

New Zealand Weekly Data Wrap

27 October 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 February 2024, 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.

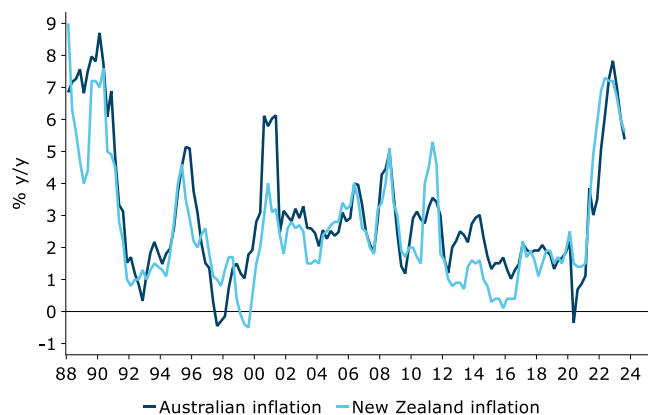


NZ's large external imbalances could see the market impose a more abrupt adjustment path.

Too hot to hold

Inflation in both Australia and New Zealand remains too high and we now expect both the RBA and RBNZ to hike their policy rates further. This week Australia's inflation for Q3 printed at 5.4%, only marginally below NZ's rate of 5.6% (figure 1). Inflation in both countries is looking like it will hang around longer than either central bank is comfortable with, because core inflation continues to be far too high.

Figure 1: New Zealand and Australia CPI inflation



Source: ABS, Stats NZ, Macrobond, ANZ Research

In Australia there was a broad-based reacceleration on a quarterly basis across several important measures.

- Non-tradables inflation reaccelerated to 1.3% q/q, pointing to an ongoing mismatch between domestic demand and supply.
- Services inflation picked up to 1.0% q/q and the reacceleration in goods inflation to 1.2% q/q is also a concern, even accounting for the sharp rise in fuel prices.
- Non-discretionary inflation jumped back up to 1.4% q/q, which is worrying given the disproportionate impact on lower-income households.

New Zealand's inflation numbers last week pointed to similar problems, despite a reasonable tick down in headline CPI. In both countries core inflation remains too high and is falling only gradually. Australia's trimmed mean inflation fell to 5.2% and the same measure in New Zealand's fell to 5.5%, still around double where the central banks would like it to be. As in Australia, non-tradeable and services inflation in New Zealand remains at levels well above what's consistent with CPI being in the target range and labour market pressures look likely to keep it there for a while yet.

In many ways, New Zealand and Australia have a shared labour market and so have a shared services inflation problem. Citizens from either country can work in the other one, meaning people head across the ditch when there are large wage differences. Right now, wages in Australia in many professions are higher than in New Zealand, meaning trained workers are leaving. This puts upward pressure on New Zealand wages as employers attempt to retain talent. This impact is being offset by record inbound migration. Nonetheless, our joint labour market will make it challenging for the RBNZ to fully resolve persistent core inflation until Australia's labour market and services inflation cools. Next week we find out how much progress the RBNZ has made on its journey back to maximum sustainable employment (MSE).



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Insight: macro impacts in New Zealand from an increase in global term rates
- NZ Insight: finding external balance
- NZ Agri Focus: regaining ground
- NZ Property Focus: going up
- NZ Property Focus: regional revelations
- NZ Economic Outlook: waiting on the last domino
- 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 Economic News

View latest data and policy releases

- NZ GDP: what recession ... but one looming?
- NZ REINZ housing data: on ice
- RBNZ MPR Review: a more sustained period of time
- NZ CPI and OCR call change: progress buys time
- NZ labour market: relatives and absolutes
- NZ PREFU 2023: more debt, more bonds, more deficits

Click [here](#) for more.



ANZ Proprietary data

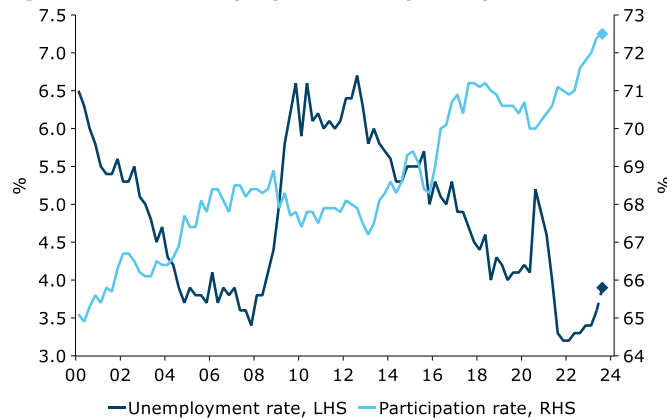
Check out our latest releases below.

