ANZ Research

New Zealand Weekly Data Wrap

9 June 2023

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Contact us

See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Forecast Update: milk price forecasts trimmed further
- NZ Property Focus: On the floor, ready to floor it?
- 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.
- Labour market still tight, but expected to cool.
- Inflation way above target and looking sticky.
- OCR on hold at 5.50% until November 2023, then higher.

Our forecasts are on page 4.

Confused by acronyms or jargon? See a glossary here.

Key risks to our view

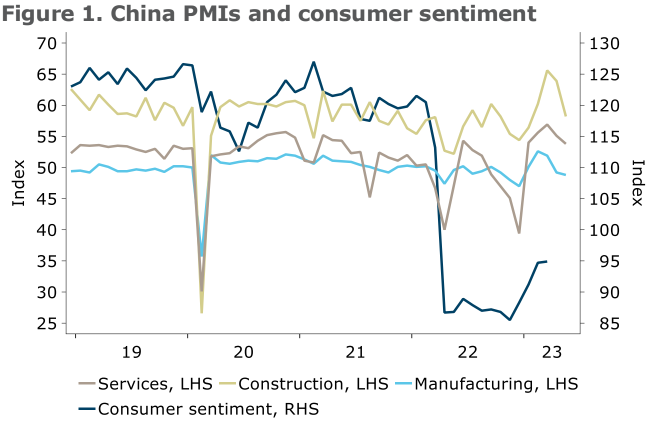
- Global growth and financial market risks abound, as markets debate the rates outlook.
- Soaring net migration could see house prices start to rise more quickly.
- Booming migration plus fiscal stimulus could see inflation hold up for longer.
- NZ's large external imbalances could see the market impose a more abrupt adjustment path.

China's slowdown could exacerbate NZ's

As the debate over whether central banks have done enough to quell inflation in advanced economies goes on, China's experience stands out as markedly different, with the economy facing the risk of deflation as growth momentum weakens. With China New Zealand's largest trading partner by far, it matters.

After unexpectedly declining in April, China's PMI readings again missed expectations in May. The survey suggested the contraction in manufacturing accelerated as both domestic and external demand softened, with excess capacity putting downward pressure on prices and dragging on profits. While the recovery in the services sector was ongoing in May, it stepped down in pace. Consumer sentiment is languishing, weighed down by weak wage growth and deteriorating labour market conditions (unemployment amongst 16-24yo is over 20%). Weaker confidence is driving precautionary saving and weighing heavily on property sales. Given the property sector's importance to the economy, improved growth prospects are likely contingent on a turnaround in the sector and a revival in consumption, with the two intrinsically linked. But a falling population is a long-term headwind to both land values and spending.

Figure 1. China PMIs and consumer sentiment



Source: CEMAC, CFLP, Macrobond, ANZ Research

On the plus side, weaker growth in China is supporting ongoing global goods disinflation. Earlier in the year, the reopening boost was seen as a key upside risk, but that hasn't materialised. China's consumer prices increased only 0.1% y/y in April, while producer prices are in outright decline, falling 3.6% y/y. Delivery times are declining and shipping costs have returned to pre-pandemic rates. The Fed's Global Supply Chain Pressure Index fell to its lowest level on record in May. Easing global inflation will help ease goods inflation in New Zealand across the second half of the year, seeing headline inflation fall.

However, weaker growth in your biggest trading partner can only ever be at best a mixed bag. The flipside is New Zealand's export prices haven't experienced the anticipated boost from China's reopening either. At this week's Global Dairy Trade auction the Index fell 0.9%, and whole milk powder tumbled 3.0% as buying from China eased. Reflecting concerns about China's growth outlook, this week we revised down our 2023/24 season farmgate milk price forecast 25c to $8.25/kg MS.

Weaker consumer sentiment in China also adds risk to the recovery in tourism. Overseas visitor arrivals reached 68% of pre-COVID levels in March, but arrivals from China, our second-largest market pre-COVID, only reached 18%, although that's up from only 8% in February. While the recovery is in the early stages, China's weaker outlook adds some downside risk. Weaker export returns are bad news for the current account, with improvement in both the goods and services deficits needed to offset the widening income deficit.

Looking ahead

Many moving parts

Next week brings a blockbuster data flow, chief among them Q1 GDP (released on Thursday). We've pencilled in a 0.2% q/q expansion, as strong population growth more than offsets disruption from Cyclone Gabrielle. While the economy is certainly slowing in response to higher interest rates, we think part of the weakness in GDP growth can still be explained by lingering supply constraints.

