

New Zealand Weekly Data Wrap

5 July 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: May 2024](#)

Key forecasts and rates

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

Glossary

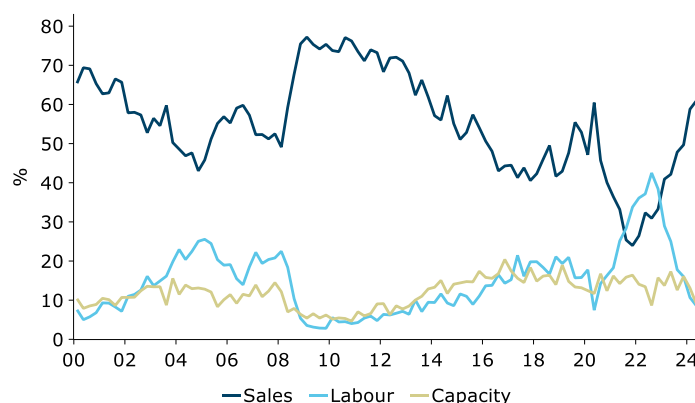
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Soft domestic dataflow continues

This week NZIER's Q2 [Quarterly Survey of Business Opinion](#) (QSBO) made for grim reading. Business sentiment remains dire, while experienced domestic trading activity, which historically has given a good steer on GDP (COVID volatility aside) also deteriorated further. While the operating environment for businesses is incredibly challenging, the report confirmed that monetary tightening is having the desired impact of generating spare capacity across the economy, leading to lower cost and pricing pressures.

The increase in spare capacity is particularly evident in the labour market. The ease of finding skilled and unskilled labour both rose further, while labour as the main constraint on businesses also dropped to 8.6%, below pre-pandemic levels and well down from its unprecedented record high of 42.5% in 2022. Labour market capacity pressures have faded, which will result in continued moderation in wage and therefore non-tradable inflation pressures. Demand as the main constraint on businesses continued to rise. Economy-wide capacity utilisation fell 1.5%pts to 88.7%, and is below the long-run average of 89.6% for the first time since September 2023. At face value that suggests the economy is now well and truly in disinflationary territory.

Figure 1: Firms' main limiting factor



Source: NZIER, Macrobond, ANZ Research

On the inflation front, weak demand is clearly restraining cost and selling price pressures. A net 23% of firms reported increasing selling prices in Q2, a 12pt fall that took the measure below its long-run average of 26%. Businesses reporting an increase in costs also fell 7pts to a net 42%, also below the long-run average of 44%. Expected selling prices and costs also fell sharply to below long-run averages, down 10 and 15pts respectively.

Overall, the Q2 survey certainly showed monetary policy is working to slow the economy and reduce inflation. Forward-looking activity indicators have deteriorated significantly in recent months, suggesting the economy may not be far from a tipping point in the cycle where the disinflation process starts to accelerate. However, the RBNZ will want to be sure of such dynamics before embarking on OCR cuts, and will need to see this unfolding in the hard data such as Q2 GDP and CPI inflation, not just surveys and anecdote. So, while we can chalk up the Q2 data as providing confirmation that the RBNZ is getting the slowdown they have engineered, the RBNZ will likely need more convincing before they start feeling comfortable that upside sticky inflation risks have been appropriately mitigated. For that, the Q2 CPI inflation data are likely to carry more weight in their calibrations.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- [NZ Property Focus: on ice](#)
- [NZ Agri Focus: brighter days ahead](#)
- [NZ GDP: kicking off 2024 with a tiny bounce](#)
- [NZ REINZ housing data: sluggish May](#)
- [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](#)
- [NZ Budget 2024: fiscal reshuffle not a game-changer for the economic outlook](#)
- [RBNZ MPS Review: get back in your box](#)
- [NZ Economic Outlook: the ducks are lining up](#)
- [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](#)
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- [NZ Insight: house prices - impacts from proposed DTI and LVR settings](#)
- [NZ Insight: labour market capacity indicators](#)
- [NZ Insight: what an oil price shock could mean for inflation](#)

Click [here](#) for more.

MPR Preview – holding pattern

Next week brings the RBNZ's July Monetary Policy Review (MPR). [We expect](#) the OCR will remain unchanged at 5.50%. Since the May MPS, the data have tilted weaker, but it's primarily been the 'soft' data (surveys and anecdotes). We'd expect the evolving data tone to be acknowledged, but such data faces a high bar to bring about an overall change in rhetoric from the RBNZ compared to, say, CPI inflation or unemployment rate data.