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

A gradual ascent

Next week brings **Q3 labour market data**. We expect the unemployment rate lifted 0.3%pt to 3.9% in Q3, unchanged from our previous forecast. While we expect employment growth of 0.4% q/q (stronger than our previous forecast of 0.2% q/q), labour supply has grown by more than that – and by more than previously expected. The working age population rose 0.6% in Q3, and we also expect that the participation rate lifted 0.1%pt to a fresh record high of 72.5% (figure 2).

Figure 2. Our unemployment and participation rate forecast



Source: Stats NZ, Macrobond, ANZ Research

Employment growth has moderated from earlier in the year, but has proven more robust than anticipated in recent months. We attribute that to a stronger supply-side recovery. The massive influx of new migrants has likely enabled firms to finally work through previously unmet labour demand. The proportion of firms reporting labour as the primary constraint for their business has eased sharply this year, but has only returned to around pre-COVID levels, and we suspect employment levels were still recovering to some degree in Q3.

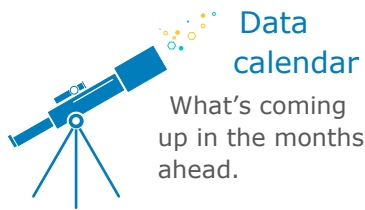
Capacity pressures in the labour market have certainly eased this year and wage growth looks to be past its peak. But the lagged response of wages is likely to result in persistent wage pressures for some time. We expect the private sector Labour Cost Index rose 1.0% q/q (4.2% y/y), and private sector average hourly earnings (ordinary time) 2.0% q/q (7.1% y/y).

The labour market has continued to ease over the past three months and is approaching sustainable levels – the level of employment that is consistent with stable inflation outcomes – though we estimate that we aren't quite there yet. However, getting to sustainable levels isn't likely to be enough for the RBNZ. The RBNZ ultimately requires a sustained period of employment *below* sustainable levels to return core inflation to target. That's hardly an appealing proposition. But if the labour market remains beyond sustainable levels for too long, we run the risk of inflation normalising above target, via stubborn inflation expectations becoming embedded in wage- and price-setting behaviour. In the long run, that's likely to be far costlier for the economy and result in worse employment outcomes for households.

We see the risks as skewed to current policy settings not being sufficient for the RBNZ to return inflation to target in an appropriate timeframe. By February, the RBNZ will have the Q4 CPI and labour market and Q3 GDP data. We expect these data to highlight continued persistence in domestic inflation, a labour market that, while meaningfully cooler, remains inflationary and an economy that is slowing, but not rolling over. We think that suite of data will prove enough evidence that there is more work to do, drawing the RBNZ back to the hiking table.



Financial markets update



Date	Data/event
Tue 31 Oct (10:45am)	Building Permits – Sep
Tue 31 Oct (1:00pm)	ANZ Business Outlook – Oct
Tue 31 Oct (3:00pm)	RBNZ Sectoral Lending – Sep
Wed 1 Nov (9:00am)	RBNZ Financial Stability Report
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
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
Tue 14 Nov (10:45am)	Rental Price Index – Oct
Wed 15 Nov (10:45am)	Electronic Card Transactions – Oct
Wed 15 Nov (10:45am)	Net Migration – Sep
Tue 21 Nov (10:45am)	Merchandise Trade – Oct
Wed 22 Nov (early am)	GlobalDairyTrade auction
Fri 24 Nov (10:00am)	ANZ Truckometer – Oct
Fri 24 Nov (10:45am)	Retail Trade – Q3
Wed 29 Nov (2:00pm)	RBNZ MPS
Thu 30 Nov (10:45am)	Building Permits – Oct
Thu 30 Nov (1:00pm)	ANZ Business Outlook – Nov
Thu 30 Nov (3:00pm)	RBNZ Sectoral Lending – Oct
Fri 1 Dec (10:00am)	ANZ-RM Consumer Confidence – Nov
Mon 4 Dec (10:45am)	Terms of Trade – Q3
Tue 5 Dec (10:45am)	Volume of All Buildings – Q3
Tue 5 Dec (1:00pm)	ANZ Commodity Price Index – Nov
Wed 6 Dec (early am)	GlobalDairyTrade auction

