

New Zealand Weekly Data Wrap

3 November 2023



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See [page 5](#).

Forecast updates

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

- **NZ Property Focus:** going up
- **NZ Forecast Update:** milk price revised down further
- **NZ Forecast Update:** the much-needed adjustment
- **NZ Forecast Update:** milk price forecasts trimmed further

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 now cooling.
- Inflation way above target and looking sticky.
- OCR on hold at 5.50% until February 2024, 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.

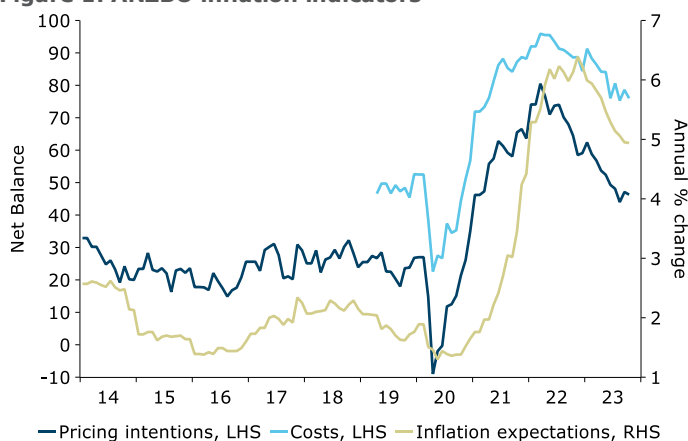
Further to go

The **Q3 labour market release** had a slightly softer underbelly than both we or the RBNZ expected (see page 2 for further discussion and our updated outlook). In big picture terms, the Q3 data hinted that the imbalance between labour supply and demand is perhaps resolving a little faster than previously thought, and that it's happening from both sides (with softer economic momentum weighing on demand for labour and surging net migration adding to supply). While this isn't a game changer for the November MPS (where a hold is unanimously expected), it does shift the risk profile around a February hike a little. We'd say our call for a hike in February is now pencilled in a shade lighter than previously (but pencilled in nonetheless).

But while February could be looking a little more touch and go regarding the timing, we remain comfortable with our assessment that the next move is more likely to be a hike than a cut. Indeed, a lot still needs to go right before the RBNZ can confidently declare victory over domestic (and potentially sticky) inflation, which has barely budged from its recent peak.

Our **October Business Outlook** (released this week) painted a mixed picture for inflation pressures, tentatively suggesting that both pricing intentions and costs are stabilising at high levels (figure 1). If non-tradables inflation gets stuck at high levels, the RBNZ may have to get quite aggressive. That would be grim scenario for the economy, and does add a degree of urgency for the RBNZ to respond to upside medium-term inflation risks.

Figure 1: ANZBO inflation indicators



Source: Macrobond, ANZ Research

On the activity front, consents data this week showed the pipeline for residential construction activity (one of the more interest rate sensitive pockets of the economy) continues to soften, though from very elevated levels. That's despite surging migration and the recent turn in the house price cycle, both of which suggest further downside may be limited.

In other news, the RBNZ released its **Financial Stability Report** this week. All in all, there were no surprises regarding potential changes to monetary conditions via prudential policy settings. The RBNZ intends to consult on debt-to-income (DTI) restrictions for residential lending in early 2024, noting that if implemented, restrictions would likely take effect from around mid-2024. Perhaps more eagerly awaited by markets, the RBNZ reiterated it will release key decisions on the Liquidity Policy Review by year-end.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: new faces, not many new places
- NZ Insight: macro impacts in New Zealand from an increase in global term rates
- NZ Insight: finding external balance
- NZ Insight: post-election macroeconomic musings
- NZ Agri Focus: regaining ground
- NZ Property Focus: going up
- NZ Property Focus: regional revelations
- NZ Economic Outlook: waiting on the last domino
- NZ ETS: Change of price and volumes settings



NZ Economic News

View latest data and policy releases

- NZ GDP: what recession ... but one looming?
- NZ REINZ housing data: on ice
- RBNZ MPR Review: a more sustained period of time
- NZ CPI and OCR call change: progress buys time
- NZ labour market: the ship has turned
- NZ PREFU 2023: more debt, more bonds, more deficits

Click [here](#) for more.



ANZ Proprietary data

Check out our latest releases below.

