

New Zealand Weekly Data Wrap

23 February 2024



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See [page 5](#).

Our forecasts are on [page 4](#).

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NZ Economic News

ANZ's latest data releases, forecast updates and insights

- [NZ Forecast Update: milk price revised up](#)
- [RBNZ MPS Preview: To be sure](#)
- [NZ Property Focus: cruel summer](#)
- [NZ Economic Outlook: calibrating the landing](#)
- [NZ Agri Focus: harvest time](#)
- [NZ REINZ housing data: prices strong, everything else weak](#)
- [NZ OCR Call Change – 25bp hikes in Feb and April](#)
- [NZ labour market: hawkish surprise brings Feb into play](#)
- [NZ Insight: house prices - impacts from proposed DTI and LVR settings](#)
- [NZ GDP: weaker across the board](#)
- [NZ CPI Review: getting there](#)
- [RBNZ MPS Review: when hawks fly](#)
- [NZ Insight: Coalition policy announcements](#)

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Doing nothing is also a risky option

Household inflation expectations data this week were in the 'concerning' bucket for the RBNZ, likely offsetting any optimism from the more reassuring results in their survey of businesses and professional forecasters.

Recent RBNZ research has found that one-year household inflation expectations is the [best survey measure](#) of inflation expectations for improving their inflation forecasts and that households have [stickier inflation expectations](#) during periods of high inflation. This measure was mixed, with the mean making slow progress, falling 0.4%pts to 5.0%, and the median remaining flat at 5.0%, consistent with our [consumer confidence survey](#), which shows expectations are sticky at key thresholds such as 5%.

The 1000 people the household survey covers, on average, now believe that inflation in five years' time will still be outside the RBNZ's 1-3% target band at 3.6%, above their well-anchored 2.1% expectations in last quarter's survey. This measure is now equal to its all-time high from mid-2022 when inflation was surging. However, we caution this time series has only a short history, meaning we cannot assess its typical volatility or 'normal' level.

This week's GDT auction continued a string of recent rises in dairy prices as global milk supplies have tightened. Overall, milk prices lifted 0.5% since the last auction, led by a 1.3% lift in skim milk powder. Whole milk powder prices fell 1.8%, somewhat offsetting modest rises in other products. The recent run of improving dairy auctions has led us to [revise up](#) our farmgate milk price forecast for the 2023-24 season by 15c to \$7.85/kg milksolid.

Figure 1. Farmgate milk prices



Source: Fonterra, GDT, ANZ Research

In our [February Property Focus](#), out this week, we describe the housing market as 'stagnant'. While January house prices were stronger than we expected, sales were abnormally soft, listings continue to rise and days to sell are back near their 2022 peaks, especially in Auckland.

Our expectation for further lifts in the OCR (discussed over the page), puts the risk of further house price falls back on the table. At this stage, it's a risk only, because house prices remain robust in the face of a deteriorating outlook. We still expect house prices to go broadly sideways over the first half of this year, but the picture is looking a lot less certain than it was at the end of last year.



Looking ahead



ANZ Proprietary data

Check out the latest releases below.

- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index
- ANZ NZ Merchant and Card Spending: January 2024

To be sure

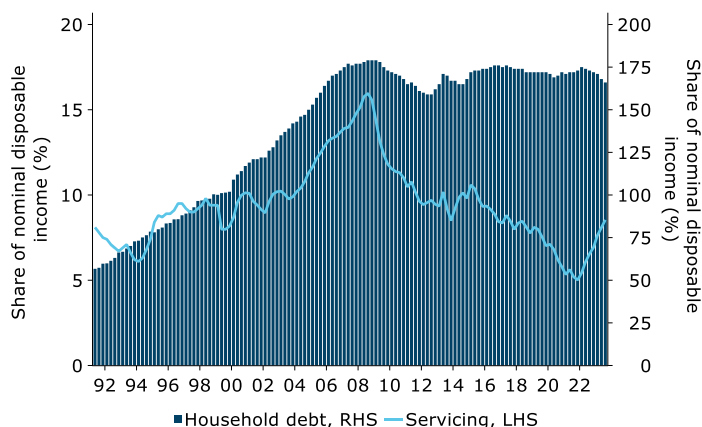
We **expect the RBNZ** to hike the OCR to 5.75% next week, and to publish an OCR track that gives a decent hat-tip to the possibility of a follow-up hike in April (with a peak of perhaps 5.85%). We don't expect the RBNZ's medium-term forecasts for either activity or inflation to have changed significantly, with the higher OCR track bringing about the prolonged period of subdued growth that is necessary to bring inflation down. The second-tier data since we **changed our OCR call** almost two weeks ago has been a mixed bag, as expected, with none of it likely to have a big impact on the RBNZ's forecasts.

