

New Zealand Weekly Data Wrap

7 July 2023



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Forecast updates

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- [NZ Forecast Update: the much-needed adjustment](#)
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- [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 persist, as markets debate the rates outlook.



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.



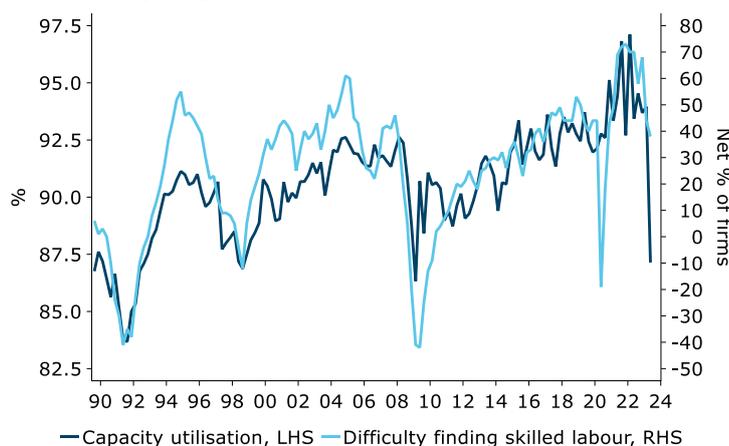
NZ's large external imbalances could see the market impose a more abrupt adjustment path.

Take the wins

The messages out of the Q2 [Quarterly Survey of Business Opinion](#) were somewhat mixed. While confidence and experienced trading activity improved, expectations of future activity fell back towards Q4's lows. Pricing and cost indicators remain elevated, but positively, expected costs and selling prices both fell. Most importantly, supply-side constraints eased further. The biggest news was a surprisingly sharp fall in capacity utilisation from 94.0% to 87.1% – not far off the low seen during the GFC. That will be welcomed by the RBNZ, as it should help to cool inflation pressures.

The most important details of survey were indications that labour market pressures are easing markedly due to the surge in migration in recent months. Ease of finding both skilled and unskilled labour improved, while labour as the primary limiting factor fell a touch further, though at 25%, it's still historically elevated. With Stats NZ this week publishing estimated working-age population growth of 0.7% q/q in Q2, supply improvements should contribute to the much-needed increased slack in the labour market.

Figure 1. Capacity utilisation and labour constraints



Source: NZIER, Macrobond, ANZ Research

The economy is slowing, supply constraints are easing, and capacity is opening up – all things the RBNZ needs to see to be comfortable in its on-hold stance, and [we expect no change](#) in the OCR at next week's Monetary Policy Review (see page 2). That said, the question is not whether the economy is slowing and whether inflation is falling; the question is whether these are happening fast enough to get inflation sustainably back to target.

Pricing and cost expectations, while easing, remain far too high, suggesting underlying stickiness. The outsized fall in capacity utilisation does suggest inflation pressures should soften and there's plenty of low-hanging fruit (global goods disinflation, fading supply-chain disruption, and chunky base effects rolling out of the equation) which will help bring inflation down in the near term. In fact, we think inflation will ease faster than the RBNZ expects in Q2, with the annual rate falling to 5.9% y/y (RBNZ: 6.1% y/y). But improving sentiment in our timelier Business Outlook survey, a pickup in the housing market, and sizable fiscal stimulus in the year ahead all suggest a relatively more resilient demand picture compared to the RBNZ's expectation. For now, things are going the RBNZ's way, but as the saying goes, the proof will be in the pudding, and time is of the essence.



Looking ahead



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NZ Economic News

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- [NZ GDP: Cyclone nudges NZ into recession](#)
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- [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](#)

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- [ANZ Truckometer](#)
- [ANZ Commodity Price Index](#)

No news is good news

We expect the RBNZ to [keep the OCR unchanged at 5.5%](#) at next week's Monetary Policy Review. The RBNZ made it clear at the May Monetary Policy Statement that they are firmly in "watch, worry and wait" mode, as they are optimistic that they have done enough to bring inflation sustainably back to target. That remains to be seen, of course, but the data flow since May has broadly printed in line with RBNZ expectations.

For one, the economy is smaller than the RBNZ expected in May, with GDP contracting 0.1% q/q in Q1, against its expectation of a 0.3% q/q expansion. While there's clear evidence demand is slowing, cyclone impacts and supply-side constraints also played a part. And the unemployment rate is still at a near-record low. That said, we do expect the economy to enter a 'proper' demand-driven recession in the second half of this year.

It remains to be seen whether that slowdown will be enough to get inflation back to 2%, which at the end of the day, is still a long way away. Recent data prints point to slightly more resilient demand; our [consumer](#) and [business](#) confidence surveys have continued to recover, while [house prices](#) appear to be on the cusp of lifting. The RBNZ is forecasting that house prices will continue to fall across the rest of the year; while that looks off the mark, it's early days. However, the degree to which any pickup in the housing market and improving sentiment will concern the RBNZ will depend on where inflation and the unemployment rate are at.

