

# New Zealand Weekly Data Wrap

17 May 2024



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## 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: April 2024](#)

## Key forecasts and rates

Our forecasts can be found on [page 4](#).

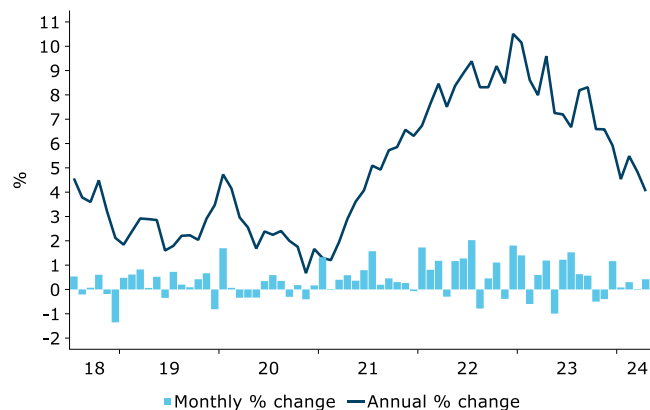
## Glossary

Confused by acronyms or jargon? See a glossary [here](#).

## Inflation data dragging its tail will keep the RBNZ cautious

April's [Selected Price Indexes](#) were overall stronger than our expectations. Given the volatility in these data, and the risk of reversal across the coming months, we initially left our forecast unchanged. However, a closer look at the details prompted us to revise up our Q2 CPI forecast 0.1%pts to 0.6% q/q (3.5% y/y) in our [Quarterly Economic Outlook](#), owing to expectations of a stronger non-tradables pulse. That's not enough to materially alter our outlook, but it does speak to the persistence of non-tradables that is challenging the RBNZ.

**Figure 1. Aggregated Selected Price Indexes**



Source: Stats NZ, Macrobond, ANZ Research

Our Quarterly Economic Outlook discusses the question of timing vs traction that is front of mind for policymakers currently. While there has been clear evidence of a deterioration in economic activity over the past year and the labour market is now firmly in disinflationary territory, that is yet to flow through to domestic inflation to the degree anticipated, suggesting that monetary policy lags this cycle are lengthier and/or tightening hasn't quite gotten as much inflation fighting traction as previously assumed.

However, there are good reasons to believe that progress on non-tradable inflation is about to accelerate. For starters, some components of the CPI basket are running hot because of past inflation, and time will fix that. Budget 2024 is expected to mark the beginning of the end for upside discretionary fiscal policy surprises, so fiscal and monetary settings will be working more in tandem. And firms' wage expectations have dropped all the way back to 3%.

But a glass-half-empty case can still be made that monetary tightening isn't getting the traction the RBNZ was expecting. So far, we've undoubtedly proven that raising the OCR 525bp quickly is very contractionary for household spending – but how contractionary the *level* of the OCR is will only become clear once that cashflow channel is wearing off, as it will over the coming six months as the proportion of people rolling over onto meaningfully higher mortgage rates drops sharply. The RBNZ would be the first to admit that any estimate of the neutral OCR is highly uncertain.

But all in all, the RBNZ's confidence they've done enough is likely growing despite the run of surprises re inflation's persistence – and for good reason. If economic drivers do become more synchronised to the downside over the quarters ahead, the RBNZ will gain greater confidence yet. We continue to pencil in OCR cuts from May 2025, but the data will ultimately determine when the RBNZ pulls the trigger. Given downside activity risks, risks are now shaded to an earlier start to cuts than forecast, but the RBNZ will take more convincing than the market that a sustained return 2% inflation is in the bag.