The recent surge in migration has seen population growth come in strong for the quarter, lifting 0.7% q/q compared to its post-1987 average of 0.3% q/q. That's supporting economic activity at the aggregate level. But with population growth outpacing economic growth in our forecast, headline GDP growth masks the economy being in a per-capita recession. That's indicative of slowing economic momentum.

Disruption from Cyclone Gabrielle was also apparent in the partial Q1 GDP indicators, which complicates the overall picture. The regional cuts of the retail trade survey and building work put in place data both suggested activity was softer in cyclone-affected regions. Those impacts are temporary, however, and to the extent that weak growth in Q1 is a result of cyclone impacts, there should be some payback in Q2.

All up, economic growth looks fairly soft for Q1 and while that's a reflection of higher interest rates cooling demand, we think it's also, in part, a reflection of ongoing capacity constraints in the economy, particularly labour shortages. There's also the challenge of ongoing data volatility, which means we will sigh rather than gasp if we're 'surprised' on the day.

The RBNZ has indicated that it's a fairly high bar for them to diverge from their plan to 'watch, worry, and wait,' and we don't see it as likely that Q1 GDP will clear that bar. That said, we do think the RBNZ will be back in hiking mode by November. By then, we think evidence that sticky domestic inflation risks are materialising will be a lot stronger. While the Q1 GDP data may not highlight those risks, next week also brings REINZ housing market data for May and April's migration numbers, both of which we will be watching closely.

On Wednesday, Balance of Payments data are also released. We're expecting the annual current account deficit narrowed to 8.7% of GDP from the record-wide 8.9% of GDP in Q4. While a narrowing in the deficit is good news, the level remains far too high.

The wide current account deficit reflects several factors. Demand for imports has been strong, while poor weather and labour shortages have constrained export revenue, keeping pressure on the goods deficit. The recovery in tourism is supporting a narrowing of the services deficit, but New Zealanders are also returning to holiday overseas and there's still a long way to go for the services exports to catch up with services imports. Finally, higher global interest rates are putting downward pressure on the income deficit. With previous current account deficits flowing through to a higher stock of external debt, the income deficit is expected to continue to widen over coming years.

A recovery in services exports and softening import demand are therefore crucial to bring about the return of the current account deficit to a more sustainable level. We do expect the cyclical uplift in import demand across the pandemic to unwind as the domestic economy cools, but there are also structural factors at play, as the closure of the Marsden Pt refinery has seen refined petroleum product imports surge.

New Zealand's external imbalance shows that high inflation isn't the only reason to get the economy back onto a sustainable path through monetary tightening and fiscal consolidation. The path to something more sustainable isn't a fun one (as it involves weaker domestic demand), but medium-term macroeconomic stability is at stake.

NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: On the floor, ready to floor it?
- NZ Insight: divergence across the Tasman, recession for NZ but not for Oz
- NZ Economic Outlook: moving parts
- NZ Agri Focus: a further lift required
- NZ Insight: Inflation rotation
- NZ Insight: inflationary risks from Gabrielle
- NZ Insight: RBA/RBNZ policy divergence back in the spotlight

NZ Economic News

View latest data and policy releases

- RBNZ MPS Review: as you were
- NZ CPI Review: relatively good, absolutely bad
- NZ GDP: something for everyone
- NZ labour market: still super-tight in Q1
- NZ REINZ housing data: green shoots or false floor
- NZ Budget 2023 brings the bonds

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

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 12 Jun (10:45am)	Electronic Card Transactions – May
Tue 13 Jun (10:45am)	Net Migration – Apr
Wed 14 Jun (09:00am)	REINZ Housing Data - May
Wed 14 Jun (10:45am)	Current Account – Q1
Wed 14 Jun (12:00pm)	Food Price Index – May
Wed 14 Jun (12:00pm)	Rental Price Index – May
Thu 15 Jun (10:45am)	**GDP – Q1**
Fri 16 Jun (10:30am)	BusinessNZ Manuf PMI – May
Mon 19 Jun (10:30am)	Performance Services Index – May
Wed 21 Jun (early am)	GlobalDairyTrade auction
Thu 22 Jun (10:45am)	Merchandise Trade – May
Fri 23 Jun (10:00am)	ANZ Truckometer – May
Thu 29 Jun (1:00pm)	ANZ Business Outlook – Jun
Fri 30 Jun (10:00am)	ANZ-RM Consumer Confidence – Jun
Mon 3 Jul (10:45am)	Building Permits – May
Tue 4 Jul (10:00am)	NZIER QSBO – Q2
Wed 5 Jul (early am)	GlobalDairyTrade auction
Wed 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Tue 11 Jul (10:45am)	Electronic Card Transactions – Jun
Wed 12 Jul (10:45am)	Net Migration – May
Wed 12 Jul (2:00pm)	**RBNZ MPR**
Thu 13 Jul (10:45am)	Food Price Index – Jun
Thu 13 Jul (10:45am)	Rental Price Index – Jun
Mon 17 Jul (10:30am)	Performance Services Index – Jun
Wed 19 Jul (early am)	GlobalDairyTrade auction
Wed 19 Jul (10:45am)	**CPI – Q2**
Mon 24 Jul (10:45am)	Merchandise Trade – Jun

