

New Zealand Weekly Data Wrap

26 July 2024



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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: June 2024](#)

Key forecasts and rates

Our forecasts can be found on [page 4](#).

Glossary

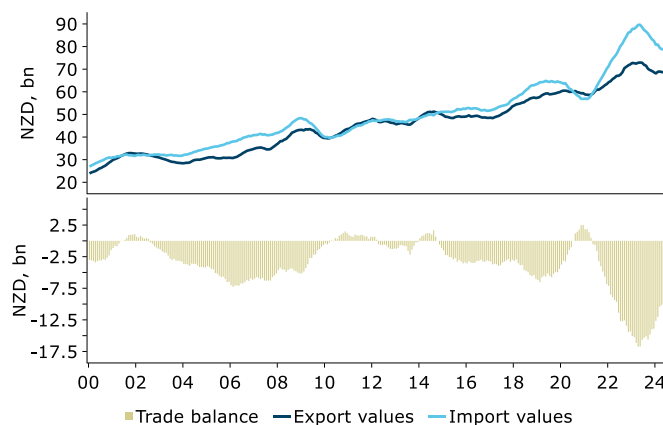
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Transitioning to sustainable levels

New Zealand's annual trade deficit narrowed to \$9.4bn in June, a marked improvement from the record deficit of over \$17bn recorded in the year to May 2023, but still far from a level anyone could call sustainable. A confluence of factors has been behind the deterioration in the trade balance over recent years. Monetary and fiscal stimulus through the pandemic drove a surge in import demand, exacerbated by consumption patterns shifting from services to goods due to public health restrictions. This phenomenon occurred synchronously across the global economy, and fractured global supply chains could not keep up, seeing prices surge. Meanwhile, severe weather disruption to primary production weighed on export volumes.

The trade deficit is improving, though the adjustment will take some time. Restrictive interest rate settings are curtailing import demand, while import prices are easing in line with weakening global demand and the post-COVID normalisation in global supply chains. Import values fell sharply in June, down 13% y/y. While that in part reflected falls in fuel and intermediate goods, which are volatile month to month, weak domestic demand is also clearly weighing. Capital goods excluding transport equipment are down nearly 13% in the past year, consumption goods are down 9%, and passenger vehicles are down 22%. Though import data paint a fairly grim picture of the state of the domestic economy, it does reflect the necessary adjustment to get the economy back on a more sustainable footing.

Figure 1. Annual trade balance



Source: Stats NZ, Macrobond, ANZ Research

But the recovery in the trade balance is not without its challenges. Export returns are under pressure due to weak demand from China, our largest trading partner, while primary production volumes have yet to fully recover from the impacts of last year's severe weather events. Export values were down 0.1% y/y in June. We discuss the impact of weak demand from China over the page.

In other news this week, ANZ-Roy Morgan Consumer Confidence rose 5 points in July to 87.9, though it still remains very low. The lift was driven by improving expectations rather than the here and now. The future conditions index made up of forward-looking questions rose 9 points from 87.0 to 95.7, in contrast to the current conditions index, which fell a point to 76.2. The Kiwi consumer clearly remains in a very cautious mood, but the light at the end of the tunnel is getting brighter. There was a hint in this month's survey that consumers are perhaps starting to feel a little optimism that the worst will soon be past.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- [NZ Insight: China consumer caution impacting NZ exports](#)
- [NZ Insight: Draft Emissions Reduction Plan](#)
- [NZ OCR Call Change: 25bp cut in November](#)
- [NZ CPI Review: reassuring](#)
- [NZ REINZ housing data: a very chilly June](#)
- [RBNZ MPR Review: watch this space](#)
- [NZ Property Focus: on ice](#)
- [NZ Agri Focus: brighter days ahead](#)
- [NZ GDP: kicking off 2024 with a tiny bounce](#)
- [ANZecdotes – June 2024](#)
- [NZ Insight: non-tradable inflation – a waiting game](#)
- [NZ Property Focus: soggy – and unaffordable](#)
- [NZ Budget 2024: fiscal reshuffle not a game-changer for the economic outlook](#)
- [RBNZ MPS Review: get back in your box](#)
- [NZ Economic Outlook: the ducks are lining up](#)
- [NZ labour market: softening](#)
- [NZ Property Focus: looking for a signal from Auckland](#)
- [NZ Agri Focus: high and dry](#)
- [NZ CPI Review: strong underbelly](#)
- [NZ Property Focus: buy vs rent](#)
- [NZ Insight: new Government, new fiscal strategy](#)
- [NZ Forecast Update: milk price revised up](#)
- [NZ Property Focus: cruel summer](#)
- [NZ Half-Year Update 2023 Preview: new team, new game plan](#)
- [NZ Insight: house prices - impacts from proposed DTI and LVR settings](#)
- [NZ Insight: labour market capacity indicators](#)
- [NZ Insight: what an oil price shock could mean for inflation](#)

Click [here](#) for more.

