

New Zealand Weekly Data Wrap

22 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.

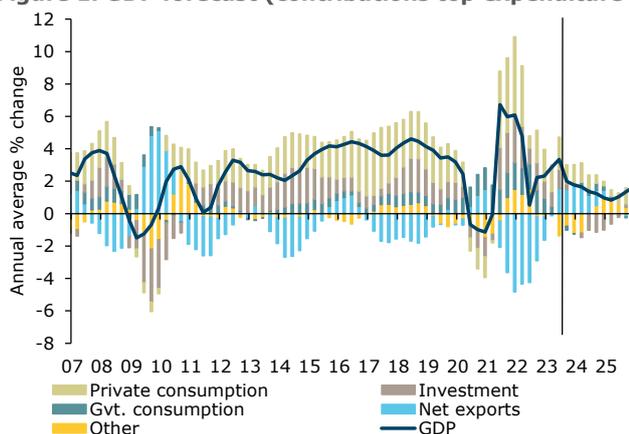
Q2 GDP strong, but outlook still soggy

The New Zealand economy bounced out of recession in Q2, lifting 0.9% q/q from an upwardly revised flat read in Q1 (see our [Review](#) for details). Importantly, these data alone don't provide much indication of how much inflation pressure is still in the pipeline, so we don't think they are a game changer for the October Monetary Policy Review (we continue to expect a hold). But they do increase the likelihood of the October statement having a hawkish tilt, and support our view that a hike is likely in November.

After accounting for the Q2 starting point, our medium-term GDP outlook is little changed from that presented in our August [Quarterly Economic Outlook](#). The economy is expected to continue its post-pandemic normalisation, with services exports (chiefly international tourism and education) continuing to recover. Meanwhile, domestic demand is expected to remain soft as restrictive monetary conditions weigh. That offsets the likely boost to demand and inflation from near-term fiscal stimulus earmarked at Budget 2023 and reconfirmed in the [Pre-Election Update](#) last week.

Interest rate sensitive pockets of the economy such as residential investment, business investment, and household spending on durable goods are expected to underperform the broader economy. And that's expected to weigh on demand for imports, which alongside recovering services exports will see net exports provide a meaningful offset to slowing growth over 2024 (figure 1). Importantly, the positive net exports contribution masks what can only be described as tough times ahead for primary goods exports. Prices for many primary goods have come under downwards pressure lately as demand in China has softened and the possibility of drought conditions over the coming summer could add to that pain.

Figure 1. GDP forecast (contributions top expenditure GDP growth)



Source: Statistics NZ, ANZ Research

Thinking about risks that are relatively likelier to materialise (ie not tail risks), a tighter-for-longer labour market and/or stronger housing momentum may well manifest in a stronger near-term domestic demand pulse than we expect. But if that does occur, domestic inflation is less likely to slow as quickly as the RBNZ hopes, meaning the likely response would be a higher OCR than otherwise. In other words, the domestic demand pulse can be expected to remain sub-par for as long as the RBNZ deems appropriate to guide inflation sustainably back to target, one way or another. In terms of less-likely but high-impact risks, it's hard to come up with many optimistic scenarios. Front of mind here is a hard landing in China or perhaps a negative global financial market shock (or both) that could end up doing a lot of the RBNZ's tightening for it. In that world, OCR cuts could become appropriate quickly.



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: what recession ... but one looming?
- 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 PREFU 2023: more debt, more bonds, more deficits

[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

Narrowing road not without its potholes

The annual **current account deficit** narrowed more than expected in Q2 to 7.5% of GDP, helped by some historic revisions. While the narrower starting point is welcome news, the external accounts remain severely out of balance.

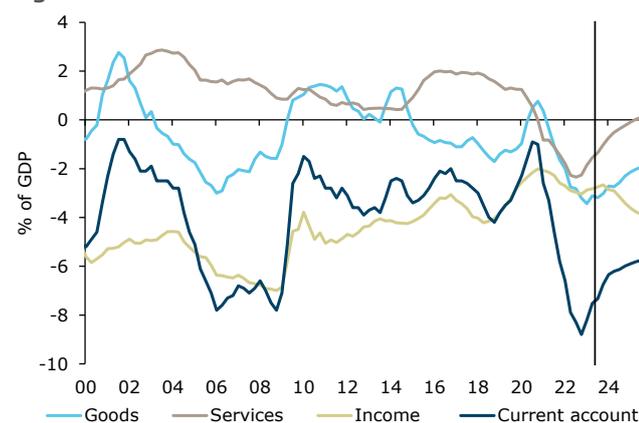
The annual goods deficit narrowed to 3.2% of GDP in Q2, as export volumes bounced back from weather-related disruption earlier in the year and import demand eased as the economy cools. However, weakness in China's economy has weighed heavily on the prices for our exports, which has yet to be fully reflected in the data. This week's Global Dairy Trade auction quelled some earlier fears of the deterioration across the second half of the year, with prices rebounding 4.6%. They have now undone roughly half of the sharp falls seen in August. Softening export returns and the growing risks of drought conditions stemming from the El Niño cycle highlight that the narrowing in the goods deficit will require sustained moderation in import demand, at the hands of tight monetary and fiscal policy settings.