Interest rate markets

Global interest rates have had a volatile week, with short-end rates rising across the dollar bloc following surprise rate hikes by the RBA and Bank of Canada. Although we expected the RBA to hike, few others in the market did. That, coupled with the RBA's hawkish tone, saw markets move to price in more hikes, and that's been felt here. For our part, we think the RBNZ is "dug in" for now. They are clearly comfortable with the OCR here. They are now in watch, worry and wait mode, and will assess a body of data over the next few months before making their next move. Rates may drift off if next week's GDP data disappoints, but we think it's too soon to call "mission accomplished". We still expect at least one more hike after the election, and as such remain guarded about the prospect of short-end rates falling sustainably. Global bond yields are higher but have come back following a spike in US jobless claims overnight, and volatility is higher than normal ahead of next week's US CPI data and key Fed decision.

FX markets

Kiwi price action remains defensive, and it has yet to recover from its post-MPS hit. We had been expecting carry to support it, but with NZ and US rates on a par, just as being long Kiwi is a cheap way to short the USD, it doesn't cost anything (from a carry perspective) to be short the Kiwi. And markets are getting worried about New Zealand's external imbalances.

Key data summary

ANZ Commodity Price Index – May. The ANZ World Commodity Price Index lifted 0.3% in May despite the China slowdown impacting returns for some export products.

GlobalDairyTrade auction. The GDT Price index fell a further 0.9%, defying market expectations of a more positive result. Whole milk powder fell 3.0%, skim milk powder prices were stable, and milkfat products posted gains.

Economic Survey of Manufacturing – Q1. Fell 2.1% q/q, weaker than expected.

The week ahead

Electronic Card Transactions – May (Monday 12 June, 10:45am). ANZ card spend data suggests a 1.3% m/m decline.

Net Migration - April (Tuesday 13 June, 10:45am). Very strong net inflows recently mean we'll be reviewing our forecast assumption when we update our activity outlook after the Q1 GDP release.

REINZ House Prices – May (Wednesday 14 June, 9:00am). We called a floor in our latest Property Focus, but near-term volatility wouldn't surprise.

Current Account Balance – Q1 (Wednesday 14 June, 10.45am). We expect the deficit to narrow to 8.7% of GDP, but historical revisions present risk – read our preview here.

Food Prices – May (Wednesday 14 June, 12:00pm). We've pencilled in another 0.5% m/m lift.

Rental Price Index – May (Wednesday 14 June, 12:00pm). We're expecting the stock measure to rise 0.4% m/m.

GDP – Q1 (Thursday 15 June, 10.45am). We're expecting that the economy expanded 0.2% q/q in Q1 – read our preview here.

Performance of Manufacturing Index – May (Friday 16 June, 10:30am). Printed at 49.1 in April. Another print below 50 would be consistent with our outlook.

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Apr-23	May-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZD/USD	0.618	0.601	0.610	0.620	0.620	0.630	0.650	0.650	0.650
NZD/AUD	0.935	0.927	0.908	0.912	0.912	0.900	0.903	0.890	0.890
NZD/EUR	0.561	0.562	0.565	0.559	0.554	0.553	0.560	0.551	0.542
NZD/JPY	84.3	84.1	84.7	80.6	78.7	78.1	79.3	78.0	76.7
NZD/GBP	0.492	0.486	0.485	0.488	0.484	0.485	0.492	0.485	0.478
NZ$ TWI	70.4	69.9	70.3	69.6	68.8	68.7	70.0	69.4	69.0
Interest rates	Apr-23	May-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	5.25	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.75
NZ 90 day bill	5.56	5.69	5.69	5.60	5.77	5.85	5.85	5.85	5.68
NZ 2-yr swap	5.05	5.20	5.36	5.42	5.48	5.21	4.97	4.73	4.48
NZ 10-yr bond	4.09	4.29	4.53	4.50	4.40	4.30	4.00	4.00	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)	0.5	0.8	**0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.1**	**0.1**	**0.2**
Employment (% yoy)	1.6	2.5	**2.8**	**1.2**	**0.3**	**-0.9**	**-1.3**	**-0.8**	**-0.2**
Unemployment Rate (% sa)	3.4	3.4	**3.5**	**4.0**	**4.4**	**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 2. GDP level

