

# New Zealand Weekly Data Wrap

10 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.

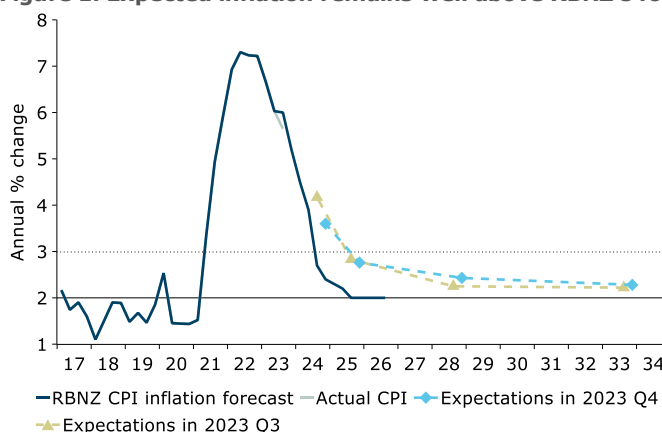


NZ's large external imbalances could see the market impose a more abrupt adjustment path.

## Not so fast

This week's RBNZ survey of inflation expectations showed progress, but they remain well above where they need to be. The 1-year-ahead measure fell from 4.17% to 3.60% and the 2-year-ahead measure fell from 2.83% to 2.76%. These remain much higher than the RBNZ's own August forecasts, which had inflation at 2.4% in 1 year and 2.0% in 2 years. Businesses and professional forecasters think it'll take about a year longer to get inflation back under 3%, implying four years of inflation above the target band (figure 1). We don't expect these data will have a significant impact on the RBNZ's decision-making.

**Figure 1. Expected inflation remains well above RBNZ's forecasts**



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

The mean 5-year-ahead annual inflation expectation was 2.43%, up from last quarter's 2.25%. The mean 10-year-ahead annual inflation expectation increased to 2.28% from 2.22%. Surveyed businesses and professional forecasters see inflation settling in the top half of the 1-3% target band in the medium term. Close enough is good enough perhaps, but unlike the near-term measures, long-term expectations are creeping higher. The RBNZ views these as something of a credibility check. If long-term inflation expectations get stuck above the 2% target midpoint, the RBNZ's job will be made more difficult.

The PMI data was out this morning, and made for grim reading. The index fell for the fifth month in a row, from 45.1 to 42.5 (seasonally adjusted). Aside from lockdowns, this is the lowest reading since the Global Financial Crisis. Every sub-index fell, including production, new orders, employment and deliveries. It certainly makes sense that manufacturers are experiencing tougher times, given their exposure to construction and the primary sector, both of which are under pressure currently. However, the result does stand in contrast to the relative optimism evident in the Business Outlook survey manufacturing responses. The difference is likely due to the different framing of the questions: the PMI asks about the last month, while the ANZBO questions are forward looking, mostly asking about a year ahead. The relatively new "experienced activity" question in the ANZBO matches the PMI more closely.

This week we released our flagship [Quarterly Economic Outlook](#) (QEO). Overall, we see the economy muddling through, with some unders and overs, and certainly winners and losers as the big forces (monetary, fiscal, global and demographic) that are buffeting the economy play out. But unfortunately, whether more medicine via another OCR hike is needed to bring it about or not, it'll likely feel like hard yards overall. One of the risks we touched on in the QEO was for an El Nino induced drought this summer, a theme we flesh out further over the page.



## Looking ahead



### NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Economic Outlook: ups and downs
- 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

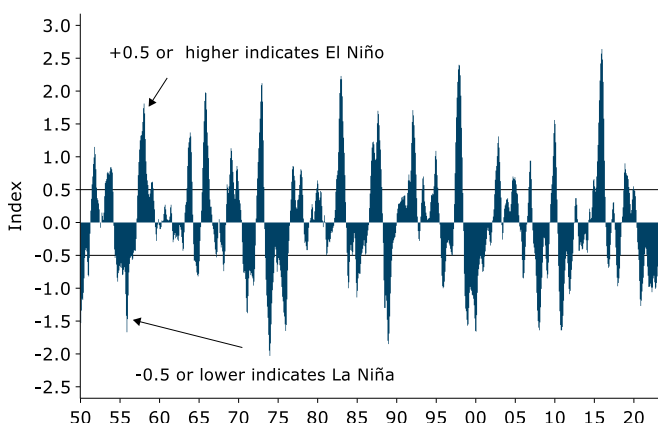
Check out our latest releases below.

