

New Zealand Weekly Data Wrap

30 June 2023



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See page 5.

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.

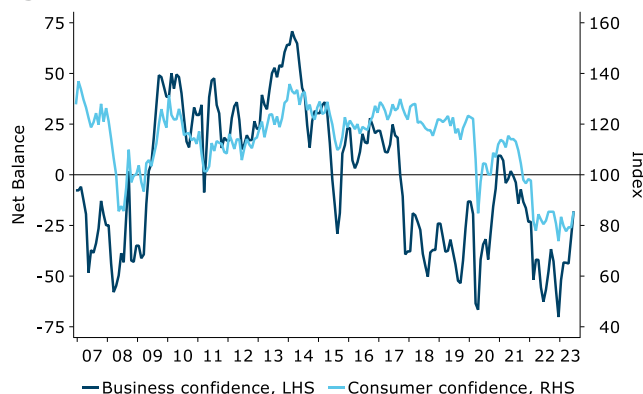
Cautious optimism

Business and **consumer** sentiment both improved in June, following the RBNZ calling time on rate hikes in the May *Monetary Policy Statement*. While still very much subdued, the improving mood signals demand may prove a little more resilient across the second half of the year than the RBNZ is expecting, risking core inflation proving more persistent.

Business confidence leapt 13 points in June to -18, its highest read since November 2021. Expected own activity jumped 8 points to +3, the first time in 14 months it's been positive. Encouragingly, inflation expectations, pricing intentions and cost expectations all declined. Cost expectations had been very sticky, but a general downward trend is now evident. That said, pricing indicators all remain far too high, hardly trumpeting 'job done.'

As well as a halt to OCR hikes, another factor behind the improved sentiment is likely to be the increasing availability of labour. While skilled labour shortages remain the biggest problem facing firms, it's far from the extreme outlier it was a year ago. But high wage and non-wage costs still rank as the next two largest problems, symptomatic of a still-inflationary environment for businesses.

Figure 1. Business and consumer confidence



Source: Roy Morgan, Macrobond, ANZ Research

Consumer confidence also improved in June, rising 6 points to a still-low 85.5, while the proportion of people who believe it's a good time to buy a major household item, a key retail indicator, rose 7 points to -27. Consumers are still feeling downbeat, but the marked lift in the forward-looking questions is certainly a positive. The RBNZ signalling no more hikes, as well as house price falls petering out are certainly factors one can point to, but we'd argue another possible driver of the improvement is the sharp fall in inflation expectations from 4.8% to 4.3%. It appears high inflation has severely dented consumer confidence in recent years, causing the latter to overstate the downward pressure on consumer spending, so far at least. But to the extent that's true, any lifts in consumer confidence due to falling inflation may correspondingly exaggerate tailwinds for the retail sector.

The improving tone of our consumer and business surveys doesn't exactly resonate with the RBNZ's efforts to engineer a slowdown, but it's too early to say whether the optimism will persist. The improvement is conditional on inflation obediently falling back to target. Falling inflation expectations are a great start, but we suspect that an underlying inflation impulse will linger, tied to a relatively resilient labour market. We think the RBNZ will be forced to crash this somewhat sombre party by November.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: sure to rise?
- 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.

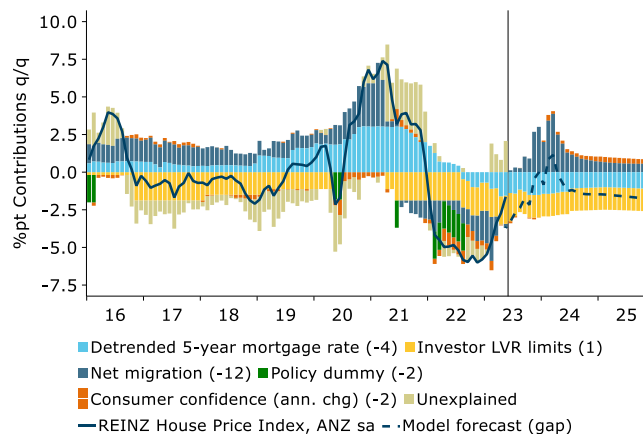
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

Sure to rise?

This week we published our [Property Focus](#). May's data supports our assessment that the housing market is indeed tightening, with house prices on the cusp of lifting. We are forecasting house prices to claw back just a 3% lift across the second half of the year, but the recent data suggests our forecast may be on the conservative side. In this month's feature article, we analysed the drivers of house price inflation over the past 30 years.

