

New Zealand Weekly Data Wrap

11 August 2023



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Forecast updates

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

- [NZ Forecast Update: milk price revised down further](#)
- [NZ Forecast Update: the much-needed adjustment](#)
- [NZ Forecast Update: milk price forecasts trimmed further](#)
- [NZ Property Focus: On the floor, ready to floor it?](#)

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 expected to cool.
- 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, as markets debate the rates outlook.



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.



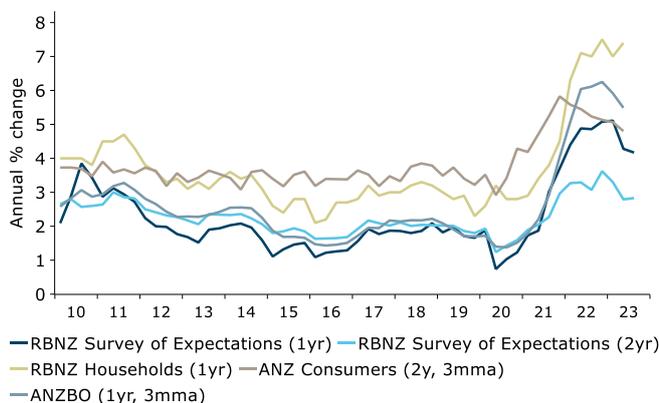
NZ's large external imbalances could see the market impose a more abrupt adjustment path.

What to expect when they're expecting

Inflation expectations can be a key driver of inflation, so central banks get nervous when they're misbehaving. Higher inflation expectations can flow into wage- and price-setting behaviour, creating a problematic feedback loop. Keeping expectations anchored at the 2% target is a crucial component of the RBNZ's monetary policy. Expectations are also important insofar as they feed into the RBNZ's estimation of the neutral interest rate. All else equal, lower short-term inflation expectations will mean a lower estimated neutral OCR and hence more confidence for the RBNZ that the OCR is restrictive.

The RBNZ's latest Survey of Expectations released this week showed gradual progress. Aside from a surprising tick up in the 2-year ahead measure from 2.79% to 2.83%, expectations fell across the curve. 1-year ahead inflation expectations fell 11bp to 4.17%, while the 5-year and 10-year ahead measures declined slightly to be 2.25% and 2.22% respectively, still above the 2% midpoint of the target band. While the Survey of Expectations is more of a consensus forecast than an expectations measure, with a sample size of just 30, it nonetheless receives a lot of attention.

Figure 1. Inflation expectations



Source: ANZ, RBNZ, Macrobond, ANZ Research

Other measures of inflation expectations such as in our own [Business Outlook](#) and [Consumer Confidence](#) surveys have been trending down in recent months, but remain higher than the RBNZ's survey of professional forecasters. In fact, 2-year ahead consumer inflation expectations jumped from 4.3% to 4.7% in July, coinciding with the end of fuel excise and other transport subsidies. In the RBNZ's own survey of households, inflation expectations have not yet budged from a peak north of 7%.

Consumers expectations are likely heavily influenced by components most salient to household budgets, such as food and fuel prices, the prices that they see week after week. With food price inflation still rising at near 10%y/y, and a worrying upward trend in global oil prices, there are risks that consumer inflation expectations prove stubborn. The longer the labour market remains tight, the more likely consumer expectations are to matter through the transmission via wages, given the greater negotiating power wielded by employees.

For now, the RBNZ can take some comfort in the gradual downtrend in inflation expectations in recent months. That said, measures remain well in excess of target and more progress will be needed for the RBNZ to be confident that rates are sufficiently restrictive.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- 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 Property Focus: On the floor, ready to floor it?
- NZ Insight: divergence across the Tasman, recession for NZ but not for Oz
- NZ Economic Outlook: moving parts
- NZ Insight: Inflation rotation
- NZ Insight: inflationary risks from Gabrielle
- NZ Insight: RBA/RBNZ policy divergence back in the spotlight



NZ Economic News

View latest data and policy releases

- NZ GDP: Cyclone nudges NZ into recession
- NZ REINZ housing data: going up
- RBNZ MPR Review: nothing to see here
- NZ CPI Review: Not a good news day after all
- NZ labour market: relatives and absolutes
- NZ Budget 2023 brings the bonds

