

# New Zealand Weekly Data Wrap

26 January 2024



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Contact us

See page 5.

## Forecast updates

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

- [NZ OCR Call Change - first cut now pencilled for August](#)
- [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?

- GDP data looks recessionary, particularly in per capita terms.
- Labour market loosening with rising unemployment.
- Inflation cooling, back in the RBNZ's band this year.
- OCR on hold at 5.50% until August, then steady cuts.

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.



Sticky domestically driven inflation causes the OCR to be on hold for longer.



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

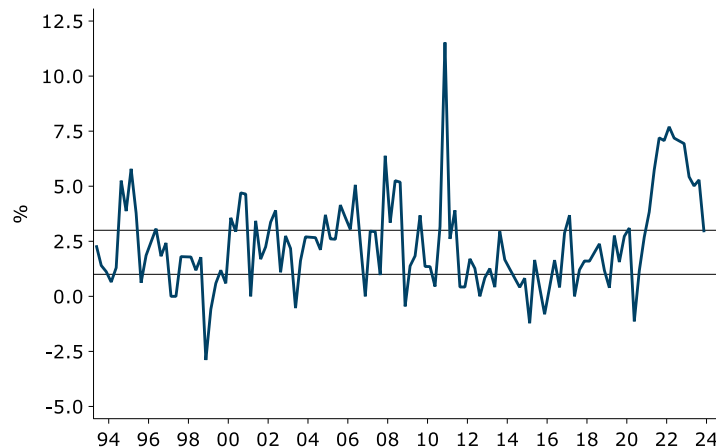
## A slow but steady descent

Annual **CPI inflation decelerated** from 5.6% to 4.7% y/y in Q4, in line with our forecast, and below the RBNZ's November MPS forecast of 5.0%. The details relative to both our and the RBNZ's forecasts showed a downside surprise on the tradables side offset by a small upward surprise in non-tradable inflation. The RBNZ would have preferred the opposite.

Non-tradables inflation came in at 5.9% y/y, above our and the RBNZ's forecast of 5.7% y/y. The surprise relative to our forecast looks to have been driven by the volatile household energy component, which the RBNZ is likely to look through. Tradables inflation (largely imported) came in at 3.0% y/y (4.7% previously), below our forecast of 3.4% y/y and miles below the RBNZ's forecast of 4.0% y/y. Helpful, but less important than non-tradables.

The suite of core measures took a step down, boding well for the inflation outlook. If seasonally adjusted headline inflation were to continue at its current rate over the next four quarters, inflation would be back in the RBNZ's 1-3% band by year end – just, at 2.9% (figure 1). While some of the recent disinflation was due to one-offs, as we discuss over the page the **recessionary economy** should take the remaining heat out of domestic inflation, and we're actually forecasting annual inflation to be back in the band in Q3 (see p. 2).

**Figure 1. Annualised inflation (sa) is beneath 3%, just**



Source: Stats NZ, Macrobond, ANZ Research

Domestic-driven inflation pressures are easing, albeit a little more slowly than the RBNZ anticipated in November. The RBNZ has signalled intolerance for upside surprises, but we think there's enough progress evident to satisfy the Committee that things remain on track. We continue to expect that core domestic disinflation will continue over 2024, allowing [cuts from August](#).

In other news this week, the [RBNZ proposed introducing debt-to-income \(DTI\) limits](#) from the second half of this year. The accompanying slight easing in LVR restrictions may provide modest support to house prices, given the DTI limits are unlikely to be binding for some time. However, the RBNZ is not intending to have a big effect on credit conditions overall with these changes and we expect impacts to be small.

Macroprudential policy can't eliminate the trade-off between risk and credit availability, and DTI restrictions will make it harder for first home buyers to buy a house, all else equal. But that's true of LVR restrictions as well.



## Looking ahead



### NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Insight: house prices - impacts from proposed DTI and LVR settings
- NZ Insight: recession?
- NZ Property Focus: renovation nation
- NZ Agri Focus: long, hot summer ahead
- 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: backwards
- RBNZ MPS Review: when hawks fly
- NZ CPI Review: getting there
- NZ labour market: the ship has turned
- 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: December 2023

