ANZ Research

New Zealand Weekly Data Wrap

25 August 2023

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See page 5.

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 cooling.
- 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, 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.

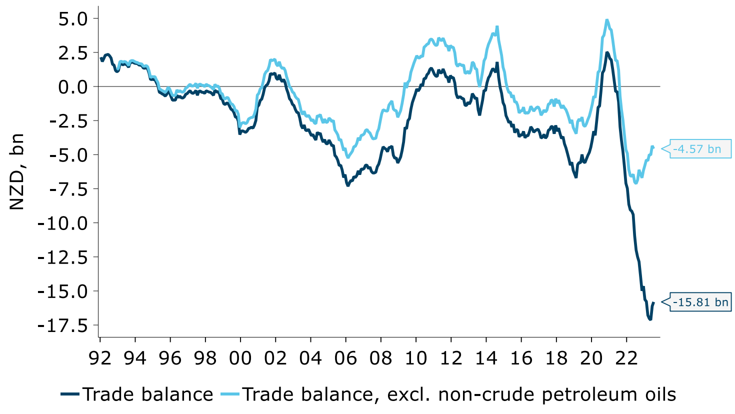
The economy is slowing, but inflation is yet to play ball

This week's retail trade data highlighted that the economy is clearly slowing. Retail trade volumes (ie adjusted for inflation) fell 1.0% q/q (sa), weaker than our expectation of a flat (0.0% q/q) print. Excluding fuel and motor vehicles, which both likely received temporary boosts in the quarter, the picture was even gloomier, with core retail volumes down 1.8% q/q. The clear weakness in spending suggests cost-of-living pressures are well and truly biting for households.

It is becoming increasingly clear that monetary policy is having its desired impact in cooling demand in the economy. Moving forward, while retail sales will find some support from strong net migration, recovering tourism and an improving housing market, today's data suggest that's off a weaker starting point than expected. Momentum is clearly slipping, but the RBNZ still has a persistent core inflation problem that has yet to show any meaningful abatement. The RBNZ will need to keep the pressure on for some time yet.

This week also brought further evidence of deteriorating external demand, with NZ's trade deficit of $1.1bn in July being wider than the $0.7bn we had pencilled in, owing to weaker export returns. As we noted last week, global dairy prices have plummeted at recent Global Dairy Trade auctions. However, these prices reflect forward contracts and will take some time to show up in the official trade data, suggesting further weakness in the coming months. China's slowdown is certainly taking its toll, with the value of New Zealand's exports to this destination down 24% y/y. Imports have also fallen, but the annual trade deficit remains stubbornly wide at over $15.8bn, largely reflecting the recent shift higher in fuel imports owing to the closure of the Marsden Point refinery. While some of this will be temporary stockbuilding, with export revenue under pressure the transition towards more sustainable levels may ultimately require a larger slowdown in domestic demand.

Figure 1: Annual merchandise trade balance



Source: Stats NZ, Macrobond, ANZ Research

A challenging path lies ahead for the economy. Both we and the RBNZ are forecasting the economy is in recession (starting from Q3). But what remains highly uncertain is how much the economy *must* slow to get inflation back to target. We think RBNZ will eventually need to do more to get on top of inflation, but we are closely watching China's slowdown, which could do the job for it. Steeper curves matter too, with bonds under pressure globally. We see November as the earliest that the RBNZ would restart hikes, but the risks are skewed to a little later. Over the page we set out the dataflow before the upcoming RBNZ meetings to highlight some of those risks to our call.

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: upside limited
- RBNZ MPS Review: wheels slipping a little?
- 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: July 2023

Data before October Monetary Policy Review:

Q2 terms of trade: This data is very much a look in the rear-view mirror, and looking forward the outlook is increasingly gloomy, with the dairy prices plummeting. The starting point is important, but unlikely to be a game changer.

Q2 GDP: This week's very weak retail trade outturn suggests downside risk to our and the RBNZ's Q2 GDP forecasts (ANZ: +0.4% q/q, RBNZ: +0.5% q/q). Again, Q2 GDP is old news, but a weaker starting point would suggest monetary policy is constraining demand a little more than previously anticipated. However, a still-tight labour market and core inflation yet to meaningfully trend down suggests that the RBNZ may still need to inflict further pain, despite weaker growth. Not a pleasant thought.

Q3 QSBO: Q2's sharp fall in capacity utilisation looked a little unconvincing, but the broader themes of easing pressures should continue in Q3. Slowing momentum and easing capacity pressures would not surprise, given we and the RBNZ both expect the economy is in recession from Q3; what matters is to what extent increasing spare capacity flows through into easing inflation.

Data before November Monetary Policy Statement:

Q3 CPI and Q3 labour market: For months we said that the relative strength of the Q3 labour market and inflation data compared to the RBNZ's expectation would be the smoking gun to prompt a restart of tightening. However, in the August MPS the RBNZ revised down its Q3 unemployment rate forecast and revised up its non-tradables inflation to be consistent with our own. That ironically raises the bar for an upside surprise that could prompt a restart to hiking, while in absolute terms raising the chances it's deemed necessary. Despite the expectation of near-term strength, from Q4 the RBNZ are expecting the labour market to capitulate and non-tradables inflation to fall sharply – we see upside risks to that, and if the data falls as we expect in Q3 we strongly believe that is grounds for a November hike. Any delay simply risks more work needing to be done later. But global risks are the wildcard to watch.

