ANZ Research

New Zealand Weekly Data Wrap

18 August 2023

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See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Forecast Update: milk price revised down further
- 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 cooling.
- 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, with China in focus.
- 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.

Domestic tailwinds meet external headwinds

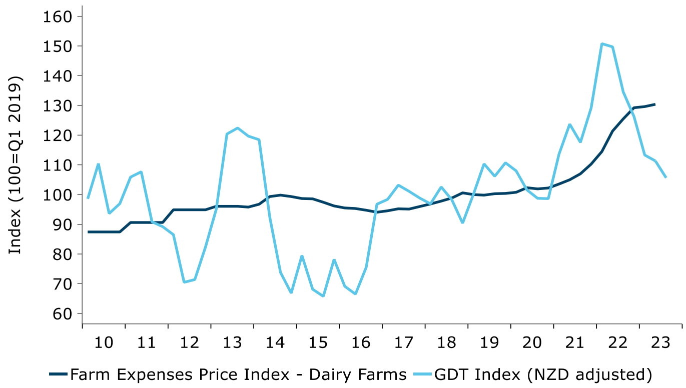
This week's dataflow confirmed the dynamic we noted in our Quarterly Economic Outlook: that tailwinds to domestic demand stemming from the net migration impulse and a turning housing market are facing an offset from weakening external demand.

Net migration inflows of 5.1k in June marked a fall broadly in line with our expectation. The number of Kiwis departing our shores continues to pick up, offsetting monthly arrivals that are still very strong. June departures eclipsed May to be the highest on record at 13.4k. Upward revisions of around +3.1k over the past 12 months saw annual net migration rise to 86.8k. We expect annual net migration to rise a little higher in the coming months before easing to 75k by the end of this year. While net inflows are contributing to easing labour market pressures, they are also bolstering demand in other areas of the economy, particularly the housing market.

This week's REINZ release provided further confirmation that the housing market has turned. The house price index lifted 0.6% m/m (sa), a little stronger than we had expected, but sales fell 9% m/m (sa), suggesting pipeline pressures are softening. While strong population growth at a time of easing new housing supply adds upward pressure to prices, high mortgage rates and still very high prices relative to incomes are likely to contain price increases, as is a generally softening economy. We continue to forecast house prices to lift around 3% across the second half of this year.

This week's Global Dairy Trade auction was ugly. The GDT Price Index fell 7.4%, driven by an almost 11% drop in whole milk powder prices. The overall GDT index is now down over 46% from its March 2022 peak. While a lower NZD is providing some offset, we don't see a major improvement in global prices until 2024, as demand from China remains weak. Weaker returns at a time of intense on-farm cost pressures make for an incredibly challenging season for farmers. If prices remain at these levels across the rest of the year, farmers will, on average, face losses of around $1/kg MS this season, amounting to a direct hit to the economy of well over $1 billion.

Figure 1. Dairy prices and dairy farm expenses



Source: Stats NZ, RBNZ, Global Dairy Trade, Macrobond, ANZ Research

All up, the economy is facing risks in both directions. Weakening external demand will have implications for New Zealand, spilling over into domestic consumption and investment. But for the time being, those risks are being outweighed by tailwinds to domestic demand from net migration and a turning housing market. The RBNZ's MPS this week tentatively acknowledged that balance (see page 2).

Looking ahead

NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Economic Outlook: waiting on the last domino
- 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 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: upside limited
- RBNZ MPS Review: wheels slipping a little?
- NZ CPI Review: Not a good news day after all
- NZ labour market: relatives and absolutes
- NZ Budget 2023 brings the bonds

Click here for more.

ANZ Proprietary data

Check out our latest releases below.

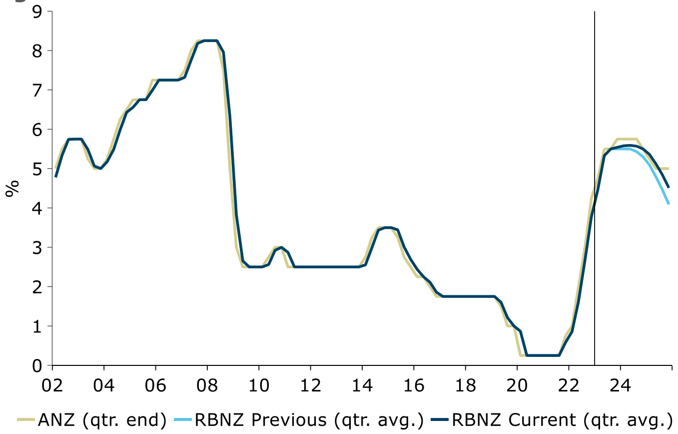
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index
- ANZ NZ Merchant and Card Spending: July 2023

A hat tip?