Reduced confidence amongst Chinese consumers impacts export demand

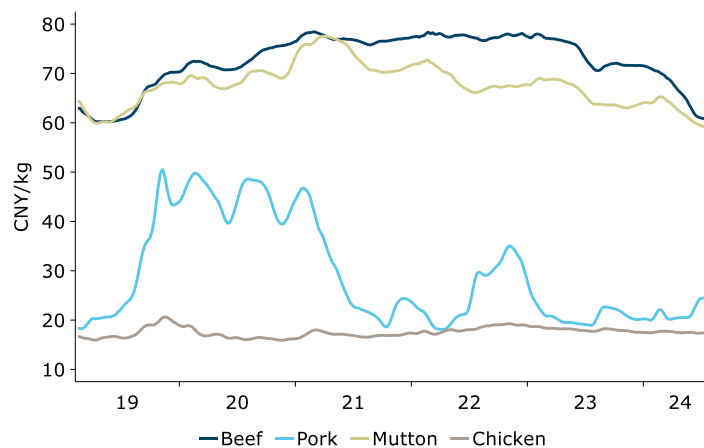
China's economy is adjusting from a heavy focus on property investment and export returns to an economy that is driven more by domestic consumption. Or at least, that is the long-term plan!

Unfortunately, the marked downturn in the property market and reduced employment opportunities have eroded confidence amongst Chinese consumers. This lack of confidence is reflected in reduced demand for imported goods, including the high-quality foods that New Zealand supplies (see our full insight note [here](#)).

New Zealand is the largest supplier of both dairy products and raw logs to China. In both of these sectors kiwi exporters have managed to win a higher share of a shrinking market, but there has been downward pressure on prices.

Meat import prices are under pressure due to ample supply of domestic pork in recent years. In 2019 China's pig population was decimated by African Swine Fever. That resulted in increased demand and higher prices for imported beef and mutton. This trend has since reversed, and cautious consumers are again favouring cheaper locally produced meats such as pork.

Figure 2. China's wholesale meat prices



Source: MoA, Macrobond, ANZ Research

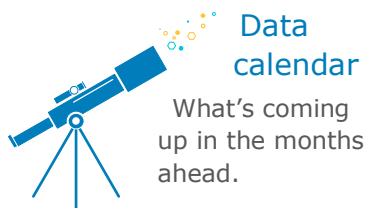
China's economy is still highly dependent on export income. One recent success story, a rapidly rising share of global electric vehicle production, is also a vulnerability as both the US and the EU have plans to significantly increase tariffs on electric vehicles imported from China. The EU is planning tariffs of up to 37%, while the US is planning a 100% tariff on EVs along with significant tariffs on steel and aluminium. Tariffs of this scale are expected to significantly reduce demand for Chinese exports.

While China's economy continues to struggle, its demand for the products that New Zealand supplies is also likely to remain subdued. It is expected to take several years for China's property market to recover and this has been one of the drivers of lower confidence amongst Chinese consumers, as well as reduced demand for logs for construction timber.

The low returns are also impacting China's own dairy and beef producers. These farms are highly reliant on imported feeds due to the lack of arable land in China. This makes it very expensive to produce beef and milk in China and we are starting to see a contraction in output as a result. The expected reduction in supply within China may help the markets rebalance more quickly than if we just a matter of waiting for demand to lift. But overall import demand from China is nonetheless expected to be subdued for some time yet.



Financial markets update



Date	Data/event
Mon 29 Jul (10:45am)	Employment Indicators – Jun
Wed 31 Jul (10:45am)	Building Permits – Jun
Wed 31 Jul (1:00pm)	ANZ Business Outlook – Jul
Mon 5 Aug (1:00pm)	ANZ Commodity Price Index – Jul
Wed 7 Aug (early am)	Global Dairy Trade auction
Wed 7 Aug (10:45am)	Labour Market – Q2
Thu 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectations – Q3
Tue 13 Aug (10:45am)	Net Migration – Jun
Wed 14 Aug (2:00pm)	RBNZ MPS
Thu 15 Aug (10:45am)	Selected Price Indexes – Jul
Thu 15 Aug (10:45am)	Electronic Card Transactions – Jul
Fri 16 Aug (10:45am)	BusinessNZ Manuf PMI – Jul
Mon 19 Aug (10:30am)	Performance Services Index – Jul
Tue 20 Aug (10:45am)	Merchandise Trade – Jul
Wed 21 Aug (early am)	Global Dairy Trade auction
Fri 23 Aug (10:45am)	Retail Sales – Q2
Wed 28 Aug (10:45am)	Employment Indicators – Jul
Thu 29 Aug (1:00pm)	ANZ Business Outlook – Aug
Fri 30 Aug (10:00am)	ANZ-RM Consumer Confidence – Aug
Fri 31 Aug (10:45am)	Building Permits – Jul
Tue 3 Sep (10:45am)	Terms of Trade – Q3
Wed 4 Sep (early am)	Global Dairy Trade auction
Wed 4 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Fri 6 Sep (10:45am)	Volume of All Buildings – Q2
Tue 10 Sep (10:45am)	Economic Survey of Manufacturing – Q2
Wed 11 Sep (10:45am)	Net Migration – Jul
Thu 12 Sep (10:45am)	Selected Price Indexes – Aug