The annual services deficit continued to narrow in Q2 to 1.5% of GDP, driven by the ongoing recovery in international tourism. International visitor arrivals have recovered to over 80% of pre-pandemic levels, though weakness in China's economy risks the recovery becoming stuck, given the slow return of tourists from this market – one of our largest. Ultimately, services exports will need to lift beyond pre-COVID levels for the services balance to flip back into surplus, which may be a hard slog in the context of a slowing world economy.

The narrowing in the goods and services deficits faces a meaningful offset from a widening primary income deficit as rising global interest rates bite. The annual primary income deficit was 2.8% of GDP, and is yet to reflect the full extent of the higher cost of funding New Zealand's very large external debt position. We expect to see the primary income deficit to continue to widen over coming quarters.

Putting it all together, our updated forecast has the current account narrowing to 5.7% of GDP by the end of 2025 (figure 2). That's a little narrower than our previous forecast of 6%, but still too wide to call sustainable.

Figure 2. Annual current account deficit



Source: Stats NZ, ANZ Research

At these levels, the current account remains a key vulnerability for the economy. Tighter monetary and fiscal policy settings have a key role to play in constraining import demand, but with risks to our export performance skewed south, New Zealand has a potentially lengthy, and not very fun, path towards macroeconomic sustainability to walk. Higher interest rates (via a widening risk premium) and a weaker currency may well prove to be necessary parts of that transition.



Financial markets update



Date	Data/event
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
Wed 1 Nov (10:45am)	Labour Market – Q3
Mon 6 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Wed 8 Nov (early am)	GlobalDairyTrade auction
Wed 8 Nov (10:45am)	RBNZ Inflation Expectations – Q4
Thu 9 Nov (10:45am)	Electronic Card Transactions – Oct

Interest rate markets

Global bond yields continued rising this week, led by the bellwether US 10yr Treasury bond, which closed at 4.49% this morning, up almost 25bps since last Friday. The catalyst was the Fed; although they paused, their 'dot plot' projections signalled that 12 of 19 committee members saw one more hike as likely by year-end, and its median 2024 policy projection was raised by 50bps, consistent with their 'higher for longer' mantra. We continue to see upside risks to long end rates going forward as well, particularly given how much government bond issuance lies ahead. This has been a consistent theme in our research, and our new, higher interest rate forecasts reflect that, noting that the 10yr bond reached our year-end forecast early. Short end rates have also moved up in response to GDP data, which came on the back of a string of upside data surprises, all of which very much underscore the need for more monetary policy tightening. We continue to expect an OCR hike in November and expect their tone to remain hawkish for the foreseeable future, maintaining upside pressure on short end rates. There is simply no substitute for getting inflation back to target in a timely manner, and the RBNZ does not have endless patience.

FX markets

The Kiwi made several attempts to push higher this week but was thwarted by a resurgence of USD strength as US bond yields pressed higher. Better than expected GDP data and the bounce in milk prices off lows are positives for the Kiwi, but our sense is that these developments remove downside risks and will help the Kiwi hold its own better against USD strength, rather than be sufficient to overcome USD strength. NZD/AUD dipped to Q3 low earlier this week, but it has recovered in the wake of the better GDP data, and our sense is that it's likely to remain supported by the evolving outlook for the OCR (which we think needs to go higher).

Key data summary

Performance Services Index – August. Fell to 47.1 in August; firmly in contractionary territory for the third month in a row after revisions.

GlobalDairyTrade auction. The headline Global Dairy Trade Price Index lifted 4.6%, supported by whole milk powder prices, which also lifted 4.6%.

Current Account Balance – Q2. The annual current account deficit narrowed to 7.5% of GDP. See our [Review](#).

GDP – Q2. The economy expanded 0.9% q/q on a seasonally adjusted basis in Q2, much stronger than our expectation of +0.4% q/q and the RBNZ's August MPS forecast of 0.5% q/q. See our [Review](#).

The week ahead

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

ANZ Truckometer – August (Tuesday 26 September, 10:00am).

ANZ Business Outlook – September (Thursday 28 September, 1:00pm).

ANZ-Roy Morgan Consumer Confidence – September (Friday 29 September, 10:00am).