Interest rate markets

While both short and long-end NZ interest rates are lower than a week ago, both ends of the yield curve have been whippy, ebbing and flowing with volatile global rates. The US 10yr Treasury bond yield (often regarded as the global bellwether financial market indicator) traded to a high of 5.02% on Monday night, only to correct down to 4.84% later in the same session, before spending the rest of the week oscillating. Positioning has clearly played a role in driving volatility, but it has been encouraging to see that local interest rates have been less reactionary. One other factor suppressing both volatility and the level of local long-term interest rates was the lack of any signal of an NZGB syndication in November. We didn't expect it, but many others did, and the upshot is that the window for a deal has now effectively closed for 2023, and investors must now wait until next year for new, large-scale issuance. Amid signs that some investors were short, expecting a deal, we've seen NZGB outperform global peers. Looking further out, we still believe it'll be a challenging time for bond markets; the fiscal outlook tends to take a long time to turn, and higher yields imply higher funding costs, all of which speaks to elevated issuance. Short-end rates have been far less interesting (no pun intended), and what happens next depends on next week's labour market data, and via correlations, the following week's RBA meeting (at which we now expect a hike). Markets seem confident that the labour market has turned the corner and are now starting to ask whether another rate hike is necessary. We think one is, but even if [higher term yields](#) do some work for the RBNZ, we still think it'll be a long time before we see cuts, leaving short-end rates elevated for some time.

FX markets

The Kiwi made a new cycle low this week, falling to 0.5774 at one stage before mounting a tepid recovery. Part of the bounce can arguably be attributed to a lift in the AUD following calls for a hike there next month (suggesting that if we see an RBA hike on 7 November the Kiwi may spike higher). The big picture remains very USD-centric, and ongoing resilient US data (and an emerging 'goldilocks' vibe as growth surprises to the upside but inflation measures moderate) risks the USD remaining stronger for longer. We see that as the main threat to the Kiwi going forward.

Key data summary

Overseas Merchandise Trade – September. Goods exports fell to \$4.9bn (-18% y/y) and goods imports fell to \$7.2bn (-15% y/y)

ANZ Truckometer – September. The Light Traffic Index fell 1.3% m/m, while the [Heavy Traffic Index](#) fell 3.5% m/m.

ANZ-Roy Morgan Consumer Confidence – October. [Rose 2 points](#) to 88.1. Inflation expectations rose 0.3ppt to 4.5%, undoing much of last month's fall.

The week ahead

Building Permits – September (Tuesday 31 October, 10:45am). Likely to continue their recent downwards trend, although watch for volatility.

ANZ Business Outlook – October (Tuesday 31 October, 1:00pm).

RBNZ sectoral lending data – September (Tuesday 31 October, 3:00pm). Will mortgage lending pick up with the turned housing market?

RBNZ Financial Stability Report - November (Wednesday 1 November, 9:00am). Looking for commentary on housing market risks, which could inform debt-to-income (DTI) regulations in 2024.

Labour Market Statistics – Q3 (Wednesday 1 November, 10:45am). Unemployment slowly rising and wages slowly falling. See our [Preview](#).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Aug-23	Sep-23	Today	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
NZD/USD	0.594	0.600	0.582	0.590	0.610	0.610	0.620	0.630	0.630
NZD/AUD	0.919	0.932	0.920	0.908	0.897	0.897	0.886	0.875	0.875
NZD/EUR	0.547	0.567	0.551	0.541	0.550	0.540	0.544	0.543	0.543
NZD/JPY	86.7	89.6	87.6	85.6	85.4	83.0	81.8	80.6	80.6
NZD/GBP	0.469	0.492	0.480	0.465	0.473	0.462	0.463	0.463	0.463
NZ\$ TWI	69.8	71.5	69.4	68.7	69.8	69.1	69.4	69.5	69.4
Interest rates	Aug-23	Sep-23	Today	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
NZ OCR	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.50	5.25
NZ 90 day bill	5.65	5.74	5.64	5.83	6.07	6.10	5.93	5.82	5.57
NZ 2-yr swap	5.44	5.72	5.86	5.68	5.64	5.48	5.35	5.25	5.17
NZ 10-yr bond	4.87	5.31	5.48	5.70	5.75	5.65	5.50	5.35	5.25

