

New Zealand Weekly Data Wrap

29 September 2023



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See [page 5](#).

Forecast updates

Recent ANZ NZ Forecast Updates can be found [here](#).

- [NZ Property Focus: going up](#)
- [NZ Forecast Update: milk price revised down further](#)
- [NZ Forecast Update: the much-needed adjustment](#)
- [NZ Forecast Update: milk price forecasts trimmed further](#)

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.

Softening?

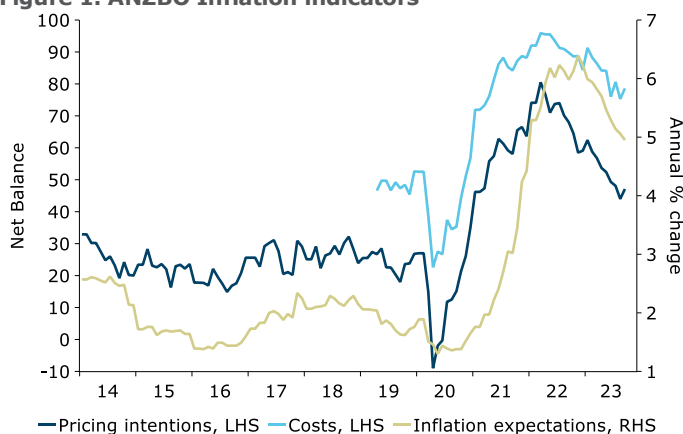
Business confidence broke into positive territory in September in our [Business Outlook](#) survey, rising 6 points to +2. Despite the lift in headline confidence many activity indicators slipped slightly. Export, investment and employment intentions, and construction intentions (both residential and commercial) all eased. The falls were small, and the survey is best described as 'mixed'. Economy-wide profit expectations lifted. Pricing intentions and cost expectations lifted, but only a smidgen, and inflation expectations eased slightly with the first sub-5% read since December 2021 (figure 1).

We ask additional questions every three months, including what firms' largest problems are. Finding skilled labour *still* rates as firms' largest problem. About half of the biggest problems by weight continue to be inflationary ones: finding labour, high wages, high other costs, and regulation and paperwork.

For the retail sector, the picture is very different. Low turnover is by far the biggest problem, followed by non-wage costs, and finding skilled labour. Exchange rates and competition also rank highly. Our [consumer confidence](#) survey this week also paints a weak picture for retailers, with a net 32% of consumers reporting it's a bad time to buy a major household item. Meanwhile, headline consumer confidence lifted slightly, but remains very low.

Retailers have a more disinflationary set of problems than is evident in the broader economy. Despite this, a net 65% of firms in the retail sector expect to lift their prices in the next three months, up from 54% in August. This may be related to the fact that retailers now consider the level of the exchange rate to be a significant problem.

Figure 1. ANZBO Inflation indicators



Source: Macrobond, ANZ Research

Inflation pressures are gradually waning in the big picture, but not rapidly. Cost and wage expectations remain very elevated, as do inflation expectations. Pricing intentions, one of the best inflation indicators in the survey, went slightly the wrong way in the month, and both the exchange rate and oil prices have the potential to interrupt or halt downward progress.

Our August [Truckometer](#) was also out this week. The Light Traffic Index rose 1.6% m/m in August. Light traffic (motorbikes, cars and vans) is generally a good indicator of consumers' willingness to spend, with a lead on spending (COVID lockdowns aside) whereas heavy traffic is a contemporaneous indicator of production. The Heavy Traffic Index jumped 6.2% m/m, continuing recent volatility. In July it was starting to look like heavy traffic was rolling over, but just to keep us guessing, it jumped in August.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: going up
- 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 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: August 2023