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: June 2023

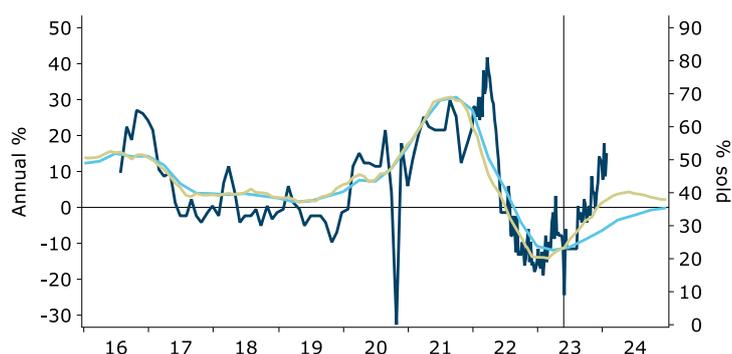
Hold on

Next week is all about the RBNZ's August Monetary Policy Statement (MPS). **We expect** the RBNZ will keep the OCR unchanged at 5.50%, and reiterate their "watch, worry and wait" stance.

While we continue to expect that the RBNZ will hike again, as we have long said, the dataflow is unlikely to nudge the RBNZ off their on-hold perch until November at the earliest. Since the July Monetary Policy Review (MPR):

- The **housing market** has continued to rebound, with house prices now clearly rising. The RBNZ had previously forecast house prices to fall until the middle of 2024, and while the RBNZ uses the CoreLogic measure, which slightly lags the REINZ index that we follow, the trajectory has clearly turned well in advance of their last estimate. With the RBNZ due to publish an updated set of forecasts in the next week's MPS, it will need to revise up its house price forecasts and decide whether to lift its consumption and residential investment forecasts on the back of it.
- **Non-tradables inflation** surprised on the upside, printing at 6.6% y/y, 0.3ppts higher than the RBNZ's forecast. Core measures continue to highlight a worrying persistence in inflation, with no clear downtrend evident, and the RBNZ's own Sectoral Factor Model has been unchanged at 5.8% since Q4 2022.
- The **labour market** remained tight in Q2, as continued labour supply growth (bolstered by both net migration inflows and yet another increase in labour force participation) offset strong employment growth. The unemployment rate rose slightly more than the RBNZ's expectation to 3.6%, but the real test for the RBNZ will come later in the year, given their expectation of a rapid loosening in the labour market from here.
- **Dairy prices** have continued to fall – **we've revised down** our 2022/23 payout estimate from \$7.75kg/MS at the time of the May MPS to \$7.15kg/MS now. Lower incomes for farmers will have implications for the broader economy through reduced consumption and investment.

Figure 2. House price forecasts vs Barfoot & Thompson auction clearance rate



— Barfoot & Thompson Akld auction clearance rate, adv. 6 months, RHS
 — RBNZ house price forecast (Corelogic), LHS
 — ANZ house price forecast (REINZ), LHS

Source: Corelogic, REINZ, B&T, interest.co.nz, Macrobond, ANZ Research

All up, data since July has been mixed, and overall not strong enough to prompt the RBNZ to deviate from its current strategy; it's a high hurdle to recommence tightening. Upside risks to demand and inflation have not gone away, though a weakening external sector does provide some offset. The August MPS will include the RBNZ's latest forecasts, which will be important for interpreting how the RBNZ judge the evolving risks. **We continue to see those risks as warranting further action from the RBNZ** eventually, but we fully expect to wait a little longer for our case to be made. There's plenty of uncertainty for the RBNZ to wade through in the meantime.



Financial markets update



Date	Data/event
Mon 14 Aug (10:30am)	Performance Services Index – Jul
Mon 14 Aug (10:45am)	Net Migration – Jun
Tue 15 Aug (09:00am)	REINZ Housing Data - Jul
Wed 16 Aug (early am)	GlobalDairyTrade auction
Wed 16 Aug (2:00pm)	RBNZ MPS
Mon 21 Aug (10:45am)	Merchandise Trade – Jul
Wed 23 Aug (10:45am)	Retail Trade – Q2
Thu 24 Aug (10:00am)	ANZ Truckometer – Jul
Thu 31 Aug (1:00pm)	ANZ Business Outlook – Aug
Thu 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Fri 1 Sep (10:00am)	ANZ-RM Consumer Confidence – Aug
Mon 4 Sep (10:45am)	Terms of Trade – Q2
Tue 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 6 Sep (early am)	GlobalDairyTrade auction
Wed 6 Sep (10:45am)	Building Work Put in Place – Q2
Thu 7 Sep (10:45am)	Economic Survey of Manufacturing – Q2
Tue 12 Sep (10:45am)	Electronic Card Transactions – Aug
Tue 12 Sep (10:45am)	Net Migration – Jul
Tue 12 Sep (tbc)	PREFU
Wed 13 Sep (10:45am)	Food Price Index – Aug
Wed 13 Sep (10:45am)	Rental Price Index – Aug
Fri 15 Sep (10:30am)	BusinessNZ Manuf PMI – Aug
Mon 18 Sep (10:30am)	Performance Services Index – Aug
Wed 20 Sep (early am)	GlobalDairyTrade auction
Wed 20 Sep (10:45am)	Current Account – Q2
Thu 21 Sep (10:45am)	GDP – Q2
Fri 22 Sep (10:45am)	Merchandise Trade – Aug

