


New Zealand Weekly Data Wrap

23 June 2023



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Forecast updates

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

- [NZ Forecast Update: the much-needed adjustment](#)
- [NZ Forecast Update: milk price forecasts trimmed further](#)
- [NZ Property Focus: On the floor, ready to floor it?](#)
- [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.

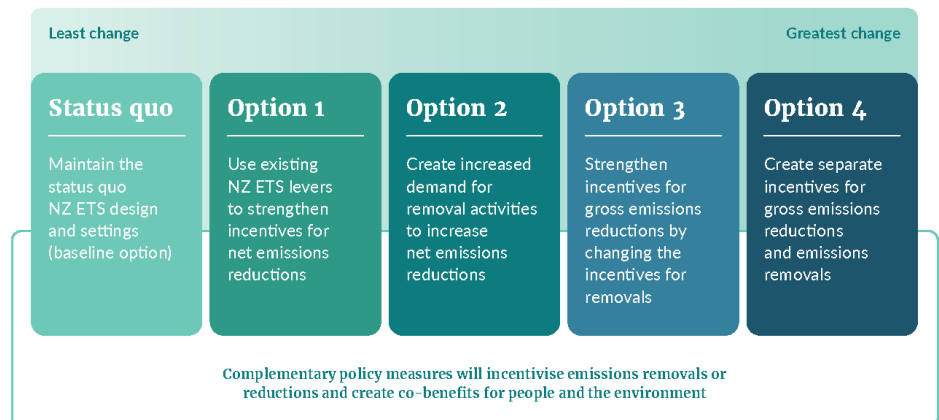
Getting the balance right to incentive carbon reductions

The review of the [Emissions Trading Scheme \(ETS\)](#) moved to the public consultation phase this week. Under the current settings the ETS is expected to drive large-scale exotic afforestation (reducing net emissions) but will not deliver a sufficiently high carbon price to incentive significant reductions in gross emissions. The Climate Change Commission (CCC) has recommended the Government consider how the ETS could be amended to:

- strengthen incentives for gross emissions reductions,
- manage the amount of exotic forest planting it drives.

The ETS needs to be able to incentivise both reductions and carbon removals from forestry, but getting the balance correct between these two activities is critical. There are currently four options being considered as ways to change the ETS, but the review is not limited to only these options.

Figure 1. Proposed options to strengthen the incentives for gross emissions reductions in the ETS



Source: Ministry for the Environment (MfE)

Options 3 and 4 would result in a different price being paid for carbon removals versus carbon reductions. Option 4 would provide the Government with the greatest control over pricing.

Options 3 and 4 align with the CCC recommendations that incentives to reduce gross emissions should be separate from the incentives paid for forestry activity that removes carbon. All options aim to lift the carbon price.

Households are exposed to carbon prices most directly through fuel and energy costs. The MfE estimates at a carbon price of \$75 emissions expenditure would account for 0.5% of household gross income, or just under \$500 per household per annum. Higher prices will disproportionately affect lower-income households (as any price increase for necessities does), but will also increase the revenue the Government earns from the sale of New Zealand Units (NZUs).

Whatever the final decision, it's crucial that the Government keeps the purpose of the ETS front and centre in its deliberations. Welfare impacts on households can and should be addressed separately. The ETS will only work if the relative price of fossil fuels is allowed to rise.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ ETS Review: public consultation on options
- NZ Agri Focus: winter chill
- 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

- NZ GDP: Cyclone nudges NZ into recession
- NZ REINZ housing data: strengthening
- RBNZ MPS Review: as you were
- NZ CPI Review: relatively good, absolutely bad
- NZ labour market: still super-tight in Q1
- NZ Budget 2023 brings the bonds

[Click here](#) for more.



ANZ Proprietary data

Check out our latest releases below.

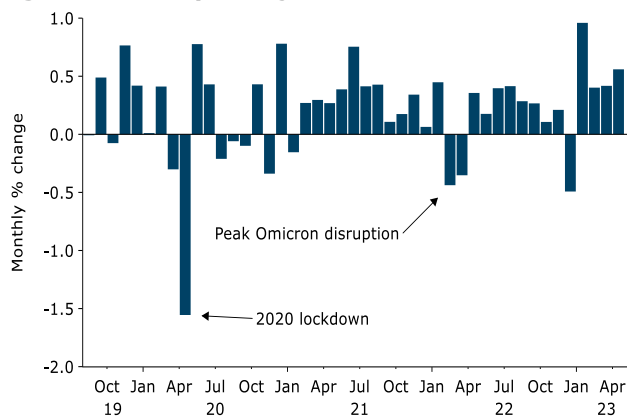
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

What we're watching next week

Next week brings the monthly employment indicators for May and our consumer and business confidence surveys. Q1 GDP came in weaker than the RBNZ was anticipating, and although it's very much a look in the rear-view mirror, it matters for model estimates of the required OCR. Next week's data are, however, important for getting a timelier gauge of where the economy is heading.