Interest rate markets

The market continues to put decent odds on the possibility of an August start for the RBNZ's easing cycle (now 66% priced in). We continue to see that as relatively low probability. Globally, the bellwether US 10-year yield has pushed higher over the week despite markets pricing in slightly deeper rate cuts from the Fed over the coming 12 months or so. In other news this week, New Zealand Debt Management (NZDM) announced that subject to market conditions, a new May-2036 nominal bond is expected to be launched via syndication before 30 September 2024 (the syndicate panel is yet to be announced). The timing does not come as a surprise, but we had expected the next new bond to be something a little longer (eg a 2039). While there's no AOFM equivalent, there is certainly a sizable investor base at the 10y tenor, which has also been the best-performing part of the curve of late. Now, the market will be questioning how large this deal could be. Assuming a tender run rate of \$500m per week, and the fact that NZDM have signalled there will be three syndications this fiscal year (comprised of one new bond, and two taps of existing lines), that equates to around \$4.5bn per syndication. But given there could be solid demand for this line, and the fact that it's early in the fiscal year, a larger deal could be deemed relatively easy to achieve.

FX markets

It's been an eventful week for FX markets. JPY has outperformed this week as markets weigh up the possibility of the BoJ hiking at its policy meeting next week. Meanwhile, currencies seen as closely linked to the underlying state of demand in China have come under pressure this week. The People's Bank of China cut its 7-day reverse repo rate by 10bp on Monday, promoted by lower-than-expected Q2 GDP of below 5%. Weaker sentiment around China has seen prices for industrial metals and other commodities drift lower, taking AUD along for the ride. NZD has not been immune, with the NZD trade-weighted index down 2.0% over the week. Meanwhile, USD is little changed with DXY close to where it started the week at the time of writing. There's been a fair amount of political news for markets to digest this week following news that President Biden will drop out of the presidential race, but perhaps more important for FX and rates markets will be tonight's US core PCE data for June, where market expectations are for a 0.2% m/m rise.

Key data summary

Overseas Merchandise Trade – June (Monday 22 July, 10:45am). A monthly surplus of \$699m saw the annual deficit narrow to \$9.399bn. Exports fell 11.8% m/m and imports fell 21.1% m/m in June.

ANZ-Roy Morgan Consumer Confidence – July. [Consumer Confidence](#) rose 5 points in July to 87.9.

The week ahead

Monthly Employment Indicators – June (Monday 29 July, 10:45am). A small contraction of around -0.2% m/m would be consistent with our HLFS employment growth forecast of -0.1% q/q, but anything weaker than this would present downside risks to our forecast. Weekly data suggest the June MEI could indeed come in weaker than -0.2% m/m. We'll be finalising our Q2 labour market forecasts next week – keep an eye out for our Preview.

Building Permits – June (Wednesday 31 July, 10:45am). These data can be volatile month to month, but recent releases point to some downside risk around our residential investment forecast for activity to bottom out late 2024/early 2025.

ANZ Business Outlook – July (Wednesday 31 July, 1:00pm).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD/USD	0.614	0.609	0.589	0.610	0.620	0.620	0.620	0.630	0.630
NZD/AUD	0.923	0.913	0.900	0.910	0.899	0.886	0.886	0.887	0.887
NZD/EUR	0.566	0.569	0.543	0.560	0.564	0.554	0.544	0.543	0.534
NZD/JPY	96.6	98.0	90.5	91.5	91.8	89.3	88.0	88.2	85.7
NZD/GBP	0.482	0.482	0.458	0.477	0.477	0.470	0.459	0.463	0.463
NZ\$ TWI	72.3	71.9	69.5	71.2	71.5	70.8	70.3	70.9	70.5

Interest rates	Actual			Forecast (end month)					
	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZ OCR	5.50	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50
NZ 90 day bill	5.63	5.63	5.48	5.38	5.18	4.68	4.18	3.68	3.60
NZ 2-yr swap	5.10	4.96	4.20	4.16	3.94	3.77	3.65	3.60	3.60
NZ 10-yr bond	4.81	4.67	4.43	4.50	4.25	4.25	4.25	4.25	4.50