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

### El Niño – local and global risks

All major global weather agencies have formally announced the onset of El Niño (figure 2). The US Government's National Oceanic and Atmospheric Administration declared the event in June, and the Australian Bureau of Meteorology and NIWA confirmed it in September. This weather pattern will likely persist till March 2024 and then weaken into New Zealand's winter.

Figure 2. Global El Niño and La Niña



Source: NOAA, Macrobond, ANZ Research

The current El Niño cycle is expected to be one of the strongest NZ has experienced, raising the risk of summer drought conditions, depressing milk volumes but bolstering meat production in the near term as farmers destock.

A drought this summer could have a larger-than-usual economic impact given farmers are already under pressure from soft returns at a time of intense cost pressures. The combination of weaker production and prices could be a very nasty mix for the rural sector and the economy more broadly. It's not just the growth outlook. New Zealand's current account deficit remains far too wide, and near-term disruption would push us further off the course necessary to achieve a [sustainable external position](#).

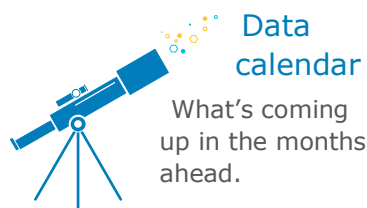
El Niño causes hot, dry weather in Asia, Australia and New Zealand, while bringing above-average rainfall to South and North America. So while it benefits American crops like soybean, corn and wheat, in Australia, India and Southeast Asia, crops such as rice, wheat, palm oil, cocoa and sugar suffer.

Though the impact on overall global agricultural output is mixed, in the Asia-Pacific productivity losses and production risks are imminent. The extent of losses will depend on the intensity and duration of the event, but droughts have made meaningful dents in New Zealand's exporter incomes and GDP over the years, and do seem have an unfortunate tendency to coincide with other significant economic challenges (1998, 2008).

Higher prices could provide some offset for producers. However, ANZ's global commodity analysts don't expect global food price indexes to rise materially, with solid harvests in Argentina, Brazil and the US to make up for output losses in Asia and Australasia. While higher prices would benefit New Zealand exporters and help rebalance our very wonky external accounts, contained global food inflation will at least help to keep New Zealand food prices for imported pantry staples contained (imported food has roughly a 4% CPI weight). Overall, El Niño is likely to be a net disinflationary event in New Zealand via its impact on exporter incomes and spending, but the severity of the weather outcomes and thus the overall impact are very uncertain. Economists exist to make weather forecasters look good, the old joke goes, but there will be a fair bit of luck at play in how the season pans out.



## Financial markets update



### Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 13 Nov (10:30am)	Performance Services Index – Oct
Tue 14 Nov (10:45am)	Selected Price Indexes – Oct
Wed 15 Nov (09:00am)	REINZ Housing Data – 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)	<a href="#">ANZ Truckometer – Oct</a>
Fri 24 Nov (10:45am)	Retail Trade – Q3
Wed 29 Nov (2:00pm)	<b>RBNZ MPS</b>
Thu 30 Nov (10:45am)	Building Permits – Oct
Thu 30 Nov (1:00pm)	<a href="#">ANZ Business Outlook – Nov</a>
Thu 30 Nov (3:00pm)	RBNZ Sectoral Lending – Oct
Fri 1 Dec (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Nov</a>
Mon 4 Dec (10:45am)	Terms of Trade – Q3
Tue 5 Dec (10:45am)	Volume of All Buildings – Q3
Tue 5 Dec (1:00pm)	<a href="#">ANZ Commodity Price Index – Nov</a>
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)	Selected Price Indexes – Nov
Thu 14 Dec (10:45am)	<b>GDP – Q3</b>
Fri 15 Dec (10:30am)	BusinessNZ Manuf PMI – Nov
Mon 18 Dec (10:30am)	Performance Services Index – Nov
Mon 18 Dec (10:00am)	<a href="#">ANZ Truckometer – Nov</a>

### Interest rate markets

Swap rates and bond yields are lower across the board this week, having been fuelled by the extended drop in US bond yields. This followed last week's Fed meeting, which markets viewed as a pivot, and softer than expected (but still somewhat resilient) US payroll data. But volatility has returned, with US bond yields sharply higher this morning following a soft US 30yr bond auction, and comments by Powell noting that he isn't confident that policy is sufficiently restrictive yet, repeating comments last week that markets ignored. And that's the vibe – markets reading it one way and central banks more cautious, which speaks to disappointment ahead as markets price in cuts, only for central banks to push back, and that cycle repeating itself, as we have seen in past cycles. Even if it is easier now to say that rates have peaked, that doesn't mean they'll continue to press lower and lower. In our view, we're more likely to enter a period of heightened volatility, as typically seen soon after earlier turning points.