The RBNZ will be hoping to see some evidence of softening employment growth next week after monthly filled jobs rose 0.6% m/m in April. Jobs growth reflects resilience in labour demand, but also supply-side improvements, with surging migration seeing long-empty vacancies finally filled. As long as resilient labour demand is met by a corresponding increase in labour supply, then the necessary increase in slack in the labour market can still occur. We certainly won't get the full picture of supply and demand next week, but there will be plenty to parse.

Figure 2: Monthly filled jobs



Source: Stats NZ, Macrobond, ANZ Research

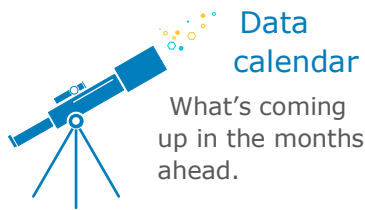
Next week our consumer and business confidence surveys are released. In May, business confidence rose sharply and is now well off the lows seen late last year. Expectations of own activity also crept back toward positive territory and residential construction intentions jumped. A contraction in residential investment is a key component of the RBNZ's forecast slowdown in economic activity. With the housing market on the cusp of turning higher, this measure will be one to keep an eye on. And of course inflation expectations and pricing indicators are key; they've been easing, albeit gradually.

If confidence were to trend higher as the year goes on it could lead to increasing demand for labour and investment, which would worry the RBNZ. But the levels of most indicators are still subdued, and the relationship between confidence and activity isn't always reliable. For example, it appears the extreme lows seen in consumer confidence partly reflect a hatred of inflation – the plunge has certainly overstated the slowdown in spending. Household incomes continue to be well supported by the tight labour market, and a reduction in job security may be required for households to start saving more for a rainy day. We do see unemployment rising, but not as fast or as far as the RBNZ's forecasts.

While the economy is certainly slowing (as one would expect after such aggressive hikes), it's important to interpret the data flow relative to RBNZ expectations. Any signs of resilience would be unlikely to sway the RBNZ any time soon, but we expect evidence of (relatively) resilient demand and subsequent persistent inflation pressures to quietly build over coming months, even as headline inflation retreats on some easy wins on the goods side.



Financial markets update



| Date | Data/event |
|-----------------------|--|
| Thu 29 Jun (1:00pm) | ANZ Business Outlook – Jun |
| Fri 30 Jun (10:00am) | ANZ-RM Consumer Confidence – Jun |
| Fri 30 Jun (3:00pm) | RBNZ Sectoral Lending – May |
| 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 (10:30am) | BusinessNZ Manuf PMI – Jun |
| 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 |
| Tue 25 Jul (10:00am) | ANZ Truckometer – May |
| Fri 28 Jul (10:00am) | ANZ-RM Consumer Confidence – Jul |
| Mon 31 Jul (1:00pm) | ANZ Business Outlook – Jul |
| Mon 31 Jul (3:00pm) | RBNZ Sectoral Lending – Jun |
| Tue 1 Aug (10:45am) | Building Permits – Jun |
| Wed 2 Aug (early am) | GlobalDairyTrade auction |
| Wed 2 Aug (10:45am) | Labour Market – Q2 |
| Thu 3 Aug (1:00pm) | ANZ Commodity Price Index – Jul |
| Wed 9 Aug (10:45am) | Electronic Card Transactions – Jul |
| Wed 9 Aug (3:00pm) | RBNZ 2yr Inflation Expectations – Q3 |

