ANZ Research

New Zealand Weekly Data Wrap

28 July 2023

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See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Forecast Update: milk price forecast drops sharply
- 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?

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

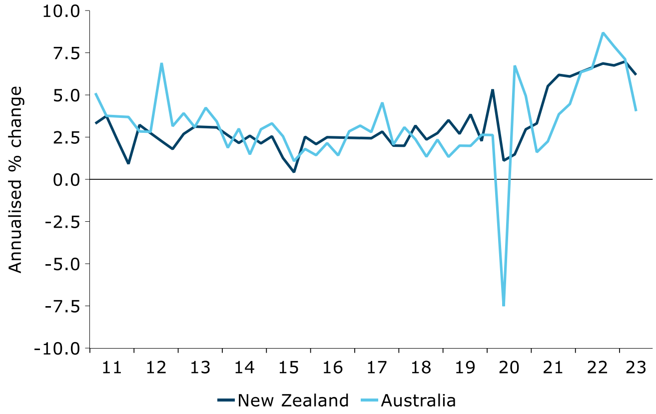
- Global growth and financial market risks persist, as markets debate the rates outlook.
- Soaring net migration could see rents and house prices start to rise more quickly.
- Booming migration plus fiscal stimulus could see demand hold up for longer.
- NZ's large external imbalances could see the market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

The tale of two 6's

The downside surprise to Australian CPI was welcome news on Wednesday, supporting our call that the RBA will take an extended pause, leaving the cash rate at 4.1%. Here in New Zealand, we remain unconvinced that the RBNZ has done enough to get inflation sustainably back to target.

Australian headline CPI fell to from 7.0% y/y to 6.0% y/y in Q2, matching New Zealand's Q2 print. While the fall in headline inflation was below the RBA's May forecast of 6.3% y/y, it was the details that mattered. The quarterly inflation impulse from non-tradables and services both decelerated markedly, and trimmed mean inflation also declined sharply to 5.9% y/y from 6.6% y/y in Q1, also below the RBA's expectation. In New Zealand, in contrast, while headline inflation declined, non-tradables and the suite of core measures showed worrying persistence.

Figure 1. Seasonally adjusted non-tradables inflation



Source: Stats NZ, ABS, Macrobond, ANZ Research

While domestic-driven inflation peaked higher in Australia, its deceleration has been markedly faster than here. The quarterly non-tradables inflation impulse in New Zealand is still annualising at a rate in excess of 6.1%, after accounting for seasonal factors. In Australia, that rate has slowed to 4%, despite a much lower policy rate. While at face value, Australia's policy rate is much lower than in New Zealand, what matters for inflation is how restrictive interest rates are.

One of the key structural differences that has likely contributed to the monetary policy divergence across Australia and New Zealand is the substantially higher share of floating-rate mortgages in Australia at around 60-85% over the past few years compared to around 10-20% in New Zealand. This enables a faster transmission of monetary policy in Australia, meaning that despite commencing its tightening cycle later than the RBNZ, the RBA has been able to reach suitably restrictive monetary policy settings faster than the RBNZ. Household debt as a share of GDP in Australia is also far higher than in New Zealand, increasing the debt-servicing burden on Australian households.

Ultimately, longer lags associated with monetary policy in New Zealand could mean that despite the RBNZ hiking more aggressively than the RBA, inflation may have been given more oxygen to get embedded in wage and price setting behaviour. Conversely, longer lags also mean we haven't yet seen the full impacts of past tightening in New Zealand, and there is certainly more pain to come for households. The RBNZ is now in 'watch, worry, wait' mode as it assesses these two risks. While there are risks on both sides, our view is that the RBNZ does face a stickier inflation problem than it hopes, and that further tightening will be required down the track.

