

New Zealand Weekly Data Wrap

19 January 2024



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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: going up](#)
- [NZ Forecast Update: milk price revised down further](#)

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

What's the view?

- GDP shows demand momentum is weak, particularly in per capita terms.
- Labour market now cooling.
- Inflation way above target and looking sticky.
- OCR on hold at 5.50% until February 2025, then lower.

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 could see rents and house prices start to rise more quickly.



Booming migration plus fiscal stimulus could see demand hold up for longer.



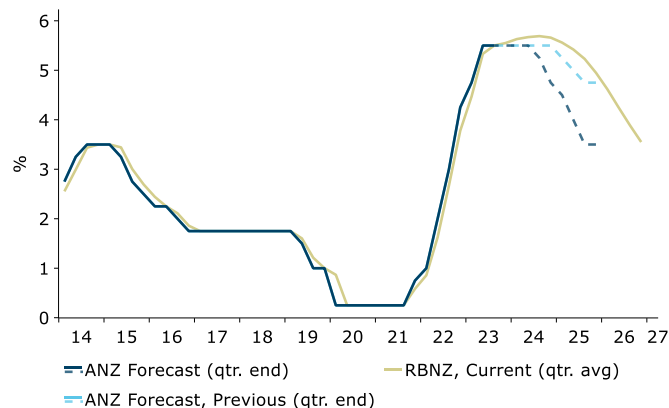
NZ's large external imbalances could see the market impose a more abrupt adjustment path.

OCR call change: cuts from August, with risks both ways.

We now expect the RBNZ to deliver a steady sequence of **25bp OCR cuts starting in August**, taking the OCR to 3.5% over 12 months. Over the next six months, a strong supply recovery, previous weakness in economic activity and a deteriorating labour market should result in rapid disinflation for domestically driven CPI components. On our current forecasts, by the September quarter inflation is back in the band, unemployment has cracked the 5% mark and is still rising, and the output gap is deeply negative. With **recessionary** economic data in the rear-view mirror and more inflation-fighting runs on the board, the RBNZ should feel comfortable cutting policy by then if our forecasts come to fruition.

But of course, no one's forecasts ever come to fruition precisely, and the RBNZ has to weigh up risks. With forward-looking activity indicators picking up, the RBNZ will remain wary of the risk of a second wind for the economy before persistent inflation is rooted out. Cutting a bit late is no biggie (just cut faster), but cutting – or even signalling cutting – too early could result in having to haul the market back for a second round of hikes with much bigger swings in rates and potentially damaged inflation-fighting credibility. Upshot: don't hold your breath waiting for a lot of prior warning of cuts. The RBNZ has a strong incentive to keep all its options open until it chooses one.

Figure 1. OCR forecast



Source: RBNZ, Macrobond, ANZ Research

August is not a strong conviction call by any means, and we currently see the risks as roughly balanced on whether the RBNZ starts cutting earlier or later than that, depending on the evolution of inflation stickiness, unemployment, fiscal surprises, and the housing market. We would also note there's still a chance of a hike, either in February if we get ugly CPI details (not our **expectation** but it can't be ruled out) or later if inflation ultimately gets 'stuck'.

The RBNZ's February Statement is still a long way away, but on 30 January Chief Economist Paul Conway will deliver a speech that will include "brief comments on domestic data developments" since the hawkish November MPS. The market is divided about what the message might be. Some seem to believe it will be a mea culpa smoothing the path to a much more dovish February MPS. We don't think that is at all likely for three reasons:

- The inflation outlook isn't wildly different; there is no justification for a "pivot" yet. Q3 GDP was 0.3% lower than expected, which definitely matters. But revisions to older GDP data tend to end up changing



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Insight: recession?
- NZ Agri Focus: long, hot summer ahead
- NZ Insight: navigating the watch-worry-wait summer
- NZ Insight: labour market capacity indicators
- NZ Property Focus: a spring chill
- NZ Insight: Coalition policy announcements
- NZ Insight: what an oil price shock could mean for inflation
- NZ Property Focus: new faces, not many new places
- 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 and OCR call change: progress buys time
- 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

estimates of what the speed limit of the economy must have been, much more than it impacts views on how much inflation is in the pipeline. That's because the RBNZ has direct indicators of capacity stretch (eg its labour market capacity suite). As we discussed in our [OCR call change yesterday](#), the GDP surprise is likely to see the RBNZ revise down its estimate of capacity pressures to some extent, but it may not in fact be by all that much.