## Looking ahead



### NZ Economic News

ANZ's latest data releases, forecast updates and insights

- NZ Economic Outlook: the ducks are lining up
- NZ REINZ housing data: still on the chilly side
- NZ labour market: softening
- NZ Property Focus: looking for a signal from Auckland
- NZ Agri Focus: high and dry
- NZ CPI Review: strong underbelly
- RBNZ MPR Review: keep calm and carry on
- RBNZ MPR Preview: nothing (much) to see here
- NZ Property Focus: buy vs rent
- NZ Insight: new Government, new fiscal strategy
- NZ GDP: ending 2023 with a fizzle
- RBNZ MPS Review: pivot!
- NZ Forecast Update: milk price revised up
- NZ Property Focus: cruel summer
- NZ Economic Outlook: calibrating the landing
- NZ Agri Focus: harvest time
- NZ Half-Year Update 2023 Preview: new team, new game plan
- NZ Insight: house prices - impacts from proposed DTI and LVR settings
- NZ Insight: recession?
- NZ Insight: labour market capacity indicators
- NZ Insight: Coalition policy announcements
- NZ Insight: what an oil price shock could mean for inflation
- NZ Insight: macro impacts in New Zealand from an increase in global term rates

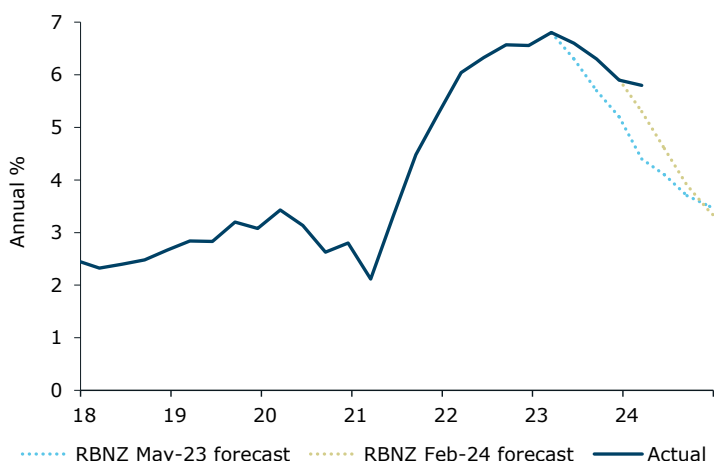
Click [here](#) for more.

### RBNZ MPS Preview

We expect the RBNZ to leave the OCR at 5.5% next week, reiterating that they remain in watch-worry-wait mode. The data since the February MPS has pointed in different directions. Recent activity and labour market data have tilted to the softer side of expectations, and the risks are growing that the economy could have a harder landing than anticipated. But inflation data has been sticky, with the Q1 forecast miss on non-tradable inflation the fourth in a row. At 5.8% y/y, it's a full 1.4%pts higher than the RBNZ thought it would be by now when they declared they were done hiking a year ago. Fair to say the Committee would likely have hiked the OCR a bit further had they known that lay in store. On the other hand, the activity data has played ball.

Given that, the RBNZ could take a glass-half-empty or glass-half-full view of things. But overall, we think confirmation that the economy is cooling as the Committee expects and requires will win the day. The data clearly signals a meaningful fall in domestic inflation ahead, with spare capacity steadily opening up. But until the RBNZ has seen that in the inflation data, we don't think they will want to signal a change in stance.

**Figure 2. Non-tradables inflation versus RBNZ's forecasts**



Source: RBNZ, Statistics NZ, ANZ Research

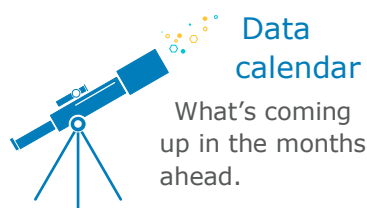
The odds of a change in the OCR at this meeting are very low. However, how the Committee weighs up and talks about the upside inflation versus downside growth risks in the Policy Assessment and Summary Record of Meeting will be important for the market. We expect the RBNZ to maintain its comment that "interest rates need to remain at a restrictive level for a sustained period", essentially describing their OCR track, which we expect to be similar to February. But there's plenty of nuance that matters too.

