

New Zealand Weekly Data Wrap

2 February 2024



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See [page 5](#).

Forecast updates

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

- [NZ OCR Call Change - first cut now pencilled for August](#)
- [NZ Forecast Update: milk prices trend higher](#)
- [NZ Economic Outlook: ups and downs](#)
- [NZ Property Focus: renovation nation](#)

Our other recent publications are on [page 2](#).

What's the view?

- GDP data looks recessionary, particularly in per capita terms.
- Labour market loosening with rising unemployment.
- Inflation cooling, back in the RBNZ's band this year.
- OCR on hold at 5.50% until August, then steady cuts.

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 sees rents and house prices start to rise more quickly.



Sticky domestically driven inflation causes the OCR to be on hold for longer.



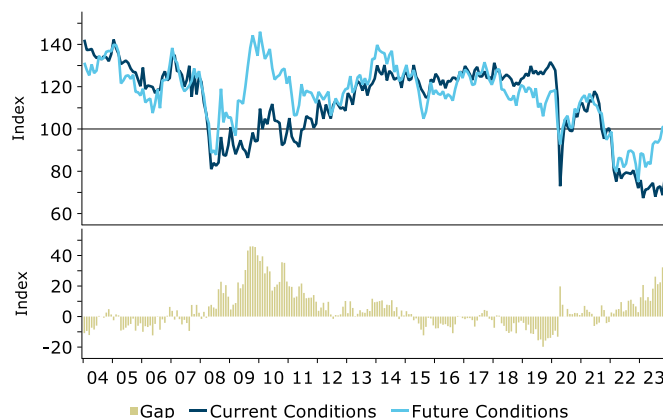
Unemployment rises more quickly and/or to a higher level than expected.

At the beach

The January [ANZ Business Outlook survey](#) was mixed. Forward-looking activity indicators were little changed (with the exception of a sharp fall in expected residential building activity, but it's volatile). On the inflation side, inflation expectations eased by 0.3%pts, but cost and price expectations are still holding up, including for retailers.

Consumers are catching onto possible price increases from retailers, with inflation expectations lifting from 3.9% to 4.3% in this week's [ANZ-Roy Morgan Consumer Confidence survey](#). Headline consumer confidence rose 1 point in January to 93.6, with perceptions of current conditions lifting 4 points, but confidence about the future falling 3 points. The wide gap between the current and forward-looking questions in the survey is starting to close. It's early days, but such a pattern is typical as an economy recovers after [a recession](#) (figure 1).

Figure 1. Closing the consumer confidence gap



Source: Roy Morgan, Macrobond, ANZ Research

In our [Property Focus](#) this week we tweaked our house price forecast and expect house prices to go sideways over the first half of this year. Forward indicators of house prices remain soft, with elevated inventories and sluggish house sales. As mortgage rates fall in the second half of this year we expect house prices to recover, as buyers who were unable to enter the market due to high servicing costs purchase homes. Our feature article this month explores whether construction is about to bottom out. The RBNZ is relying on a prolonged slowdown in residential construction as part of their plan to bring down domestic inflation, and the risk is that the slowdown will be sharper but not as prolonged as the RBNZ expects.

The odds that the RBNZ will hike the OCR again have receded as evidence of the impact of monetary policy has accumulated and inflation fallen. But the odds are not zero or even close to zero, given the mildly hawkish tone of their [Chief Economist's speech](#) this week and the amount of inflation still in the system. As things stand it's not a great baseline, as it leaves the inflation fight at the mercy of factors beyond the RBNZ's control, like oil prices and shipping costs. There's still a way to go, but we're getting there, with next week's labour market data – previewed on page 2 – an important part of the puzzle. The negative impact of high inflation on households – which has been writ large in our consumer confidence survey over recent years – suggests it's a battle worth fighting.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: Down. Then up?
- NZ Insight: house prices - impacts from proposed DTI and LVR settings
- NZ Insight: recession?
- NZ Agri Focus: long, hot summer ahead
- NZ Insight: navigating the watch-worry-wait summer
- NZ Insight: labour market capacity indicators
- NZ Insight: Coalition policy announcements
- NZ Insight: what an oil price shock could mean for inflation
- NZ Insight: macro impacts in New Zealand from an increase in global term rates



