

New Zealand Weekly Data Wrap

24 May 2024



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See [page 5](#).



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](#).

Hawkish hold; Budget looms

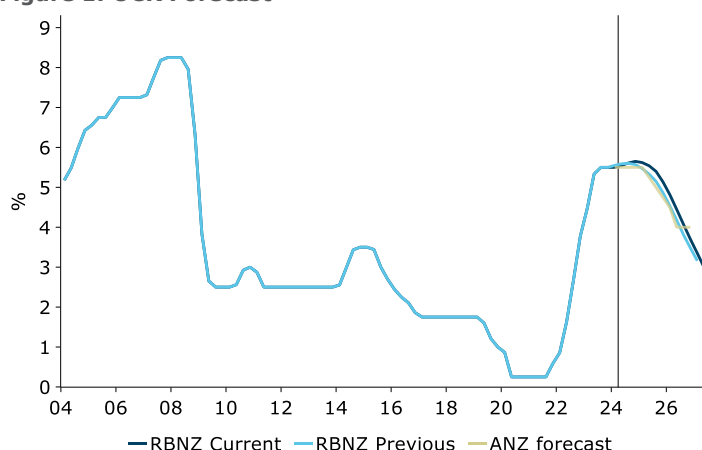
As expected, the RBNZ left the Official Cash Rate (OCR) **unchanged at 5.50% this week**. However, in a shock to markets, the forecast peak OCR was raised from 5.60% to 5.65%, and the Summary Record of Meeting noted that a hike was discussed (though in the end a hold was a consensus decision). The RBNZ's OCR projection shows that cuts are now pencilled in for August next year, 3-4 months later than in the February MPS.

There had been considerable uncertainty as to how the RBNZ would weigh the recent dataflow. Activity and labour market data has come in soft in recent months suggesting that a sustained period of disinflation lies ahead, but the persistence of non-tradables inflation, which printed 0.5%pts above the RBNZ's forecast in Q1, highlights that the RBNZ has not had the inflation-fighting traction it had previously anticipated.

The RBNZ's inflation forecasts have been revised up significantly, with inflation only returning to 2% in mid-2026, six months later than forecast at the February MPS. The Committee noted significant upside risk to the non-tradable inflation outlook, hinting that inflation and wage expectations, and slower potential output growth than currently assumed are all potential catalysts for non-tradable inflation being slower to fall than expected.

There are good reasons to think that progress on domestic inflation will accelerate in the coming quarters. The RBNZ is going to believe that when it sees it, as they are concerned that the slow progress thus far means that capacity pressures in the economy may have been greater than thought.

Figure 1. OCR Forecast



Source: RBNZ, Macrobond, ANZ Research

Our OCR forecast remains unchanged. We expect the RBNZ to remain on hold until May next year. However, despite the hawkish MPS this week, we still see the risks tilted towards cuts coming earlier rather than later, given the increasingly broad-based weakness in the economy.

The RBNZ's updated economic outlook is **similar to ours**: the economy is slowing, the export outlook is challenged, unemployment is set to rise and inflation coming down. However, a key difference is that we see OCR cuts occurring a little sooner. When the RBNZ have sufficient confidence in the outlook to start easing monetary conditions will remain a point of vigorous contention for a while yet. But ultimately, like us, they'll be guided by the upcoming data.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- [RBNZ MPS Review: get back in your box](#)
- [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](#)
- [NZ Property Focus: buy vs rent](#)
- [NZ Insight: new Government, new fiscal strategy](#)
- [NZ GDP: ending 2023 with a fizzle](#)
- [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.

Budget 2024 preview

On Thursday next week, the Government will unveil its first Budget and Fiscal Strategy Report, and the Treasury will open up the Government's books. The macroeconomic and fiscal backdrop for Budget 2024 is very challenging: the economy is anaemic and the labour market is loosening, but pro-cyclical fiscal policy in recent years means fiscal consolidation is now desperately overdue.

