

New Zealand Weekly Data Wrap

7 June 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](#).

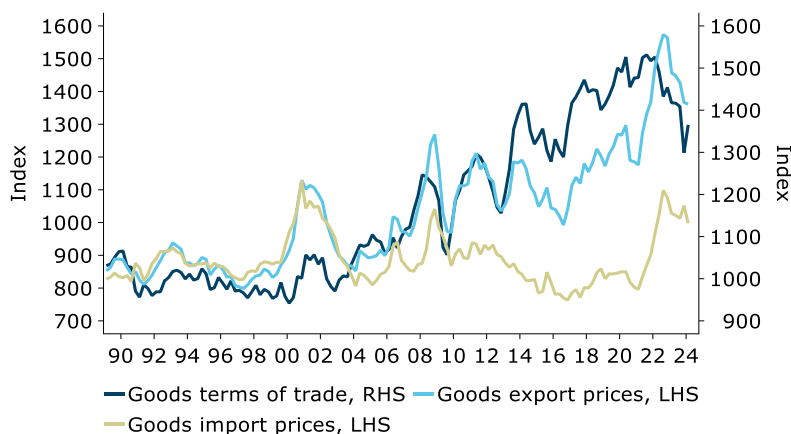
Terms of trade bounce; GDP partials mixed

New Zealand's merchandise terms of trade rose 5.1% q/q in Q1, a decent recovery, though not enough to unwind the sharp 7.8% q/q contraction in Q4. The terms of trade (the ratio of export prices to import prices) are down nearly 11% from their 2021 Q3 peak, meaning we're having to sell a few more trays of kiwifruit to afford our iPhones. The Q1 recovery was driven by a 5.1% fall in import prices. That in part reflected a nearly 14% fall in fuel prices, though weakness was broad-based with ex-fuel import prices falling 2.4% q/q. The data reinforced our expectation for weak tradable inflation over the coming quarters and will be reassuring for the RBNZ.

Export prices fell 0.3% q/q as modest gains across dairy and forestry were insufficient to offset broad-based weakness elsewhere. Weakness in China's domestic economy continues to weigh on demand for NZ exports, and conditions are set to remain challenging through this year.

Export volumes rose a strong 6.3% q/q, led by dairy, which bounced 8% q/q. The gains across dairy products outweighed a 5.1% q/q fall in meat volumes, with the red meat sector, particularly lamb and mutton, facing challenges. Import volumes also lifted 1.2% q/q, though they are down nearly 12% from their peak a year ago and continue to point to soft domestic demand.

Figure 1: Merchandise terms of trade



Source: Stats NZ, Macrobond, ANZ Research

Turning to other data, the volume of building work put in place came in weaker than expected in Q1, down 4% q/q. This offsets some of the upside risk to our Q1 GDP pick of 0.2% q/q coming from the stronger retail trade release. However, both construction and retail have a relatively small share in total production GDP (around 7% and 6.5% respectively) and we're yet to crunch all the numbers – keep an eye out for our GDP preview next week.

Turning back to the construction data, a weaker quarterly growth print is not a huge surprise given construction completions can be quite lumpy quarter to quarter, particularly non-residential projects (which fell 2.8% q/q). The 4.8% q/q drop in residential construction had certainly been foreshadowed by falling consents data, but the lags from consent to activity have been a key uncertainty given how overheated the industry had become in recent years (leading to longer completion times). Looking forward, we think construction activity still has a bit further to soften, but it should find a floor this year.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