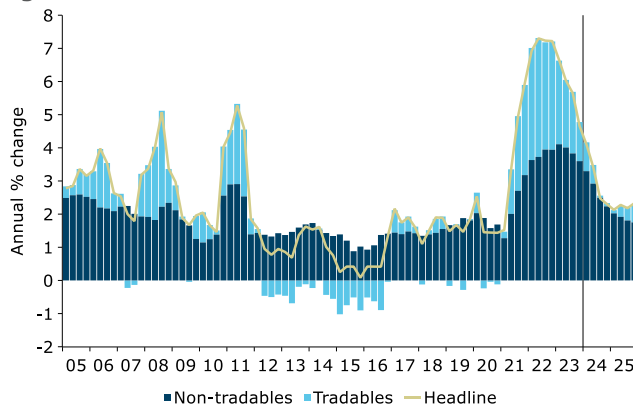
### Updating our CPI forecasts

With the Q4 CPI data in the bag, we've updated our forecasts. The outlook remains broadly similar. We expect a steady decline in headline inflation back to target, and while a large part of progress to date has been down to the tradables (more volatile, largely imported) component, domestic inflation is expected to continue to moderate. We expect annual headline inflation to be back within the RBNZ's 1-3% target band by Q3 this year, putting the RBNZ in a position to cut the OCR from August.

That said, there's still some clear persistence in domestic inflation, particularly across services components, and we have revised up our Q1 non-tradables forecast a touch to 1.2% q/q (5.4% y/y), above the RBNZ's November forecast of 1.0% q/q. Given the Monetary Policy Committee's stated intolerance at the November MPS for upward inflation surprises, this isn't great. However, a touch more near-term strength in domestic inflation is offset by an improving outlook further out.

We have revised down our medium-term non-tradables forecast to reflect the weakness in economic activity seen last year, with demand remaining restrained while the supply side of the economy continues to expand, particularly in the labour market. We are confident that slack is emerging across the economy, which will take the wind out of domestic inflation. The transmission from weak activity and deteriorating labour market conditions to lower domestic inflation may be taking slightly longer than the RBNZ had anticipated in November, but at this point we don't see it as grounds for a hike. There are good reasons to be optimistic that inflation is sustainably returning to target.

Figure 2. Inflation forecast



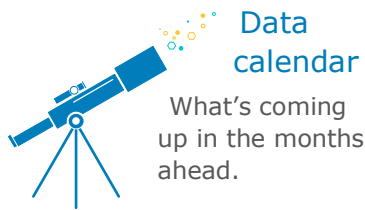
Source: Stats NZ, Macrobond, ANZ Research

That is not to say the outlook is not without risks. The falls in tradables inflation have been fierce recently, as fuel, airfares, food, and imported goods more broadly have unwound some of the COVID-era premium. And there remains plenty of scope for further sharp falls. But there are also upside global inflation risks, particularly stemming from geopolitical tensions in the Red Sea. Global shipping costs have more than doubled since the turn of the year, while drought conditions due to El Niño may hamper the ongoing recovery in food production from severe weather disruption last year. Risks remain two-sided, but the further inflation (and inflation expectations) fall, the greater the chances are that the RBNZ can look through transitory shocks. For now, the starting point remains too high to afford that.

All up, the Q4 data haven't changed our view materially. Progress is being made. The market now awaits Reserve Bank Chief Economist Paul Conway's speech (30 January) for his take on recent data. Q4 labour market data follows on 7 February, where further loosening and moderating wage pressures are expected, underpinning our view that non-tradables and services inflation will continue to ease across the year ahead.



# Financial markets update



Date	Data/event
Mon 29 Jan (10:45am)	Employment Indicators – Dec
Mon 29 Jan (10:45am)	Merchandise Trade – Dec
Wed 31 Jan (1:00pm)	<a href="#">ANZ Business Outlook – Jan</a>
Fri 2 Feb (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Jan</a>
Fri 2 Feb (10:45am)	Building Permits – Dec
Mon 5 Feb (1:00pm)	<a href="#">ANZ Commodity Price Index – Jan</a>
Wed 7 Feb (early am)	GlobalDairyTrade auction
Wed 7 Feb (10:45am)	<b>Labour Market – Q4</b>
Fri 9 Feb (10:00am)	<a href="#">ANZ Truckometer – Jan</a>
Tue 13 Feb (3:00pm)	RBNZ 2Yr Inflation Expectations
Wed 14 Feb (10:45am)	Electronic Card Transactions – Dec
Wed 14 Feb (10:45am)	Selected Price Indexes – Dec
Thu 15 Feb (10:45am)	Net Migration – Nov
Fri 16 Feb (10:30am)	BusinessNZ Manuf PMI – Jan
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)	<b>RBNZ MPS</b>
Thu 29 Feb (1:00pm)	<a href="#">ANZ Business Outlook – Feb</a>
Fri 1 Mar (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Dec</a>
Fri 1 Mar (10:45am)	Building Permits – Jan
Mon 4 Mar (10:45am)	Terms of Trade – Q4
Tue 5 Mar (1:00pm)	<a href="#">ANZ Commodity Price Index – Feb</a>
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

## Interest rate markets

Rates markets globally continue to eagerly price cuts, with the ECB overnight boosting Team Dove. New Zealand rates markets, while predicting cuts much sooner than the RBNZ is (2025), bucked the trend a bit this week on the back of strong non-tradables data in the CPI print. The market's prediction for when the RBNZ will deliver its first cut moved from the May meeting to July, with a second cut almost fully priced in by the August meeting. Even with this retracement, we think local markets are over-egging the chances of cuts occurring in the first half of the year, with the RBNZ likely to remain nervous about sticky non-tradables and inflation expectations.