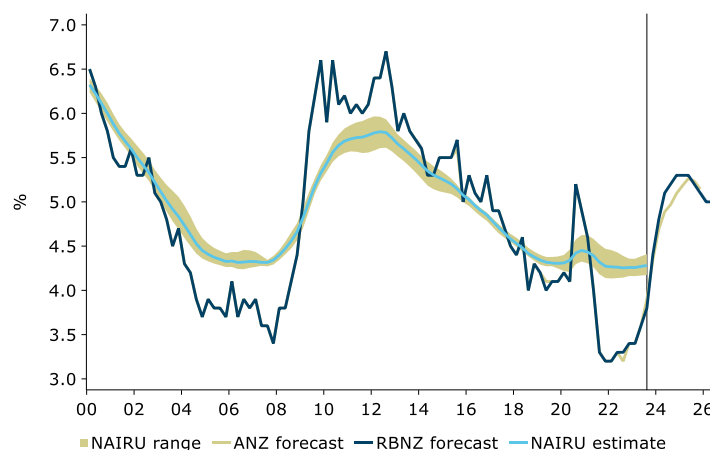
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index
- ANZ NZ Merchant and Card Spending: September 2023

Gaining traction

Labour market pressures continued to ease in Q3. While the unemployment rate lifted in line with our forecast to 3.9%, the details were softer than expected, highlighting that labour demand is now clearly cooling. That in conjunction with the ongoing labour supply recovery fuelled by net migration has seen capacity pressures in the labour market largely fade, and wages continue to moderate.

Importantly for the Reserve Bank, wage growth was, on balance, weaker than expected, suggesting the near-term disinflationary impact of migration has occurred a little faster than we had anticipated. The details of the release bode well for the Reserve Bank, and signal that inflation pressures stemming from the labour market have now largely run their course. That said, there's still a long way to go to generate the necessary slack required to return inflation to target.

Figure 2. Unemployment rate forecast



Source: Stats NZ, Macrobond, ANZ Research

With the Q3 data in the bag, we've updated our labour market forecasts. Continued supply expansion combined with softer labour demand is expected to see the unemployment rate rise faster in the near term, lifting to 4.3% in Q4. That's broadly consistent with our updated estimate of the non-accelerating inflation rate of unemployment (NAIRU) – the threshold for where the labour market is no longer inflationary. But the unemployment rate tends to be a lagging indicator, and leading indicators of capacity all point to the labour market being at or very close to that threshold already.

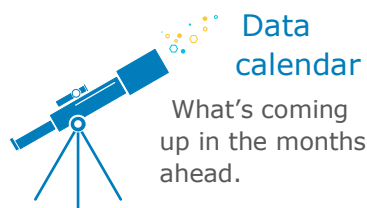
While the labour market is on the verge of disinflationary territory, ultimately a period of sustained slack in the labour market is required to exert the necessary downward pressure on wage growth and inflation. We expect the unemployment rate will rise to a peak of around 5.3% in 2025.

Wage growth has clearly now past its peak, and we expect it to gradually normalise towards levels consistent with the 2% inflation target, but this process will take some time. We continue to expect wage growth to exhibit some persistence, as while capacity pressures have largely faded, inflation expectations remain elevated, and in recent months the pace of progress has slowed. That's likely to keep pressure on wages, even as slack emerges.

While a faster rise in the unemployment rate in the near term, all else equal, reduces the chance the RBNZ hikes as soon as February, persistent domestic inflation pressures remain a key concern. A softer labour market outlook is all part of the RBNZ's plan, but it remains highly uncertain how much the labour market will ultimately need to cool to return inflation to target.



Financial markets update



Date	Data/event
Mon 6 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Wed 8 Nov (early am)	GlobalDairyTrade auction
Wed 8 Nov (10:45am)	RBNZ Inflation Expectations – Q4
Fri 10 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Mon 13 Nov (10:30am)	Performance Services Index – Oct
Tue 14 Nov (10:45am)	Food Price Index – Oct
Tue 14 Nov (10:45am)	Rental Price Index – Oct
Wed 15 Nov (10:45am)	Electronic Card Transactions – Oct
Wed 15 Nov (10:45am)	Net Migration – Sep
Tue 21 Nov (10:45am)	Merchandise Trade – Oct
Wed 22 Nov (early am)	GlobalDairyTrade auction
Fri 24 Nov (10:00am)	ANZ Truckometer – Oct
Fri 24 Nov (10:45am)	Retail Trade – Q3
Wed 29 Nov (2:00pm)	RBNZ MPS
Thu 30 Nov (10:45am)	Building Permits – Oct
Thu 30 Nov (1:00pm)	ANZ Business Outlook – Nov
Thu 30 Nov (3:00pm)	RBNZ Sectoral Lending – Oct
Fri 1 Dec (10:00am)	ANZ-RM Consumer Confidence – Nov
Mon 4 Dec (10:45am)	Terms of Trade – Q3
Tue 5 Dec (10:45am)	Volume of All Buildings – Q3
Tue 5 Dec (1:00pm)	ANZ Commodity Price Index – Nov
Wed 6 Dec (early am)	GlobalDairyTrade auction
Fri 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3
Tue 12 Dec (10:45am)	Electronic Card Transactions – Nov
Tue 12 Dec (10:45am)	Net Migration – Oct
Wed 13 Dec (10:45am)	Current Account – Q3
Wed 13 Dec (10:45am)	Food Price Index – Nov