As expected, the RBNZ left the Official Cash Rate unchanged at 5.50% this week, with a balanced tone. However, the RBNZ unexpectedly lifted its OCR projection slightly (by 9bps), adding a hawkish tilt to the Monetary Policy Statement. While the Governor was at pains to downplay this as any kind of signal as to the likelihood of future moves, that's what the OCR track is, at the end of the day. The RBNZ is very much dug in at 5.50%, but there is now a slight tightening bias, which is a small but clear step towards our view that the RBNZ will hike again in time.

But the RBNZ's outlook for growth and inflation was little changed from the May MPS. Rather, one of the key drivers of the OCR track tweak was a 25bp increase in the estimate of the long-run neutral OCR (an upward revision to housing and the non-tradable inflation starting point contributed too). The higher neutral OCR implies that the RBNZ does not perceive current OCR settings to be as contractionary as they did three months ago. However, the MPC deem the OCR to be sufficiently contractionary for the time being.

Figure 2. OCR Forecasts



Source: RBNZ, Macrobond, ANZ Research

Ironically, despite the hawkish tilt favouring our call that the RBNZ will eventually hike again, tweaks to the RBNZ's Q3 forecasts embedding a lower unemployment rate and higher non-tradable inflation raise the bar for data surprises on the upside that might prompt a rethink and a restart to hiking. While we continue to see a relatively more resilient labour market and thus stronger inflation pressures from Q4 onwards, the RBNZ's Q3 inflation and labour market forecasts are now consistent with our own. Thus if the data falls in line with our expectation, the RBNZ may be content that the economy is evolving as they expect. Accordingly, we would characterise the risks as tilted toward a later hike (ie February) – but note that a longer delay, all else equal, means more work for the RBNZ to do. The longer the labour market remains beyond sustainable levels and inflation elevated, the greater the risks of second-round effects taking hold.

That said, there's still plenty of uncertainty for the RBNZ to wade through in meantime, with lurking risks that could change the outlook materially. The slowdown in China and its implications for New Zealand sits at the top of that list. This week's Global Dairy Trade auction certainly highlighted that. However, for now, these downside risks are outweighed by a relatively more resilient domestic economy and thus persistent inflation pressure.

We very much agree with the RBNZ's forecasts for the big picture: the economy is slowing, the export outlook is challenged, unemployment is set to rise, and inflation is cooling. Where we diverge continues to be on how quickly the labour market will loosen and how rapidly domestic inflation will dissipate, and how high the OCR will ultimately need to go to achieve that transition. We continue to expect the RBNZ will hike 25bp in November.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Wed 30 Aug (10:45am)	Building Permits – Jul
Thu 31 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
Tue 12 Sep (10:45am)	Net Migration – Jul
Tue 12 Sep (tbc)	PREFU
Wed 13 Sep (10:45am)	Food Price Index – Aug
Wed 13 Sep (10:45am)	Rental Price Index – Aug
Fri 15 Sep (10:30am)	BusinessNZ Manuf PMI – Aug
Mon 18 Sep (10:30am)	Performance Services Index – Aug
Wed 20 Sep (early am)	GlobalDairyTrade auction
Wed 20 Sep (10:45am)	Current Account – Q2
Thu 21 Sep (10:45am)	**GDP – Q2**
Fri 22 Sep (10:45am)	Merchandise Trade – Aug
Thu 28 Sep (1:00pm)	ANZ Business Outlook – Sep
Fri 29 Sep (10:00am)	ANZ-RM Consumer Confidence – Sep
Fri 29 Sep (3:00pm)	RBNZ Sectoral Lending – Aug
Mon 2 Oct (10:45am)	Building Permits – Aug
Tue 3 Oct (10:00am)	NZIER QSBO – Q3
Wed 4 Oct (early am)	GlobalDairyTrade auction
Wed 4 Oct (2:00pm)	**RBNZ MPR**