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	1.8	0.9	0.7	0.6	0.9	0.4	0.4	0.5
CPI (% yoy)	6.0	5.6	5.1	4.5	4.0	3.1	2.7	2.4	2.3
Employment (% qoq)	1.0	0.4	0.0	-0.2	0.1	0.2	0.2	0.3	0.3
Employment (% yoy)	4.0	3.1	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

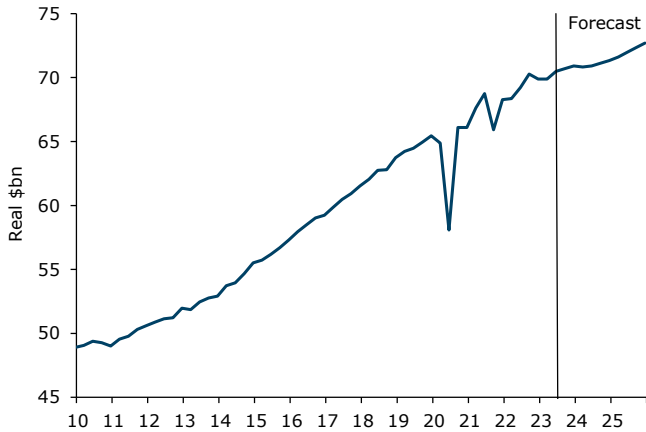
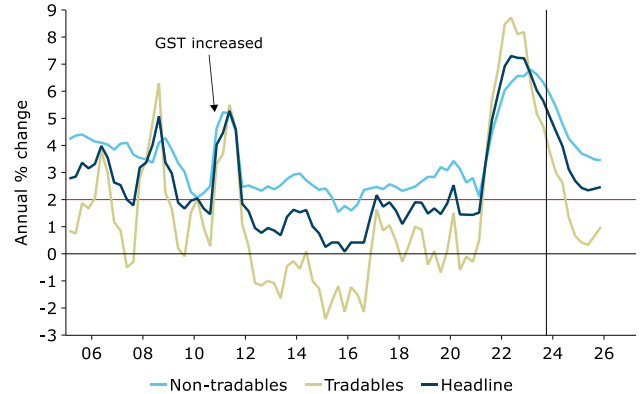
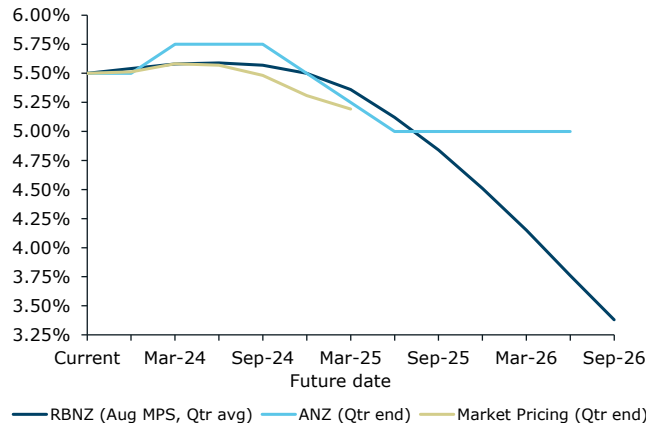


Figure 4. CPI inflation components



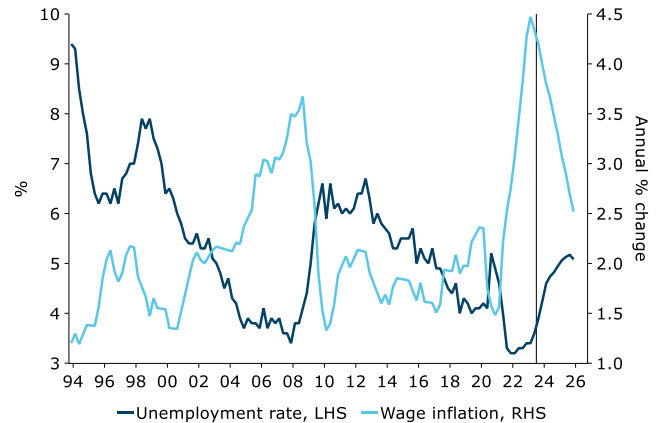
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. OCR forecast



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

Figure 6. Unemployment and wage inflation





Contact us

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