If the Policy Assessment downplays the higher non-tradable inflation starting point in light of the wins on the tradable side and the very clear signs of capacity opening up, then the natural conclusion is that the Committee will be willing to cut the OCR with a greater share of the required disinflation still a forecast rather than a fact. The market would likely see such a tone as corroborating its pricing of 2-3 cuts by year end, regardless of the RBNZ's own OCR forecasts. And certainly we'd be taking a look at our own OCR forecasts in that instance, which are currently broadly aligned with the RBNZ's February MPS track, with no cuts until well into next year.

But if the Committee sounds very worried about their unexpectedly slow progress in bringing non-tradable inflation down, that would suggest that they need to see non-tradable inflation outcomes fall a lot further yet before cuts could be countenanced. And in that context it's important to note that we only get updated CPI inflation data every three months.



## Financial markets update



Date	Data/event
Wed 22 May (early am)	GlobalDairyTrade auction
Wed 22 May (2:00pm)	<b>RBNZ MPS</b>
Thu 23 May (10:45am)	Retail Trade – Q1
Fri 24 May (10:00am)	<a href="#">ANZ-RM Consumer Confidence – May</a>
Fri 24 May (10:45am)	Merchandise Trade – Apr
Tue 28 May (10:45am)	Employment Indicators – Apr
Wed 29 May (1:00pm)	<a href="#">ANZ Business Outlook – May</a>
Thu 30 May (10:45am)	Building Permits – Apr
Thu 30 May (2:00pm)	<b>Budget 2024</b>
Wed 5 Jun (early am)	GlobalDairyTrade auction
Wed 5 Jun (10:45am)	Terms of Trade – Q1
Thu 6 Jun (10:45am)	Volume of All Buildings – Q1
Thu 6 Jun (1:00pm)	<a href="#">ANZ Commodity Price Index – May</a>
Fri 7 Jun (10:45am)	Economic Survey of Manufacturing – Q1
Tue 11 Jun (10:00am)	<a href="#">ANZ Truckometer – Apr</a>
Wed 12 Jun (10:45am)	Net Migration – Apr
Thu 13 Jun (10:45am)	Electronic Card Transactions – May
Fri 14 Jun (10:30am)	BusinessNZ Manuf PMI – May
Fri 14 Jun (10:45am)	Selected Price Indexes – May
Mon 17 Jun (10:30am)	Performance Services Index – May
Wed 19 Jun (early am)	GlobalDairyTrade auction
Wed 19 Jun (10:45am)	Current Account – Q1
Thu 20 Jun (10:45am)	<b>GDP – Q1</b>
Mon 24 Jun (10:45am)	Merchandise Trade – May
Thu 27 Jun (10:00am)	<a href="#">ANZ-RM Consumer Confidence – Jun</a>
Thu 27 Jun (1:00pm)	<a href="#">ANZ Business Outlook – Jun</a>
Mon 1 Jul (10:45am)	Employment Indicators – May

### Interest rate markets

Whippy price action continued across local and global interest rate markets this week, with US markets again leading the way, with falls following US CPI. While that data broadly met expectations, markets took comfort from the fact that the data didn't accelerate, but as Fed speakers have warned since the data was released, more than one data print is needed to confirm an end to the upswing in inflation pressures. While the data is specific to the US, interest rate markets continue to dance to the US beat, and local markets are tending to move as far on US data as they are on local data – so it bears watching. Next week's MPS will set the scene for the next few weeks. We don't think the RBNZ will be as confident that cuts are coming soon as the market is, and that tone may see rates correct slightly higher. However, markets have proven themselves willing to take a stronger view, and that's likely to cap the upside.

### FX markets

Currency markets are trading off US themes, with this week's rise in the Kiwi mostly a USD story. Narrower NZ/US short-end spreads as NZ rates catch up to US moves have scope to limit NZD upside as the USD corrects lower, and we're wary of that. But the biggest limiter of Kiwi upside might simply be the widespread belief that the economy is roiling over, yet the RBNZ remains cautious (which is understandable given sticky domestic inflation).

### Key data summary

**Performance Services Index – April.** Fell to 47.1 from a downwardly revised March print of 47.2. Firmly in contractionary territory.

