

New Zealand Weekly Data Wrap

13 July 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 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.

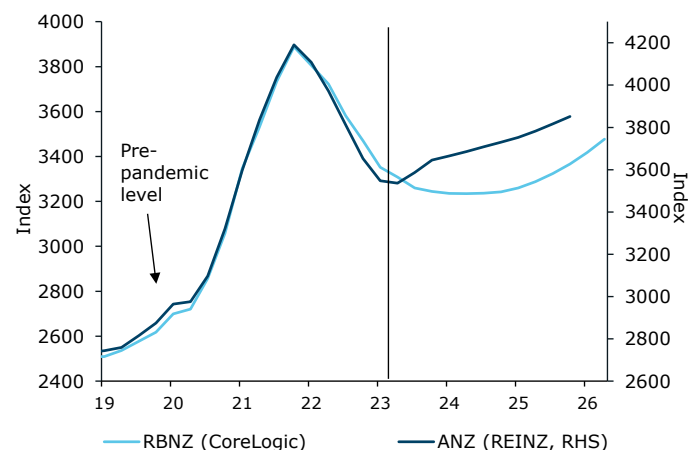
Holding their horses

As universally expected, the RBNZ left the OCR unchanged at 5.5% this week, and confirmed it remains comfortably on hold while it waits to see the impacts of the rapid tightening thus far.

Big picture: not much has changed since the May MPS. Inflation pressures and spending are slowing broadly in line with the RBNZ's expectations, suggesting policy settings are about right for now. There have been some overs and unders amongst the recent data flow, but the hurdle for deviating from what's a very fresh 'on-hold' strategy was always high. Put simply, it's too early to assess with sufficient confidence whether the RBNZ has done too much, or if more is needed.

One of the more interesting aspects was the RBNZ's acknowledgement that the house price forecasts in the May MPS are too pessimistic. We agree with that assessment (figure 1). Our forecast is for house prices to lift a little over 3% in the second half of the year, boosted by strong net migration and the LVR limit tweak, before running out of steam on still-stretched affordability, rising unemployment, and renewed mild upward pressure on mortgage rates. [Today's REINZ release](#) suggests the market has turned a corner.

Figure 1. ANZ vs RBNZ house price forecasts



Source: RBNZ, REINZ, ANZ Research

Relative to household incomes, our forecast is for house prices to moderately decline over the coming year or so (as income growth outpaces house price growth). Compared to their post-pandemic peak, house prices relative to incomes have come down a lot – that's great news, but this ratio is still very elevated compared to history, suggesting housing remains relatively unaffordable in a longer-run view. Nonetheless, the RBNZ's summary record of meeting noted that "the Committee judged that after recent falls, house prices are now around sustainable levels". That statement seems a little inconsistent with the debate that was raging pre-COVID (and indeed before 2019). But 'sustainable' doesn't necessarily mean 'affordable' in this context.

All in all, the Monetary Policy Review did little to change our thinking about the balance of risks around the OCR outlook. Unless the wheels fall off the economy (eg following some unforeseeable global shock), we continue to see it as more likely that the next move is a hike than a cut. We maintain our OCR call for a 25bp hike in November, but it's a story for another day.



Looking ahead



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- NZ ETS Review: public consultation on options
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- 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

Q2 CPI: going the right way, but still a long way to target

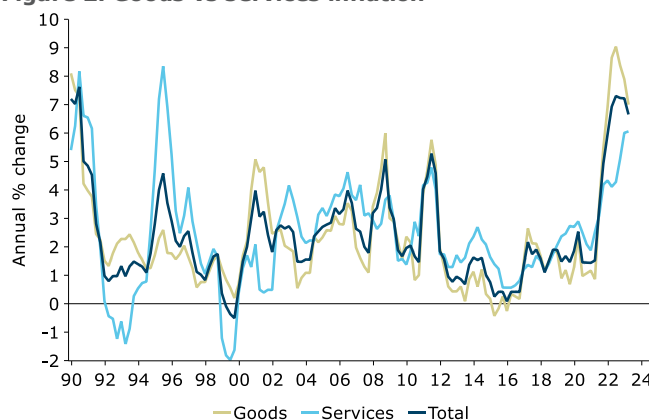
The June quarter CPI figures are released next Wednesday. **We expect** annual inflation to decline to 5.9% in Q2 2023, below the RBNZ's May MPS forecast of 6.1%. The bulk of the decline in annual headline inflation reflects an anticipated sharp fall in annual tradables inflation from 6.4% to 5.3%, as the price increases seen in the wake of the war in Ukraine fall out of the annual calculation. We expect annual non-tradables inflation is also past its peak, falling from 6.8% to 6.4%, close to the RBNZ's forecast of 6.3%, but still roughly twice the level consistent with their target.