Looking ahead

NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: running start
- NZ ETS: Change of price and volumes settings
- 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: going up
- RBNZ MPR Review: nothing to see here
- NZ CPI Review: Not a good news day after all
- 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
- ANZ NZ Merchant and Card Spending: June 2023

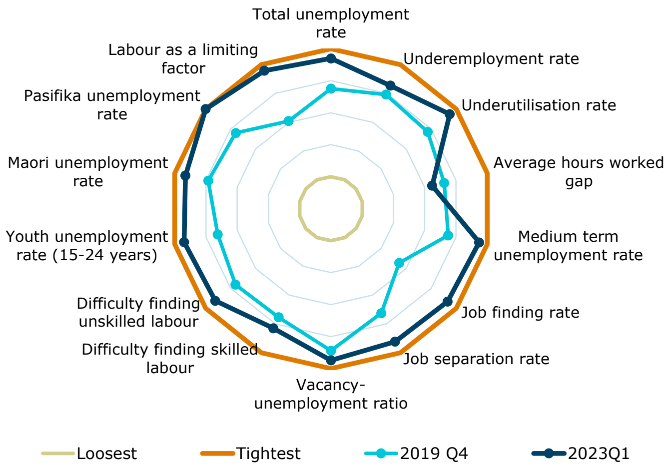
A step towards sustainable levels

Next week brings the release of the key Q2 labour market statistics. We expect the data to show a relatively looser picture than Q1, but in an *absolute* sense the labour market remains intensely inflationary. We expect the unemployment rate ticked up 0.1ppt to 3.5%, as 0.6% q/q growth in employment absorbed almost all of the new supply capacity from the migration-driven 0.7% q/q expansion in working age population. We suspect the strength of employment growth reflects firms finally being able to fill long-standing vacancies, rather than strengthening labour demand currently. Forward-looking indicators of the labour market all point to loosening across the second half of the year, though it remains uncertain how quickly that transition will occur.

For the RBNZ, that transition is essential for it to be confident that inflation is sustainably returning to target. Last week's Q2 CPI release highlighted a worrying persistence in non-tradables and the suite of core inflation measures. This likely reflects ongoing (though easing) capacity pressures in the labour market and the resultant strength of wage growth. The unfortunate cost of getting inflation down is the need for the balance between supply and demand to be restored. That ultimately means capacity needs to open up in the labour market. If something is unsustainable, it will end, one way or another.

While next week's data may show small steps towards more sustainable levels, there's still a long way to go. This is evident in the RBNZ's suite of maximum sustainable employment indicators all remaining very close to record tightness. In fact, we suspect the labour market won't transition to an outright disinflationary state until the middle of next year. Ultimately, the RBNZ will need to see this suite of indicators move closer to 2019 levels, where the labour market was broadly at its maximum sustainable level.

Figure 2. Maximum sustainable employment suite



Source: Stats NZ, NZIER, ANZ Research

We and the RBNZ both expect this transition to occur from the second half of the year, but we aren't convinced this process will occur as fast as the RBNZ is expecting. In the May MPS, the RBNZ forecast that the unemployment rate would rise as quickly as it did during the Global Financial Crisis. Given the demand impulse from net migration, a revival in the housing market and the Government injecting substantial stimulus into the economy in the next 12 months, we continue to picture a relatively more resilient economy and labour market (to a point: we're forecasting a recession!). The longer it takes for the labour market to transition to maximum sustainable levels, the greater the risk that high domestic inflation becomes problematically embedded in wage and price-setting behaviour. That will ultimately mean more restrictive OCR settings may be required to get on top of inflation. Next week's figures will be critical for the RBNZ to determine how those risks are evolving.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
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
Mon 4 Sep (10:45am)	Terms of Trade – Q2
Tue 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 6 Sep (early am)	GlobalDairyTrade auction
Wed 6 Sep (10:45am)	Building Work Put in Place – Q2
Thu 7 Sep (10:45am)	Economic Survey of Manufacturing – Q2
Tue 12 Sep (10:45am)	Electronic Card Transactions – Aug