Economic forecasts

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (% qoq)	0.2	-0.1	0.2	0.2	0.3	0.4	0.5	0.6	0.6
GDP (% yoy)	0.3	-0.3	0.2	0.5	0.6	1.1	1.4	1.8	2.1
CPI (% qoq)	0.6	0.4	1.0	0.3	0.4	0.6	0.8	0.2	0.4
CPI (% yoy)	4.0	3.3	2.6	2.4	2.1	2.4	2.1	2.0	2.0
Employment (% qoq)	-0.2	-0.1	-0.3	-0.1	0.0	0.1	0.2	0.3	0.4
Employment (% yoy)	1.3	0.1	-0.2	-0.7	-0.5	-0.3	0.2	0.6	1.0
Unemployment Rate (% sa)	4.3	4.6	4.9	5.1	5.2	5.4	5.4	5.5	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

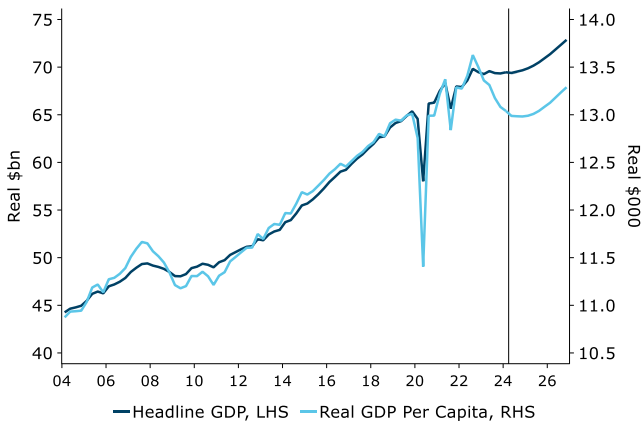


Figure 4. CPI inflation components

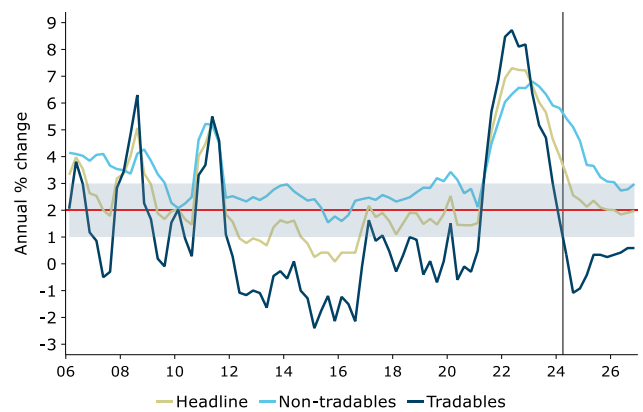


Figure 5. OCR forecast

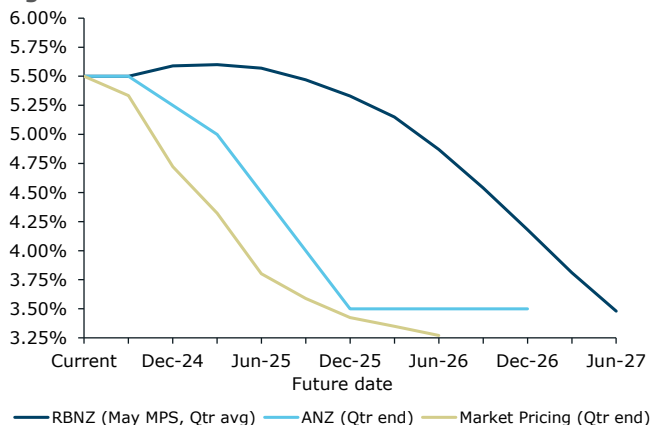
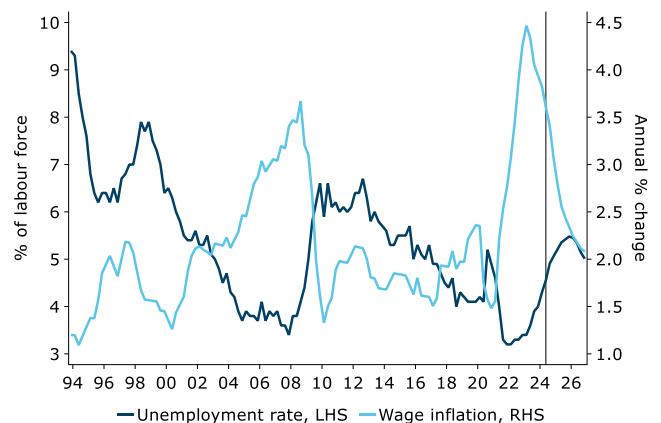


Figure 6. Unemployment and wage inflation



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



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Last updated: 20 February 2024

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