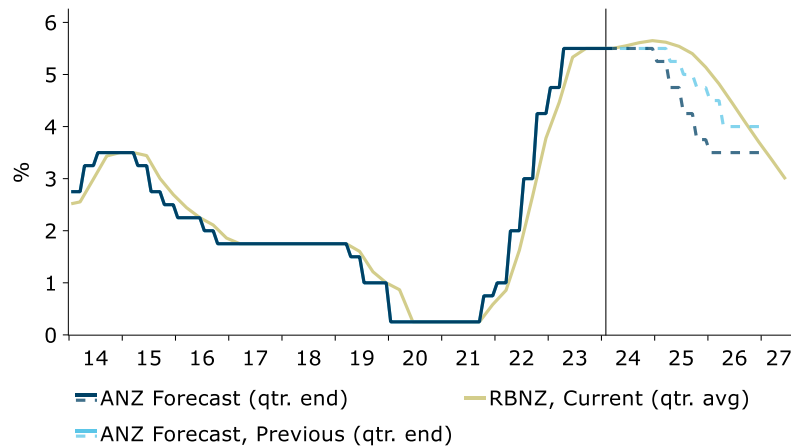
- NZ OCR Call Change - First cut in February rather than May
- ANZecdotes – June 2024
- NZ Insight: non-tradable inflation – a waiting game
- NZ Property Focus: soggy – and unaffordable
- RBNZ MPS Review: get back in your box
- NZ Economic Outlook: the ducks are lining up
- NZ REINZ housing data: still 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.

OCR call change – First cut in February

We have tweaked our Official Cash Rate (OCR) forecast and now [expect](#) the first OCR cut to come in February 2025, rather than May. We have been talking for some time about the risks towards cuts occurring earlier than May, and now have confidence to centralise those risks into our forecast.

Figure 2. OCR forecast



Source: RBNZ, Macrobond, ANZ Research

The Reserve Bank surprised markets – and to a lesser extent, economists – with their hawkish tone at last month's *Monetary Policy Statement*, publishing an OCR track featuring a slightly higher peak and later OCR cuts (with the first cut pushed out from May to August next year). The reasoning: much slower-than-expected progress on reducing non-tradable inflation (which fell from 5.9% to 5.8% y/y in Q1, versus the RBNZ's forecast of 5.3%).

However, for our part, we have become more confident on that front. We put store in the inflation indicators in our [Business Outlook](#) survey. In addition to the tried-and-true indicators, in recent years we've added some interesting new questions, the answers to which are telling precisely the story the RBNZ needs to hear. Wage settlements – both actual and expected – as well as firms' expected costs and pricing decisions have fallen steadily. Because most of these series are so new, we can't draw any conclusions about the level of inflation they imply lies ahead, but the decline is encouraging.

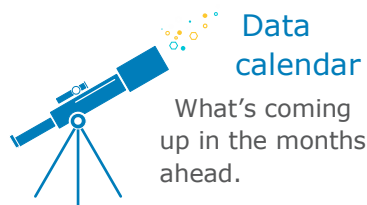
Before cutting the OCR, the RBNZ needs to not only be confident that CPI inflation is on its way to 2%, but that it can be reasonably expected to subsequently stay within the 1-3% target band. Various combinations of activity and inflation outcomes could meet those criteria. But by February next year, we are anticipating that the RBNZ will have seen Q4 CPI inflation at 2.6% y/y (non-tradable still 4.7% y/y but we are forecasting it to drop under 4% the following quarter), and unemployment through 5%. That should do it.

In our view, inflation data will soon start to make a more convincing case that the RBNZ is winning this war. We also expect that the RBNZ will take quite some convincing to actually cut the OCR, given it's in the nature of their mandate to be cautious when assessing the outlook for inflation. However, we believe that point is likely to be reached well before August next year, which is the RBNZ's current forecast for the first OCR cut.

We currently see the risks as balanced around our updated call, but expect the market to continue to punt on cuts this year. The knowledge that the RBNZ always reserves the right to change its mind as the data unfolds will no doubt ensure that the market continues to take what the RBNZ says about the path of policy so far ahead with a grain of salt.