Interest rate markets

Global bond yields are back near highs seen earlier in the month, with the bellwether US 10yr Treasury bond yield back at 4% again. That's below where it peaked in 2022 (when it got to around 4¼%), but with the Fed stressing that cuts are a long way off, and the US economy apparently still resilient, even if they don't reach those heights again, it's difficult to see them falling any time soon. US interest rates have an enormous impact on local long-end rates, and with the RBNZ comfortably on hold (for now at least), higher US rates are putting steepening pressure on NZ yield curves. Next week's labour market data (discussed on page 2) will be key to the direction of short-end rates. Our sense is that soft data will have more of an impact on market expectations than strong data, especially with global bond yields rising and core inflation still uncomfortably high. As such, we're wary of higher yields, mindful that the 2yr swap rate is still around 25bps below early July highs, and a touch below the OCR itself, which we think still needs to rise.

FX markets

The Kiwi has had a volatile week, having generally bounced around on the whims of USD moves. With the RBNZ and RBA both on hold, and the US Fed funds rate now on a par with the OCR, the NZD doesn't really stand out against peers. Higher bond yields are supportive, but going the other way we have New Zealand's twin deficits, which have a feel of persistence about them. Our forecasts continue to call for the Kiwi to reach 0.63 by year end; that's not far from current levels, partly reflecting improved prospects for the USD and the generally resilient US economy.

Key data summary

Overseas Merchandise Trade – June. A sharp fall in imports helped to narrow the annual trade deficit to just under $16bn ($17.1bn previously).

ANZ Truckometer – June. The Light Traffic Index rose 0.3% m/m, while the Heavy Traffic index fell 1.0% m/m.

ANZ Roy Morgan Consumer Confidence – July. Consumer confidence fell 2 points in July, with more spending caution evident, while inflation expectations bounced higher.

The week ahead

ANZ Business Outlook – July (Monday 31, 1:00pm).

RBNZ sectoral lending data – June (Monday 31 July, 3:00pm). Renewed activity in the housing market could see the downtrend in annual lending growth arrested.

Building Permits – June (Tuesday 1 August, 10:45am). While these data are vulnerable to significant month-on-month volatility, we expect the downward trend in new dwelling consents continued in June.

GlobalDairyTrade auction (Wednesday 2 August, early am). Dairy markets are yet to show any solid signs of improvement but buying at current prices represents good value. Prices are therefore expected to stabilise.

Labour Market Statistics – Q2 (Wednesday 2 August, 10:45am). We expect the unemployment rate ticked up slightly to 3.5%. See our Preview.

ANZ Commodity Price Index – July (Thursday 3 August, 1:00pm)

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	May-23	Jun-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD/USD	0.601	0.613	0.619	0.620	0.630	0.650	0.650	0.650	0.650
NZD/AUD	0.927	0.921	0.922	0.912	0.900	0.903	0.890	0.890	0.890
NZD/EUR	0.562	0.561	0.564	0.554	0.553	0.560	0.551	0.542	0.542
NZD/JPY	84.1	88.5	86.2	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.486	0.482	0.484	0.484	0.485	0.492	0.485	0.478	0.478
NZ$ TWI	69.9	70.9	71.2	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	5.67	5.77	5.85	5.85	5.85	5.68	5.43
NZ 2-yr swap	5.20	5.47	5.49	5.48	5.21	4.97	4.73	4.48	4.37
NZ 10-yr bond	4.29	4.62	4.73	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	1.1	**2.0**	**0.8**	**0.8**	**0.6**	**0.9**	**0.5**	**0.6**
CPI (% yoy	6.7	6.0	**5.8**	**5.2**	**4.8**	**4.3**	**3.2**	**2.8**	**2.6**
Employment (% qoq)	0.8	**0.6**							
Employment (% yoy)	2.4	**3.1**	*Under review*						
Unemployment Rate (% sa)	3.4	**3.5**							