Election: Without party manifestos released in full, it's too soon to tell what impact on the economy will be. That said, we don't see the stimulatory stance of fiscal policy suddenly reversing in the near term, irrespective of the outcome.

Data before February Monetary Policy Statement:

Q4 CPI and Q4 labour market: The RBNZ are expecting annual non-tradables inflation to fall sharply in Q4 to 0.8% q/q (ANZ: 1.1% q/q), which would be its lowest rate since the March 2021 quarter, prior to the acceleration in inflation. It seems highly optimistic for momentum to shift so suddenly, given the forecast for a relatively mild slowdown. The RBNZ also forecasts the labour market to capitulate as quickly as it did during the GFC, with the RBNZ expecting the unemployment rate to rise 0.6ppt to 4.4% in Q4 (ANZ: 4.2%). We think labour market strength and the persistence of non-tradables inflation has further to run and further restraint on demand is likely needed sooner rather than later.

Q3 GDP: Both we and the RBNZ expect the economy to be in recession in Q3. The economy is clearly slowing, but whether it is slowing enough to get inflation all the way down to target remains highly uncertain. It may seem unlikely for the RBNZ to restart hikes when the economy is in recession, but ultimately the RBNZ has an inflation target, not a growth target. The longer that inflation is allowed to persist at high rates, the greater the risks that it becomes entrenched via second-round impacts, and that a much sharper correction is required further down the road, with more perverse outcomes.

While certainly not one sided, we see inflation risks as skewed to the upside and therefore are forecasting there is more for the RBNZ to do. If inflation holds up even as economic activity falters, the RBNZ will face very tough trade-offs. Time is very much of the essence in a high inflation environment. Global risks could be the inflation game-changer: China risks and steepening yield curves on the downside, but also the risk of more food and energy shocks on the upside.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Wed 30 Aug (10:45am)	Building Permits – 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
Thu 28 Sep (1:00pm)	ANZ Business Outlook – Sep
Fri 29 Sep (10:00am)	ANZ-RM Consumer Confidence – Sep
Fri 29 Sep (3:00pm)	RBNZ Sectoral Lending – Aug
Mon 2 Oct (10:45am)	Building Permits – Aug
Tue 3 Oct (10:00am)	NZIER QSBO – Q3
Wed 4 Oct (early am)	GlobalDairyTrade auction
Wed 4 Oct (2:00pm)	**RBNZ MPR**

Interest rate markets

Global bond yields rose to new cycle highs across most markets this week, with the 10yr US Treasury bond yield hitting a 16-year high of 4.35% and the NZ 10yr bond yield reaching 5.15%. Yields have since corrected a touch lower in a move that has all the hallmarks of a short-covering squeeze following a wave of weaker PMI readings in Europe, but bond markets are nervous ahead of tonight's keynote speech by Fed chair Powell at the Kansas City Fed's annual symposium in Jackson Hole. With US growth reaccelerating, Powell is likely to echo a reasonably hawkish tone, consistent with other comments by Fed speakers this week. He is unlikely to pre-commit the Fed to more hikes ahead of US August payroll data next week and CPI data in mid-September, especially with China slowing, but our sense is that any reiteration of the need for vigilance and "higher for longer" messaging will keep bond markets on edge. Short-end rates have moved up this week too, taking their lead from global moves. That's a little unusual, given the tendency for short-end rates to be more aligned to expectations for RBNZ policy, but it's a timely reminder of how important global interest rate markets are for local markets, especially given the dominance of offshore investors here. As we noted last week, interest rates have already reached our year-end forecast, but we hold out little hope for a meaningful reversal and continue to see the risks as skewed towards further upside.

FX markets

The Kiwi has had a trying week as the USD has reasserted its dominance, but the dip below 0.59 earlier in the week was short lived, and it is treading water for now. Our FX forecasts remain under review pending tonight's key speeches by central bank heads at Jackson Hole, but with Fed chair Powell's tone likely to be hawkish, the risks look skewed to the USD regaining May's highs. There is no major NZ data out for the rest of this month, and as such, we expect US factors to drive global FX market sentiment for at least the next week. Slower Chinese growth is weighing on NZD sentiment, but it is unlikely to deter the Fed, adding a further layer of complication for markets.

Key data summary

Overseas Merchandise Trade – July. Weaker than expected export returns drove the $1.1bn trade deficit in July, wider than the $0.7bn deficit we had pencilled in.

Retail Sales – Q2. Retail sales volumes contracted 1.0% q/q in Q2, weaker than the flat (0.0% q/q) read we had pencilled in and at face value suggests downside risk to our Q2 GDP forecast of +0.4% q/q.

ANZ Truckometer – July. The Light Traffic Index lifted 0.6% m/m while the Heavy Traffic Index fell 3.0% m/m and is starting to wilt.