In practice, the track – and indeed the decision itself – will depend partly on strategy, but will depend most heavily on how the forecasters and ultimately the Committee interpret the data that's come out since November. Our call is predicated on taking what the Committee said at that time at face value: that "If inflation pressures were to be stronger than anticipated, the OCR would likely need to increase further." Data since then has been a series of small but pretty consistent surprises in that direction.

The OCR isn't anywhere close to its 2008 peak (8.25%), unlike policy rates in the US, the UK, or the euro area. And that's even though non-tradable inflation is *still* more than a percent higher than where it peaked in that business cycle, and household debt relative to income is lower than it peaked in 2008 (and falling). The RBNZ now estimates that the neutral OCR in 2007 was 5.5%, and non-tradable inflation was running at 4% then, not 6%.

The shock value of the speed of the increase in rates is absolutely real, and it's hurting. But rates aren't actually that high in a historical context. Even with our two extra hikes we forecast the household debt servicing burden will peak around 11% of income, compared to a peak of over 15% in 2008 (figure 2). Households that borrowed in the 2021 property bubble are bearing the brunt of that burden, but most households are in good shape. That's good news on every front except potentially inflation. That's the rub.

Figure 2. Household debt and debt servicing burden

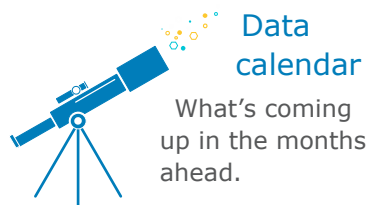


Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Hiking the OCR into a weaker economy is of course risky and the Committee might be reluctant. But if they decide not to hike at this meeting, we would expect them to set the bar very low for a hike in April. Their confidence that a 5.5% OCR is going to do the job (at least in an acceptable time frame, and possibly at all) has been slowly but steadily eroded since they called a pause in May last year. It's an exercise in balancing the risks of under-achieving and over-achieving in terms of getting inflation down, ie the risk of inflation staying above the top of the 1-3% target band versus going out the bottom. The risks have clearly tilted towards the former, and in our view, two more hikes would rebalance those risks appropriately.



Financial markets update



| Date | Data/event |
|-----------------------|--|
| 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 – Feb |
| 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 |
| Mon 18 Mar (10:30am) | Performance Services Index – Feb |
| Wed 20 Mar (early am) | GlobalDairyTrade auction |
| Wed 20 Mar (10:45am) | Current Account – Q4 |
| Thu 21 Mar (10:45am) | GDP – Q4 |
| Fri 22 Mar (10:45am) | Merchandise Trade – Feb |
| Wed 27 Mar (1:00pm) | ANZ Business Outlook – Mar |
| Thu 28 Mar (10:00am) | ANZ-RM Consumer Confidence – Mar |
| Wed 3 Apr (early am) | GlobalDairyTrade auction |
| Wed 3 Apr (1:00pm) | ANZ Commodity Price Index – Mar |
| Thu 4 Apr (10:45am) | Building Permits – Feb |
| Wed 10 Apr (2:00pm) | RBNZ MPR |
| Thu 11 Apr (10:00am) | ANZ Truckometer – Mar |
| Fri 12 Apr (10:30am) | BusinessNZ Manuf PMI – Mar |