- Mortgage rates, sure enough, have a big impact on house price inflation. Just as ultra-low mortgage rates contributed to the massive uplift in house prices through the 2020 and 2021, our rates forecast implies ongoing downward pressure on house price inflation in coming years.
- Policy changes also matter, with the "bright line test", the removal of interest rate deductibility, and the introduction of the Credit Contracts and Consumer Finance Act (CCCFA) having together had large (temporary) negative impacts on house price inflation. Moving forward, any policy changes that affect the availability of credit or the investor value of housing are likely to have a significant impact on the market.
- LVR restrictions have also exerted downward pressure on house price inflation. The recent easing of restrictions reduces this impact in the coming years, although they will continue to weigh (if left unchanged).
- Net migration has a large and positive impact on house price inflation and our modelling of our 75k assumption suggests this impulse is only just getting started, given the model suggests it takes a year to take effect.

Figure 2. Drivers of house price inflation



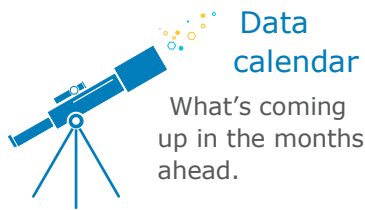
All up, while no model speaks 'truth' this one's outlook estimates align closely with our published forecast that house prices will grow modestly across the rest of the year before petering out as tailwinds fade.

House prices are just one aspect of the housing market; there's also rent prices to consider, and looking across the ditch to Australia, where the migration cycle started earlier, there are interesting parallels to draw. In May, rent price inflation reached 6.3% y/y in Australia, as the rapid surge in net migration occurred at a time that new rental supply was easing. While the relationship between migration and rent price inflation is less clear in New Zealand, the *flow* measure of rents, which only captures rents for new tenancies, has increased rapidly in recent months.

We expect to see pressure on rents build into 2024, which is one factor underpinning our expectation of more persistent non-tradable inflation than the RBNZ is anticipating. Firming confidence and a pick-up in the housing market both point to potentially a demand pulse that, while slowing, is more resilient than the RBNZ is anticipating. Time will tell.



Financial markets update



Date	Data/event
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
Fri 11 Aug (10:30am)	BusinessNZ Manuf PMI – Jul
Fri 11 Aug (10:45am)	Food Price Index – Jul

Interest rate markets

Global bond yields are on track to end the quarter on a high note, with the yield on the bellwether US 10yr Treasury bond up around 13bps overnight to around 3.84%. While that's lower than the ~4.1% high seen in February, before US regional bank wobbles saw yields collapse, they are rising again as US data paints a picture of an economy that is re-accelerating, rather than slowing. With inflation still stubbornly high in Europe and the UK and central banks there doubling down on hawkish rhetoric, this global backdrop poses upside risks to local long-end rates. We are also mindful of NZGB supply, with NZDM lifting the pace of issuance from \$400m to \$500m per week from July. Short-end rates have also edged higher. Like long-end rates, they too are off earlier highs, but for different reasons – principally the RBNZ signalling an end to the hiking cycle. And although markets are not (we think, yet) getting behind the idea that more hikes may be coming, rates like the 2yr are rising because markets are slowly coming around to the idea that cuts are likely a long way off. Most interest rates are still negative in real terms, and it's less about whether the economy is slowing, and inflation falling, but more about whether that's happening quickly enough. We don't think it is; hence, we still think more hikes are needed, especially given the still-tight labour market (noting the lift in May filled jobs data released this week) and green shoots in the housing market. We think the RBA hikes next week and the Fed hikes next month, and those events may underscore ongoing upward pressure on local market interest rates.

FX markets

The Kiwi has struggled this week against the USD and even more so EUR and GBP. That's understandable given the resurgence in US data, especially with the RBNZ 'dug in' and on hold. But if the thinking around the RBNZ starts to change and the AUD reacts positively to an RBA hike next week (7 of 13 analysts expect a hike, including ANZ), the worst may be behind it. Either way, FX remains a global, rather than local story.

Key data summary

ANZ Business Outlook – June. [Business confidence](#) leapt 13 points to -18, the highest level since November 2021.

ANZ Roy Morgan Consumer Confidence – June. [Consumer confidence](#) rose 6 points to a still-subdued 85.5.

The week ahead

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 recovering to year-ago levels in May.

Building Permits – May (Monday 3 July, 10:45am). Consents fell 2.6% m/m in April. Further weakness wouldn't surprise.

NZIER Quarterly Survey of Business Opinion – Q2 (Tuesday 4 July, 10:00am). We expect similar themes to our Business Outlook; still soggy but improving pricing indicators and easing labour supply constraints.

GlobalDairyTrade auction (Wednesday 5 July, early am). Offer volumes are as forecast but have increased from the previous event as more of next season's milk supply is forward sold. Prices are expected to fall about 1.5% as dairy markets continue to be impacted by weak demand from China.

