

New Zealand Weekly Data Wrap

1 September 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.



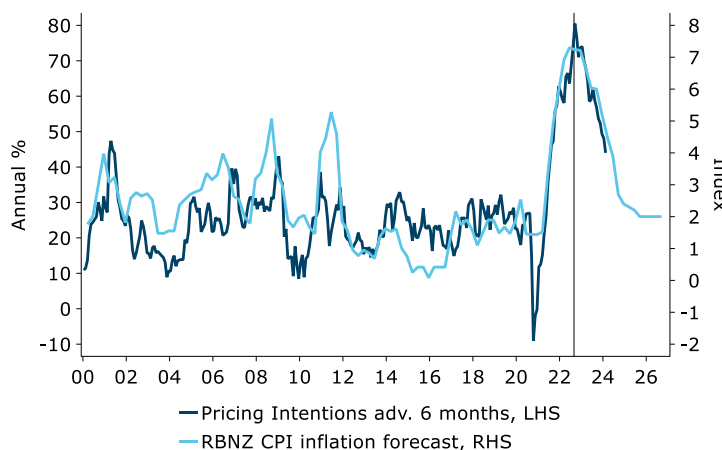
NZ's large external imbalances could see the market impose a more abrupt adjustment path.

I'm still standing

Thursday's ANZ [Business Outlook](#) (ANZBO) showed good news all round. Business confidence lifted another 9 points in August to -4, the highest read since mid-2021. Expected own activity also jumped 10 points, to +11 and all activity indicators lifted, but remain subdued – hanging in there!

Firms continue to expect margin compression, given costs are expected to lift more than prices over the next three months (3.6% versus 2.0%). Pricing intentions fell four points to a net 44%, continuing the downward trend. We think this series will need to fall below 30 to be confident that inflation is heading back into the RBNZ's target range (and will stay there).

Figure 1. Inflation trending down



Source: RBNZ, Macrobond, ANZ Research

Workers are much easier for firms to find but unemployment is still very low, and inflation indicators are dropping. The agriculture sector is in a very different world, with prices and expected profitability plummeting, but on the other hand the construction sector appears to have taken real heart from the turnaround in the housing market. We can have our cake and eat it too, for now, at least: the RBNZ will be pleased with easing inflation indicators.

Consumers are a less happy bunch. This morning's ANZ [Consumer Confidence](#) survey rose one point to 85, with the lift driven by an increase in the question of whether it's a good time to buy a major household item, which rose from -39% to -31%. Consumer confidence is still below its readings in the GFC, as households navigate their way through rising prices, a softening labour market, and the highest mortgage rates in a decade. Their inflation expectations were virtually unchanged at 4.6%.

How households in New Zealand are feeling still depends very much on whether they have debt, but interestingly, the gap has closed compared to last month. Surprisingly, mortgage holders are now less negative about both their personal financial situations and whether it's a good time to spend. The overall levels remain very negative, however. In one bright spot for households, the labour market continues to deliver strong outcomes, as evident in July's monthly employment indicator. Filled jobs rose 0.3% m/m, highlighting labour market resilience still has further to run, keeping sticky inflation risks front of mind for the RBNZ.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: regional revelations
- 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 Insight: Inflation rotation
- 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.

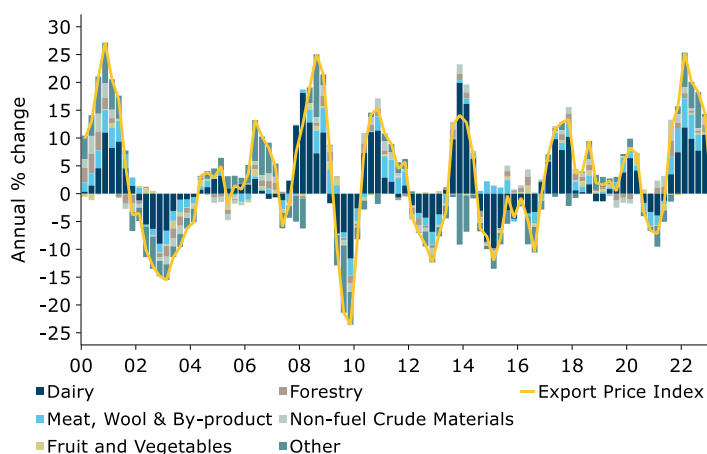
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index
- ANZ NZ Merchant and Card Spending: July 2023