The RBNZ is forecasting the unemployment rate to lift sharply across the second half of the year. We are too, but to a lesser extent. Recent indicators are going the right way, supporting the RBNZ's on-hold stance: the Q2 [QSBO](#) signalled that the labour market is loosening, corroborated by Seek job ads declining and applicants per ad increasing sharply. Employment growth is still relatively robust, but labour supply improvements are offsetting this. However, the RBNZ is expecting the unemployment rate to rise as rapidly as it did in the GFC – and we're not convinced that will happen without the 'fear factor'. The current labour demand picture remains relatively resilient.

Weighing it all up, we don't see the recent data as making a compelling case for the RBNZ to deviate any time soon from the plan that was outlined in May: to stay on hold at 5.5% and see how things unfold. We expect things to remain broadly 'on track' over coming months, as lower oil prices and shipping costs, the easing of cyclone impacts, and a significantly less-tight labour market see headline inflation steadily drop away (though not without bumps: the end of the fuel tax subsidy will work in the other direction).

However, overall, we continue to expect a picture of *relative* resilience versus the RBNZ's forecasts. While the economy is certainly slowing markedly as tighter monetary policy bites, overall demand will be supported by the migration surge, the housing market lifting itself off the floor (albeit only to its hands and knees), and fiscal stimulus.

These factors are unlikely to outweigh the impact of higher interest rates – we are forecasting a mild recession, with GDP falling 0.3% in the second half of the year (which equates to a much chunkier 0.9% fall in per capita terms), accompanied by rising unemployment. But we don't think overall demand is capitulating to the degree that the RBNZ's forecasts imply.

Indeed, we continue to see the risks as tilted towards it becoming evident over time that squeezing the last couple of percentage points out of excess CPI inflation is going to take a bit more work. We continue to forecast that the RBNZ will resume its OCR hikes by the end of the year, with a placeholder 25bp hike pencilled in for November. But it's not today's story. And we're also seeing a tightening in broader monetary conditions, with longer wholesale and retail rates under some upward pressure due to global factors.



Financial markets update



Date	Data/event
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
Fri 11 Aug (10:45am)	Rental Price Index – Jul
Mon 14 Aug (10:30am)	Performance Services Index – Jul
Mon 14 Aug (10:45am)	Net Migration – Jun
Wed 16 Aug (early am)	GlobalDairyTrade auction
Wed 16 Aug (2:00pm)	RBNZ MPS

Interest rate markets

Global bond yields have moved up sharply this week, putting further upward pressure on local rates (including mortgage rates), with the bellwether 2yr swap rate at a 15yr high this morning. In the US, this move is being fuelled by better-than-expected activity data showing that growth has reaccelerated, while in the UK the lift is being fuelled by stubbornly high inflation and fears that the Bank of England may have to take its policy rate to 6½%. NZDM got a solid \$5bn of bonds away in its NZGB 2033 tap syndication this week, getting fiscal 2023/24 off to a good start, but markets remain fearful of large bond supply amid deteriorating fiscal indicators, with the latest Crown Accounts showing the tax take was \$2.2bn behind plan at the end of May. We continue to expect higher interest rates across the curve this year.

FX markets

The Kiwi is struggling under the weight of a mild bounce in the USD DXY, and also as markets look to currencies like GBP for inspiration as the BoE looks to ramp up the pace of hikes, leaving the NZD behind as the RBNZ digs in and leaves policy on hold. Interest rate differentials remain key and policy rates are rising faster in many other markets, marginalising the Kiwi.

Key data summary

RBNZ sectoral lending data – May. Annual growth in mortgage lending slowed to 3.1% y/y from 3.2% y/y in April.

Building Permits – May. New dwellings fell 2.2% m/m. The outlook for the construction sector is soggy.

NZIER Quarterly Survey of Business Opinion – Q2. The Q2 [QSBO](#) showed a slight further improvement in headline confidence and a meaningful decline in indicators of capacity stretch.

GlobalDairyTrade auction. The GDT price index fell 3.3%, driven lower by extremely weak prices for skim milk powder (SMP) and butter.

ANZ Commodity Price Index – June. The ANZ World [Commodity Price Index](#) fell 2.3% m/m in June as meat and log prices tumbled.

The week ahead

Electronic Card Transactions – July (Tuesday 11 July, 10:45am). ANZ card spending data suggests a rise of 0.6% m/m.

Net Migration - May (Wednesday 12 July, 10:45am). We expect monthly net inflows to ease as arrivals slow while departures tick up into winter.

RBNZ OCR Review – July (Wednesday 12 July, 2:00pm). We expect the RBNZ to keep the OCR unchanged at 5.5% at next week's Monetary Policy Review. Anything else would be a massive surprise. See our [Preview](#).

Performance of Manufacturing Index – June (Thursday 13 July, 10:30am). Improved slightly to 48.9 in May. Another print below 50 would be consistent with our outlook.

Food Prices – June (Thursday 13 July, 10:45am). We've pencilled in a 0.4% m/m rise in food prices.