Interest rate markets

Global short-end interest rates drifted higher this week as a handful of G10 central banks lifted policy rates, most notably Norges Bank and the Bank of England, who both surprised markets with 50bp hikes. Hawkish commentary by Fed chair Powell during two days of testimony on Capitol Hill added to the bias to US rates, as did hawkish comments from ECB officials keen to stress the need for higher policy rates there. With the RBNZ “dug in”, having adopted what Governor Orr dubs the “watch, worry and wait” phase, we think the hurdle for OCR hikes in the next few months is high. However, if global central banks do press on with hikes, and stress that cuts are a long way off, the risk is that local markets back away from pricing in deep cuts over the next 12-18 months (87bps of cuts are priced in by next October). That, in turn, poses upside risks to short-end swap rates. Local long-end rates are at the upper end of trading ranges but haven’t broken new highs. Again, we see upside risks. Next week’s release of NZDM’s July tender schedule is expected to be a landmark event, offering more clues as to the likely weekly volume of issuance, and thus the implied likely number of NZGB syndications in the next fiscal year. Bond supply remains a significant worry-point for market participants, and the next few months will be a litmus test. We think we will see 4 or possibly 5 syndications in 2023/24, and crucially, we expect them in July and August, with a very full calendar, with the PREFU, Election, coalition negotiations and the HYEPU likely ruling out issuance between September and December inclusive. Such a front-loaded issuance profile poses upside risks to long-end yields.

FX markets

The Kiwi continues to wash around in established ranges, and so too does the USD itself. Our fair-value analysis shows that the USD DXY is around 10% overvalued, and reversion to fair value is one of the key reasons why we expect mild NZD appreciation over coming years. But the Fed’s hawkish tone may delay that adjustment, especially with other Northern Hemisphere banks also hiking aggressively, the RBNZ on hold, and markets worried about China’s growth prospects and New Zealand’s external imbalances. In a few words, then, it’s a very complex situation!

Key data summary

Performance Services Index – May. Rebounded sharply to 53.3. April’s print was also revised back into expansionary territory at 50.1.

GlobalDairyTrade auction. The GDT Price Index was unchanged as offer volumes were pushed out to later delivery dates.

Overseas Merchandise Trade – May. Posted a monthly surplus of \$46m. The annual deficit widened further to a fresh record of \$17.1bn.

ANZ Truckometer – May. The [Light Traffic Index](#) fell 0.9% m/m, while the Heavy Traffic Index lifted 1.8% m/m after a fall in April.

The week ahead

ANZ Business Outlook – June (Thursday 29 June, 1:00pm).

ANZ Roy Morgan Consumer Confidence – June (Friday 30 June, 10:00am).

RBNZ sectoral lending data – May (Friday 30 June, 3:00pm).

Mortgage lending slowed to 3.2% y/y in April and that downward trend is likely to persist despite sales recovery to year-ago levels in May.



Key forecasts and rates

| FX rates | Actual | | | Forecast (end month) | | | | | |
|----------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
| | Apr-23 | May-23 | Today | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
| NZD/USD | 0.618 | 0.601 | 0.618 | 0.620 | 0.630 | 0.650 | 0.650 | 0.650 | 0.650 |
| NZD/AUD | 0.935 | 0.927 | 0.914 | 0.912 | 0.900 | 0.903 | 0.890 | 0.890 | 0.890 |
| NZD/EUR | 0.561 | 0.562 | 0.564 | 0.554 | 0.553 | 0.560 | 0.551 | 0.542 | 0.542 |
| NZD/JPY | 84.3 | 84.1 | 88.4 | 85.6 | 85.1 | 85.8 | 83.2 | 81.9 | 80.6 |
| NZD/GBP | 0.492 | 0.486 | 0.485 | 0.484 | 0.485 | 0.492 | 0.485 | 0.478 | 0.478 |
| NZ\$ TWI | 70.4 | 69.9 | 71.4 | 70.1 | 69.9 | 71.2 | 70.5 | 70.0 | 69.8 |
| Interest rates | Apr-23 | May-23 | Today | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
| NZ OCR | 5.25 | 5.50 | 5.50 | 5.50 | 5.75 | 5.75 | 5.75 | 5.75 | 5.50 |
| NZ 90 day bill | 5.56 | 5.69 | 5.69 | 5.77 | 5.85 | 5.85 | 5.85 | 5.68 | 5.43 |
| NZ 2-yr swap | 5.05 | 5.20 | 5.46 | 5.48 | 5.21 | 4.97 | 4.73 | 4.48 | 4.37 |
| NZ 10-yr bond | 4.09 | 4.29 | 4.55 | 4.75 | 4.50 | 4.25 | 4.00 | 4.00 | 4.00 |