Terms of Trade – softening, slowly then quickly

Q2 terms of trade data are out next week. We're picking a 0.6% q/q fall in the goods terms of trade. Our export prices are reliant on China's economy, which is weakening rapidly, while import prices are not falling as quickly.

We expect goods export prices to fall by 1.7%, led by dairy prices. This is less than last quarter's 6.8% q/q fall, mainly because meat export prices have recovered a bit from their low levels in the March quarter, but that's where the good news ends.

Figure 2. Goods export prices decomposition



Source: Stats NZ, Macrobond, ANZ Research

There's likely to be more terms of trade weakness ahead. Dairy prices at the Global Dairy Trade (GDT) auction have been in freefall in recent weeks. This will show up in the merchandise trade data from Q3 onwards. There remains a risk that this weakness is indicative of softness in the prices of other export commodities we export predominantly to China – we won't have hard data on this until August's merchandise trade data is released (out 22 September).

Ultimately, the near-term outlook is bleak for export prices and this will result in a sizeable income hit for farmers that will reduce spending in rural communities and subsequently demand throughout New Zealand. If the exchange rate weakens further it could provide a meaningful offset, but there's no free lunch: this would flow into higher import prices. And with inflation expectations elevated, there are risks that the RBNZ could not look through this to the same extent as they would usually.

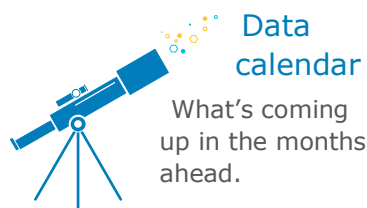
We've pencilled in a fall of 1.2% for goods import prices in Q2. Although petrol prices have jumped recently, Dubai oil prices actually fell 4% through Q2, dragging goods import prices lower. However, this isn't the whole story. Ex-oil import prices fell in Q1 and we expect this continued into Q2 as global inflation shifts from goods to services, easing supply chain pressures.

Falling import prices will have some delayed passthrough into CPI inflation in the second half of this year. However, tradables inflation remains elevated, and in recent quarters the passthrough has been a little muted relative to history. But that could just be a timing story.

Zooming out, the economy is definitely cooling; it's just a question of how quickly. Even as dark clouds gather over the export sector, persistent inflation risks have not gone away by any means, especially from expansionary fiscal policy (even after accounting for small spending cut announcements this week) and a housing market reignited by record (but cooling) immigration. But global sideswipes do have a history of changing NZ's economic outlook rather abruptly.



Financial markets update



| Date | Data/event |
|-----------------------|--|
| 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 (1:00pm) | 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 |
| Thu 5 Oct (1:00pm) | ANZ Commodity Price Index – Sep |
| Tue 10 Oct (10:45am) | Electronic Card Transactions – Sep |
| Wed 11 Oct (10:45am) | Net Migration – Aug |
| Thu 12 Oct (10:45am) | Food Price Index – Sep |

Interest rate markets

Global bond yields have fallen sharply this week, extending the correction off highs seen on 22 August, before the Kansas City Fed's symposium at Jackson Hole. The tone of speeches by central bank chiefs at that event wasn't overly hawkish; rather it was consistent with the "higher for longer" mantra. However, US data this week saw markets move to price cuts back into 2024, and that fuelled a retracement in local interest rates too. While the easing in key data like the US JOLTS survey was encouraging, although job openings fell, they remain above pre-COVID levels, and there were signs of stickiness in services inflation in the PCE data. Looking ahead, the focus remains global, especially with the RBNZ on hold and the PREFU not due for another 11 days. In that regard, all eyes are on US payroll data tonight, with a weak number likely further emboldening those saying the Fed is done, and a strong number likely to see yields move higher again. That uncertainty is suggestive of ongoing volatility, and we think it is too soon to conclude that the highs in yields are in for the cycle.