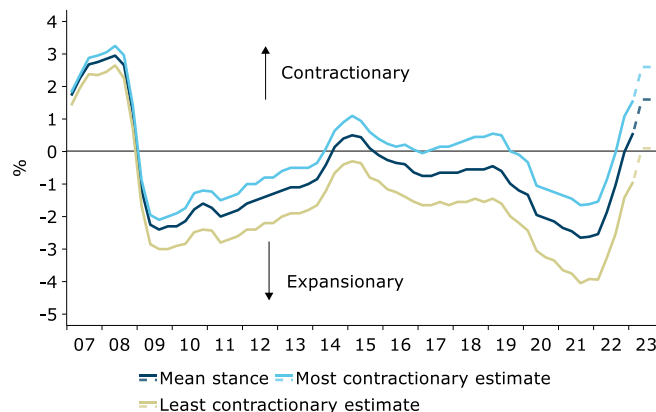
RBNZ: More worries, more waiting

We expect the RBNZ to keep the **OCR on hold next week**, remaining in 'watch, worry and wait' mode. However, we're expecting the MPR to have a bit more 'worry' in it than the relatively sanguine August MPS. Except for dairy prices (which fell sharply but subsequently partly recovered), almost all major data since the August MPS has surprised to the upside.

GDP data were stronger than expected, with the economy growing 0.9% q/q, well above the RBNZ's 0.5% q/q pick and above their potential GDP estimate of 0.8% q/q. High-frequency activity data for August have been stronger than expected. Since the MPS the ANZ Own Activity Index and the ANZ Business Confidence Index have trended higher and pricing and cost intentions rose in September's **ANZ Business Outlook**. PSI and PMI are broadly unchanged, but the **Truckometer** heavy traffic index rose 6.2% m/m and electronic card transactions grew 0.7% m/m. One month of better data in one of these indicators is insignificant for the overall picture, but collectively they suggest the economy is stronger than the RBNZ's -0.3% pick for Q3 GDP (ANZ: +0.3%).

We're expecting the RBNZ to return to the hiking table with a 25bp hike in November. To put that 25bp into context it's helpful to look at the level of rates currently. The neutral OCR is rising and the RBNZ's mean assumption is that the OCR is 160bp into contractionary territory (figure 2). That is over 100bp less contractionary than in 2007, while core inflation today is around 300bp higher. The RBNZ has noted the considerable uncertainty in these estimates, and they naturally have a wider range today, given we have the benefit of hindsight for the last cycle. On the RBNZ's most optimistic estimate the OCR may be as contractionary as in 2007. On their most pessimistic estimate the current level of the OCR is barely contractionary, and could even soon be judged as potentially expansionary if the next update brings another upward revision.

Figure 2. RBNZ OCR stance using short-term nominal neutral OCR suite



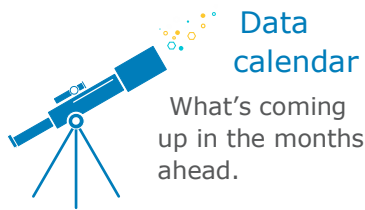
Source: RBNZ, Macrobond, ANZ Research

We were crossing our fingers that 5.5% would be enough to solve New Zealand's inflationary problems, but at this point, the data is suggesting that that will not be the case, at least not in a reasonable timeframe. If the OCR is indeed undercooked, high inflation risks becoming embedded in wage and price-setting behaviour. In that case, output and employment would need to be suppressed even longer to achieve the 2% inflation target, resulting in lower employment on average over the medium term.

That is, giving growth a chance could end up costing more in the long run if it's an over-optimistic take. But of course, a harder landing than necessary also has real costs. It's a trade-off, and the RBNZ has to weigh things carefully. But the fact is, since August, more has been added to one side of the scale than the other. The CPI data due to be released on 17 October is looking more important than ever for the outlook for peak-OCR.



