

New Zealand Weekly Data Wrap

16 February 2024



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Forecast updates

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

- [NZ OCR Call Change – 25bp hikes in Feb and April](#)
- [NZ Forecast Update: milk prices trend higher](#)
- [NZ Economic Outlook: ups and downs](#)
- [NZ Property Focus: renovation nation](#)

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

What's the view?

- A modest recovery in activity from a recessionary 2023.
- Labour market loosening, but too slowly for the RBNZ.
- Inflation cooling, back in the RBNZ's band this year, but non-tradables still sticky.
- Two more 25bp OCR hikes, one in February and one in April.

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 persist, with China in focus.



Soaring net migration sees rents and house prices start to rise more quickly.



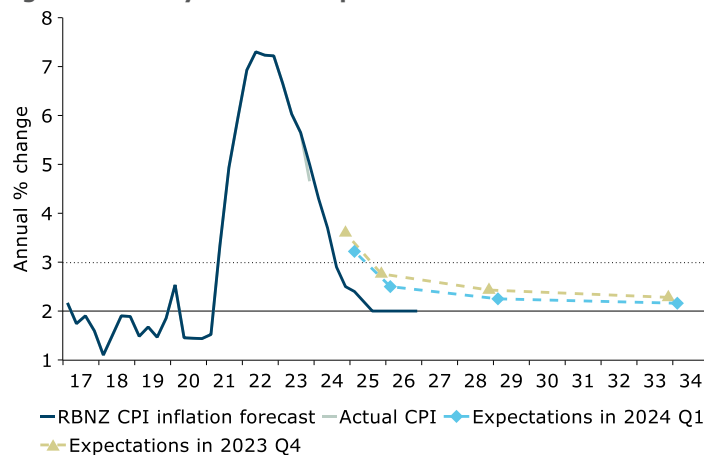
Unemployment rises more quickly and/or to a higher level than expected.

Testing patience

This week brought an update on inflation in the form of Stats NZ's January selected price indexes. Broadly, the release was weaker than we had anticipated and suggests downside risk to our Q1 CPI forecast of 0.7% q/q (RBNZ: 0.6% q/q). However, the bulk of downside risk stems from airfares, with domestic and international airfares falling 12.2% and 21.6% m/m respectively. Airfares are exceptionally volatile. Monthly seasonal patterns are inconsistent at the best of times, but are especially so in the context of the current supply normalisation. The RBNZ is well aware of the volatility in these data on a month-on-month basis. Taken together with the limited coverage of the more important non-tradables basket, we aren't expecting these data to materially change the RBNZ's inflation outlook.

That said, the release continues to highlight that tradables disinflation continues to bring down headline inflation. But given the volatility, the RBNZ needs to see more progress on non-tradables inflation to be confident overall inflation is returning to target in a sustainable timeframe. Our current Q1 forecast for non-tradables inflation of 1.2% q/q is above the RBNZ's November forecast of 1.0% q/q, and it is developments here that are far more likely to drive monetary policy decision-making. Today's data have not changed our view on the non-tradable inflation outlook.

Figure 1. Survey inflation expectations vs RBNZ forecast



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

The RBNZ's Q1 Survey of Expectations was also out this week, which showed progress. Importantly, 5yr and 10yr ahead expectations both eased back toward 2% after a concerning tick up in Q4, which was singled out by Governor Orr at the November MPS as a personal affront on the RBNZ's credibility. However, while progress was certainly evident across the release, survey respondents continue to expect a more gradual return of inflation to target than the RBNZ's own forecasts. While 1yr ahead inflation expectations fell from 3.60% to 3.22%, that is 0.7%pts higher than the RBNZ's inflation forecast for 1 year ahead, with the RBNZ expecting annual inflation to be comfortably back in the 1-3% target band by year end.

We are not discounting the progress in this week's data, but in the context of an impatient Monetary Policy Committee with no tolerance for delays in the return of inflation to target, these data certainly weren't a 'slam dunk' to rule out the need for further increases to the OCR.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Agri Focus: harvest time
- NZ Property Focus: Down. Then up?
- NZ Insight: house prices - impacts from proposed DTI and LVR settings
- NZ Insight: recession?
- NZ Insight: navigating the watch-worry-wait summer
- NZ Insight: labour market capacity indicators
- NZ Insight: Coalition policy announcements
- NZ Insight: what an oil price shock could mean for inflation
- NZ Insight: macro impacts in New Zealand from an increase in global term rates



NZ Economic News

View latest data and policy releases

- NZ GDP: weaker across the board
- NZ REINZ housing data: prices strong, everything else weak
- RBNZ MPS Review: when hawks fly
- NZ CPI Review: getting there
- NZ labour market: hawkish surprise brings Feb into play
- NZ Half-Year Update 2023 Preview: new team, new game plan