### FX markets

The Kiwi has had a wild week, briefly breaking above 0.60 in the wake of US payroll data last Friday night, only to succumb to bouts of consolidation and volatility this week. FX markets remain USD-centric, with today's NZD slump in the wake of the spike in bond yields following the soft US bond auction a reminder of the influence of US bond yields. With these lower but not collapsing, it's hard to write the USD off just yet, especially as we enter a summer of RBNZ policy stability, and domestic themes in hibernation.

### Key data summary

**ANZ Commodity Price Index – October.** Strong increases in dairy and horticulture prices pushed the ANZ [World Commodity Price Index](#) up 2.9% in October.

**GlobalDairyTrade auction.** The overall GDT Price Index dropped 0.7% led down by a 2.7% fall in whole milk powder (WMP) pricing.

**RBNZ Inflation Expectations – Q4.** Progress, but still too high.

**Manufacturing PMI – October.** Fell another 2.6pts to a grim 42.5.

### The week ahead

**Performance Services Index – October (Monday 13 November, 10:30am).** Expecting this to stay around 50, neither expanding nor contracting meaningfully.

**Selected Price Indexes – October (Tuesday 14 November, 10:45am).** Next week marks the introduction of new monthly price indexes from Stats NZ. In addition to food and rents, indexes for alcohol and tobacco, accommodation services, airfares, and fuel will be released. Together, these data cover 44% of the CPI basket. We've pencilled in a 0.6% m/m fall in food prices and a 0.4% m/m increase in the stock measure of rents.

**REINZ House Prices – October (Wednesday 15 November, 9:00am).** We are expecting a 0.7% s.a. rise. Downside risk to the housing market from election uncertainty persists in October's release.

**Electronic Card Transactions – October (Wednesday 15 November, 10:45am).** We've pencilled in a 0.7% m/m fall.

**Net Migration – September (Wednesday 15 November, 10:45am).** We are expecting migration to remain strong and are keeping an eye out for further upwards revisions.



## 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	0.926	0.908	0.897	0.897	0.886	0.875	0.875
NZD/EUR	0.567	0.549	0.553	0.541	0.550	0.540	0.544	0.543	0.543
NZD/JPY	89.6	88.2	89.2	85.6	85.4	83.0	81.8	80.6	80.6
NZD/GBP	0.492	0.480	0.482	0.465	0.473	0.462	0.463	0.463	0.463
NZ\$ TWI	71.5	69.6	69.9	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	5.62	5.83	6.07	6.10	5.93	5.82	5.57
NZ 2-yr swap	5.72	5.58	5.33	5.68	5.64	5.48	5.35	5.25	5.17
NZ 10-yr bond	5.31	5.55	5.12	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	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>
GDP (% yoy)	1.8	<b>0.6</b>	<b>1.5</b>	<b>1.7</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>1.0</b>	<b>1.4</b>
CPI (% qoq)	1.1	1.8	<b>0.9</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>0.4</b>	<b>0.6</b>
CPI (% yoy)	6.0	5.6	<b>5.1</b>	<b>4.5</b>	<b>4.1</b>	<b>3.2</b>	<b>2.8</b>	<b>2.5</b>	<b>2.4</b>
Employment (% qoq)	1.0	-0.2	<b>-0.2</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>
Employment (% yoy)	4.1	2.4	<b>1.6</b>	<b>0.3</b>	<b>-0.8</b>	<b>-0.5</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.6</b>
Unemployment Rate (% sa)	3.6	3.9	<b>4.3</b>	<b>4.7</b>	<b>4.9</b>	<b>5.0</b>	<b>5.1</b>	<b>5.2</b>	<b>5.3</b>