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

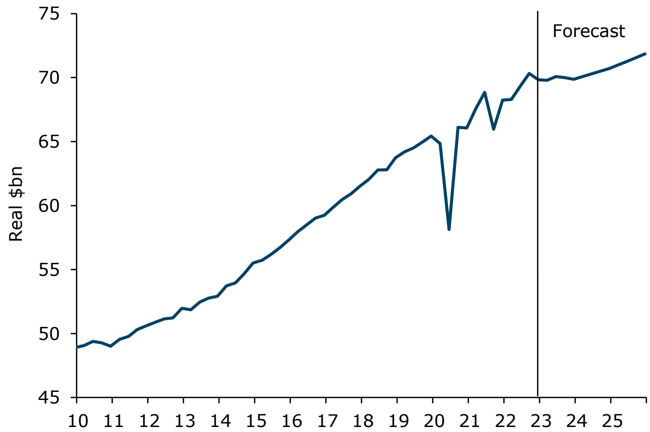


Figure 4. CPI inflation components

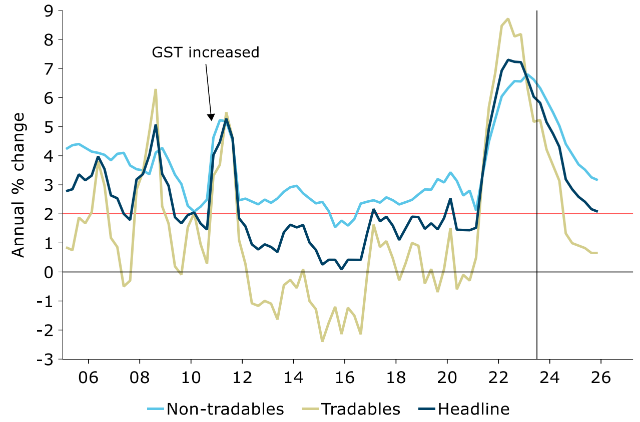


Figure 5. OCR forecast

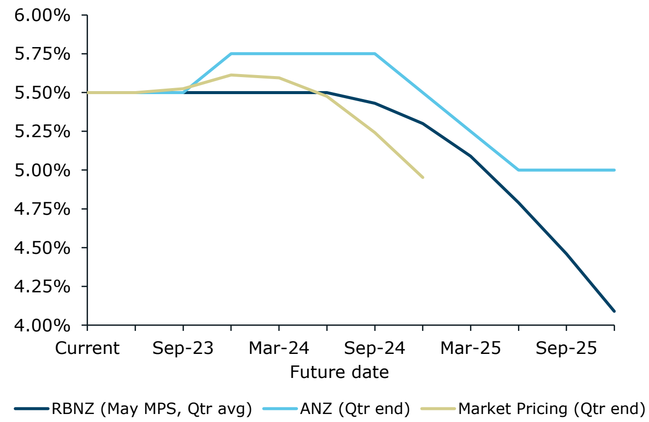
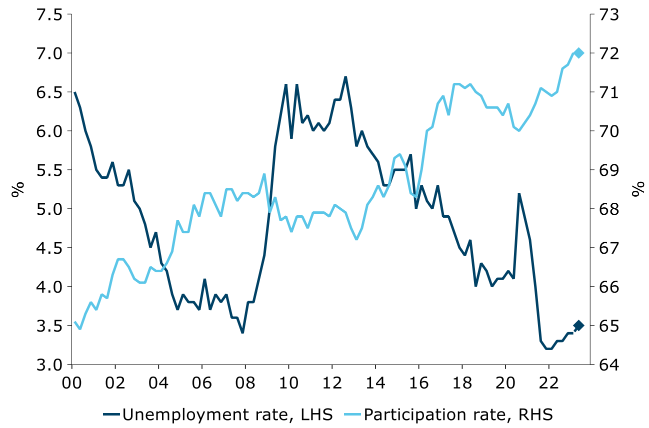


Figure 6. Unemployment and participation



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

Contact us

Meet the team

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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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Last updated: 18 April 2023

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