- Some growth indicators are improving, suggesting that the downside surprise on past growth may be offset to some extent by a faster bounce-back than expected.
- As long as the outlook remains uncertain and the inflation-fighting job half done, the RBNZ has no incentive to narrow its options and/or encourage the market to front-run easing. That could just make its job harder down the track.

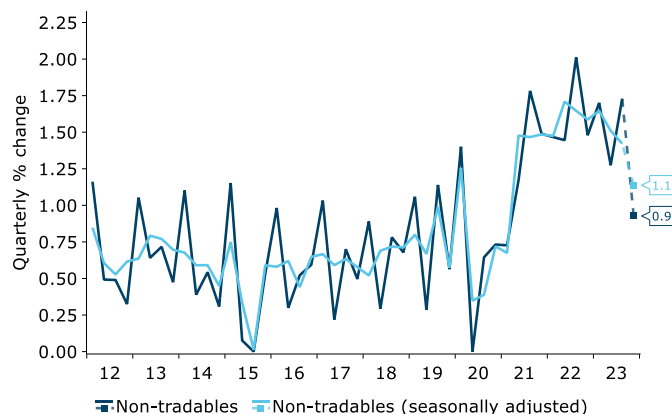
Q4 CPI Preview: hardly a home run

Statistics NZ will release Q4 CPI data next Wednesday. [We're expecting](#) some good news, with annual headline inflation expected to decelerate sharply from 5.6% to 4.7% y/y (0.6% q/q), below the RBNZ's November forecast of 5.0% y/y (0.8% q/q). But all of the downside surprise to the RBNZ's forecast is driven by weaker tradables inflation. We expect the all-important non-tradables inflation measure to print in line with the Reserve Bank's forecast of 5.7% y/y, down from 6.3% y/y in Q3.

New Zealand is benefiting from a strong supply-side recovery currently (workers, airline capacity, recovery from weather disruption, lower oil prices), and this is seeing some of the components that have experienced extreme inflation rapidly fall. Some of them are threatening to become less helpful (container shipping costs are rising sharply due to geopolitical issues) but all have contributed to an easing in headline inflation over the quarter. While these volatile components are providing a tailwind to disinflation today, they are vulnerable to shocks, and sustainable disinflation is contingent on non-tradables.

On that front, we expect Q4 will signal clear progress. The CPI is not seasonally adjusted, but doing so can be useful for highlighting trends. Our quarterly non-tradables forecast for Q4 of 0.9% q/q, would be the lowest rate in seasonally adjusted terms since Q1 2021, and a meaningful step down. But it doesn't signal 'job done' for the RBNZ. Monetary policy is working, but the RBNZ is likely to proceed with caution. If next week's data land as we expect, the RBNZ would probably be relatively happy, but it wouldn't be a game changer.

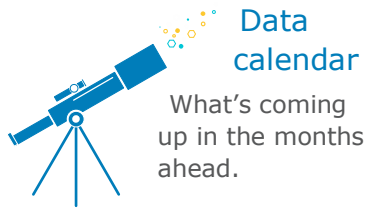
Figure 2. Non-tradables inflation, raw and seasonally adjusted



Source: Stats NZ, Macrobond, ANZ Research



Financial markets update



Date	Data/event
Tues 23 Jan (10:30am)	Performance Services Index – Dec
Wed 24 Jan (10:45am)	CPI – Q4
Mon 29 Jan (10:45am)	Employment Indicators – Dec
Mon 29 Jan (10:45am)	Merchandise Trade – Dec
Wed 31 Jan (1:00pm)	ANZ Business Outlook – Jan
Fri 2 Feb (10:00am)	ANZ-RM Consumer Confidence – Jan
Fri 2 Feb (10:45am)	Building Permits – Dec
Mon 5 Feb (1:00pm)	ANZ Commodity Price Index – Jan
Wed 7 Feb (early am)	GlobalDairyTrade auction
Wed 7 Feb (10:45am)	Labour Market – Q4
Fri 9 Feb (10:00am)	ANZ Truckometer – Jan
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 Jan (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 – Dec
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