Interest rate markets

The US Federal Reserve ("Fed") meeting was the main event this week, and markets came away from it with the view that the Fed had pivoted and was done tightening. Although that was somewhat at odds with chair Powell's assertion that he wasn't confident that policy was sufficiently restrictive, he later said he wasn't confident they weren't [sufficiently restrictive] giving a sense that perhaps policy has peaked. The Fed did highlight that higher US bond yields and a stronger dollar had tightened financial conditions, but he went on to say that that situation would need to persist if it's to forestall further hikes. Essentially it was a warning to markets that they can't have their proverbial cake [no more Fed hikes] and eat it too [lower bond yields]. There was a lot to digest, but the upshot of it all was that bond markets were encouraged by it, and US bond yields fell sharply, with the bellwether US 10yr Treasury bond yield at 4.67% this morning, down from a peak of 5.02% last Monday. Those developments have driven local moves lower too. That's logical, but we remain cautious given the still tight US labour market and higher inflation expectations, and sticky inflation here. Bond supply (ie government bond issuance forecasts) remain elevated too, and that's a multi-year issue markets must contend with. Short end rates also moved lower, fuelled by softer Q3 labour market data, which have raised the hurdle for another OCR hike, as we noted in our [Review](#).

FX markets

The Kiwi recovered this week, having hit a cycle low last week. FX markets remain very USD-centric, with FX moves aligned to US bond yields. That theme is likely to continue, but watch next week's RBA meeting too.

Key data summary

Building Permits – September. Fell 6.7% m/m to be down 37% y/y. While the building pipeline is shrinking, it is coming off very elevated levels.

ANZ Business Outlook – October. [Business confidence](#) jumped 21pts to +23 in October. Expected own activity rose 12pts to +23.

RBNZ sectoral lending data – September. Mortgage lending growth was unchanged at 3.0% y/y, annual growth in business and agriculture lending slowed.

RBNZ Financial Stability Report – November. No material new information on upcoming policy changes.

Labour Market Statistics – Q3. Labour market pressures eased in Q3, with employment approaching its "maximum sustainable" level. See our [Review](#).

The week ahead

ANZ Commodity Price Index – October (Monday 6 November, 1:00pm)

GlobalDairyTrade auction (Wednesday 8 November, early am). Dairy futures pricing indicates a small increase at the next GDT event but with seasonal offer volumes at their peak the market depth will be tested.

RBNZ Inflation Expectations – Q4 (Wednesday 8 November, 3:00pm). Downside starting point surprise in Q3 and moving one quarter ahead should see expectations fall across the key 1 and 2-year measures.

Manufacturing PMI – October (Friday 10 November, 10:30am). Has been on a steady downward trend in recent months, and another soft print would not surprise.



Key forecasts and rates

	Actual				Forecast (end month)				
FX rates	Sep-23	Oct-23	Today	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
NZD/USD	0.600	0.585	0.590	0.590	0.610	0.610	0.620	0.630	0.630
NZD/AUD	0.932	0.919	0.917	0.908	0.897	0.897	0.886	0.875	0.875
NZD/EUR	0.567	0.549	0.555	0.541	0.550	0.540	0.544	0.543	0.543
NZD/JPY	89.6	88.2	88.7	85.6	85.4	83.0	81.8	80.6	80.6
NZD/GBP	0.492	0.480	0.483	0.465	0.473	0.462	0.463	0.463	0.463
NZ\$ TWI	71.5	69.6	70.0	68.7	69.8	69.1	69.4	69.5	69.4
Interest rates	Sep-23	Oct-23	Today	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
NZ OCR	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.50	5.25
NZ 90 day bill	5.74	5.64	5.64	5.83	6.07	6.10	5.93	5.82	5.57
NZ 2-yr swap	5.72	5.58	5.35	5.68	5.64	5.48	5.35	5.25	5.17
NZ 10-yr bond	5.31	5.55	5.18	5.70	5.75	5.65	5.50	5.35	5.25

