

# New Zealand Weekly Data Wrap

11 September 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.

## Show me the money

The Global Dairy Trade (GDT) auction has finally delivered some positive news! Whole milk powder (WMP) prices lifted 5.3% to trade at an average price of USD2,702/MT. This is still very low, but farmers will welcome the bounce. The volume of WMP rose 6% between auctions and is forecast to lift further in the coming months, consistent with the usual seasonal pattern. However, overall production is expected to be lower this season, which will likely have been one factor contributing to prices finding a floor.

Figure 1. NZD weakness is only partially offsetting low dairy prices



Source: Global Dairy Trade, RBNZ, Bloomberg, Macrobond, ANZ Research

While it is not clear yet if prices will continue to trend higher in subsequent GDT events, the results of this auction will be welcomed by our dairy farmers who are in the midst of the busy calving period on farm. We need to see further positive results to reach our current milk price forecast of \$7.15/kg MS for the 2023-24 season. Our forecast sits above the \$6.75 mid-point of Fonterra's current forecast range of \$6.00 to \$7.50/kg MS.

In older news, [Q2's terms of trade data](#) were released this week. New Zealand's goods terms of trade rose 0.4% in Q2, stronger than we expected. Both import and export prices fell sharply, as ongoing softening in energy prices pushed import prices down 1.0% q/q, while export prices slipped a further 0.6% q/q with weakness across most categories.

The fall in import prices was driven by a 6.6% fall in prices of imported petrol. This is likely to reverse in Q3, as global oil prices have rebounded. Of concern to the RBNZ will be the fact that ex-oil import prices were robust in Q2, meaning firms have more starting point cost pressures, all else equal. Imported capital goods prices rose 2.3% and imported consumption goods prices rose 0.7%. Both of these fell last quarter, and the RBNZ will be disappointed that this did not continue. However, import volumes are down 2.8%, consistent with a cooling domestic economy and inventories building up.

There remains a risk that recent milk price softness is indicative of weakness in the [prices of other commodities](#) we export predominantly to China, such as meat and logs. Weak export prices will result in a sizeable income hit for farmers, who will reduce spending in rural communities and subsequently hit demand throughout New Zealand. If the exchange rate weakens further that could provide a meaningful offset, but there's no free lunch: this would flow into higher import prices. And with inflation expectations elevated, there are risks that the RBNZ could not look through this to the same extent as usual.



## Looking ahead



### NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: regional revelations
- 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 Insight: Inflation rotation
- 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

## Pre-election update: slower growth, less tax and wider deficits

The Treasury will open up the Government's books on 12 September ahead of the General Election (to be held 14 October), with the publication of the Pre-election Economic and Fiscal Update – check out our [Preview](#). The Pre-election Update will outline the Treasury's take on the current economic and fiscal situation, and how they expect this to unfold over the next four years.

Risks we flagged at the May [Budget Update](#) appear to have materialised. The Treasury's economic and tax forecasts are due a downgrade and we suspect that will push the forecast return to OBEGAL surplus out by another year (to 2026/27). If we're right about that, that would be one more year in deficit than what followed either the GFC or the Canterbury earthquakes, despite these events being very different in terms of their macroeconomic impacts and the consequent appropriateness of persistent fiscal stimulus.

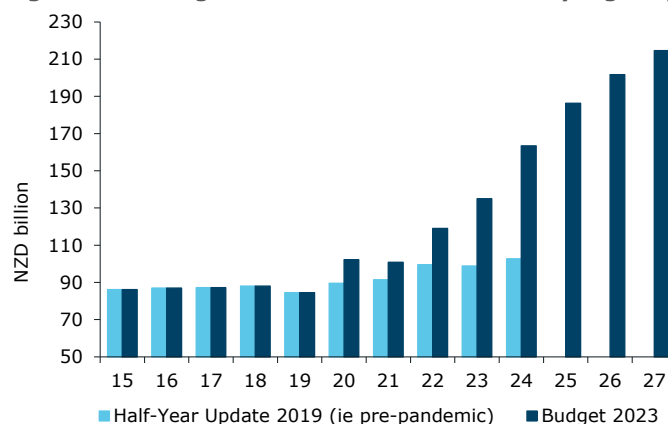
We think changes to the Treasury's activity outlook will be similar to recent changes in our own [outlook](#), with a relatively robust (but still soft) domestic demand pulse and a weaker net exports recovery than previously. Netting it off, we expect to see a downgrade to the Treasury's real GDP forecast. But we wouldn't be surprised to see this land on the rosy side of our outlook.