ANZ Commodity Price Index – June (Wednesday 5 July, 1:00pm)



Key forecasts and rates

	Actual			Forecast (end month)					
	Apr-23	May-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
FX rates									
NZD/USD	0.618	0.601	0.607	0.620	0.630	0.650	0.650	0.650	0.650
NZD/AUD	0.935	0.927	0.917	0.912	0.900	0.903	0.890	0.890	0.890
NZD/EUR	0.561	0.562	0.558	0.554	0.553	0.560	0.551	0.542	0.542
NZD/JPY	84.3	84.1	87.8	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.492	0.486	0.481	0.484	0.485	0.492	0.485	0.478	0.478
NZ\$ TWI	70.4	69.9	70.8	70.1	69.9	71.2	70.5	70.0	69.8
Interest rates									
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	5.71	5.77	5.85	5.85	5.85	5.68	5.43
NZ 2-yr swap	5.05	5.20	5.48	5.48	5.21	4.97	4.73	4.48	4.37
NZ 10-yr bond	4.09	4.29	4.67	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

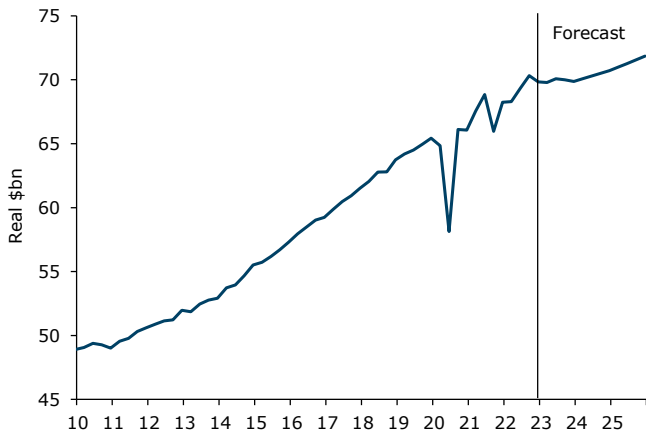


Figure 4. CPI inflation components

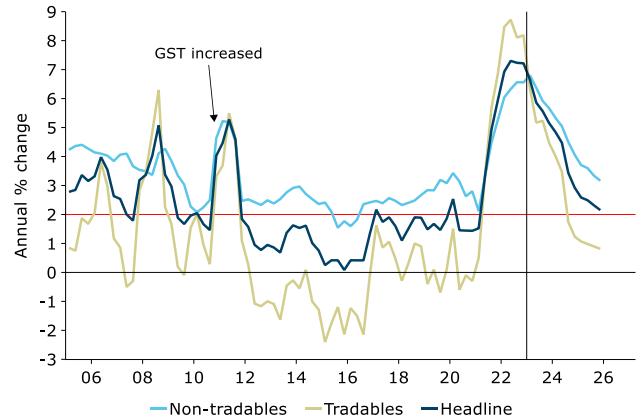


Figure 5. OCR forecast

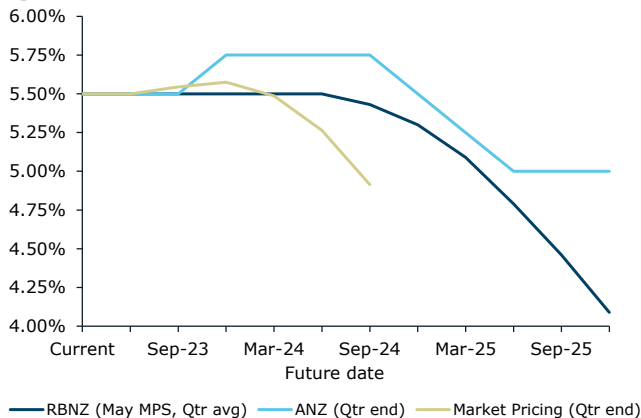
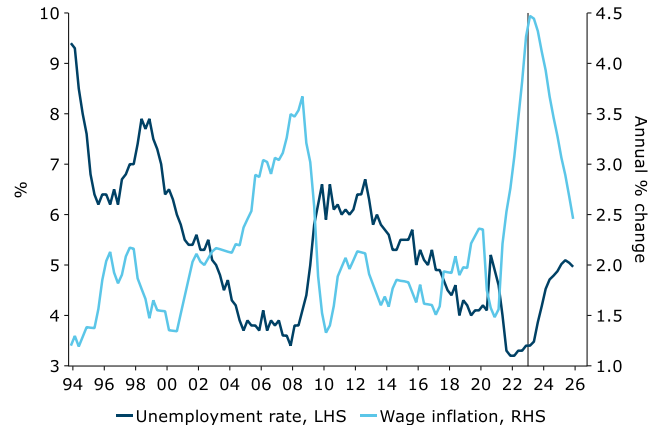


Figure 6. Unemployment and wage inflation



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



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