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

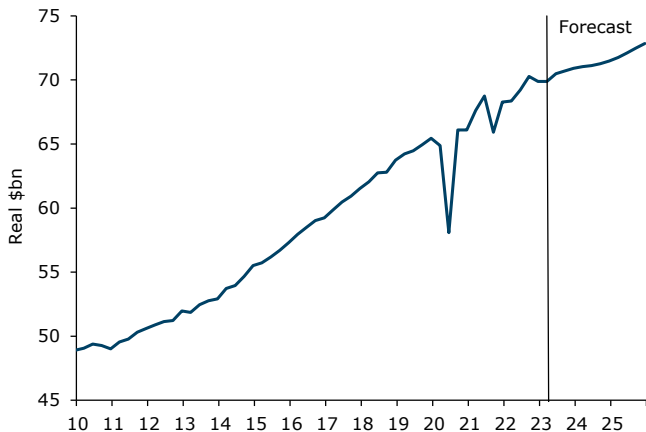
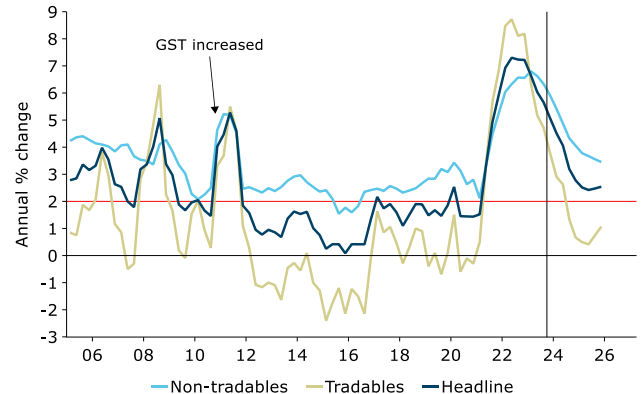
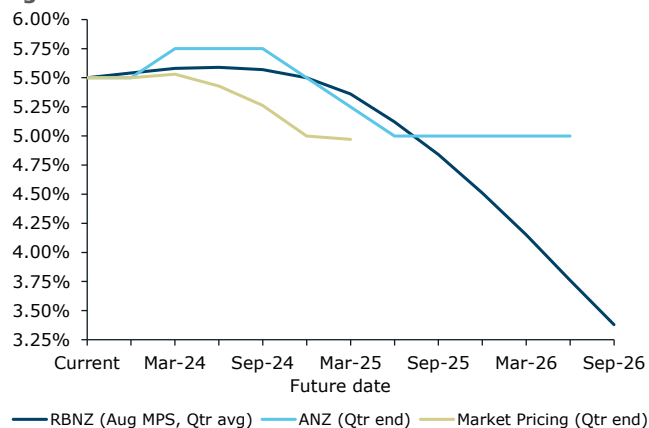


Figure 4. CPI inflation components



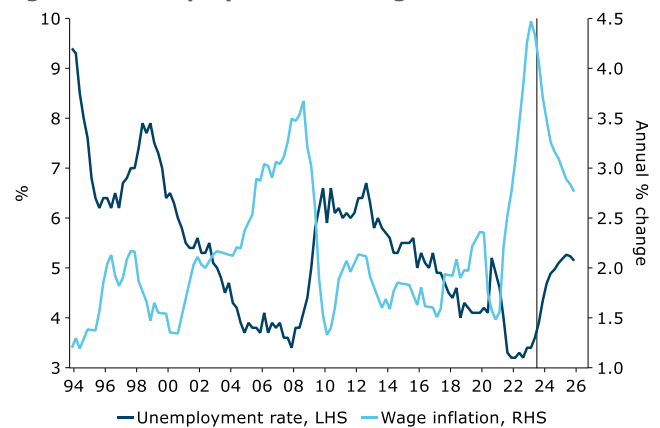
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. OCR forecast



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

Figure 6. Unemployment and wage inflation







## Contact us

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### Meet the team

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**Sharon Zollner**  
Chief Economist

Follow Sharon on X  
@sharon\_zollner

Telephone: +64 9 357 4094  
Email: [sharon.zollner@anz.com](mailto:sharon.zollner@anz.com)

General enquiries:  
[research@anz.com](mailto:research@anz.com)

Follow ANZ Research  
@ANZ\_Research (global)



**David Croy**  
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022  
Email: [david.croy@anz.com](mailto:david.croy@anz.com)



**Susan Kilsby**  
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469  
Email: [susan.kilsby@anz.com](mailto:susan.kilsby@anz.com)



**Miles Workman**  
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, GDP and activity dynamics, fiscal and monetary policy.

Telephone: +64 21 661 792  
Email: [miles.workman@anz.com](mailto:miles.workman@anz.com)



**Henry Russell**  
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553  
Email: [henry.russell@anz.com](mailto:henry.russell@anz.com)



**Andre Castaing**  
Economist

Macroeconomic forecasting, economic developments, housing and monetary policy.

Telephone: +64 21 199 8718  
Email: [andre.castaing@anz.com](mailto:andre.castaing@anz.com)



**Kyle Uerata**  
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894  
Email: [kyle.uerata@anz.com](mailto:kyle.uerata@anz.com)



**Natalie Denne**  
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808  
Email: [natalie.denne@anz.com](mailto:natalie.denne@anz.com)

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