The main focus of Budget 2024 will be on delivering key election promises (ie the fiscally neutral tax package), but the real test of the new Government lies ahead: a credible path back to surplus needs to be signalled and the Government needs to stick to it. That implies the Government will probably need to get better at doing more with less and reprioritising from within existing baselines.

The Budget Update will be the first time the Treasury has incorporated the new Government's policies into the economic and fiscal outlook. However, we also know from the [Budget Policy Statement](#) that a downgrade to the Treasury's economic outlook is going to drive a deterioration to the fiscal outlook, and it'll be important to separate that from the impacts of discretionary fiscal policy changes.

We expect the net impact of discretionary fiscal policy changes (tax and spending cuts) to be broadly neutral from a fiscal outlook perspective. Operating allowances are expected to be a little lower than signalled at the Half-Year Update, but capital spending a little higher. However, given the deterioration in the economic and tax outlook, we expect that NZDM will lift its bond issuance guidance by \$10bn over the forecast horizon.

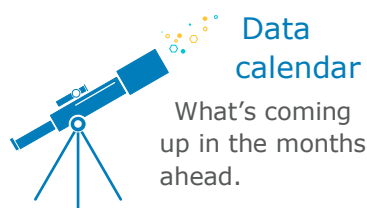
In terms of the economic impacts, we expect the new fiscal policy mix to have very little impact on the outlook for headline GDP, as a smaller-than-otherwise government sector is offset by a larger-than-otherwise private sector (this has been in our GDP forecast since shortly after the election). But as we outline in our latest [Quarterly Economic Outlook](#), we think the net impact of tax and spending cuts are likely to be marginally contractionary on balance, insofar as households save a portion of their tax relief or spend a greater proportion on imports than the Government would have. On the other side of the fiscal reshuffle, job cuts will certainly detract from demand and be felt in Wellington. But compared to all the other moving parts in the economy at present, these impacts are small and are unlikely to move the dial for the RBNZ.

Big picture, the new fiscal policy mix outlined in the Budget Update will be of secondary importance to the Government outlining a credible path for fiscal consolidation going forward and sticking to it. Certainly, lower operating allowances than what was signalled at the Half-Year Update will be required over coming years for the Government to achieve a surplus over the forecast horizon.

Maintaining lower operating allowances in the current inflationary environment won't be easy, but it is possible. To do so, the Budget process will probably need to turn more towards reviewing and reprioritising spending from within existing baselines as new cost pressures arise, as opposed to being centred around additional spending. But if the Government signals lower operating allowances beyond Budget 2024 and then sticks to these, Budget 2024 will mark a turning point in the post-COVID economy where fiscal policy is set to become a better ally to monetary policy than it's been over the past couple of years. In other words, the faster the fiscal consolidation, the sooner the RBNZ can cut the OCR.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Tue 28 May (10:45am)	Employment Indicators - Apr
Wed 29 May (1:00pm)	ANZ Business Outlook - May
Thu 30 May (10:45am)	Building Permits - Apr
Thu 30 May (2:00pm)	Budget 2024
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)	ANZ Commodity Price Index - May
Fri 7 Jun (10:45am)	Economic Survey of Manufacturing - Q1
Tue 11 Jun (10:00am)	ANZ Truckometer - Apr
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)	GDP - Q1
Mon 24 Jun (10:45am)	Merchandise Trade - May
Thu 27 Jun (10:00am)	ANZ-RM Consumer Confidence - Jun
Thu 27 Jun (1:00pm)	ANZ Business Outlook - Jun
Mon 1 Jul (10:45am)	Employment Indicators - May
Tue 2 Jul (10:00am)	NZIER QSBO - Q2
Tue 2 Jul (10:45am)	Building Permits - May
Wed 3 Jul (early am)	GlobalDairyTrade auction
Wed 3 Jul (1:00pm)	ANZ Commodity Price Index - Jun
Wed 10 Jul (10:45am)	Net Migration - May

