

New Zealand Weekly Data Wrap

15 September 2023



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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.



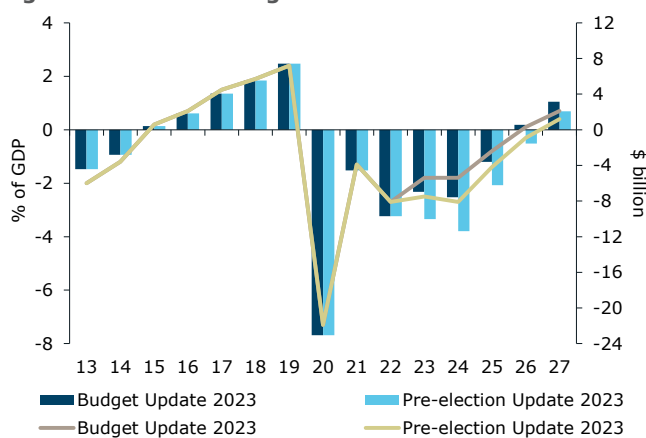
NZ's large external imbalances could see the market impose a more abrupt adjustment path.

Best case scenario

The Treasury's Pre-election Update showed **more debt, more bonds and more deficits** – and all this hanging off a relatively optimistic economic outlook. Should downside risks to the Treasury's economic outlook materialise, the fiscals will be in for yet another downgrade at some point down the track. And with the forecast OBEGAL surplus pushed out yet another year, there is very little wiggle room in these forecasts to allow future Governments to loosen fiscal settings while still consolidating the fiscal position before the next inevitable shock comes along.

Indeed, with seven consecutive deficits now expected (all the way out to June 2026), the response to COVID-19 and Cyclone Gabrielle is now expected to have a longer fiscal legacy than the six deficits that followed the Global Financial Crisis and Canterbury earthquakes. Given the RBNZ is having to 'make room' for additional Government demand at present (by crowding out private sector activity with a higher-than-otherwise OCR), fiscal policy from a macroeconomic stabilisation perspective does not appear particularly coordinated with monetary policy. Fiscal policy remains very expansionary in the near term, but that's not a change from the Budget in May, meaning there isn't really any new news for the RBNZ to incorporate.

Figure 1. Wider for longer OBEGAL deficits



Source: The Treasury

Reflecting the weaker fiscal outlook, NZDM lifted their signalled bond issuance by \$9bn over the forecast horizon, close to our estimate of \$10bn. And given the rosy economic outlook underpinning this guidance, risks remain skewed towards further increases down the track.

Turning to the numbers, core Crown tax revenues are expected to come in \$6.4bn below the Budget Update forecast over the next four years, while core crown expenses are \$6.8bn above the Budget Update forecast. This is mainly due to higher transport spending and higher interest rates on more government debt. The \$2.1bn forecast OBEGAL surplus for 2026/27 is certainly small enough to be blown away in the winds of an economic forecast downgrade and/or a loosening in fiscal policy settings on the other side of the election. The next Government has its work cut out.

All up, our take is that the Pre-election Update forecasts leave the door open to further downgrades to the books further down the track. And it's likely that risks will materialise before the books are back in surplus. In short, the current forecast return to surplus has a 'best-case scenario' look about it.



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: momentum building
- 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

Dead cat bounce

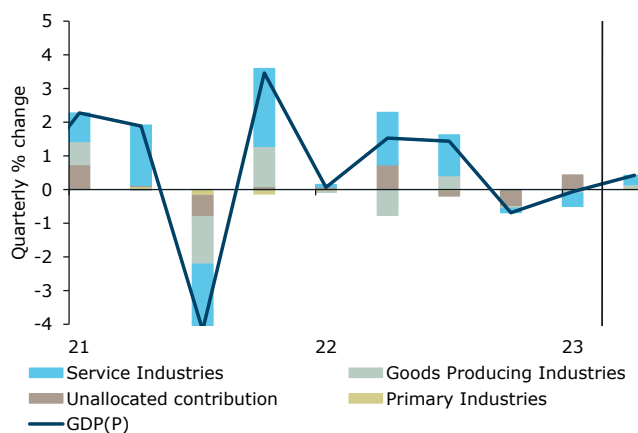
New Zealand's GDP figures will be released at 10:45am next Thursday and are expected to show the economy bounced out of recession in Q2. **We've pencilled in** a 0.4% q/q economic expansion, unchanged from our previously published forecast, and a touch below the RBNZ's August MPS forecast of 0.5%. Given 0.6% q/q population growth in Q2, our forecast would be consistent with a continued contraction in per capita GDP.

Economic momentum is clearly softening despite strong population growth, but the Q2 GDP data will still have a fairly unhelpful signal-to-noise ratio, reflecting lingering cyclone and COVID impacts. Quirky seasonality and further methodological tweaks by Stats NZ also add to uncertainty.