[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
- ANZ NZ Merchant and Card Spending: January 2024

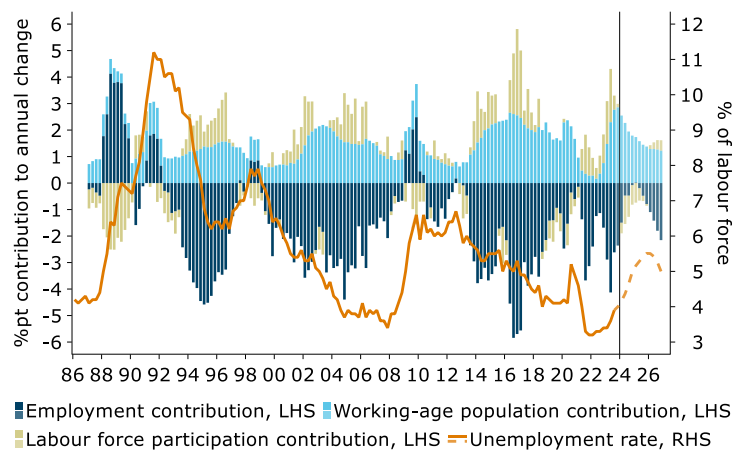
Updating our labour market forecasts

After last week's stronger-than-expected Q4 labour market data, and changes to our OCR forecast, we've updated our labour market forecasts. Broadly, the story is unchanged: the labour market is expected to continue to loosen, largely driven by supply-side expansion, with the unemployment rate now expected to rise to a peak of 5.5% in 2025.

The relatively resilient labour market picture presented in the Q4 data has caused us to reassess the near-term outlook, with a more gradual rise in the unemployment rate over 2024 expected. We are now forecasting it to rise to 4.3% in Q1. However, we still expect the unemployment rate to reach 5% by the end of the year. A more resilient picture largely reflects ongoing employment growth, suggesting labour demand may hold up for longer than previously thought. Employment intentions rose sharply in NZIER's Q1 QSBO and are off their lows and rising in our own Business Outlook survey. On the other hand, weakness in job vacancies continues to suggest labour demand is moderating.

We do expect a moderation in labour demand across the year ahead, but in comparison to past demand-driven slowdowns, the contribution of labour demand to increases in the unemployment rate is far outweighed by the supply-side expansion. From an inflation-fighting perspective, the RBNZ is agnostic on how capacity pressures emerge in the labour market, and if it is at the hands of labour-supply expansion, that's a positive outcome for both the RBNZ and households. Avoiding widespread job losses in generating spare capacity is likely to reduce transmission risks of higher unemployment to depressed sentiment in what has the potential to become a very nasty feedback loop in a hard-landing scenario, but on the other hand it could also enable a relatively more resilient household sector. That could reduce the transmission of higher interest rates to demand, and ultimately mean more restrictive policy settings are required. And the RBNZ is well aware that net migration not only boosts labour supply, but also demand, eg for housing.

Figure 2. Contributions to changes in unemployment rate

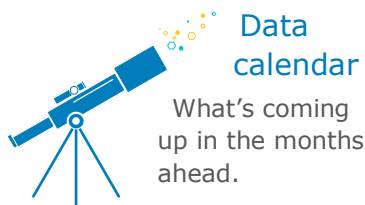


Source: Stats NZ, Macrobond, ANZ Research

We continue to expect spare capacity to emerge in the labour market. Despite a more gradual rise in the unemployment rate across the first half of 2024, restrictive policy settings are expected to see the imbalance between labour supply and demand grow, taking the heat out of wage growth and contributing to a moderation in domestic inflation pressures. Higher unemployment, whether supply- or demand-driven, is certainly a challenging prospect for many households. But it is the unfortunate cost of getting inflation down.



Financial markets update



Date	Data/event
Mon 19 Feb (10:30am)	Performance Services Index – Jan
Wed 21 Feb (early am)	GlobalDairyTrade auction
Thu 22 Feb (10:45am)	Merchandise Trade – Jan
Fri 23 Feb (10:45am)	Retail Sales – Q4
Wed 28 Feb (2:00pm)	RBNZ MPS
Thu 29 Feb (1:00pm)	ANZ Business Outlook – Feb
Fri 1 Mar (10:00am)	ANZ-RM Consumer Confidence – Feb
Fri 1 Mar (10:45am)	Building Permits – Jan
Mon 4 Mar (10:45am)	Terms of Trade – Q4
Tue 5 Mar (1:00pm)	ANZ Commodity Price Index – Feb
Wed 6 Mar (early am)	GlobalDairyTrade auction
Wed 6 Mar (10:45am)	Volume of All Buildings – Q4
Thu 7 Mar (10:45am)	Economic Survey of Manufacturing – Q4
Tue 12 Mar (10:00am)	ANZ Truckometer – Feb
Tue 12 Mar (10:45am)	Electronic Card Transactions – Feb
Wed 13 Mar (10:45am)	Selected Price Indexes – Feb
Thu 14 Mar (10:45am)	Net Migration – Jan
Fri 15 Mar (10:30am)	BusinessNZ Manuf PMI – Feb
Mon 18 Mar (10:30am)	Performance Services Index – Feb
Wed 20 Mar (early am)	GlobalDairyTrade auction
Wed 20 Mar (10:45am)	Current Account – Q4
Thu 21 Mar (10:45am)	GDP – Q4
Fri 22 Mar (10:45am)	Merchandise Trade – Feb
Wed 27 Mar (1:00pm)	ANZ Business Outlook – Mar
Thu 28 Mar (10:00am)	ANZ-RM Consumer Confidence – Mar
Wed 3 Apr (early am)	GlobalDairyTrade auction
Wed 3 Apr (1:00pm)	ANZ Commodity Price Index – Mar