Interest rate markets

Global interest rates continued grinding higher this week, fuelled by hawkish Fed speak and stronger than expected US data. That helped drive local long end rates higher, but lesser moves have been seen at the short end, which have been capped by the prospect of rate cuts from later in the year. In that regard, the picture is very nuanced, as the market disentangles the prospect of a string of cuts, but cuts are likely to come later ([we think August](#)), rather than in May, as markets currently expect. So, the overall picture is one of lower rates eventually, but just not yet, as our new forecasts imply (page 4). With most domestic forecasters tightly clustered around the RBNZ's November MPS pick for Q4 CPI, we are mindful that any surprises next week could lead to volatility (in rates and FX markets). Next week also sees NZ Debt Management (NZDM) publish their February NZGB tender schedule; markets are eagerly anticipating any word on a possible syndicated launch of a new bond, which NZDM often does when publishing tender schedules.

FX markets

The Kiwi has struggled in the face of a USD rebound, but with a similar repricing underway locally (as markets stick to pricing in cuts, but later), it's difficult to be overly bearish at current levels. Data is likely to drive further volatility, but we continue to expect a gradual appreciation over 2024.

Key data summary

NZIER Quarterly Survey of Business Opinion – Q4. The Q4 [QSBO](#) indicates the economy unexpectedly got some wind in its sails going into the end of 2023, but direct inflation indicators continued to ease.

GlobalDairyTrade auction. The GDT headline price index lifted 2.3%, aligned with market expectations. Whole milk powder prices lifted 1.7% whilst skim milk powder pricing gained 1.2%. Dairy prices are generally benefiting from tightening global supply.

Electronic Card Transactions – December. Core retail spending fell 2% m/m. Soft.

REINZ House Prices – December. The housing market ended the year on a cooler note, with house prices falling 0.3% m/m (sa).

ANZ Truckometer – December. The [Light Traffic Index](#) (LTI) fell 2.2% m/m, while the Heavy Traffic Index (HTI) fell 2.1% in December.

Selected Price Indexes – December. Stronger than expected. Our aggregate SPI index rose 1.5% m/m, largely reflecting a whopping 42% m/m rise in international airfares.

Manufacturing PMI – December. Fell to 43.1 from a downwardly revised 46.1. November's bounce proved short-lived.

Net Migration – November. Monthly net inflows fell sharply, driven by a surge in departures. Annual net migration remained near its peak at 127.4k.

The week ahead

Performance Services Index – December (Tuesday 23 January, 10:30am). Has been trending higher since August and lifted into expansionary territory in November. Our [Business Outlook](#) survey and [NZIER's QSBO](#) suggest the sense of optimism may continue.

CPI – Q4 (Wednesday 24 January, 10.45am). We expect headline inflation rose 0.6% q/q in Q4. See our [Preview](#).



Key forecasts and rates

	Actual			Forecast (end month)					
	Nov-23	Dec-23	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
FX rates									
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	0.930	0.912	0.899	0.900	0.900	0.901	0.901
NZD/EUR	0.563	0.572	0.562	0.559	0.549	0.553	0.548	0.552	0.552
NZD/JPY	90.7	89.1	90.6	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	71.5	70.9	70.2	70.8	70.4	71.1	70.8
Interest rates									
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	5.65	5.52	5.18	4.68	4.40	3.97	3.75
NZ 2-yr swap	5.16	4.64	4.78	4.90	4.52	4.21	4.03	3.89	3.89
NZ 10-yr bond	4.88	4.32	4.70	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	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	0.6	0.6	0.6	0.9	0.4	0.4	0.6	1.0
CPI (% yoy)	5.6	4.7	4.1	3.7	2.8	2.5	2.4	2.4	2.3
Employment (% qoq)	-0.2	-0.2	-0.3	-0.1	0.1	0.1	0.2	0.2	0.3
Employment (% yoy)	2.4	1.6	0.3	-0.8	-0.5	-0.2	0.3	0.6	0.8
Unemployment Rate (% sa)	3.9	4.3	4.7	4.9	5.0	5.1	5.2	5.3	5.2