Overall, our expectation that the economy expanded 0.4% in Q2 is driven by:

- **Services industries** lifting a modest 0.4% q/q, making a 0.3ppt contribution to headline growth. At around two thirds of GDP, services industries have a huge influence on headline GDP, and if the rebound from Q1's 0.6% contraction is larger than expected, it will very likely move the dial on headline GDP.
- **Goods-producing industries** are expected to lift 0.6% q/q, led by food manufacturing, making a 0.1ppt contribution to headline growth.
- **Primary industries** are expected to expand 0.9% q/q (just under a 0.1ppt contribution to headline growth) as weather-related disruption fades.

Figure 2. Production GDP forecast



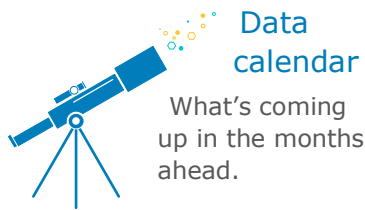
Source: Statistics NZ, ANZ Research

Insofar as monetary policy implications go, we'd caution against reading too much into the GDP release, particularly if it's weaker than the RBNZ's August MPS forecast of +0.5% q/q. That's because we suspect a healthy proportion of any negative forecast miss could end up in its potential GDP assumption, meaning little change to the estimated output gap (and thus inflation pressures) overall. That's particularly likely given the RBNZ's own capacity suite indicators in the August MPS suggested the RBNZ is already being optimistic on that front, if anything. Upshot: capacity indicators like unemployment and QSBO capacity utilisation are currently more important for the RBNZ's estimate of domestic inflation pressures than GDP *per se*.

Looking forward, the bigger picture for the economy isn't likely to be a pleasant one until it's clear that the RBNZ has domestic CPI inflation under control. And for that to happen, economic activity will either need to remain sub-par for a while yet or some other nasty shock would need to come along on the global front, doing a lot of the RBNZ's work for them. It was good to see some stability in dairy prices over the past fortnight, but China risks to our export sector remain front and sector in this regard.



Financial markets update



Date	Data/event
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
Tue 26 Sep (10:00am)	ANZ Truckometer – 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
Thu 5 Oct (1:00pm)	ANZ Commodity Price Index – Sep
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)	CPI – Q3
Wed 18 Oct (early am)	GlobalDairyTrade auction
Fri 20 Oct (10:45am)	Merchandise Trade – Sep
Wed 25 Oct (10:00am)	ANZ Truckometer – Sep
Fri 27 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Tue 31 Oct (10:45am)	Building Permits – Sep
Tue 31 Oct (1:00pm)	ANZ Business Outlook – Oct

Interest rate markets

Global long end bond yields remain at elevated levels but have not pushed higher this week, with US and NZ 10yr bonds steady around 4¼% and 5% respectively ahead of next week's Fed meeting. Although few analysts expect a hike, it'll be the Fed's tone and their 'dot plot' projections that will determine the market reaction, and with signs of a re-acceleration in the US, bond markets are nervous. We think that's warranted and still see upside risks to long term interest rates, especially with the Bank of Japan potentially poised to end yield curve control in coming months, which could have knock on impacts across global bond markets. Short end rates are also little-changed and potentially subject to upside risks, with recent data not going the RBNZ's way (with migration, house price and food price data all stronger than expected). None of it points to the need for immediate action, but if core and non-tradable inflation measures surprise to the upside, local markets might start to price in greater odds of a November OCR hike.

FX markets

The Kiwi continues to range-trade either side of 0.59 and is struggling to differentiate itself amid USD-centric trading conditions. FX markets were looking to US CPI data this week for direction, but it didn't shift the dial, leaving markets focusing on next week's Fed meeting, piling more pricing risk on that event. EUR is struggling amid stagflation fears (it fell sharply following this week's hike), but by contrast, the USD continues to benefit from hope for a soft landing. Until a differentiated local theme comes along, a continued period of range-trading seems likely for the Kiwi.

Key data summary

Electronic Card Transactions – August. Card spending rose 0.7% m/m.

Net Migration - July (Tuesday 12 September, 10:45am). Annual net migration gain of 96,200. Enormous.

Pre-election Economic and Fiscal Update. Optimistic. See our [Review](#).

REINZ House Prices – August. Prices rose 0.7% m/m sa – a little stronger than our expectation. Homes have been selling faster and sales are up.

Food Prices – August. Food prices rose 0.5% m/m – stronger than expected.

Rental Price Index – August. The flow measure of rents rose 1.0% m/m, a big bounce. The stock measure rose 0.4% m/m, another strong print.

The week ahead

Performance Services Index – August (Monday 18 September, 10:30am). Trending south, but can be volatile on a monthly basis.

GlobalDairyTrade auction (Wednesday 20 September, early am). Futures pricing indicates that the GDT Price Index will lift by over 5% as buyers become aware that milk production in NZ is likely to be reduced this season due to unfavourable weather.

Current Account Balance – Q2 (Wednesday 20 September, 10.45am). The annual deficit is expected to narrow to 7.9% of GDP. See our [Preview](#).

GDP – Q2 (Thursday 21 September, 10.45am). +0.4% q/q expected. See our [Preview](#).