Economic forecasts

	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
GDP (% qoq)	0.9	0.3	0.3	-0.1	0.1	0.3	0.3	0.4	0.5
GDP (% yoy)	1.8	0.6	1.5	1.4	0.6	0.6	0.6	1.1	1.5
CPI (% qoq)	1.1	1.8	0.9	0.7	0.6	0.9	0.4	0.4	0.5
CPI (% yoy)	6.0	5.6	5.1	4.5	4.0	3.1	2.7	2.4	2.3
Employment (% qoq)	1.0	-0.2	-0.2	-0.3	-0.1	0.1	0.1	0.2	0.2
Employment (% yoy)	4.1	2.4	1.6	0.3	-0.8	-0.5	-0.2	0.3	0.6
Unemployment Rate (% sa)	3.6	3.9	4.3	4.7	4.9	5.0	5.1	5.2	5.3

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

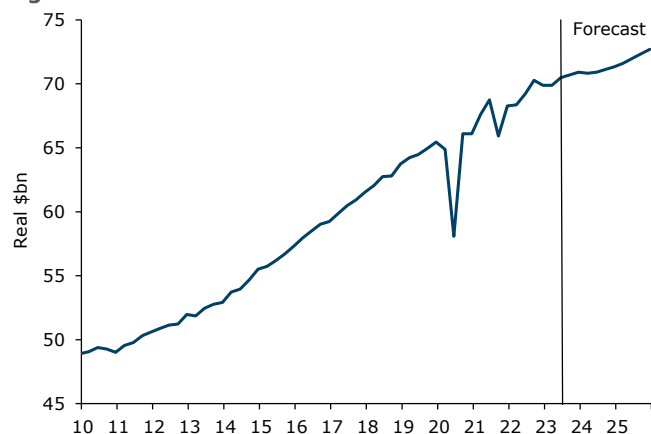
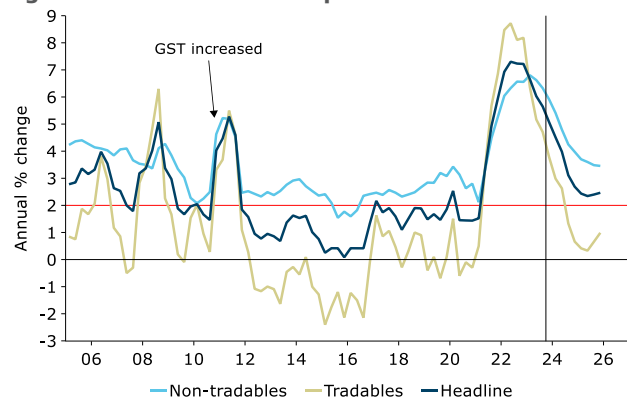
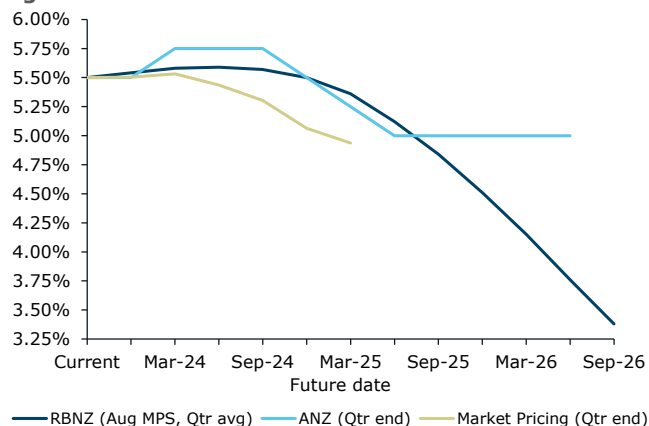


Figure 4. CPI inflation components



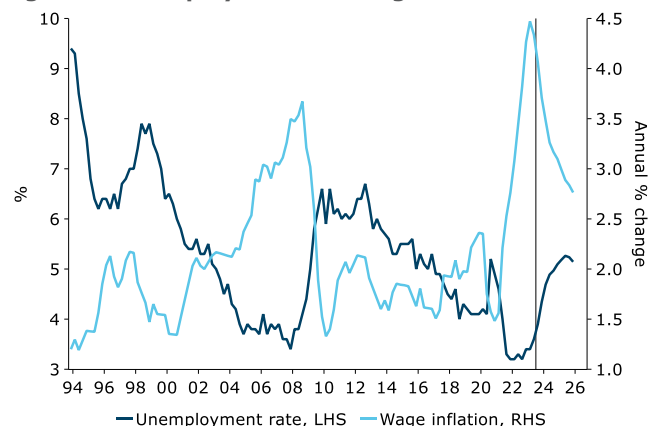
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. OCR forecast



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

Figure 6. Unemployment and wage inflation





Contact us

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