FX markets

The Kiwi continues to range trade but has been well supported on moves below 0.59. Domestic factors aren't really playing a role, and instead it's been all about the USD, and what happens next depends on the next round of US data, starting with payroll data tonight. With USD exceptionalism making a comeback as markets eye a soft landing, we have downgraded our NZD forecasts, delaying the rise we had been expecting (which is predicated on our analysis of fair value – which we see at around 0.65) till next year. See page 4 for our revised forecasts.

Key data summary

Building Permits – July. New building consents fell 5.2% m/m. They are volatile on a monthly basis and there looks to be an element of payback from the 3.5% m/m increase in June.

ANZ Business Outlook – August. [Activity indicators](#) bounced, but inflation indicators continued to ease. We'll take that.

RBNZ sectoral lending data – July. Evolving as expected. Weak housing lending and agricultural firms borrowing more to cover weak commodity prices.

ANZ Roy Morgan Consumer Confidence – August. Downbeat – though mortgage holders slightly less so, surprisingly. [Inflation](#) still biting.

The week ahead

Overseas Trade Indices – Q2 (Monday 4 September, 10:45am). We've pencilled in a 0.6% q/q decline. See commentary above.

ANZ Commodity Price Index – August (Tuesday 5 September, 1:00pm).

GlobalDairyTrade auction (Wednesday 6 September, early am). Recent GDT Pulse auctions have shown further falls since the last full auction; risks are skewed towards another weak print.

Building Work Put in Place – Q2 (Wednesday 6 September, 10:45am). We've pencilled in a 4% q/q contraction led by residential building. But [methodology changes](#) add additional uncertainty to our indicator suite.

Economic Survey of Manufacturing – Q2 (Thursday 7 September, 10:45am). Manufacturing volumes fell 2.1% q/q in Q1. The PMI suggests further falls to come.



Key forecasts and rates

| FX rates | Actual | | | Forecast (end month) | | | | | |
|----------------|--------|--------|-------|----------------------|--------|--------|--------|--------|--------|
| | Jul-23 | Aug-23 | Today | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
| NZD/USD | 0.620 | 0.594 | 0.597 | 0.580 | 0.590 | 0.610 | 0.610 | 0.620 | 0.630 |
| NZD/AUD | 0.925 | 0.919 | 0.921 | 0.921 | 0.908 | 0.897 | 0.897 | 0.886 | 0.900 |
| NZD/EUR | 0.562 | 0.547 | 0.550 | 0.542 | 0.541 | 0.550 | 0.540 | 0.544 | 0.543 |
| NZD/JPY | 88.2 | 86.7 | 86.8 | 86.4 | 85.6 | 85.4 | 83.0 | 81.8 | 80.6 |
| NZD/GBP | 0.482 | 0.469 | 0.471 | 0.464 | 0.465 | 0.473 | 0.462 | 0.463 | 0.463 |
| NZ\$ TWI | 71.4 | 69.8 | 69.9 | 68.5 | 68.7 | 69.8 | 69.1 | 69.4 | 69.9 |
| Interest rates | Jul-23 | Aug-23 | Today | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
| | Jul-23 | Aug-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 | 5.67 | 5.65 | 5.65 | 5.79 | 5.90 | 5.87 | 5.85 | 5.68 | 5.43 |
| NZ 2-yr swap | 5.48 | 5.44 | 5.43 | 5.57 | 5.67 | 5.52 | 5.38 | 5.18 | 5.02 |
| NZ 10-yr bond | 4.68 | 4.87 | 4.86 | 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