Economic forecasts

| | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 |
|--------------------------|--------|------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| GDP (% qoq) | -0.1 | 0.4 | -0.1 | -0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| GDP (% yoy) | 2.2 | 1.1 | -0.5 | 0.0 | 0.4 | 0.3 | 0.7 | 1.2 | 1.3 |
| CPI (% qoq) | 1.2 | 0.9 | 1.9 | 1.0 | 0.9 | 0.5 | 0.9 | 0.5 | 0.6 |
| CPI (% yoy) | 6.7 | 5.9 | 5.6 | 5.2 | 4.8 | 4.5 | 3.4 | 2.9 | 2.6 |
| Employment (% qoq) | 0.8 | 0.4 | 0.0 | -0.2 | -0.1 | 0.0 | 0.2 | 0.2 | 0.2 |
| Employment (% yoy) | 2.4 | 3.0 | 1.8 | 1.1 | 0.2 | -0.3 | -0.1 | 0.3 | 0.6 |
| Unemployment Rate (% sa) | 3.4 | 3.5 | 3.9 | 4.2 | 4.5 | 4.7 | 4.8 | 4.9 | 5.0 |

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

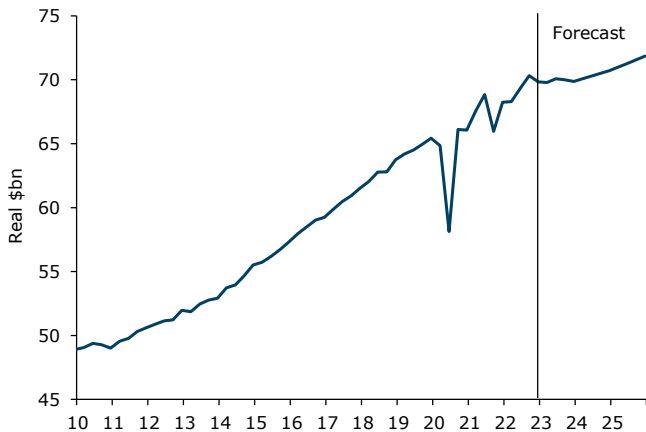


Figure 4. CPI inflation components

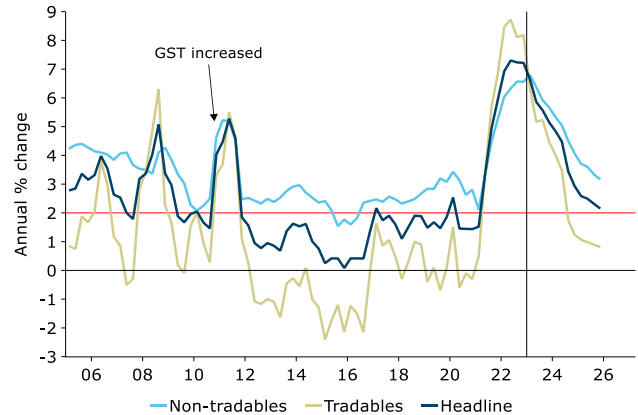


Figure 5. OCR forecast

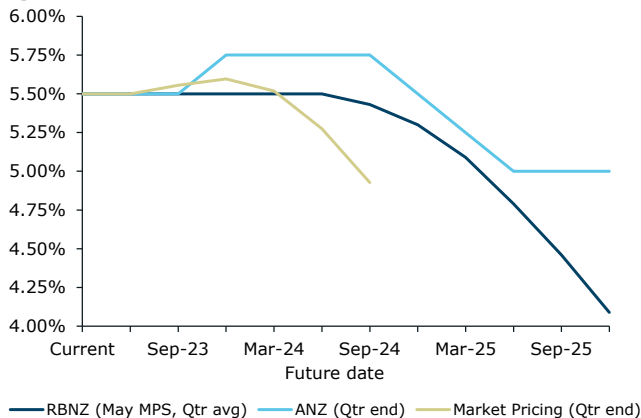
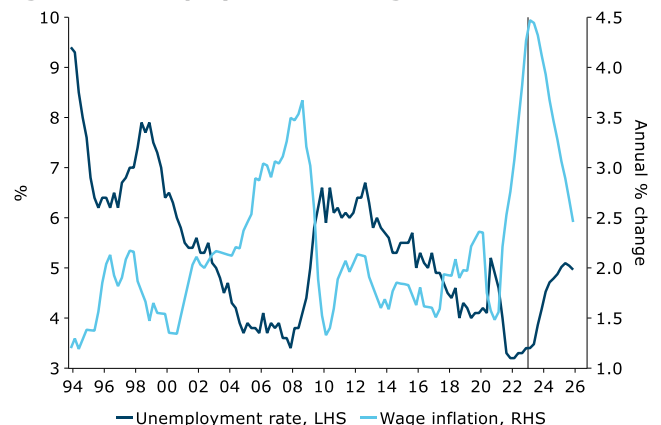


Figure 6. Unemployment and wage inflation



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



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