Interest rate markets

Market expectations for monetary policy continue to ebb and flow globally and locally, creating volatility amid a gradual rise in short-end interest rates. The main theme in the US has been a push-back (via speeches from senior Fed officials) against the idea of early Fed cuts, whereas locally, with the RBNZ in blackout ahead of next week's MPS, it has been market positioning and navel-gazing driving moves. We remain of the view that a hike is on the cards, with the next-most-likely option a hawkish statement flagging a hike later (via another lift to the RBNZ's OCR track and a shift in the onus on the data to make the case *not* to hike, rather than the burden of proof being on making the case to hike). Either of those would see short-end rates go higher or hold near current levels. For rates to fall meaningfully, we'd need to see the RBNZ both hold and strike a dovish tone, and we just don't see that as a likely outcome. Long-end rates are little changed, having already risen in anticipation of the issue of the new 2054 government bond, which went ahead successfully this week, with \$4bn issued. But while yields have retraced slightly following the deal, they remain under threat from rising US and global bond yields, with markets worried about accelerating US data, a risk-on vibe (evident in surging equities) and worries that the Fed may not ease by as much as is priced into markets this year. Our forecasts have bond yields peaking a little higher than current levels, and only coming down because of our expectation of lower US yields, but the latter could be at risk if US data continues to surprise to the upside.

FX markets

The Kiwi continues to benefit from higher interest rates, especially against currencies with lower rates like the AUD and JPY. The USD itself has proven to be resilient (as rates there also rise and data surprises to the upside), but if the RBNZ does hike next week, we think that'll drive the Kiwi higher still.

Key data summary

Performance Services Index – January. Back in expansionary territory at 52.1, up from 48.8 in December.

GlobalDairyTrade auction. The Global Dairy Trade Index lifted 0.5% from the last auction. Skim milk powder led the lift, rising 1.3%. Whole milk powder fell 1.8%, somewhat offsetting small rises in other dairy products.

Overseas Merchandise Trade – January. The merchandise trade balance printed at -\$976m, broadly in line with our expectations.

The week ahead

RBNZ Monetary Policy Statement – February (Wednesday 28 February, 2:00pm). We're picking a hike. See our [Preview](#) and [call change](#).

ANZ Business Outlook – February (Thursday 29 February, 1:00pm).

ANZ-Roy Morgan Consumer Confidence – February (Friday 1 March, 10:00am).

Building Permits – January (Friday 1 March, 10:45am). Expecting the broad downtrend to continue, although this survey is always volatile.



Key forecasts and rates

| FX rates | Actual | | | Forecast (end month) | | | | | |
|----------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
| | Dec-23 | Jan-24 | Today | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 |
| NZD/USD | 0.632 | 0.612 | 0.620 | 0.620 | 0.620 | 0.630 | 0.630 | 0.640 | 0.640 |
| NZD/AUD | 0.927 | 0.930 | 0.946 | 0.912 | 0.899 | 0.900 | 0.900 | 0.901 | 0.901 |
| NZD/EUR | 0.572 | 0.565 | 0.563 | 0.559 | 0.549 | 0.553 | 0.548 | 0.552 | 0.552 |
| NZD/JPY | 89.1 | 90.4 | 93.3 | 86.8 | 85.6 | 86.3 | 85.7 | 85.8 | 84.5 |
| NZD/GBP | 0.496 | 0.483 | 0.490 | 0.477 | 0.470 | 0.474 | 0.470 | 0.474 | 0.474 |
| NZ\$ TWI | 72.5 | 71.5 | 72.6 | 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 |
| | 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 | 5.75 | 6.00 | 6.00 | 6.00 | 5.75 | 5.00 |
| NZ 90 day bill | 5.64 | 5.67 | 5.71 | 6.09 | 6.05 | 5.74 | 5.50 | 4.92 | 4.30 |
| NZ 2-yr swap | 4.64 | 4.78 | 5.24 | 5.2 | 4.89 | 4.55 | 4.21 | 3.92 | 3.72 |
| NZ 10-yr bond | 4.32 | 4.56 | 4.83 | 5.00 | 4.75 | 4.50 | 4.25 | 4.25 | 4.25 |