Overseas Merchandise Trade – August (Friday 22 September, 10:45am). We are forecasting a \$1.8bn trade deficit for August. Seasonal weakness in export volumes and low prices are expected to limit export returns to \$4.9bn while imports are forecast to rise slightly to \$6.7bn.



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
FX rates									
NZD/USD	0.620	0.594	0.591	0.580	0.590	0.610	0.610	0.620	0.630
NZD/AUD	0.925	0.919	0.918	0.921	0.908	0.897	0.897	0.886	0.900
NZD/EUR	0.562	0.547	0.555	0.542	0.541	0.550	0.540	0.544	0.543
NZD/JPY	88.2	86.7	87.2	86.4	85.6	85.4	83.0	81.8	80.6
NZD/GBP	0.482	0.469	0.476	0.464	0.465	0.473	0.462	0.463	0.463
NZ\$ TWI	71.4	69.8	69.7	68.5	68.7	69.8	69.1	69.4	69.9
Interest rates									
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	5.51	5.57	5.67	5.52	5.38	5.18	5.02
NZ 10-yr bond	4.68	4.87	4.94	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

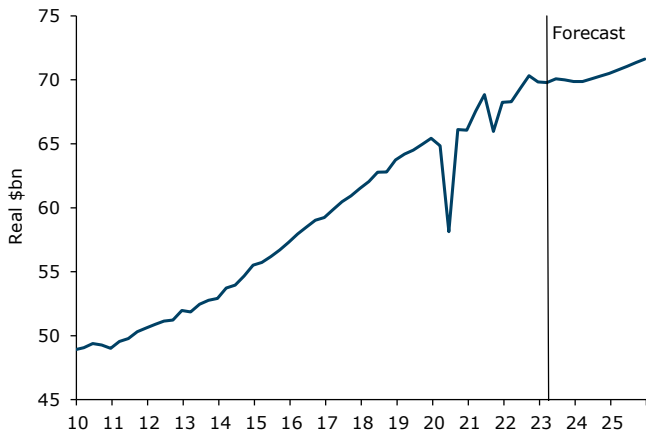


Figure 4. CPI inflation components

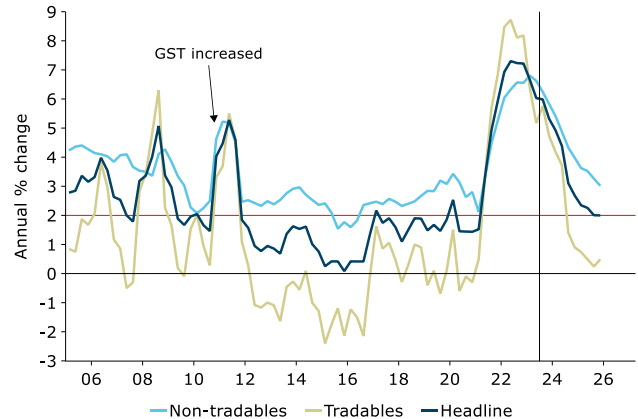


Figure 5. OCR forecast

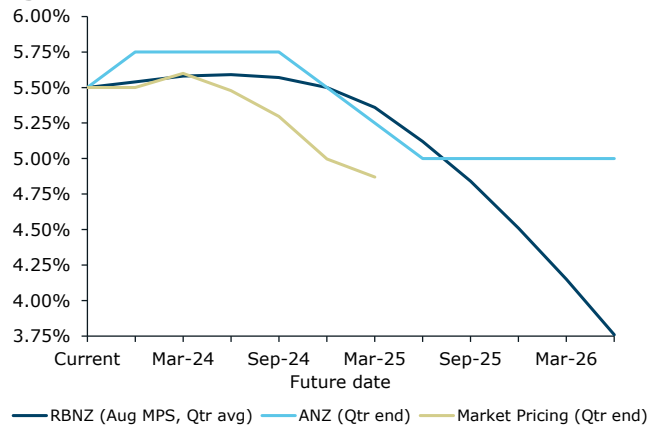
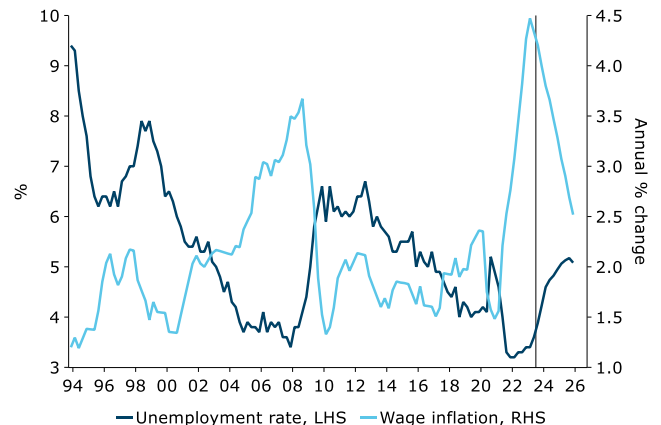


Figure 6. Unemployment and wage inflation



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



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