**Selected Price Indexes – April.** April's [Selected Price Indexes](#) (SPI) were stronger than our expectations. In our Quarterly Economic Outlook, we nudged up our Q2 CPI forecast to 0.6% q/q (3.5% y/y).

**RBNZ Inflation Expectations – Q2.** 1-year ahead expectations fell from 3.22% to 2.73%, back into the 1-3% target band. 2-year ahead expectations fell from 2.50% to 2.33%. Long-run expectations remained anchored close to 2%. Overall, a reassuring release for the RBNZ.

**REINZ House Prices – April.** The nationwide [REINZ House Price Index](#) (HPI) lifted 0.1% m/m (sa). By region it was a mixed bag.

**ANZ Truckometer – April.** The Light Traffic Index fell 1.3% m/m, while the Heavy Traffic Index rose 0.3% m/m.

**Electronic Card Transactions – April.** Retail spending fell 0.4% m/m, to be down 3.8% y/y. Retail spending remains subdued.

**Net Migration – March.** Net migration inflows fell to 4,910 in March. Historic downward revisions suggest the migration cycle has turned as migrant arrivals slow while departures rise.

### The week ahead

**GlobalDairyTrade auction (Wednesday 22 May, early am).** Dairy futures indicate prices will soften by about 1% at the next event.

**RBNZ Monetary Policy Statement – May (Wednesday 22 May, 2:00pm).** No change expected. See our [Preview](#).

**Retail Sales – Q1 (Thursday 23 May, 10:45am).** We've pencilled in a 0.1% q/q rise in retail sales volumes.

**ANZ-Roy Morgan Consumer Confidence – April (Friday 24 May, 10:00am).**

**Overseas Merchandise Trade – April (Friday 24 May, 10:45am).** Exports returns in the vicinity of \$6.3bn are forecast. That should slightly exceed imports, which are weakening due to slowing consumer demand.



## Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Mar-24	Apr-24	Today	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
NZD/USD	0.598	0.595	0.612	0.600	0.610	0.620	0.620	0.620	0.630
NZD/AUD	0.918	0.911	0.917	0.909	0.910	0.899	0.886	0.886	0.887
NZD/EUR	0.554	0.554	0.563	0.556	0.560	0.564	0.554	0.544	0.543
NZD/JPY	90.5	93.3	95.1	91.2	91.5	91.8	89.3	88.0	88.2
NZD/GBP	0.474	0.474	0.483	0.476	0.477	0.477	0.470	0.459	0.463
NZ\$ TWI	70.4	70.5	71.8	70.6	71.2	71.5	70.8	70.3	70.9
Interest rates	Mar-24	Apr-24	Today	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
NZ OCR	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.00
NZ 90 day bill	5.64	5.63	5.62	5.59	5.54	5.49	5.44	5.25	5.00
NZ 2-yr swap	4.80	5.11	4.92	4.95	4.80	4.74	4.60	4.44	4.32
NZ 10-yr bond	4.54	4.90	4.61	4.65	4.50	4.50	4.50	4.50	4.50

### Economic forecasts

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
GDP (% qoq)	-0.1	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>
GDP (% yoy)	-0.3	<b>0.3</b>	<b>0.0</b>	<b>0.6</b>	<b>1.0</b>	<b>1.1</b>	<b>1.3</b>	<b>1.6</b>	<b>1.9</b>
CPI (% qoq)	0.5	0.6	<b>0.6</b>	<b>1.1</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.9</b>	<b>0.3</b>
CPI (% yoy)	4.7	4.0	<b>3.5</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>2.0</b>
Employment (% qoq)	0.4	-0.2	<b>-0.1</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>
Employment (% yoy)	2.7	1.3	<b>0.1</b>	<b>-0.2</b>	<b>-0.7</b>	<b>-0.5</b>	<b>-0.3</b>	<b>0.2</b>	<b>0.6</b>
Unemployment Rate (% sa)	4.0	4.3	<b>4.6</b>	<b>4.9</b>	<b>5.1</b>	<b>5.2</b>	<b>5.4</b>	<b>5.4</b>	<b>5.5</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

