.1	0.5
		Jan CPI (% yoy)	6.5	6.2
		Jan CPI Ex Food and Energy (% yoy)	5.7	5.5
		Fed Speakers - Barkin, Logan, Harker, Williams	-	-
Wed, Feb 15	**AU**	RBA Speaker - Lowe	-	-
	UK	Jan CPI (% mom)	0.4	-0.4
		Jan CPI (% yoy)	10.5	10.3
	EZ	Dec Industrial Production SA (% mom)	1.0	-0.8
		ECB Speaker - Lagarde	-	-
	US	Jan Retail Sales (% mom)	-1.1	1.9
		Jan Industrial Production (% mom)	-0.7	0.5
		Fed Speaker - Williams	-	-
Thu, Feb 16	**NZ**	Dec Net Migration SA	6,110.0	-
	AU	Jan Employment Change (000)	-14.6	20.0
		Jan Unemployment Rate (%)	3.5	3.5
	EZ	ECB Speakers - Panetta, Nagel, Lane	-	-
	US	Jan Building Permits (000)	1,330.0	1,350.0
		Jan Housing Starts (000)	1,382.0	1,353.0
Fri, Feb 17	**AU**	RBA Speaker - Lowe	-	-
	UK	Jan Total Retail Sales (% mom)	-1.0	-0.2
		BOE Speaker - Pill	-	-
	EZ	ECB Speaker - Villeroy	-	-
	US	Fed Speakers - Bullard, Mester, Barkin	-	-

Kiwibank economics.

@kiwieconomics

inner.kiwi/commentary/

Jarrod Kerr
CHIEF ECONOMIST

Jeremy Couchman
SENIOR ECONOMIST

Mary Jo Vergara
ECONOMIST