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

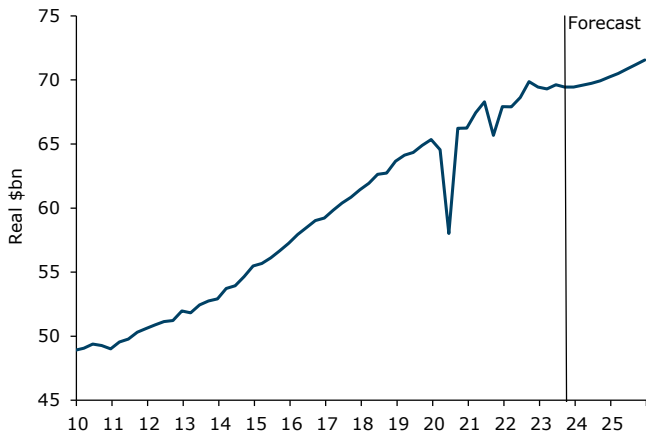


Figure 4. CPI inflation components

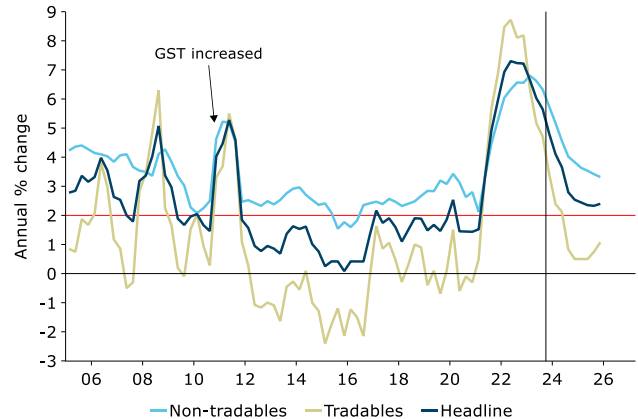


Figure 5. OCR forecast

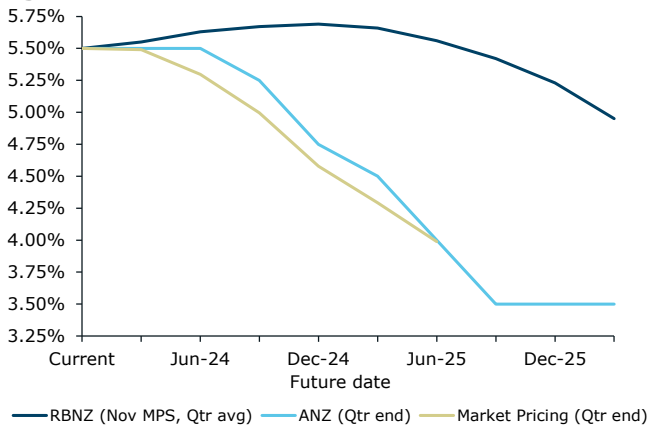
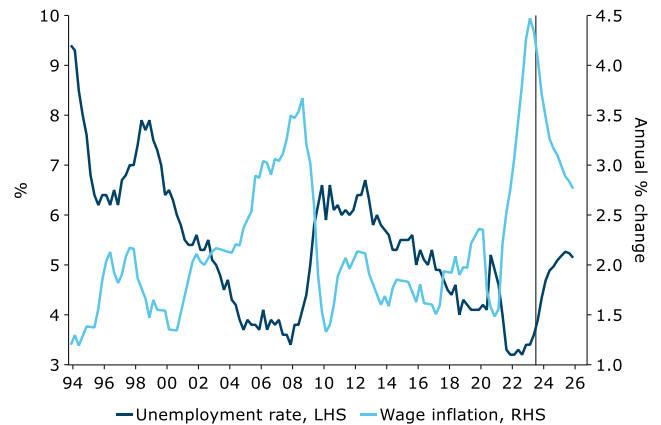


Figure 6. Unemployment and wage inflation



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



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