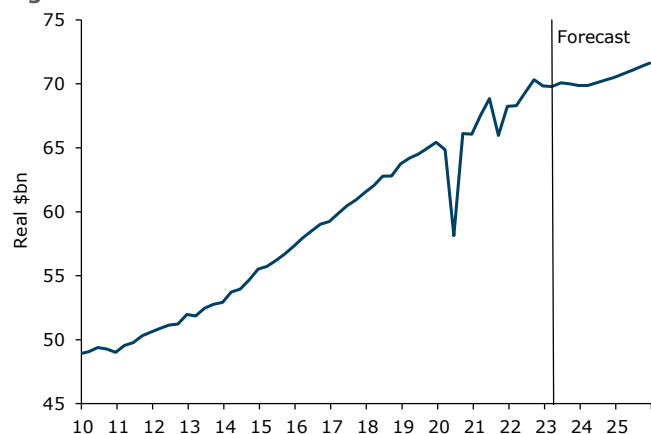


Figure 4. CPI inflation components

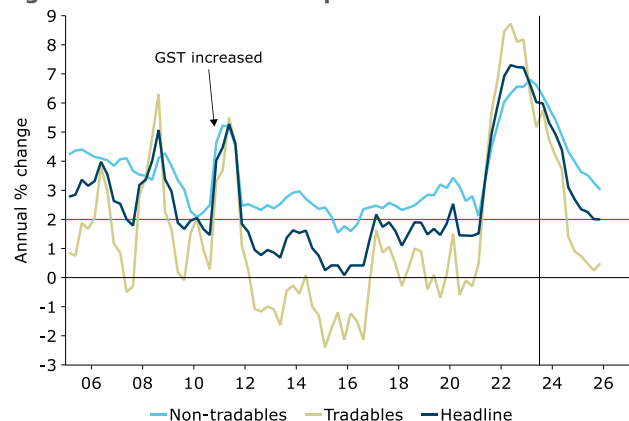


Figure 5. OCR forecast

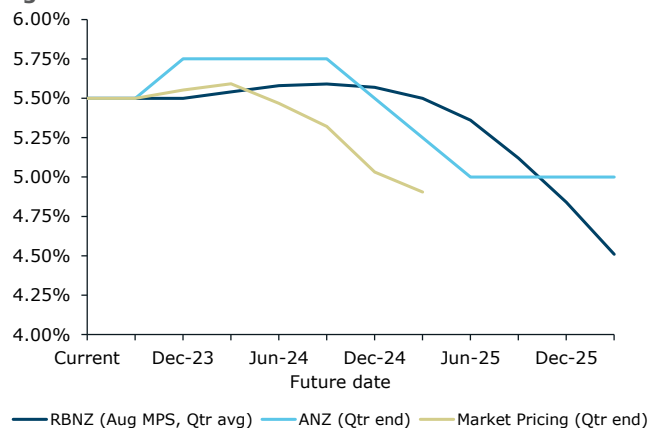
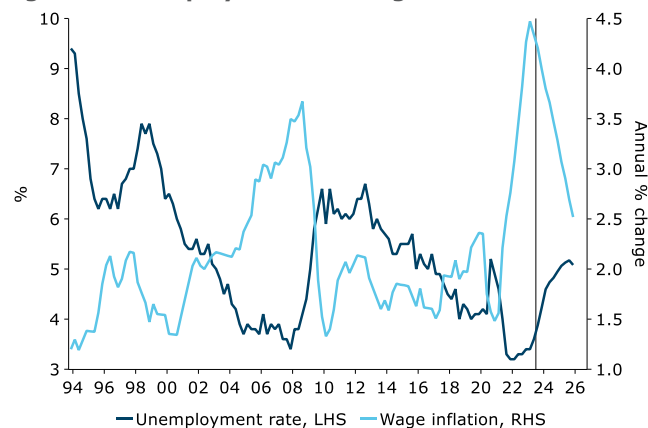


Figure 6. Unemployment and wage inflation



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



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