Interest rate markets

Global bond yields slipped earlier this week following last Friday's softer US payrolls data, but they are on the rise again. The bellwether US 10-year Treasury bond yield hasn't reclaimed last week's high, but it is succumbing to concerns about deteriorating fiscals, increased issuance, and prospects for more quantitative tightening globally. We think it's too soon to call an end to the bond rout and expect higher long-term yields and steeper (less inverted) yield curves over coming months. [We expect the RBNZ to pause next week](#), and don't expect a significant market reaction. But we do see scope for markets to continue 'pricing out' cuts priced in over late 2024.

FX markets

The NZD is teetering just above 0.60 as the week draws to a close, having been sidelined by persistent USD strength. Our forecasts still call for mild gradual appreciation over 2023. However, this expectation is predicated on the expectation that markets would gravitate back to fair value (which we see at around 0.65), and the risks are skewed toward that not happening, especially if FX markets continue to take a 'Goldilocks' view of the US' ability to tame inflation without causing a recession, which is the current vibe. In the near term, a break of 0.60 would put the June low of 0.5985 in focus, and beyond that, the 2022 low of 0.5512.

Key data summary

Electronic Card Transactions – July. Retail spending was flat in July, while total spending fell 0.9% m/m, driven by spending on fuel.

RBNZ Inflation Expectations – Q3. 1-year ahead expectations declined from 4.28% to 4.17%, while 2-year ahead expectations ticked higher from 2.79% to 2.83%.

Manufacturing PMI – July. The PMI fell 1.1 points to 46.3 in July, suggesting the moderating trend remains firmly in place.

Food Prices – July. Food prices fell 0.5% m/m, much weaker than expected. Fruit and vegetable prices fell 4.1% m/m, going against usual seasonal patterns – finally some correction from supply-driven disruption seen earlier this year.

Rental Price Index – July. The stock measure of rents rose 0.4% m/m, stronger than expected. We expect upward pressure on rents stemming from population growth to continue across the second half of the year.

The week ahead

Performance Services Index – July (Monday 14 August, 10:30am). The PSI fell 3.0pts to 50.1 in June, which may signal the services industry slipping into contraction in July.

REINZ House Prices – July (Tuesday 15 August, 9:00am). Prices were off the floor with a running start in June, bolstered by some temporary factors. See our latest [Property Focus](#).

Net Migration - May (Monday 14 August, 10:45am). We expect net migration inflows slowed in May as departures continue to rise while arrivals ease.

GlobalDairyTrade auction (Wednesday 16 August, early am). Dairy markets continue to weaken with futures prices indicating we are likely to see prices fall by a further 2% at the next dairy auction.

RBNZ Monetary Policy Statement – August (Wednesday 16 August, 2:00pm). Likely aiming to be a quiet affair. See our [Preview](#).



Key forecasts and rates

	Actual			Forecast (end month)					
	Jun-23	Jul-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
FX rates									
NZD/USD	0.613	0.620	0.601	0.620	0.630	0.650	0.650	0.650	0.650
NZD/AUD	0.921	0.925	0.923	0.912	0.900	0.903	0.890	0.890	0.890
NZD/EUR	0.561	0.562	0.548	0.554	0.553	0.560	0.551	0.542	0.542
NZD/JPY	88.5	88.2	87.1	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.482	0.482	0.475	0.484	0.485	0.492	0.485	0.478	0.478
NZ\$ TWI	70.9	71.4	70.1	70.1	69.9	71.2	70.5	70.0	69.8
Interest rates									
NZ OCR	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.75	5.50
NZ 90 day bill	5.71	5.60	5.64	5.79	5.90	5.87	5.85	5.68	5.43
NZ 2-yr swap	5.47	5.45	5.51	5.57	5.67	5.52	5.38	5.18	5.02
NZ 10-yr bond	4.62	4.60	4.81	4.85	5.00	4.85	4.75	4.75	4.75