NZ Economic News

View latest data and policy releases

- NZ GDP: weaker across the board
- NZ REINZ housing data: backwards
- RBNZ MPS Review: when hawks fly
- NZ CPI Review: getting there
- NZ labour market: the ship has turned
- NZ Half-Year Update 2023 Preview: new team, new game plan

Click [here](#) for more.



ANZ Proprietary data

Check out our latest releases below.

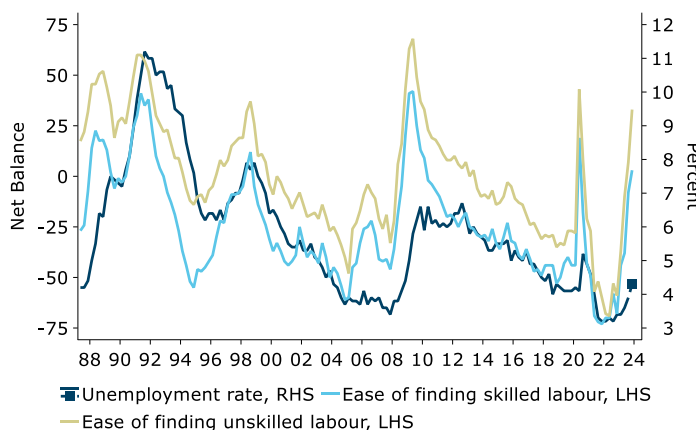
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index
- ANZ NZ Merchant and Card Spending: December 2023

Labour market – No game changer expected

The [Q4 labour market statistics](#) are released next Wednesday, the last major piece of data before the February MPS. We're anticipating that the labour market [remained on a loosening trajectory](#) in Q4, with the unemployment rate rising from 3.9% to 4.3%, a touch above the RBNZ's November forecast of 4.2%. Capacity indicators continue to suggest that slack has emerged and the labour market is no longer in an inflationary state.

While moderating labour demand as the economy slows has played a role, the ongoing surge in labour supply continues to be the key driver. Record net migration inflows have resolved reported labour constraints. [NZIER's Quarterly Survey of Business Opinion](#) (QSBO) firms reported that skilled and unskilled labour has not been easier to find since the Global Financial Crisis (GFC), outside of the initial March 2020 COVID-19 lockdown period. That's an astounding turnaround from the intense shortages experienced in 2022.

Figure 2. Difficulty finding labour vs unemployment rate



Source: Stats NZ, NZIER, Macrobond, ANZ Research

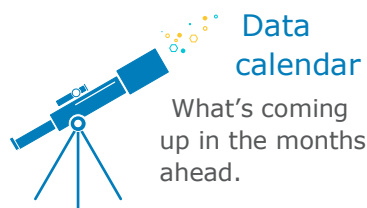
And it has occurred while labour demand has remained relatively robust, in contrast to the recessionary dynamics during the GFC. Employment levels unexpectedly contracted in the Q3 Household Labour Force Survey (HLFS) release, but it appears that may have been more survey volatility than signal, given monthly filled jobs growth has remained robust, increasing 0.5% q/q across Q4. That theme has also been evident across the NZIER's QSBO and our [Business Outlook survey](#), where hiring intentions have improved. However, falling job vacancies provide a conflicting signal.

As a result of labour supply growth continuing to outpace labour demand, wage growth, which is closely tied to domestic inflation pressures, is expected to continue to moderate. While it remains well in excess of the level consistent with CPI inflation at target, it is easing. We expect the private sector labour cost index (ordinary time) eased from 4.1% y/y to 3.7% y/y, and private sector average hourly earnings (ordinary time) eased from 7.1% y/y to 6.8% y/y. Wage growth responds to changing labour market conditions with a lag, and our suite of capacity indicators suggest there is plenty of disinflation coming down the pipeline.