Economic forecasts

| | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 |
|--------------------------|--------|------------|------------|------------|-------------|------------|------------|------------|------------|
| GDP (% qoq) | -0.3 | 0.4 | 0.4 | 0.2 | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 |
| GDP (% yoy) | -0.6 | 0.4 | 1.0 | 0.7 | 1.1 | 0.9 | 0.8 | 1.0 | 1.4 |
| CPI (% qoq) | 1.8 | 0.5 | 0.6 | 0.5 | 0.9 | 0.4 | 0.5 | 0.5 | 0.8 |
| CPI (% yoy) | 5.6 | 4.7 | 4.0 | 3.5 | 2.6 | 2.5 | 2.3 | 2.2 | 2.1 |
| Employment (% qoq) | -0.1 | 0.4 | 0.2 | 0.0 | -0.1 | 0.0 | 0.1 | 0.2 | 0.2 |
| Employment (% yoy) | 2.7 | 2.4 | 1.5 | 0.5 | 0.5 | 0.1 | 0.0 | 0.2 | 0.5 |
| Unemployment Rate (% sa) | 3.9 | 4.0 | 4.2 | 4.4 | 4.6 | 5.0 | 5.2 | 5.3 | 5.4 |

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

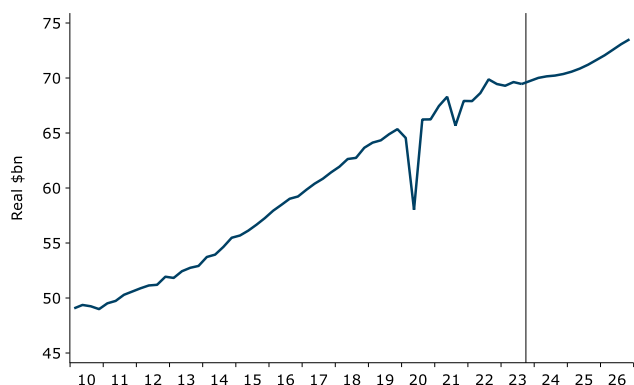


Figure 4. CPI inflation components

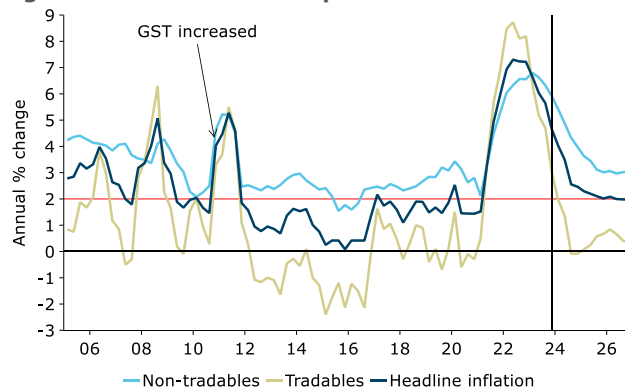


Figure 5. OCR forecast

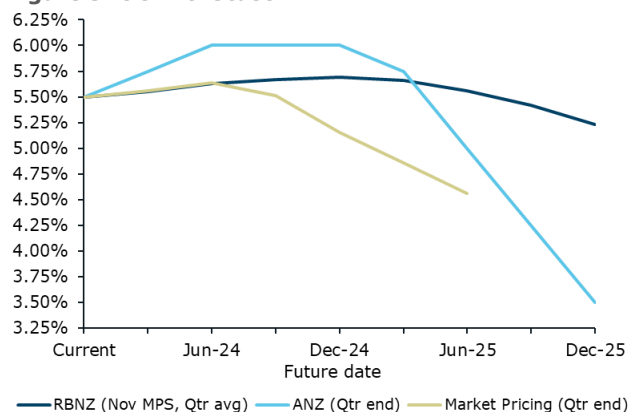
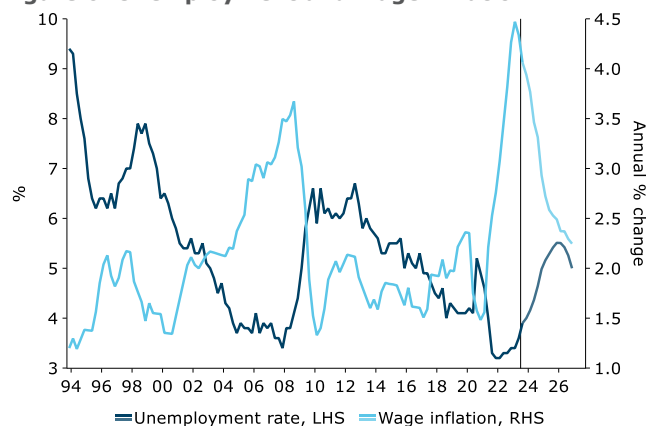


Figure 6. Unemployment and wage inflation



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



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