Economic forecasts

	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
GDP (% qoq)	-0.1	0.4	-0.1	-0.2	0.0	0.3	0.3	0.3	0.4
GDP (% yoy)	2.2	1.1	-0.5	0.0	0.1	0.0	0.4	0.9	1.3
CPI (% qoq)	1.2	1.1	2.1	0.8	0.8	0.6	0.9	0.4	0.6
CPI (% yoy)	6.7	6.0	6.0	5.3	4.9	4.4	3.1	2.7	2.3
Employment (% qoq)	1.1	1.0	0.2	0.0	-0.2	0.1	0.2	0.2	0.3
Employment (% yoy)	2.9	4.0	2.9	2.3	1.0	0.1	0.1	0.3	0.8
Unemployment Rate (% sa)	3.4	3.6	3.9	4.2	4.6	4.7	4.8	4.9	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

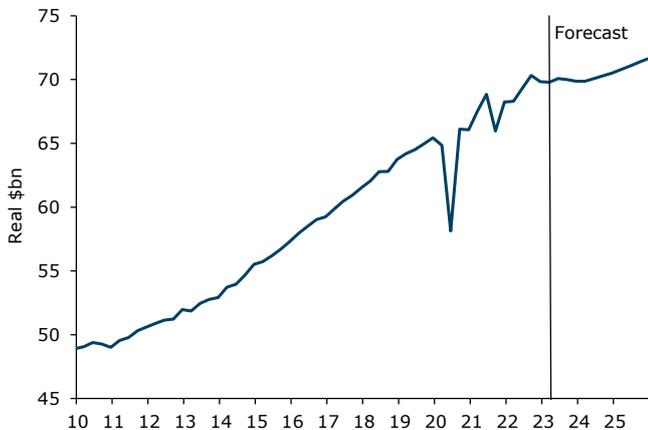


Figure 4. CPI inflation components

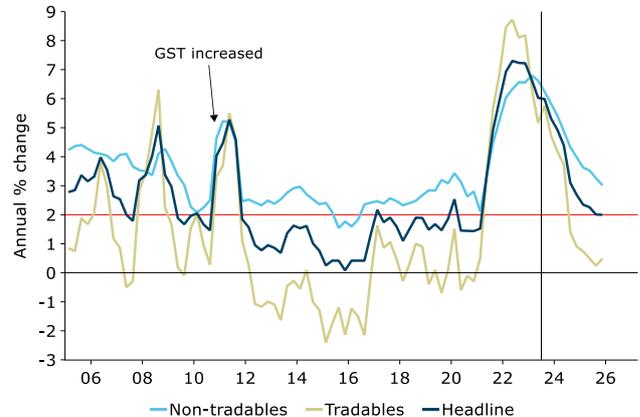


Figure 5. OCR forecast

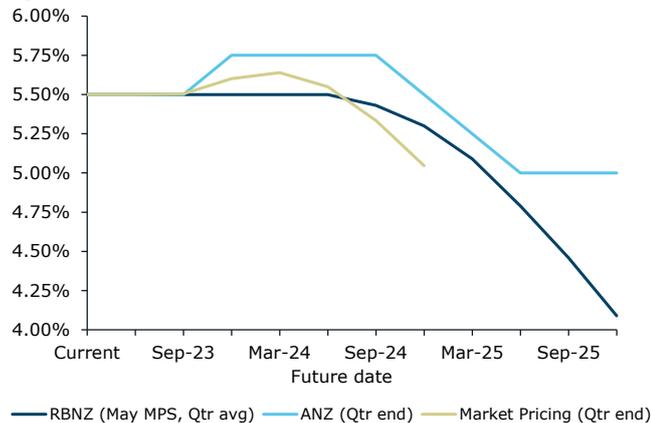
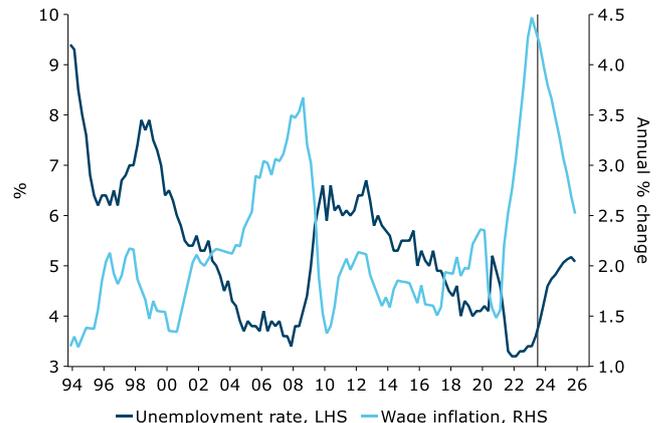


Figure 6. Unemployment and wage inflation



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



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