Interest rate markets

Interest rates moved higher across the board this week in response to the combination of a what was perceived to be a hawkish tilt from the RBNZ, and higher global bond yields. We say "perceived" because market went into the MPS expecting the RBNZ's OCR track to be both truncated at 5.5% (showing no risk of hikes) and for it to signal earlier cuts, but it got neither. Instead, the RBNZ delayed and raised the peak in their track by 5bp, and delayed the timing of when they expect the OCR to fall below its current level of 5.5% by two quarters to Q3 2025. Looking forward, we still see upside risks to the short end as investors stop out of wagers on early OCR cuts. Next week's Budget will be important for the long end, and we expect an additional \$10bn of issuance to be announced (see page 2). While that leaves us somewhat nervous, only \$8bn of that will go into future fiscal years, and investors seem to be taking a glass-half-full-view, noting that the worst is behind us. We expect markets to be more responsive to the size of projected bond issuance programmes than the general Budget vibe.

FX markets

The Kiwi has had a volatile this week and hasn't been as directional as rates markets have been, which is logical given that global rates have also risen this week. We see fair value as close to current levels and don't see any valuation impetus for a significant move. Additionally, with the RBNZ MPS now behind us, FX markets are likely to revert to dancing to a global beat - in particular how US data and expectations for Fed policy evolve.

Key data summary

GlobalDairyTrade auction. Dairy markets outperformed expectations with the GDT Price Index up 3.3%. Whole milk powder was up 2.9%, skim milk powder gained 3.5%, anhydrous milkfat 3.5% and butter jumped 5.1%.

RBNZ Monetary Policy Statement - May. The RBNZ raised its OCR forecast a little and pushed out cuts in a hawkish on-hold Statement. See our [Review](#).

Retail Sales - Q1. [Retail sales](#) volumes rose 0.5% on a seasonally adjusted basis in Q1 while core sales volumes lifted 0.4%.

ANZ-Roy Morgan Consumer Confidence - April. A decent fall in household inflation expectations will be welcome news to the RBNZ. [Consumer confidence](#) lifted 3pts but remains very low.

Overseas Merchandise Trade - April. The economy achieved a \$91m trade surplus in April, though progress on narrowing the annual deficit stalled.

The week ahead

Monthly Employment Indicators - April (Tuesday 28 May, 10:45am).

Across the March quarter the MEI rose 0.5% q/q, but this strength was not reflected in the HLFS employment measure, which unexpectedly contracted 0.2% q/q. An element of survey volatility may have been at play, and we'll be looking for signs of weakness in April's MEI to give us more confidence in the signal from the HLFS. That said, we do expect employment to contract across the remainder of the year.

ANZ Business Outlook - May (Wednesday 29 May, 1:00pm).

Building Permits - April (Thursday 30 May, 10:45am). These data are volatile on a month-to-month basis, but we'll be watching for any evidence that the floor is approaching.

NZ Budget 2024 (Thursday 30 May, 2.00pm). Budget 2024 comes at a challenging time: the economy is anaemic but a credible path back to surplus is needed. See our [Preview](#).



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	0.610	0.600	0.610	0.620	0.620	0.620	0.630
NZD/AUD	0.918	0.911	0.923	0.909	0.910	0.899	0.886	0.886	0.887
NZD/EUR	0.554	0.554	0.564	0.556	0.560	0.564	0.554	0.544	0.543
NZD/JPY	90.5	93.3	95.7	91.2	91.5	91.8	89.3	88.0	88.2
NZD/GBP	0.474	0.474	0.480	0.476	0.477	0.477	0.470	0.459	0.463
NZ\$ TWI	70.4	70.5	71.9	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	5.11	4.95	4.80	4.74	4.60	4.44	4.32
NZ 10-yr bond	4.54	4.90	4.78	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	0.2	0.2	0.3	0.3	0.3	0.4	0.6	0.6
GDP (% yoy)	-0.3	0.3	0.0	0.6	1.0	1.1	1.3	1.6	1.9
CPI (% qoq)	0.5	0.6	0.6	1.1	0.3	0.4	0.4	0.9	0.3
CPI (% yoy)	4.7	4.0	3.5	2.8	2.6	2.4	2.2	2.0	2.0
Employment (% qoq)	0.4	-0.2	-0.1	-0.3	-0.1	0.0	0.1	0.2	0.3
Employment (% yoy)	2.7	1.3	0.1	-0.2	-0.7	-0.5	-0.3	0.2	0.6
Unemployment Rate (% sa)	4.0	4.3	4.6	4.9	5.1	5.2	5.4	5.4	5.5