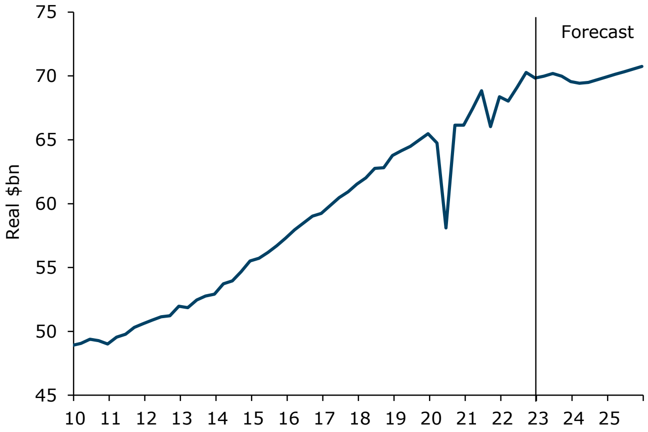


Figure 3. CPI inflation components

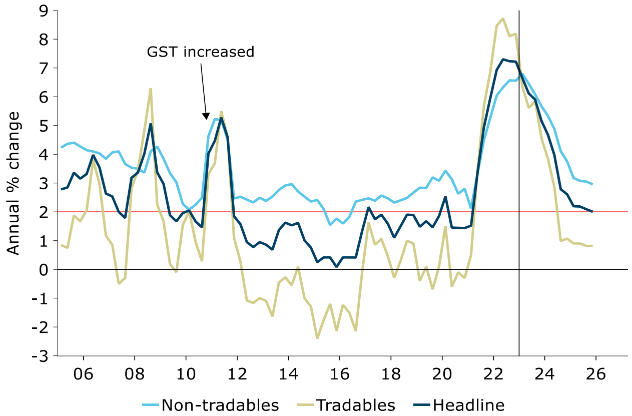


Figure 4. OCR forecast

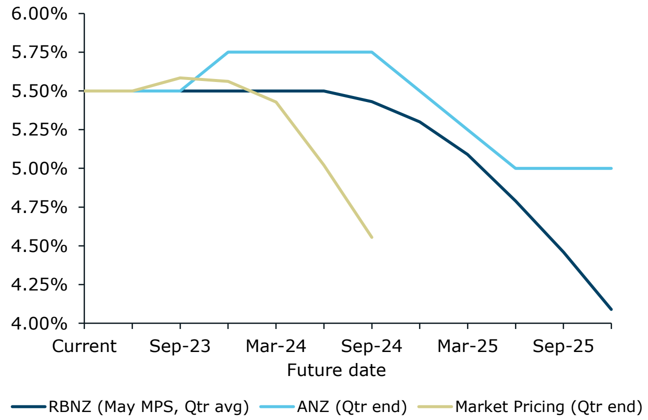
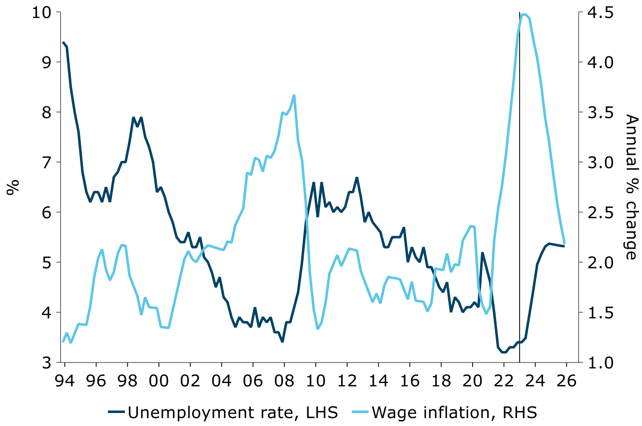


Figure 5. Unemployment and wage inflation



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

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