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	0.593	0.580	0.590	0.610	0.610	0.620	0.630
NZD/AUD	0.925	0.919	0.925	0.921	0.908	0.897	0.897	0.886	0.900
NZD/EUR	0.562	0.547	0.556	0.542	0.541	0.550	0.540	0.544	0.543
NZD/JPY	88.2	86.7	87.5	86.4	85.6	85.4	83.0	81.8	80.6
NZD/GBP	0.482	0.469	0.482	0.464	0.465	0.473	0.462	0.463	0.463
NZ\$ TWI	71.4	69.8	70.2	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	5.69	5.77	5.95	6.00	5.93	5.78	5.68
NZ 2-yr swap	5.48	5.44	5.76	5.66	5.70	5.60	5.44	5.32	5.17
NZ 10-yr bond	4.68	4.87	5.18	5.10	5.25	5.25	5.25	5.25	5.00

Economic forecasts

	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
GDP (% qoq)	0.9	0.3	0.3	-0.1	0.1	0.3	0.3	0.4	0.5
GDP (% yoy)	1.8	0.6	1.5	1.4	0.6	0.6	0.6	1.1	1.5
CPI (% qoq)	1.1	2.1	0.8	0.8	0.6	0.9	0.4	0.6	0.4
CPI (% yoy)	6.0	6.0	5.3	4.9	4.4	3.1	2.7	2.3	2.3
Employment (% qoq)	1.0	0.2	0.0	-0.2	0.1	0.2	0.2	0.3	0.3
Employment (% yoy)	4.0	2.9	2.3	1.0	0.1	0.1	0.3	0.8	1.0
Unemployment Rate (% sa)	3.6	3.9	4.2	4.6	4.7	4.8	4.9	5.1	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

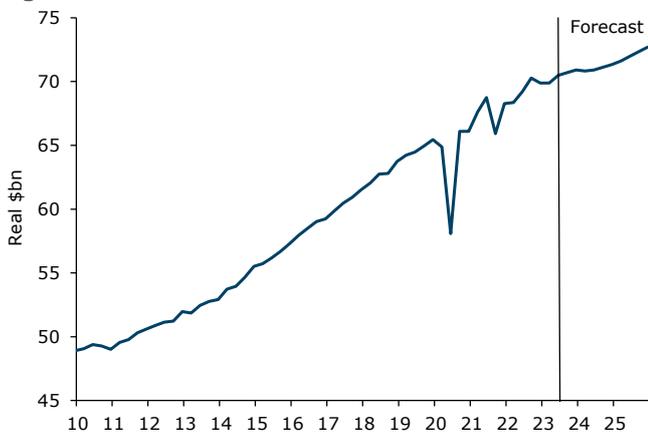


Figure 4. CPI inflation components

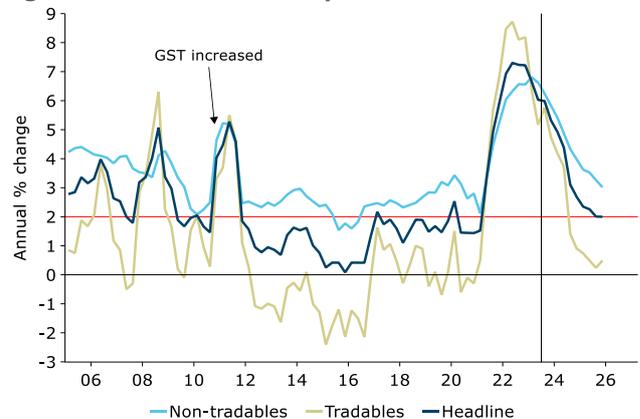


Figure 5. OCR forecast

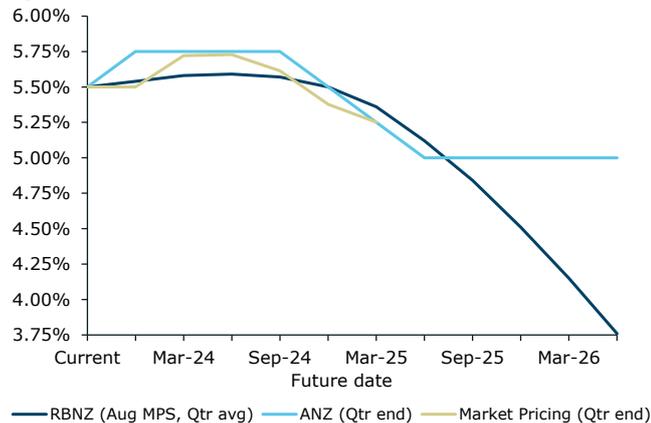
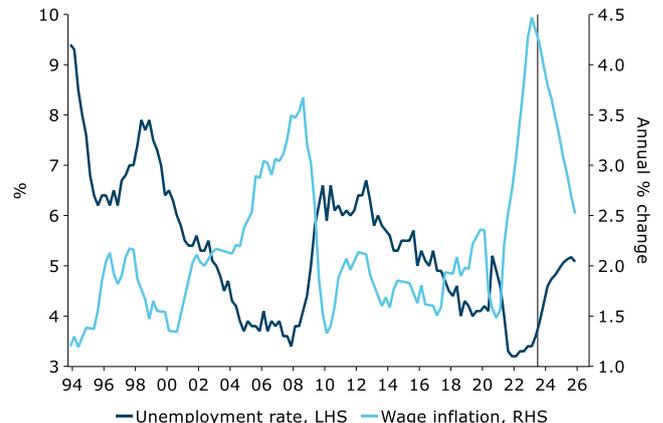


Figure 6. Unemployment and wage inflation



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



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