Rental Price Index – June (Thursday 13 July, 10:45am). We've pencilled in a 0.3% m/m rise for the stock measure of rents.

REINZ House Prices – June (10-13 July, 9:00am). Barfoot and Thompson's data suggests sales activity lifted in June. Will prices lift?



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	May-23	Jun-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD/USD	0.601	0.613	0.616	0.620	0.630	0.650	0.650	0.650	0.650
NZD/AUD	0.927	0.921	0.929	0.912	0.900	0.903	0.890	0.890	0.890
NZD/EUR	0.562	0.561	0.565	0.554	0.553	0.560	0.551	0.542	0.542
NZD/JPY	84.1	88.5	88.7	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.486	0.482	0.483	0.484	0.485	0.492	0.485	0.478	0.478
NZ\$ TWI	69.9	70.9	71.7	70.1	69.9	71.2	70.5	70.0	69.8
Interest rates	May-23	Jun-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZ OCR	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.75	5.50
NZ 90 day bill	5.69	5.71	5.68	5.77	5.85	5.85	5.85	5.68	5.43
NZ 2-yr swap	5.20	5.47	5.66	5.48	5.21	4.97	4.73	4.48	4.37
NZ 10-yr bond	4.29	4.62	4.78	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 2. GDP level

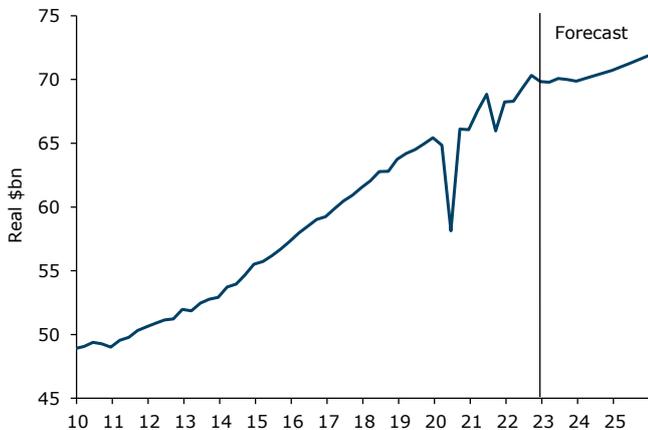


Figure 3. CPI inflation components

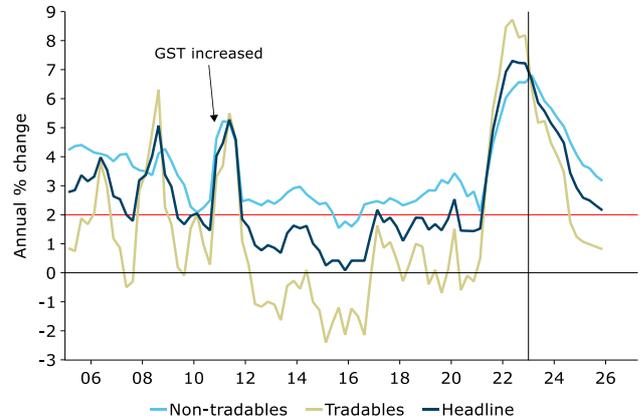


Figure 4. OCR forecast

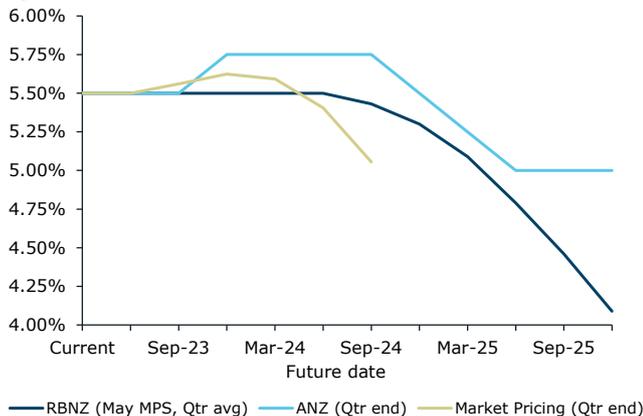
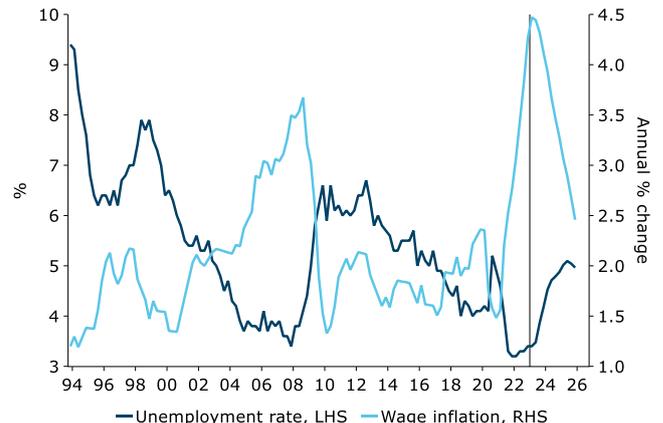


Figure 5. Unemployment and wage inflation



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



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