Interest rate markets

Interest rate markets have endured an incredibly volatile week, with US 10yr bond yields edging above 4¼% for the first time since November, and NZ 2yr swap rates edging past 5¼% at one point on a reassessment of the outlook for the OCR. Rates in both markets have corrected lower off highs, but volatility has been extreme, with both rates mapping out circa 25bp range over the past week. Looking ahead, how things pan out depends on whether the RBNZ hikes later this month, as we expect, or not. Our sense is that a hike will see key short-end rates rise a little more, but with markets still eager to price in cuts, hikes aimed at bringing inflation down are likely to reinforce the idea of policy normalisation later, capping how high rates like the 2yr can go. The focus for local bond markets remains the elevated issuance profile, with a new 2054 bond coming this quarter (possibly as early as next week) keeping markets on their toes.

FX markets

The Kiwi has ebbed and flowed with market expectations for policy, so we expect continued volatility for the next couple of weeks. We expect the NZD to be sensitive to a hike, should one be delivered, giving it a helping hand during what we expect to be a journey of gradual appreciation over 2024.

Key data summary

RBNZ Inflation Expectations – Q1. Inflation expectations took a decent step down at all time horizons, but continue to suggest a slower return to target than the RBNZ’s own forecasts.

REINZ House Prices – January. The nationwide [house price index](#) lifted 1.0% m/m (sa). Auckland rose 1.2% m/m. Sales were abysmal.

Electronic Card Transactions – January. Spending started the year on a firmer footing, with retail spending up 1.7% m/m. Tourism and migration are likely providing support, but these data are volatile, making it difficult to diagnose signal from noise.

Selected Price Indexes – January. January’s [Selected Price Indexes](#) were overall weaker than our expectations, driven largely by sharp falls in airfares.

Net Migration – December. Arrivals and departures are still going strong, but there are tentative signs that annual net inflows have peaked.

Manufacturing PMI – January. Ticked up sharply, but still contractionary.

The week ahead

Performance Services Index – January (Monday 19 February, 10:30am). Expecting this to stay around 50, neither expanding nor contracting meaningfully.

GlobalDairyTrade auction (Wednesday 21 February, early am). Prices expected to stabilise following large increases at the previous event.

Overseas Merchandise Trade – January (Thursday 22 February, 10:45am). Imports (~\$6.2bn) are expected to again outpace exports (~\$5.1bn), resulting in a trade deficit of \$1.1bn for January.

Retail Sales – Q4 (Friday 23 February, 10:45am). We’ve pencilled in a 0.5% q/q rise, but a handful of our indicator models are pointing to a negative outturn. Talk about mixed signals.



Key forecasts and rates

	Actual			Forecast (end month)					
	Dec-23	Jan-24	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
FX rates									
NZD/USD	0.632	0.612	0.611	0.620	0.620	0.630	0.630	0.640	0.640
NZD/AUD	0.927	0.930	0.937	0.912	0.899	0.900	0.900	0.901	0.901
NZD/EUR	0.572	0.565	0.567	0.559	0.549	0.553	0.548	0.552	0.552
NZD/JPY	89.1	90.4	91.6	86.8	85.6	86.3	85.7	85.8	84.5
NZD/GBP	0.496	0.483	0.485	0.477	0.470	0.474	0.470	0.474	0.474
NZ\$ TWI	72.5	71.5	71.7	70.9	70.2	70.8	70.4	71.1	70.8
Interest rates									
NZ OCR	5.50	5.50	5.50	5.75	6.00	6.00	6.00	5.75	5.00
NZ 90 day bill	5.64	5.67	5.71	6.09	6.05	5.74	5.50	4.92	4.30
NZ 2-yr swap	4.64	4.78	5.12	5.2	4.89	4.55	4.21	3.92	3.72
NZ 10-yr bond	4.32	4.56	4.76	5.00	4.75	4.50	4.25	4.25	4.25