NZDM this week announced their plans to syndicate a new 2054 bond in the March quarter, likely next month. This new "ultra" bond will extend the New Zealand government bond curve, similarly to our Aussie cousins who launched a new ultra late last year.

Turning global, the theme this week has been for a Goldilocks-style soft landing, with strong US GDP data making markets optimistic that inflation returning to 2% doesn't require a large fall in economic growth. Markets are expecting the FOMC to deliver a full cut by May, the ECB and BoE by June, and the RBA by November.

## FX markets

Kiwi has been trading in a tight range all week, fluctuating around the 61 cent mark. One of the few events this week to move our currency was the CPI data. The stronger-than-expected non-tradables print saw kiwi gain 20 pips, but this couldn't be sustained for very long. Local FX markets will closely watch RBNZ Chief Economist Paul Conway's speech next Tuesday for any dovish pivot or hawkish reiteration – we expect a straight bat that leaves all options open, including a February hike. Coming up also in the week ahead is Australia's CPI data, where any surprise could cause some movement in the usually very stable NZD/AUD cross rate.

The euro was the big story of the global FX week with a dovish ECB meeting seeing the euro slide about 60 pips versus the greenback. This continued a weak month for the euro, having slid from 1.116 this time in December to 1.084 today versus the USD.

## Key data summary

**Performance of Services Index – December.** Fell to 48.8 from a revised 51.1 in November. Consistent with soft economic activity, but a bit weaker than the December [ANZ Business Outlook](#).

**CPI – Q4.** Annual CPI inflation decelerated from 5.6% to 4.7% y/y, in line with our forecast, and below the RBNZ's November MPS forecast of 5.0%. See our [Review](#).

## The week ahead

**Overseas Merchandise Trade – December (Monday 29 January, 10:45am).** Imports in December are expected to ease to \$6.8bn but still exceed exports of \$5.8bn, resulting in a trade deficit of \$1bn.

**ANZ Business Outlook – January (Wednesday 31 January, 1:00pm).**

**ANZ-Roy Morgan Consumer Confidence – January (Friday 2 February, 10:00am).**

**Building Permits – December (Friday 2 February, 10:45am).** We are expecting the declines to start petering out, given QSBO and ANZBO building activity have been stronger in recent prints.



## Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Nov-23	Dec-23	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZD/USD	0.615	0.632	0.611	0.620	0.620	0.630	0.630	0.640	0.640
NZD/AUD	0.931	0.927	0.928	0.912	0.899	0.900	0.900	0.901	0.901
NZD/EUR	0.563	0.572	0.563	0.559	0.549	0.553	0.548	0.552	0.552
NZD/JPY	90.7	89.1	90.2	86.8	85.6	86.3	85.7	85.8	84.5
NZD/GBP	0.486	0.496	0.481	0.477	0.470	0.474	0.470	0.474	0.474
NZ\$ TWI	71.4	72.5	71.4	70.9	70.2	70.8	70.4	71.1	70.8
Interest rates	Nov-23	Dec-23	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZ OCR	5.50	5.50	5.50	5.50	5.50	5.25	4.75	4.50	4.00
NZ 90 day bill	5.62	5.64	5.66	5.52	5.18	4.68	4.40	3.97	3.75
NZ 2-yr swap	5.16	4.64	4.79	4.90	4.52	4.21	4.03	3.89	3.89
NZ 10-yr bond	4.88	4.32	4.68	4.75	4.50	4.25	4.00	3.75	3.75