Interest rate markets

Higher and steeper remains the theme in global bond markets. As is often the case, moves this week have been led by the US, where a combination of better-than-expected data, hawkish "Fedspeak" and concerns around rising bond issuance have pushed bellwether US bond yields sharply higher. While the US 10yr bond hasn't quite breached the October 2022 high, the 30yr has, and markets remain on the back foot. This week's slightly more hawkish RBNZ MPS and higher OCR projections drove short-end rates up slightly, but global moves are having more of an impact, and it was that, rather than the RBNZ, which saw 2yr swap rates capitulate (or should that be 'catapult'?) higher yesterday. We remain guarded. Short-term downside corrections are inevitable, especially as adverse positioning has likely contributed to the speed of the rise in rates this week. But it is likely that they'll be just that – corrections. While NZ 2yr and 10yr interest rates/bond yields have reached our year-end forecasts early, barring a global calamity we see little scope for them to fall meaningfully over coming weeks.

FX markets

The Kiwi has also capitulated this week, falling to a new 2023 low just above 0.59 in whippy trading yesterday. Price action has been soft, with lower lows and lower highs seen consistently over August. USD strength remains the main theme and higher bond yields and stronger US data have been the main driver. And that has meant the NZD has done better on many crosses (with the notable exception of NZD/GBP) than it has against the USD. China growth concerns are also weighing on sentiment (and milk prices), and that isn't helping the AUD nor NZD. Given the speed of the move lower, upside corrections are inevitable, but may not be sustained if US data continues to show signs of resilience and US bond yields hold up (which, as noted above, seems likely). Our forecasts for NZD appreciation – which were predicated on the USD gravitating back to fair value – are under review.

Key data summary

Performance Services Index – July. Fell to 47.8 in July, firmly in contractionary territory for the second month in a row after revisions.

Net Migration - June. Net migration inflows eased to 5,033 in June. Combined with net revisions of +3,100 over the past 12 months, the annual net inflow is now sitting at 86.8k.

REINZ House Prices – July. Prices rose 0.6% m/m, but the details were mixed. See our Review.

GlobalDairyTrade auction. The GDT Price Index fell 7.4%, led by a 10.9% drop in whole milk powder, following the announcement of additional product to be sold via GDT in the coming months.

RBNZ Monetary Policy Statement – August. A hold with a hawkish tinge. See our Review.

The week ahead

Overseas Merchandise Trade – July (Monday 21 August, 10:45am). A trade deficit of $0.7bn is pencilled in for July as export returns (~$5.9bn), impacted by lower prices, fall short of forecast imports (~$6.6bn).

Retail Sales – Q2 (Wednesday 23 August, 10:45am). With so much inflation in the system, our models (typically based on nominal spending) are less reliable than usual. We've pencilled in a flat read q/q but are braced for volatility.

ANZ Truckometer – July (Thursday 24 August, 10:00am).

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jun-23	Jul-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD/USD	0.613	0.620	0.593	0.620	0.630	0.650	0.650	0.650	0.650
NZD/AUD	0.921	0.925	0.926	0.912	0.900	0.903	0.890	0.890	0.890
NZD/EUR	0.561	0.562	0.545	0.554	0.553	0.560	0.551	0.542	0.542
NZD/JPY	88.5	88.2	86.4	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.482	0.482	0.465	0.484	0.485	0.492	0.485	0.478	0.478
NZ$ TWI	70.9	71.4	69.8	70.1	69.9	71.2	70.5	70.0	69.8
Interest rates	Jun-23	Jul-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	5.71	5.60	5.64	5.79	5.90	5.87	5.85	5.68	5.43
NZ 2-yr swap	5.47	5.45	5.61	5.57	5.67	5.52	5.38	5.18	5.02
NZ 10-yr bond	4.62	4.60	5.03	4.85	5.00	4.85	4.75	4.75	4.75

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**	**0.0**	**0.3**	**0.3**	**0.3**	**0.4**
GDP (% yoy)	2.2	**1.1**	**-0.5**	**0.0**	**0.1**	**0.0**	**0.4**	**0.9**	**1.3**
CPI (% qoq)	1.2	1.1	**2.1**	**0.8**	**0.8**	**0.6**	**0.9**	**0.4**	**0.6**
CPI (% yoy	6.7	6.0	**6.0**	**5.3**	**4.9**	**4.4**	**3.1**	**2.7**	**2.3**
Employment (% qoq)	1.1	1.0	**0.2**	**0.0**	**-0.2**	**0.1**	**0.2**	**0.2**	**0.3**
Employment (% yoy)	2.9	4.0	**2.9**	**2.3**	**1.0**	**0.1**	**0.1**	**0.3**	**0.8**
Unemployment Rate (% sa)	3.4	3.6	**3.9**	**4.2**	**4.6**	**4.7**	**4.8**	**4.9**	**5.1**