Non-tradables inflation is where to look for sticky inflation risks, as this kind of inflation can be difficult to tame. As we note in our Preview, home ownership (which has around a 10% weight in the CPI) should see some large historical quarterly price increases drop out of the annual calculation over coming quarters. These 'base effects' are expected to see annual home ownership inflation slow from 11.5% in Q1 to 7.7% in Q2, despite a still-robust 1.0% q/q increase in Q2. But when it comes to the outlook for construction costs, some caution is warranted: **green shoots in the housing market** are developing and our **Business Outlook** shows residential investment intentions have bounced substantially (while still low). In short, while construction costs are high, the deceleration expected in price growth could come to an end a little sooner than anticipated.

Further, while weaker housing-related costs are certainly necessary when it comes to pushing domestic inflation lower, they are not, on their own, sufficient to drive non-tradables inflation to where it needs to be (around 3% y/y on average). For that, the labour market needs to capitulate, and wage pressures need to dissipate. All up, non-tradables inflation does look poised to slow, but we think extrapolating a linear deceleration from Q2's read all the way down to 3% would be unwise. Given base effects, getting annual non-tradables to slow by the first couple of % points should be relatively easy, but getting it from there to the goldilocks 3% pace could prove difficult.

Services inflation is where to look for the impact of wage growth, given the services sector is relatively labour intensive. Like non-tradables, services inflation was still accelerating in Q1. We'll be looking for a turning point in this measure in Q2, and also a broad moderation in key core measures of inflation, to give us confidence that underlying inflation has passed its peak.

Figure 2. Goods vs services inflation

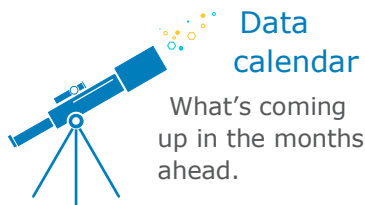


Source: Stats NZ, Macrobond, ANZ Research

All up, the Q2 CPI release is expected to show things moving in the right direction. But that doesn't necessarily mean the RBNZ has done enough to get on top of medium-term sticky domestic inflation risks. It's very unlikely these data will give the RBNZ enough of a signal to challenge their watch, worry, and wait strategy, but the market may well disagree with that assessment on the day.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
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 – Jun
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
Mon 21 Aug (10:45am)	Merchandise Trade – Jul
Wed 23 Aug (10:45am)	Retail Trade – Q2
Thu 24 Aug (10:00am)	ANZ Truckometer – Jul
Wed 30 Aug (1:00pm)	ANZ Business Outlook – Aug
Thu 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Fri 1 Sep (10:00am)	ANZ-RM Consumer Confidence – Aug

Interest rate markets

Global bond yields have retreated rapidly this week, particularly after US June CPI inflation surprised to the downside last night. This has seen the pressure on local rates ease too. At the time of writing, the bellwether NZ 2yr swap rate is more than 30bp off its surprising 15-year high last week, with falls aided by the [RBNZ confirming](#) their on-hold stance. Our forecast is that the economy will hold up a little better than the RBNZ is expecting, eventually seeing another hike. But first, headline inflation is set to meaningfully decline on some easy wins. [We expect](#) a decent fall in NZ CPI inflation next week, coming in lower than RBNZ expectations. If the market is still looking for reasons to take rates lower on the day, they'll find some.

FX markets

The USD has been under marked downward pressure this week, particularly after the US CPI data came in lower than expected. That's given a decent lift to the NZD overnight against most comers. But the Kiwi may get a taste of the same medicine with the release of NZ Q2 CPI data next week.

Key data summary

Electronic Card Transactions – July. Total spending lifted 1.3% m/m, a touch stronger than the 0.6% lift implied by ANZ card spending data.

Net Migration – May. At a net inflow of 4.9k in May, monthly net migration is well off its peak of 14.4k in March 2023. Arrivals stabilised at a high level in May (17.1k), while departures shot higher (12.1k). We suspect pent-up demand on the arrivals side has now dissipated, while the NZ winter possibly means pent-up demand on the departures side is still being worked through (ie kiwis choosing for the weather to deteriorate locally before seeking out greener pastures abroad). All up, the May data are broadly consistent with our net migration forecast assumption for a net inflow of around 75k over 2023.

RBNZ OCR Review – July. On hold at 5.5%. See our [Review](#).

REINZ House Prices – June. The House Price Index lifted 0.7% m/m on a seasonally adjusted basis, a bit stronger than our expectation. See our [Review](#).

Performance of Manufacturing Index – June. The PMI fell 1.2 points to 47.5 in June, suggesting the moderating trend remains firmly in place.

Food Prices – June. Food prices lifted 1.6% m/m to be up 12.5% y/y. Annual egg price inflation has finally turned a corner, from a whopping 68.4% in May to a still-whopping 62.4% in June.

Rental Price Index – June. The stock measure lifted 0.5% m/m.

The week ahead

Performance Services Index – June (Monday 17 July, 10:30am).

Rebounded 3.2points to 53.3 in May – a touch shy of its historical average of 53.7, and suggesting services activity isn't exactly rolling over. Or was May just a blip?