### Economic forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
GDP (% qoq)	-0.3	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>
GDP (% yoy)	-0.6	<b>0.0</b>	<b>0.4</b>	<b>0.1</b>	<b>0.7</b>	<b>1.1</b>	<b>1.3</b>	<b>1.6</b>	<b>1.8</b>
CPI (% qoq)	1.8	0.5	<b>0.7</b>	<b>0.4</b>	<b>0.8</b>	<b>0.3</b>	<b>0.5</b>	<b>0.5</b>	<b>0.8</b>
CPI (% yoy)	5.6	4.7	<b>4.1</b>	<b>3.4</b>	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>	<b>2.2</b>
Employment (% qoq)	-0.2	<b>-0.2</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>
Employment (% yoy)	2.4	<b>1.6</b>	<b>0.3</b>	<b>-0.8</b>	<b>-0.5</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>
Unemployment Rate (% sa)	3.9	<b>4.3</b>	<b>4.7</b>	<b>4.9</b>	<b>5.0</b>	<b>5.1</b>	<b>5.2</b>	<b>5.3</b>	<b>5.2</b>

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

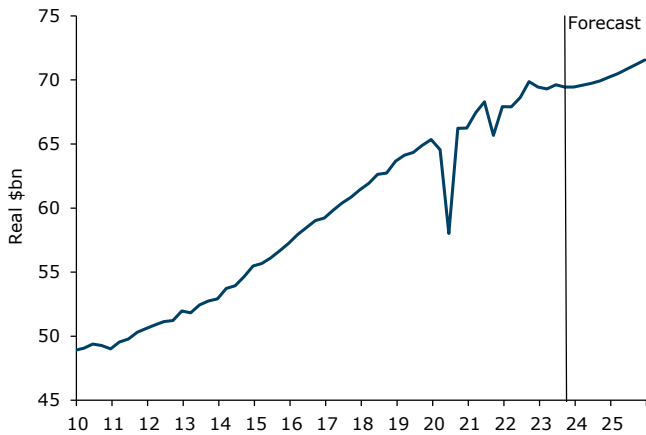


Figure 4. CPI inflation components

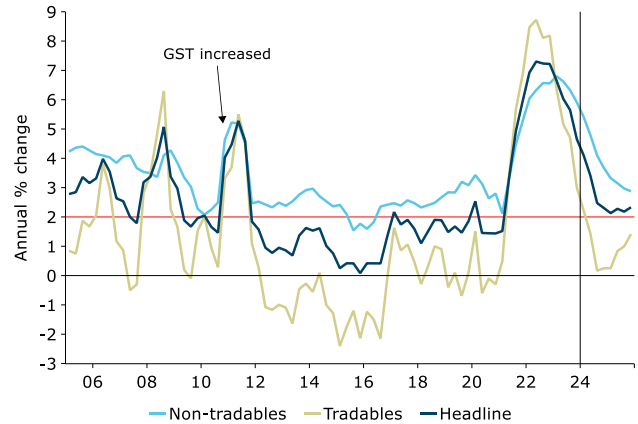


Figure 5. OCR forecast

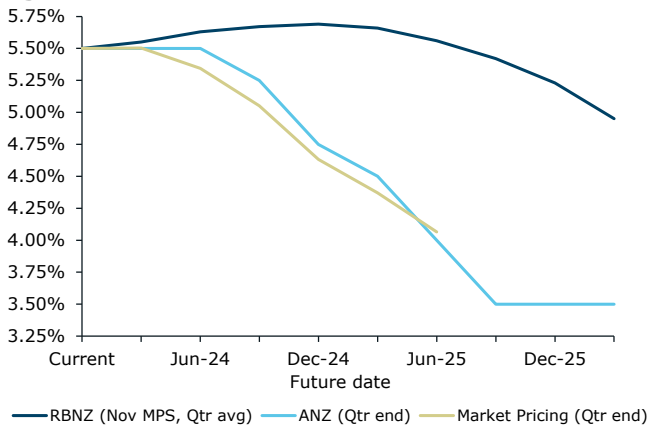
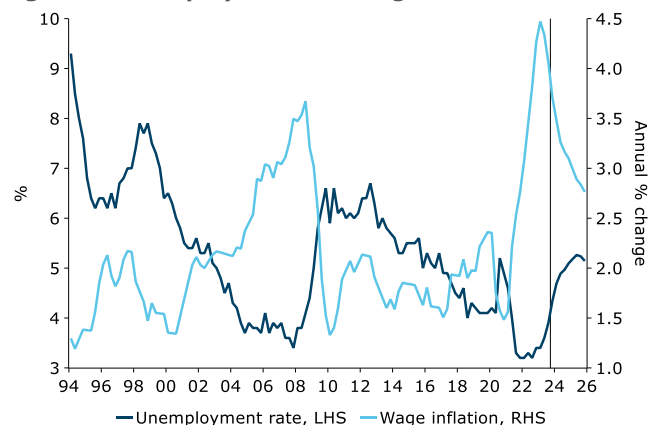


Figure 6. Unemployment and wage inflation



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



## Contact us

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### Meet the team

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