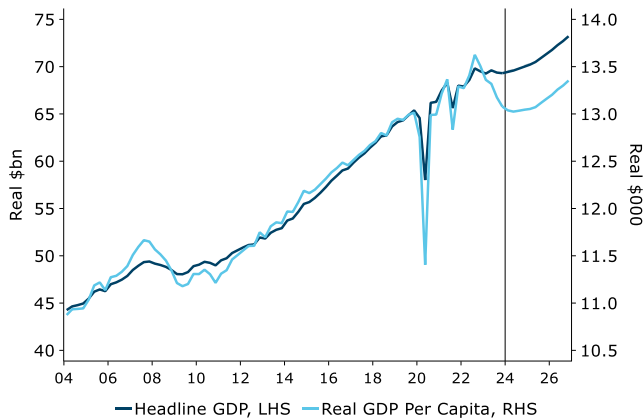


Figure 4. CPI inflation components

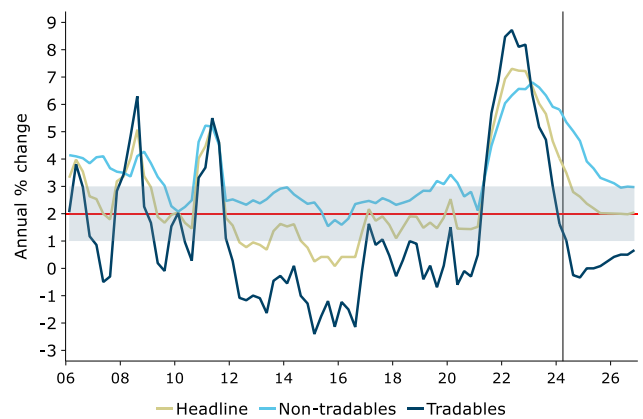


Figure 5. OCR forecast

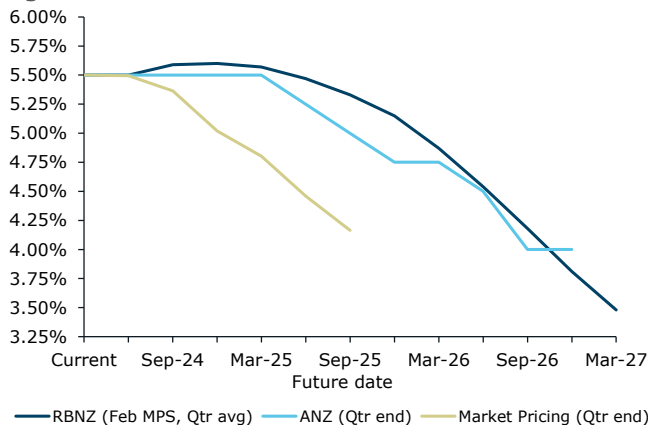
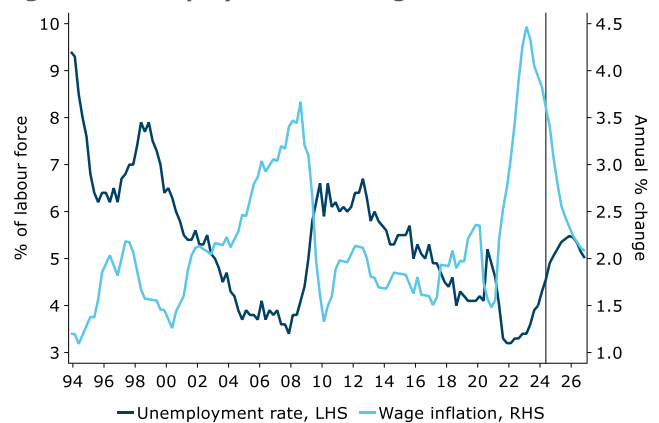


Figure 6. Unemployment and wage inflation



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



## Contact us

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