The week ahead

Building Permits – July (Wednesday 30 August, 10:45am). New dwelling consents rose 3.5% m/m in June, risking some payback in July. Monthly volatility aside, we expect the trend continues to head firmly south.

ANZ Business Outlook – August (Thursday 31 August, 1:00pm).

RBNZ sectoral lending data – July (Thursday 31 August, 3:00pm). The slowdown in annual mortgage lending growth appears to have troughed.

ANZ Roy Morgan Consumer Confidence – August (Friday 1 September, 1:00pm).

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jun-23	Jul-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD/USD	0.613	0.620	0.592	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	86.5	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.482	0.482	0.470	0.484	0.485	0.492	0.485	0.478	0.478
NZ$ TWI	70.9	71.4	69.7	70.1	69.9	71.2	70.5	70.0	69.8
Interest rates	Jun-23	Jul-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
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	5.63	5.79	5.90	5.87	5.85	5.68	5.43
NZ 2-yr swap	5.47	5.45	5.55	5.57	5.67	5.52	5.38	5.18	5.02
NZ 10-yr bond	4.62	4.60	4.99	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 2. GDP level

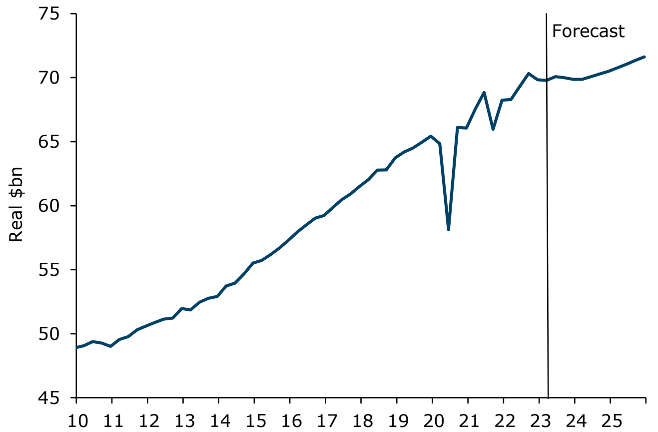


Figure 3. CPI inflation components

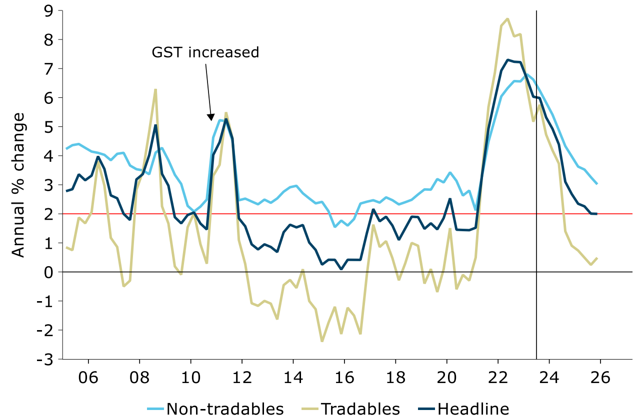


Figure 4. OCR forecast

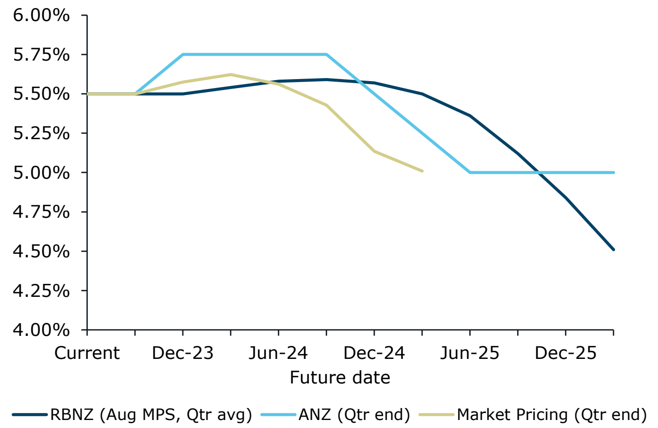
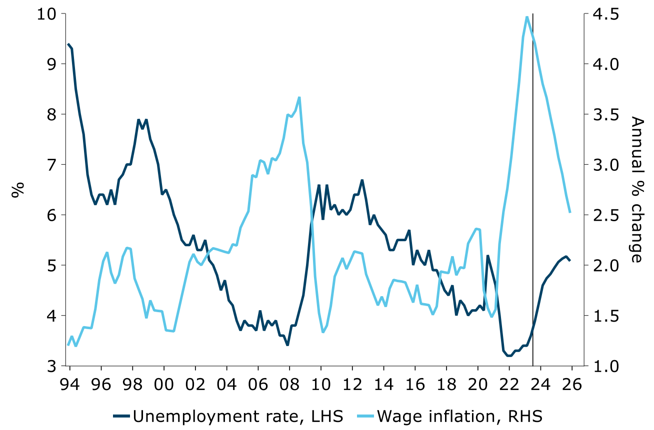


Figure 5. Unemployment and wage inflation



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

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