All up, we don't expect the Q3 labour market data to be a game changer for the RBNZ's February meeting. Capacity pressures have faded and wage growth is now easing, which will contribute to a moderation in domestic inflation across 2024. Monetary policy is working, though the RBNZ needs to see a sustained period of slack emerge to be confident that domestic inflation pressures will dissipate. Our current estimate is that by August, conditions will be in place for the [RBNZ to begin easing policy](#) settings.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 5 Feb (1:00pm)	ANZ Commodity Price Index – Jan
Wed 7 Feb (early am)	GlobalDairyTrade auction
Wed 7 Feb (10:45am)	Labour Market – Q4
Fri 9 Feb (10:00am)	ANZ Truckometer – Jan
Tue 13 Feb (3:00pm)	RBNZ 2Yr Inflation Expectations
Wed 14 Feb (10:45am)	Electronic Card Transactions – Jan
Wed 14 Feb (10:45am)	Selected Price Indexes – Jan
Thu 15 Feb (10:45am)	Net Migration – Dec
Fri 16 Feb (10:30am)	BusinessNZ Manuf PMI – Jan
Mon 19 Feb (10:30am)	Performance Services Index – Jan
Wed 21 Feb (early am)	GlobalDairyTrade auction
Thu 22 Feb (10:45am)	Merchandise Trade – Jan
Fri 23 Feb (10:45am)	Retail Sales – Q4
Wed 28 Feb (2:00pm)	RBNZ MPS
Thu 29 Feb (1:00pm)	ANZ Business Outlook – Feb
Fri 1 Mar (10:00am)	ANZ-RM Consumer Confidence – Dec
Fri 1 Mar (10:45am)	Building Permits – Jan
Mon 4 Mar (10:45am)	Terms of Trade – Q4
Tue 5 Mar (1:00pm)	ANZ Commodity Price Index – Feb
Wed 6 Mar (early am)	GlobalDairyTrade auction
Wed 6 Mar (10:45am)	Volume of All Buildings – Q4
Thu 7 Mar (10:45am)	Economic Survey of Manufacturing – Q4
Tue 12 Mar (10:00am)	ANZ Truckometer – Feb
Tue 12 Mar (10:45am)	Electronic Card Transactions – Feb
Wed 13 Mar (10:45am)	Selected Price Indexes – Feb
Thu 14 Mar (10:45am)	Net Migration – Jan
Fri 15 Mar (10:30am)	BusinessNZ Manuf PMI – Feb

Interest rate markets

Local and global long-end interest rates have drifted lower this week, fuelled by renewed concerns around regional bank exposures to US commercial real estate. Volatility remains heightened, and although analysts have generally discounted the prospect of systemic issues, traders remain on edge, mindful of the disruptive impact on bond markets of the failure of regional banks last year. All of this has occurred against the backdrop of central banks adopting a more cautious tone, with the Fed pushing back on March as the likely timing of their first cut, the BoE warning about persistent services inflation, and the RBNZ Chief Economist echoing similar warnings in [a speech earlier this week](#). That vibe has seen short-end rates hold up, flattening yield curves here and abroad. Looking ahead, it's difficult to envisage volatility dying down given the scale of the disconnect with central bank rhetoric (even now, markets are pricing in 10bps of Fed cuts by March, and 12bp of RBNZ cuts by May), and the outsized impact tail risks are having on bond yields. Tonight also sees the release of US payrolls data, which will be crucial for Fed policy, and next week we get local Q4 labour market data, which is the last piece of tier-one data released before the RBNZ's February Monetary Policy Statement. Our sense is that the risks to interest rates at both ends of the curve are skewed to the upside, but we acknowledge that markets will struggle to ignore tail risks.