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

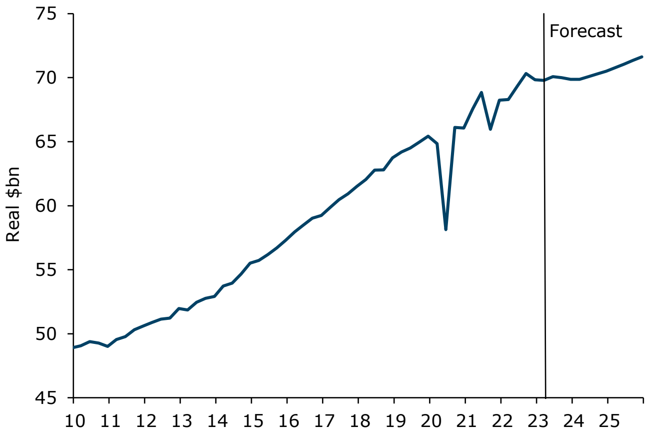


Figure 4. CPI inflation components

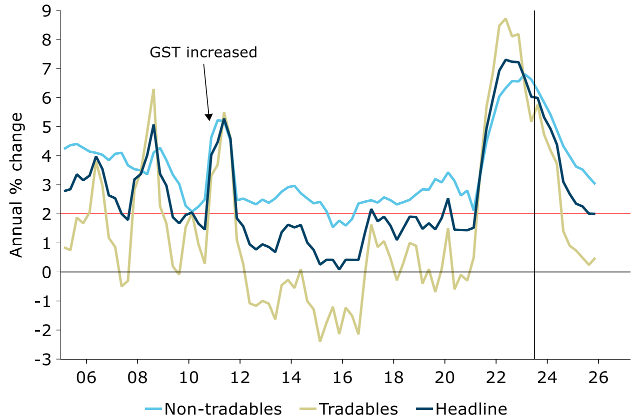


Figure 5. OCR forecast

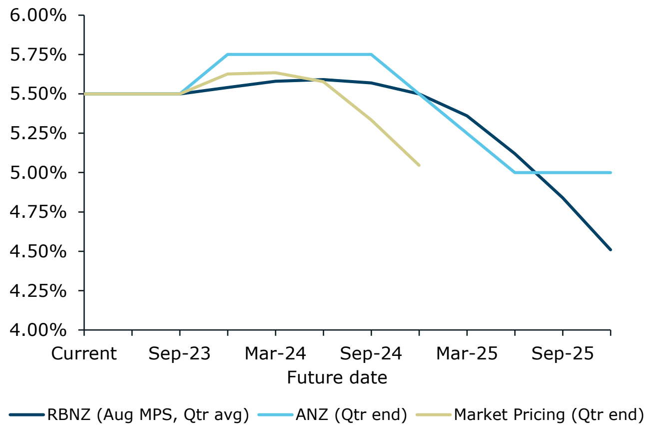
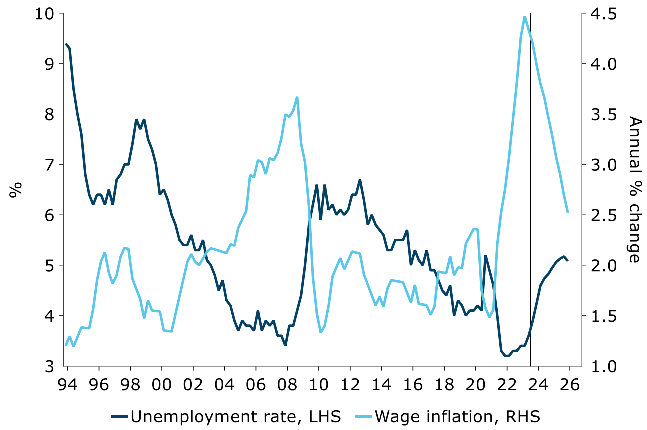


Figure 6. Unemployment and wage inflation



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

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