Economic forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
GDP (% qoq)	-0.3	0.0	0.2	0.2	0.3	0.4	0.4	0.5	0.5
GDP (% yoy)	-0.6	0.0	0.4	0.1	0.7	1.1	1.3	1.6	1.8
CPI (% qoq)	1.8	0.5	0.7	0.4	0.8	0.3	0.5	0.5	0.8
CPI (% yoy)	5.6	4.7	4.1	3.4	2.5	2.3	2.1	2.3	2.2
Employment (% qoq)	-0.2	0.4	0.2	0.0	-0.1	0.0	0.1	0.2	0.2
Employment (% yoy)	2.4	2.4	1.5	0.5	0.5	0.1	0.0	0.2	0.5
Unemployment Rate (% sa)	3.9	4.0	4.2	4.4	4.6	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 3. GDP level

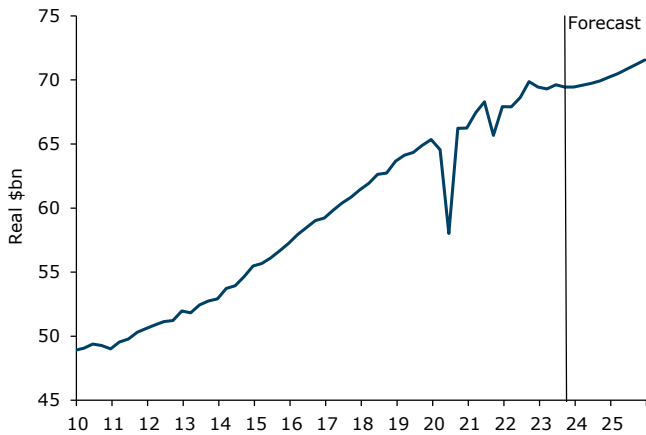


Figure 4. CPI inflation components

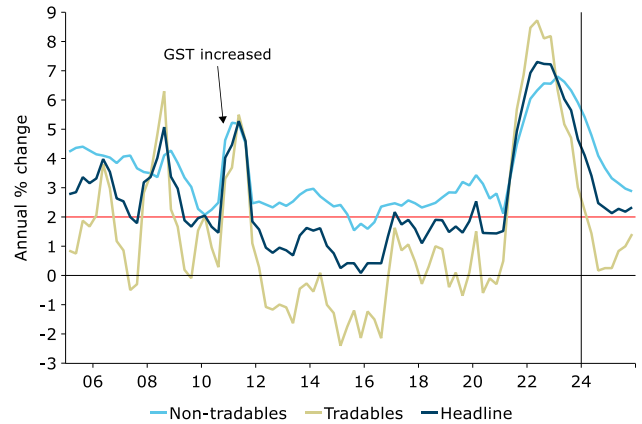


Figure 5. OCR forecast

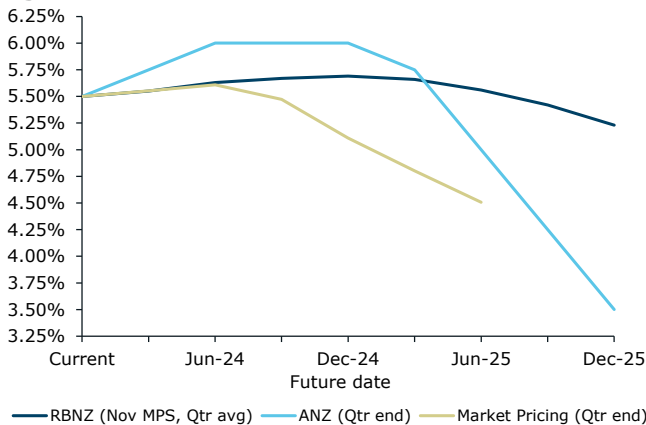
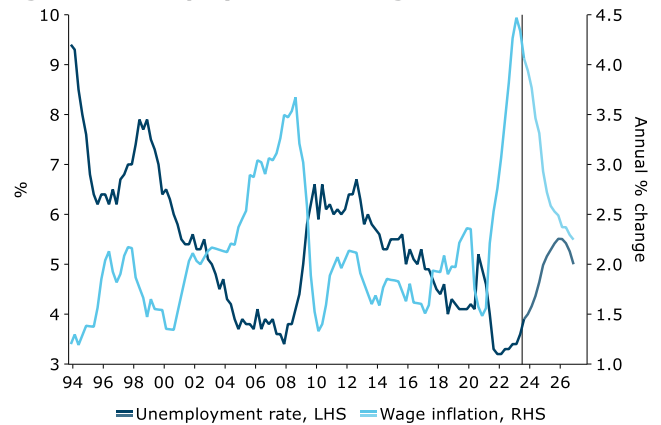


Figure 6. Unemployment and wage inflation



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



Contact us

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