Financial markets update



Date	Data/event
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
Fri 10 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Mon 13 Nov (10:30am)	Performance Services Index – Oct
Tue 14 Nov (10:45am)	Food Price Index – Oct

Interest rate markets

Local and global interest rates continued their upward march this week, with the NZ 2yr swap rate edging up to around 5.7% and the US 10yr Treasury bond yield making a new high for the year at around 4.68%, up from around 4.1% at the beginning of September. While the pace of the rises seen have been swift, they reflect broad market willingness to accept that the Fed and RBNZ are likely to hike at least once more, especially with oil prices rising again. While downside corrections are likely, that backdrop isn't a constructive one for interest rates and bond yields, and we expect them to remain elevated for the time being and possibly overshoot our forecasts. As discussed on page 2, we expect a hawkish hold from the RBNZ next week. Data since August hasn't gone their way, and while it doesn't meet the threshold for a hike just yet, it underscores the tightening bias the RBNZ adopted in August. If RBNZ messaging doesn't change and the minutes don't mention a 25bp hike being considered, we may see rates fall in relief, but we'd expect that to be temporary, and still expect a November hike. The conundrum markets will then face is, will that be the last hike, or a prelude to another? Our sense is that the markets will assume the latter.

FX markets

USD strength remains the main theme in global FX markets, fuelled by a hawkish Fed and rising US bond yields. But whereas that's weighing on other currencies, the NZD is at least holding its own as markets here factor in the recent run of strong data, and the likelihood of another OCR hike by year-end. NZD/AUD is benefiting from wider NZ/AU interest rate spreads as markets await next week's RBA and RBNZ meetings.

Key data summary

Overseas Merchandise Trade – August. Strong imports. Export figures fell due to reduced seasonal volumes and lower prices, as expected.

ANZ Truckometer – August. The [Light Traffic Index](#) rose 1.6% m/m in August, while the Heavy Traffic Index rebounded 6.2% m/m.

ANZ Business Outlook – September. Many activity indicators slipped slightly despite the lift in [business confidence](#). Pricing intentions ticked up.

ANZ-Roy Morgan Consumer Confidence – September. [Consumer confidence](#) rose 1 point in September to 86.4, with small improvements across most questions.

The week ahead

RBNZ sectoral lending data – August (Friday 29 September, 3:00pm). Usual story of the softening economy slowing lending. Might see a touch more mortgage borrowing from the reheating housing market.

Building Permits – August (Monday 2 October, 10:45am). Expecting recent softness to continue, but might be bumps along the way.

NZIER Quarterly Survey of Business Opinion – Q3 (Tuesday 3 October, 10:00am). Expecting a bounce in confidence in line with [ANZBO](#). Capacity utilisation up off lows; pricing and cost measures falling gradually.

GlobalDairyTrade auction (Wednesday 4 October, early am). Dairy prices are expected to lift by at least 5% at the next Global Dairy Trade event as buyers look to accumulate stocks before prices rise further.

RBNZ OCR Review – October (Wednesday 4 October, 2:00pm). Hawkish hold. See our [Preview](#).

ANZ Commodity Price Index – September (Thursday 5 October, 1:00pm)



Key forecasts and rates

	Actual			Forecast (end month)					
	Jul-23	Aug-23	Today	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
FX rates									
NZD/USD	0.620	0.594	0.597	0.590	0.610	0.610	0.620	0.630	0.630
NZD/AUD	0.925	0.919	0.928	0.908	0.897	0.897	0.886	0.875	0.875
NZD/EUR	0.562	0.547	0.565	0.541	0.550	0.540	0.544	0.543	0.543
NZD/JPY	88.2	86.7	89.0	85.6	85.4	83.0	81.8	80.6	80.6
NZD/GBP	0.482	0.469	0.489	0.465	0.473	0.462	0.463	0.463	0.463
NZ\$ TWI	71.4	69.8	70.8	68.7	69.8	69.1	69.4	69.5	69.4
Interest rates									
NZ OCR	5.50	5.50	5.50	5.75	5.75	5.75	5.75	5.50	5.25
NZ 90 day bill	5.67	5.65	5.74	5.95	6.00	5.93	5.78	5.68	5.58
NZ 2-yr swap	5.48	5.44	5.69	5.70	5.60	5.44	5.32	5.17	5.08
NZ 10-yr bond	4.68	4.87	5.25	5.25	5.25	5.25	5.25	5.00	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