FX markets

The Kiwi has also had a volatile week, and although we think there are more reasons to be bullish than bearish, there are downside risks too. As we noted in this week's NZD Insight, while we are forecasting mild NZD strength over 2024, crosscurrents aplenty speak to continued volatility and range-trading. The yen has been the main beneficiary of US regional bank woes this week, and that has weighed on NZD/JPY. But going the other way, NZD/AUD has appreciated, confounding consensus expectations for weakness. That move may have further to go given pleasing Australian CPI data earlier in the week, which should cement market expectations for RBA cuts by H2 and given the RBNZ's much less dovish tone. But volatility could be the winner this month.

Key data summary

Employment Indicators – December. Filled jobs rose 0.2% m/m.

Overseas Merchandise Trade – December. The trade deficit narrowed to \$323 million as imports of machinery and fertiliser fell while softer dairy exports, particularly to China, curbed export returns.

ANZ Business Outlook – January. [Business confidence](#) rose 4 points to +37 in January, while expected own activity fell 3 points to +26.

ANZ-Roy Morgan Consumer Confidence – January. [Consumer confidence](#) rose 1 point in January to 93.6. Inflation expectations lifted.

Building Permits – December. Lifted 3.7% m/m. Volatile.

The week ahead

ANZ Commodity Price Index – January (Monday 5 February, 1:00pm).

GlobalDairyTrade auction (Wednesday 7 February, early am). Expecting another 2% lift as global milk supplies start to tighten.

Labour Market Statistics – Q4 (Wednesday 7 February, 10:45am). We expect the unemployment rate rose from 3.9% to 4.3% in Q4, with expanding employment more than offset by labour supply growth. See our [Preview](#).

ANZ Truckometer – January (Friday 9 February, 10:00am).



Key forecasts and rates

		Actual			Forecast (end month)				
FX rates	Dec-23	Jan-24	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZD/USD	0.632	0.612	0.614	0.620	0.620	0.630	0.630	0.640	0.640
NZD/AUD	0.927	0.930	0.935	0.912	0.899	0.900	0.900	0.901	0.901
NZD/EUR	0.572	0.565	0.565	0.559	0.549	0.553	0.548	0.552	0.552
NZD/JPY	89.1	90.4	89.9	86.8	85.6	86.3	85.7	85.8	84.5
NZD/GBP	0.496	0.483	0.482	0.477	0.470	0.474	0.470	0.474	0.474
NZ\$ TWI	72.5	71.5	71.7	70.9	70.2	70.8	70.4	71.1	70.8
Interest rates	Dec-23	Jan-24	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZ OCR	5.50	5.50	5.50	5.50	5.50	5.25	4.75	4.50	4.00
NZ 90 day bill	5.64	5.67	5.67	5.52	5.18	4.68	4.40	3.97	3.75
NZ 2-yr swap	4.64	4.78	4.77	4.90	4.52	4.21	4.03	3.89	3.89
NZ 10-yr bond	4.32	4.56	4.53	4.75	4.50	4.25	4.00	3.75	3.75

Economic forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
GDP (% qoq)	-0.3	0.0	0.2	0.2	0.3	0.4	0.4	0.5	0.5
GDP (% yoy)	-0.6	0.0	0.4	0.1	0.7	1.1	1.3	1.6	1.8
CPI (% qoq)	1.8	0.5	0.7	0.4	0.8	0.3	0.5	0.5	0.8
CPI (% yoy)	5.6	4.7	4.1	3.4	2.5	2.3	2.1	2.3	2.2
Employment (% qoq)	-0.2	0.2	-0.3	-0.1	0.1	0.1	0.2	0.2	0.3
Employment (% yoy)	2.4	2.0	0.7	-0.4	-0.1	-0.2	0.3	0.6	0.8
Unemployment Rate (% sa)	3.9	4.3	4.7	4.9	5.0	5.1	5.2	5.3	5.2