There is no hiding from the fact that the fiscals are in a much weaker position than forecast at Budget in May. Government financial statements for the 11 months to May 2023 show tax revenue running more than \$2bn below forecast. Given the weaker economy, that forecast miss isn't looking temporary – it'll need to be baked into the outlook.

Reflecting the weaker fiscal outlook, we expect NZDM will need to lift its bond issuance guidance meaningfully. We have pencilled in a \$10bn uplift over the forecast horizon to 2026/27.

We're often asked if the projection for gross government debt to more than double between 2019 (pre pandemic) and 2027 (the Treasury's last forecast year, figure 2) is going to result in a sovereign credit rating downgrade. As we note in our preview, the answer is complicated. If New Zealand is downgraded, it won't be the level of government debt; it'll likely be on the NZ-wide liability position (eg a too-wide-for-too-long current account deficit). But fiscal settings are related to that.

**Figure 2. Gross government debt is structurally higher post-pandemic**

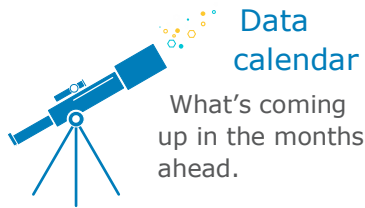


Source: The Treasury, ANZ Research

Hopefully New Zealand manages to grind away at the too-wide current account deficit over coming years, but the longer this takes, the longer the economy will be vulnerable to a significant terms of trade shock that could trigger a sovereign ratings downgrade, or worse, necessitate a very sharp correction in domestic investment activity (as the country is abruptly forced to live within its means).



# Financial markets update



Date	Data/event
Tue 12 Sep (10:45am)	Electronic Card Transactions – Aug
Tue 12 Sep (10:45am)	Net Migration – Jul
Tue 12 Sep (1:00pm)	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)	<b>GDP – Q2</b>
Fri 22 Sep (10:45am)	Merchandise Trade – Aug
Thu 28 Sep (1:00pm)	<a href="#">ANZ Business Outlook – Sep</a>
Fri 29 Sep (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Sep</a>
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)	<b>RBNZ MPR</b>
Thu 5 Oct (1:00pm)	<a href="#">ANZ Commodity Price Index – Sep</a>
Tue 10 Oct (10:45am)	Electronic Card Transactions – Sep
Wed 11 Oct (10:45am)	Net Migration – Aug
Thu 12 Oct (10:45am)	Food Price Index – Sep
Thu 12 Oct (10:45am)	Rental Price Index – Sep
Fri 13 Oct (10:30am)	BusinessNZ Manuf PMI – Sep
Mon 16 Oct (10:30am)	Performance Services Index – Sep
Tue 17 Oct (10:45am)	<b>CPI – Q3</b>
Wed 18 Oct (early am)	GlobalDairyTrade auction

## Interest rate markets

US and New Zealand 10yr bond yields have risen sharply compared to levels prevailing last week, but have corrected a touch lower since yesterday. With US markets leading the way globally, how things fare from here depends crucially on US CPI data next week, which is the last major piece of data before the 20 September Fed meeting. Next week's PREFU will be watched closely by markets, but with NZGB spreads to swap back at historically cheap levels, and weekly tender statistics looking more encouraging, the worst may be behind the market. NZGB yields are now pricing in a decent premium for upcoming supply. Short-end rates continue to ebb and flow, and that's unlikely to change with the RBNZ on hold for now.