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

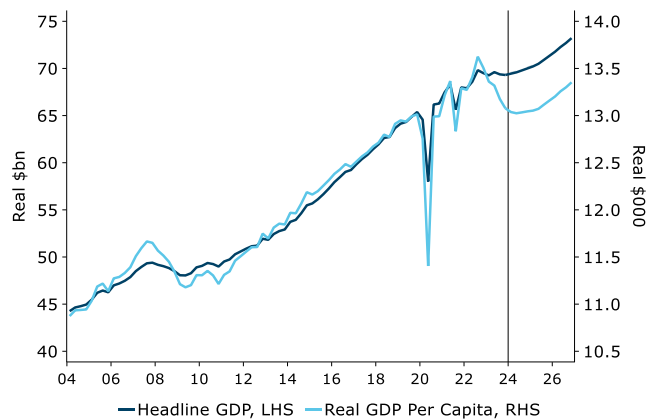


Figure 4. CPI inflation components

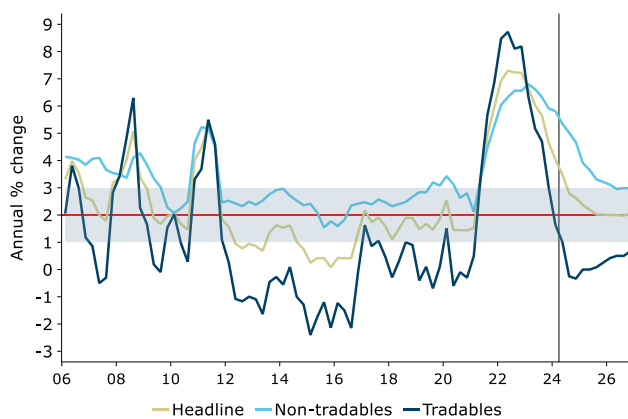


Figure 5. OCR forecast

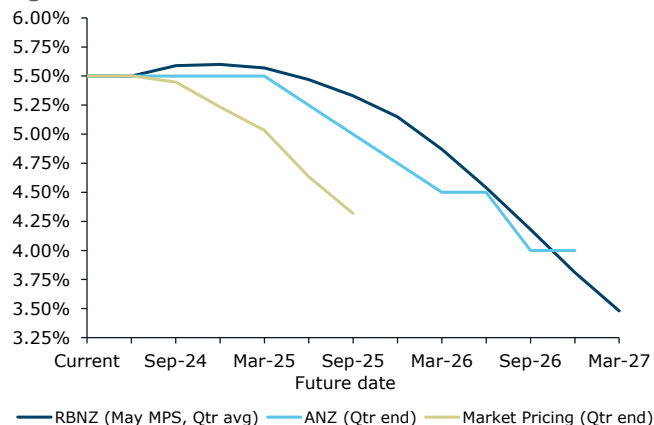
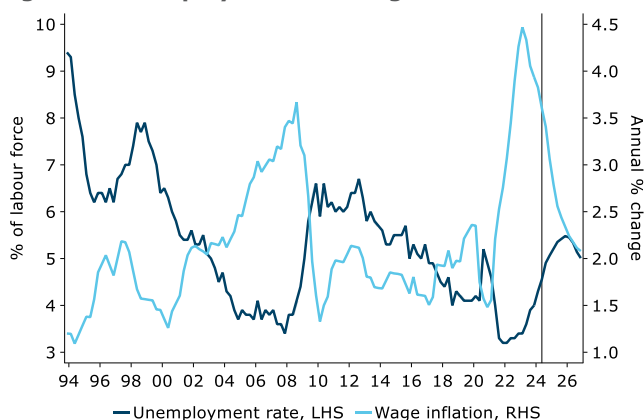


Figure 6. Unemployment and wage inflation



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



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Meet the team

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