Financial markets update



Date	Data/event
Tue 11 Jun (10:00am)	ANZ Truckometer – May
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
Wed 10 Jul (2:00pm)	RBNZ MPR
Thu 11 Jul (10:00am)	ANZ Truckometer – Jun
Thu 11 Jul (10:45am)	Selected Price Indexes – Jun
Fri 12 Jul (10:45am)	BusinessNZ Manuf PMI – Jun
Fri 12 Jul (10:45am)	Electronic Card Transactions – Jun
Mon 15 Jul (10:30am)	Performance Services Index – Jun
Wed 17 Jul (early am)	GlobalDairyTrade auction
Wed 17 Jul (10:45am)	CPI – Q2
Mon 22 Jul (10:45am)	Merchandise Trade – Jun

Interest rate markets

Short and long end interest rates have fallen sharply this week, taking their lead from lower US bond yields in the wake of as-expected PCE deflator data last week. Alongside cuts from the BoC and ECB, and softer US JOLTS data, that has restored market confidence that the Fed will cut twice this year, with many expecting the Fed to signal that next week. Local markets continue to dance to a global beat, but we have revised all of our interest rate forecasts down in the wake of our call for an earlier start to the RBNZ easing cycle.

FX markets

Global themes continue to dominate FX markets, with elevated cross-market correlations and low volatility suggesting that markets are ebbing and flowing with risk appetite rather than local drivers. The Kiwi has done well this week, but much of that has been a USD story, with the AUD experiencing similar fortunes intraday. The Kiwi has now converged on our measure of fair value, and although it has gotten to 0.62 more quickly than our forecasts imply, that doesn't mean we expect it to fall, but it has scope to range trade around our forecasts. Our call for earlier OCR cuts may be perceived as a headwind, but with rate cuts underway in Europe and Canada, and markets now more confident of Fed cuts, the rate-cut vibe isn't really driving FX markets. The NZD/AUD cross has performed well, which has surprised many given relative fundamentals look more consistent with weakness. This could be a source of downside risk if markets begin reflecting on economic relativities.

Key data summary

GlobalDairyTrade auction. The Global Dairy Trade Index rose 1.7%, slightly stronger than anticipated.

Overseas Trade Indices – Q1. The merchandise terms of trade lifted 5.1% q/q in Q1, a stronger bounce than we had anticipated, though not enough to unwind the sharp 7.8% q/q fall in Q4.

Building Work Put in Place – Q1. Fell 4.0% q/q. Weaker than expected.

ANZ Commodity Price Index – May). The ANZ World Commodity Price Index lifted 1.1% m/m.

Economic Survey of Manufacturing – Q1. Manufacturing volumes fell 0.4% q/q as food manufacturing lifted and ex food and fuel continued to fall as tight monetary conditions weigh.

The week ahead

ANZ Truckometer – May (Tuesday 11 June, 10:00am).

Net Migration – April (Wednesday 12 June, 10:45am). The cycle has turned, but questions remain around the pace.

Electronic Card Transactions – May (Tuesday 14 May, 10:45am). ANZ card spend data suggest a 0.2% m/m lift in total spending.

Selected Price Indexes – May (Friday 14 June, 10:45am). We've pencilled in a 0.4% m/m increase for both food prices and rents. MBIE data suggest petrol prices fell 3.8% m/m and given the recent moves in oil prices this week following OPEC's announcement, we're anticipating further weakness into June and some downside risk is emerging to our Q2 CPI forecast. Across other components, we are expecting seasonal falls in airfares and accommodation costs. International airfares is a component to watch, after last month's strength caught us by surprise.

REINZ House Prices – May (11-14 June, 9:00am). Inventories lifted further in May, suggesting price pressures will remain modest.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Apr-24	May-24	Today	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
NZD/USD	0.595	0.612	0.620	0.600	0.610	0.620	0.620	0.620	0.630
NZD/AUD	0.911	0.923	0.929	0.909	0.910	0.899	0.886	0.886	0.887
NZD/EUR	0.554	0.565	0.569	0.556	0.560	0.564	0.554	0.544	0.543
NZD/JPY	93.3	95.9	96.4	91.2	91.5	91.8	89.3	88.0	88.2
NZD/GBP	0.474	0.481	0.485	0.476	0.477	0.477	0.470	0.459	0.463
NZ\$ TWI	70.5	72.1	72.9	70.6	71.2	71.5	70.8	70.3	70.9
Interest rates	Apr-24	May-24	Today	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
	Apr-24	May-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	5.25	4.75	4.25
NZ 90 day bill	5.63	5.63	5.62	5.57	5.52	5.40	4.93	4.43	3.93
NZ 2-yr swap	5.11	5.09	5.00	4.95	4.59	4.23	3.90	3.71	3.63
NZ 10-yr bond	4.90	4.83	4.64	4.65	4.50	4.25	4.25	4.25	4.25