## FX markets

The Kiwi continues to struggle in the face of ongoing USD strength, which is understandable given signs of a re-tightening US labour market, challenges facing China, and early signs of possible stagflation in Europe. With NZ and US policy rates the same and markets attuned to weak export prospects for New Zealand and a soft landing in the US, it is going to be very difficult for the Kiwi to differentiate itself – hence our expectation of continued NZD stagnation through to year end. Our forecasts are pencilling in a recovery in 2024, but that's predicated on gravitation to fair value, and we are mindful that markets have a habit of ignoring valuations at times of stress.

## Key data summary

**Overseas Trade Indices – Q2.** New Zealand's goods [terms of trade](#) rose 0.4% in Q2, stronger than we expected.

**ANZ Commodity Price Index – August.** The ANZ World [Commodity Price Index](#) fell 2.9% in August, primarily due to weak dairy prices.

**Global Dairy Trade auction.** The GDT Price Index lifted 2.7%, driven by a 5.3% rise in whole milk powder (WMP) prices.

**Building Work Put in Place – Q2.** Fell 0.1% vs our expectation for a 4% decline. Last quarter revised to -1.7% from +0.6%.

**Economic Survey of Manufacturing – Q2.** Volumes rose 2.9%, driven by food manufacturing. Sales rose 0.2%.

## The week ahead

**Electronic Card Transactions – August (Tuesday 12 September, 10:45am).** ANZ's card data indicates a bounce, but these data don't provide a very good signal for real (CPI-adjusted) consumption spending.

**Net Migration - July (Tuesday 12 September, 10:45am).** We're expecting net-migration to continue to moderate from recent highs.

**Pre-election Economic and Fiscal Update (Tuesday 12 September, 1:00pm).** We expect a softer economic and fiscal outlook at next week's Pre-election Economic Update, with the return to surplus pushed out a year to 2026/27. See our [Preview](#).

**Food Prices – August (Wednesday 13 September, 10:45am).** We're picking 0.1% m/m, but with wider-than-usual forecast uncertainty.

**Rental Price Index – August (Wednesday 13 September, 10:45am).** We're picking 0.4% m/m for the stock measure of rents.

**Manufacturing PMI – August (Friday 15 September, 10:30am).** A gap has opened between ANZBO and PMI; we're watching closely to see if it closes.



## Key forecasts and rates

	Actual			Forecast (end month)					
	Jul-23	Aug-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
<b>FX rates</b>									
NZD/USD	0.620	0.594	0.588	0.580	0.590	0.610	0.610	0.620	0.630
NZD/AUD	0.925	0.919	0.921	0.921	0.908	0.897	0.897	0.886	0.900
NZD/EUR	0.562	0.547	0.549	0.542	0.541	0.550	0.540	0.544	0.543
NZD/JPY	88.2	86.7	86.5	86.4	85.6	85.4	83.0	81.8	80.6
NZD/GBP	0.482	0.469	0.471	0.464	0.465	0.473	0.462	0.463	0.463
NZ\$ TWI	71.4	69.8	69.6	68.5	68.7	69.8	69.1	69.4	69.9
<b>Interest rates</b>									
NZ OCR	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.75	5.50
NZ 90 day bill	5.67	5.65	5.66	5.79	5.90	5.87	5.85	5.68	5.43
NZ 2-yr swap	5.48	5.44	5.48	5.57	5.67	5.52	5.38	5.18	5.02
NZ 10-yr bond	4.68	4.87	4.98	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	<b>0.4</b>	<b>-0.1</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>
GDP (% yoy)	2.2	<b>1.1</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.4</b>	<b>0.9</b>	<b>1.3</b>
CPI (% qoq)	1.2	1.1	<b>2.1</b>	<b>0.8</b>	<b>0.8</b>	<b>0.6</b>	<b>0.9</b>	<b>0.4</b>	<b>0.6</b>
CPI (% yoy)	6.7	6.0	<b>6.0</b>	<b>5.3</b>	<b>4.9</b>	<b>4.4</b>	<b>3.1</b>	<b>2.7</b>	<b>2.3</b>
Employment (% qoq)	1.1	1.0	<b>0.2</b>	<b>0.0</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>
Employment (% yoy)	2.9	4.0	<b>2.9</b>	<b>2.3</b>	<b>1.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>0.8</b>
Unemployment Rate (% sa)	3.4	3.6	<b>3.9</b>	<b>4.2</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>	<b>4.9</b>	<b>5.1</b>