GlobalDairyTrade auction (Wednesday 19 July, early am). Dairy prices are expected to continue to trend down with futures pricing suggests whole milk powder prices could fall by approximately 3%.

CPI – Q2 (Wednesday 19 July, 10.45am). We expect headline inflation to slow further in Q2. See our [Preview](#).



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	0.631	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	0.566	0.554	0.553	0.560	0.551	0.542	0.542
NZD/JPY	84.1	88.5	87.2	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.486	0.482	0.485	0.484	0.485	0.492	0.485	0.478	0.478
NZ\$ TWI	69.9	70.9	72.3	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	5.65	5.77	5.85	5.85	5.85	5.68	5.43
NZ 2-yr swap	5.20	5.47	5.41	5.48	5.21	4.97	4.73	4.48	4.37
NZ 10-yr bond	4.29	4.62	4.60	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	1.0	<i>Under review</i>							
CPI (% yoy)	6.7	5.9	<i>Under review</i>							
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

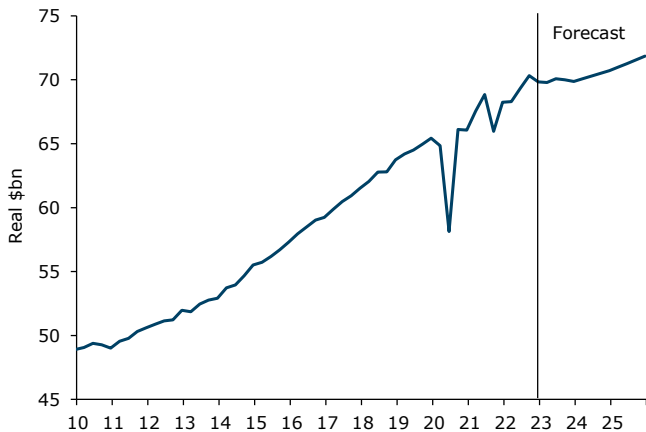


Figure 4. CPI inflation components

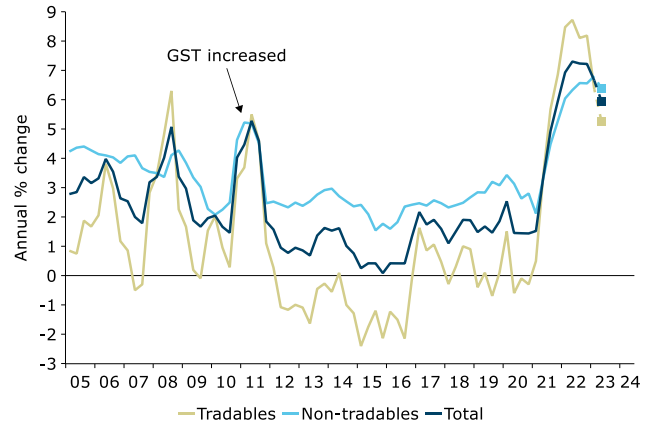


Figure 5. OCR forecast

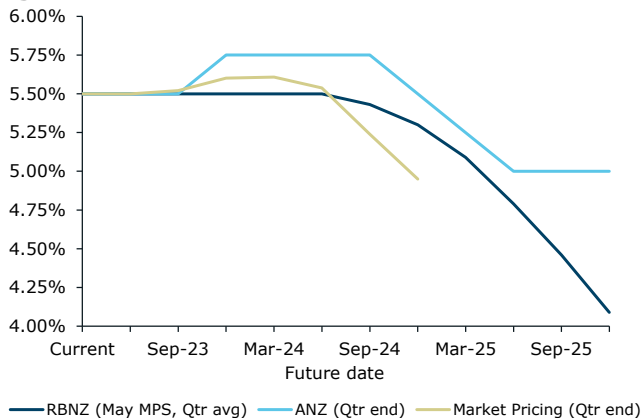
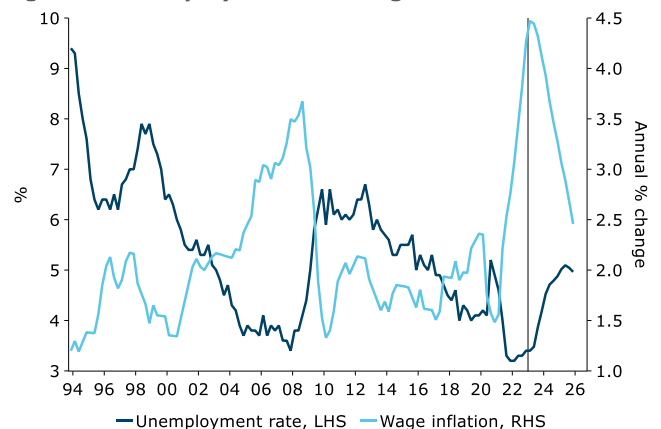


Figure 6. Unemployment and wage inflation



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



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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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