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

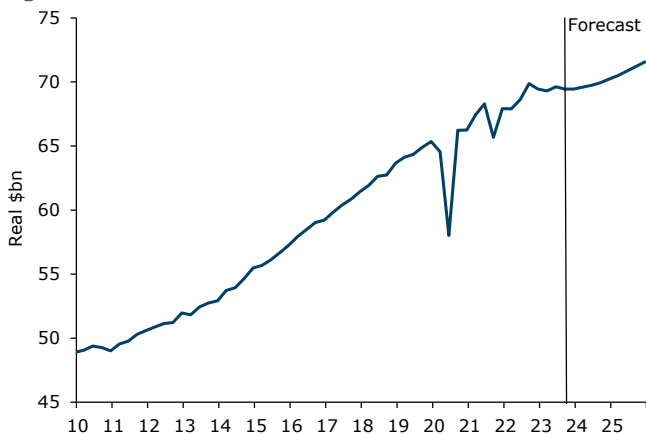


Figure 4. CPI inflation components

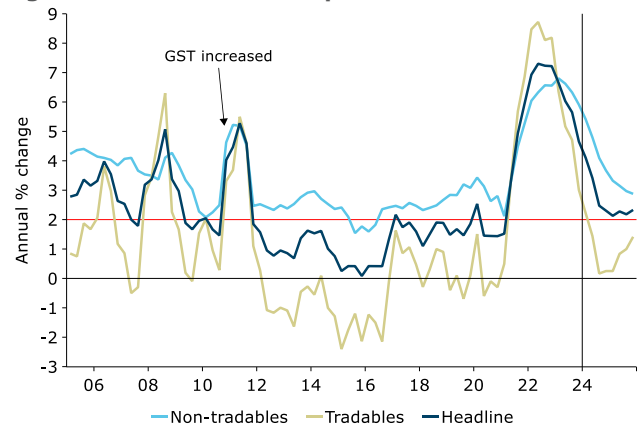


Figure 5. OCR forecast

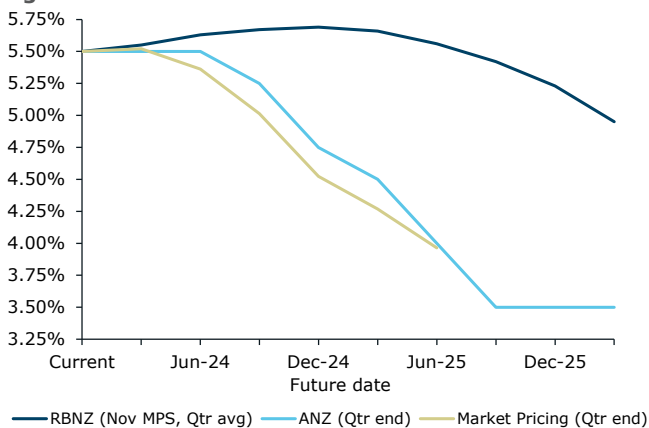
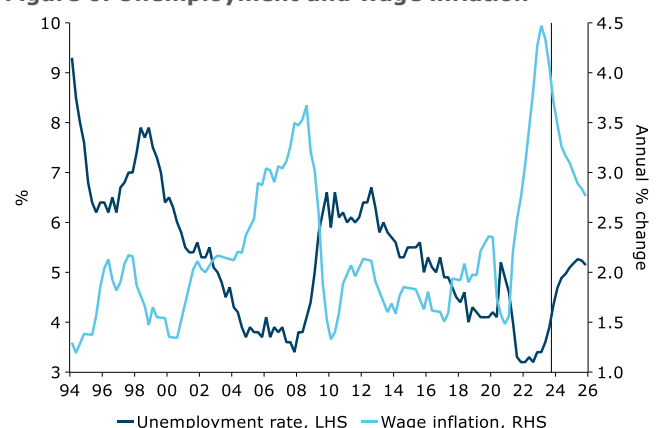


Figure 6. Unemployment and wage inflation



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



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