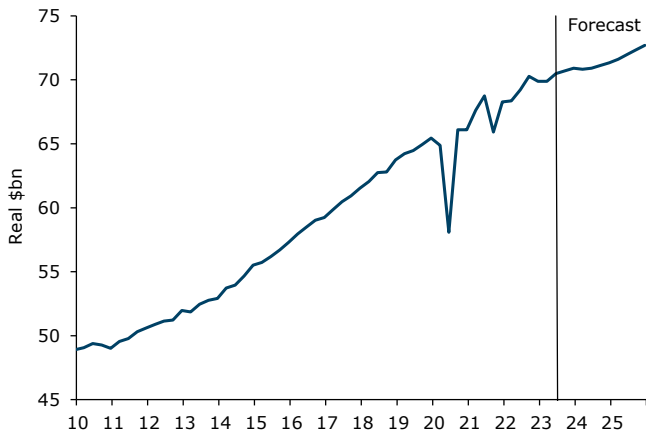


Figure 4. CPI inflation components

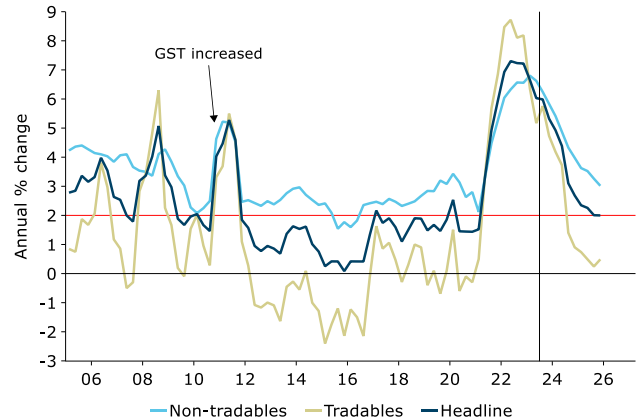


Figure 5. OCR forecast

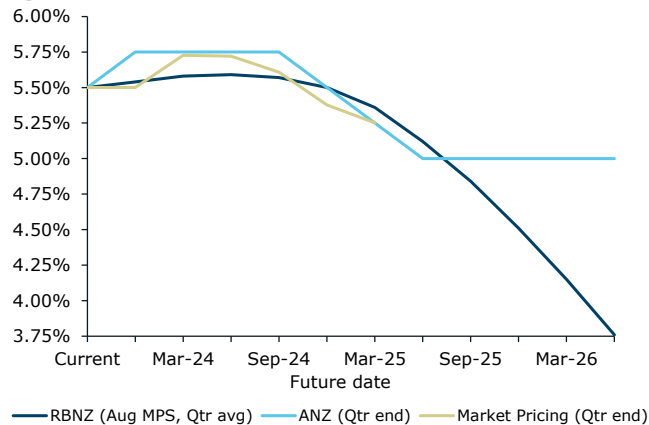
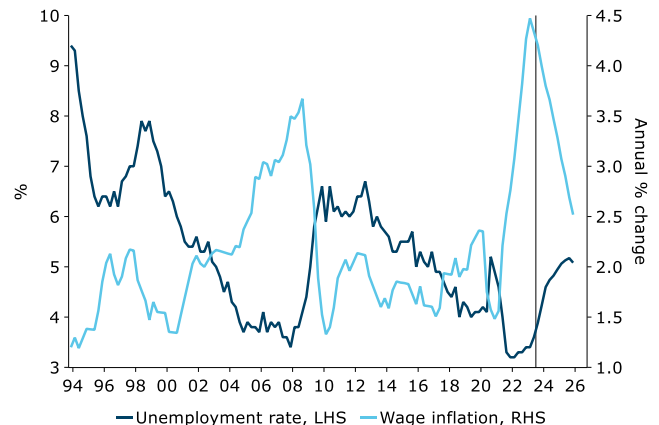


Figure 6. Unemployment and wage inflation



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



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