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

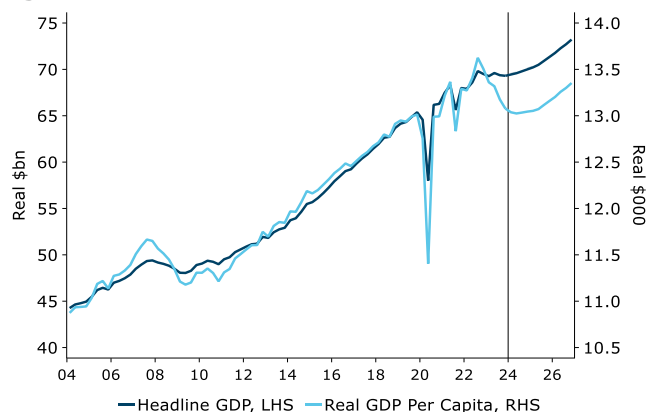


Figure 4. CPI inflation components

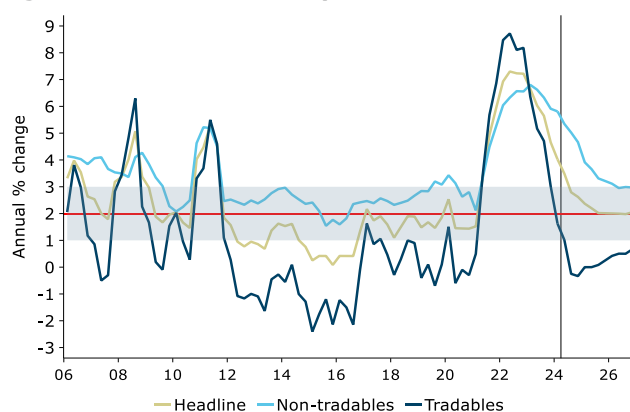


Figure 5. OCR forecast

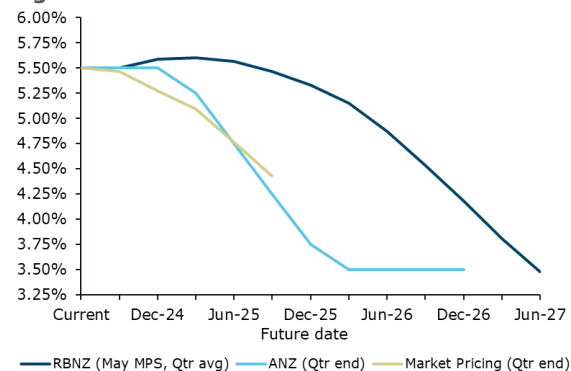
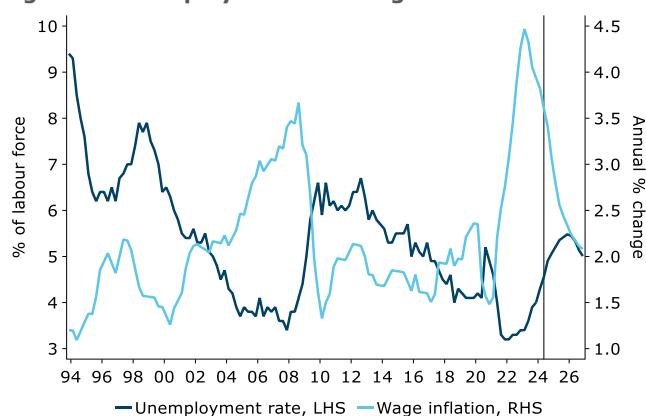


Figure 6. Unemployment and wage inflation



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



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