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

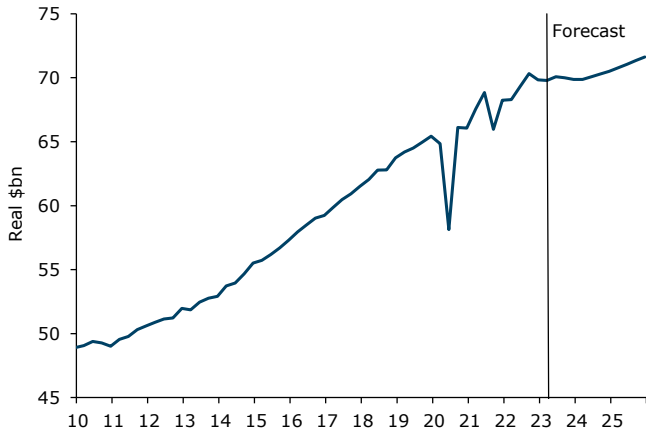


Figure 4. CPI inflation components

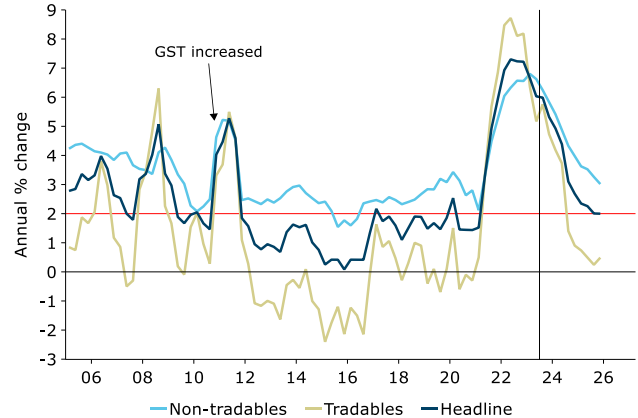


Figure 5. OCR forecast

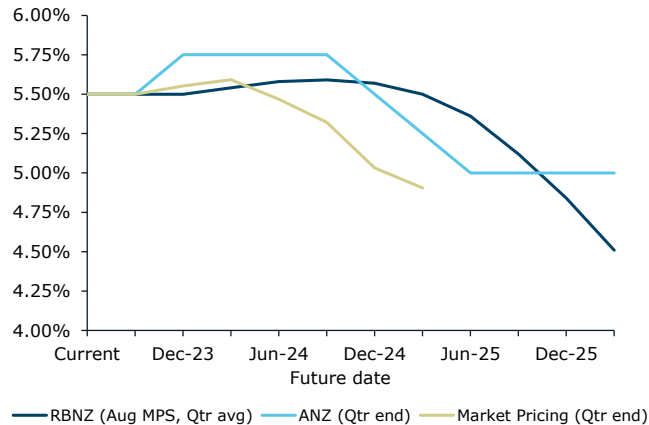
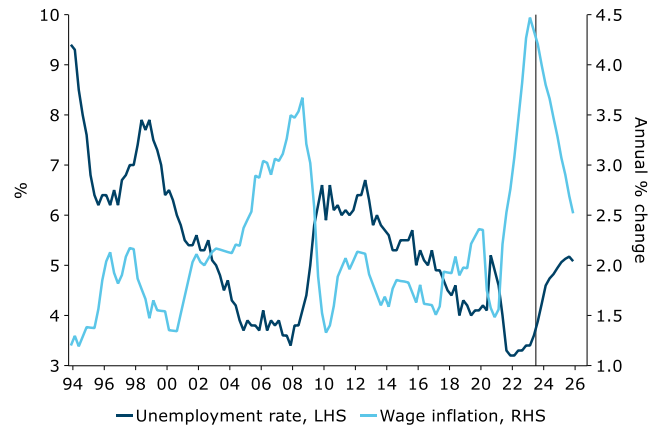


Figure 6. Unemployment and wage inflation



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



## Contact us

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We welcome your questions and feedback. Click [here](#) for more information about our team.



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