Looking at the key developments since the May MPS:

- [Budget 2024](#) confirmed tax and spending cuts, though we don't see the changes to fiscal settings as a game changer for inflation pressures. The RBNZ may take a different view, so any comments would be of interest.
- [Q1 GDP growth](#) was in line with the RBNZ's expectations, though we read the details as soft. Looking further ahead, the details of the Q1 release alongside recent weakness in activity indicators are likely to result in the RBNZ downgrading its near-term GDP outlook.
- Inflation indicators softened meaningfully in our [ANZ Business Outlook](#) survey in June, which should provide reassurance to the RBNZ that domestic disinflation is in train.
- [NZIER's Quarterly Survey of Business Opinion](#) was weak (see page 1), with spare capacity continuing to emerge and pricing and cost indicators moving meaningfully lower, to now be below long-run averages.
- The TWI has been a little stronger than RBNZ expectations and is currently sitting around 1.3% higher than their flat-line assumption of 71.0, which will weigh on tradable inflation in the RBNZ's model.
- The SNA terms of trade showed weaker import prices in Q1, not driven by oil. On the other hand, oil prices have been a little higher than assumed. Shipping costs are also lifting as Red Sea disruption cumulates in stranded containers and other bottlenecks.

Tactically there is no need for the RBNZ to take a strong stand at this Review on what it all means for the OCR outlook, particularly given CPI data is out a week later. The market has slightly amped up its easing expectations in response to the recent dataflow, but not inappropriately, in our view, so we don't see a need for pushback. On the other hand the RBNZ likely won't want to greenlight the market running away with the idea of imminent cuts just yet either, as it awaits the data 'big guns'. But acknowledgement of the softer tone of the recent data is likely.

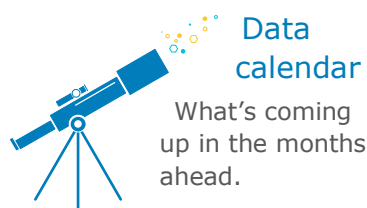
In the big picture, it's going to take more domestic disinflation runs on the board to see the RBNZ acknowledge that cuts are likely to come far earlier than their May MPS estimate of August next year. In that context, the CPI release on 17 July is a bigger day in the financial market calendar than next Wednesday's OCR Review. We see downside risk, but in the less-important tradables component.

Beyond the question of near-term inflation, the recent data suggests downside risks to the medium-term non-tradable inflation outlook, which tilts the risks towards the first OCR cut coming in November rather than in February next year. But it's worth bearing in mind that that would require a huge change in view from the RBNZ's current expectation.

Overall, the data since the May MPS certainly suggests economic conditions are consistent with ongoing disinflation, and perhaps a faster pace of disinflation than we're all expecting. However, with sticky inflation risks front of mind, and the nagging fact that inflation has been outside the target band for three years now, the Committee is unlikely to feel comfortable providing a clear nod to earlier OCR cuts than they signalled in May just yet. After all, there's still some very important data to come ahead of their next full forecast update (August MPS), and they probably won't want to pre-empt that too much, particularly given recent sticky CPI inflation surprises.



Financial markets update



Date	Data/event
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)	Global Dairy Trade auction
Wed 17 Jul (10:45am)	CPI – Q2
Mon 22 Jul (10:45am)	Merchandise Trade – Jun
Fri 26 Jul (10:00am)	ANZ-RM Consumer Confidence – Jul
Mon 29 Jul (10:45am)	Employment Indicators – Jun
Wed 31 Jul (10:45am)	Building Permits – Jun
Wed 31 Jul (1:00pm)	ANZ Business Outlook – Jul
Mon 5 Aug (1:00pm)	ANZ Commodity Price Index – Jul
Wed 7 Aug (early am)	Global Dairy Trade auction
Wed 7 Aug (10:45am)	Labour Market – Q2
Thu 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectations – Q3
Tue 13 Aug (10:45am)	Net Migration – Jun
Wed 14 Aug (2:00pm)	RBNZ MPS
Thu 15 Aug (10:45am)	Selected Price Indexes – Jul
Thu 15 Aug (10:45am)	Electronic Card Transactions – Jul
Fri 16 Aug (10:45am)	BusinessNZ Manuf PMI – Jul
Mon 19 Aug (10:30am)	Performance Services Index – Jul
Tue 20 Aug (10:45am)	Merchandise Trade – Jul
Wed 21 Aug (early am)	Global Dairy Trade auction
Fri 23 Aug (10:45am)	Retail Sales – Q2

Interest rate markets

Short-end rates continued moving lower this week. [Market expectations](#) look about as stretched as they can probably be without formal endorsement of an earlier start to the easing cycle, which the RBNZ hasn't provided. We aren't likely to see any meaningful change ahead of next week's MPR, and even then, we may not see much reprieve given how focused markets are on data, rather than RBNZ rhetoric. Long-end rates have moved higher, led by the US, where investors are becoming increasingly nervous about fiscal sustainability, which is adding steepening pressure to curves. On that score, there were insufficient bids to fill the 2041s in this week's NZGB tender, which has left local markets somewhat nervous. Our sense is that it was an isolated incident, but it hints at the need for higher term premia.

FX markets

FX volatility remains low as markets focus on politics. Fading USD strength has helped the Kiwi this week, but the prospect of a string of OCR cuts from next year are weighing on sentiment, as is the weakening macro data pulse.

Key data summary

Monthly Employment Indicators – May. Filled jobs were flat (0.0% m/m). April's outturn was revised lower from +0.1% m/m to -0.1% m/m.

NZIER Quarterly Survey of Business Opinion – Q2. [NZIER's Q2 QSBO](#) provided further confirmation that monetary tightening is working.

Building Permits – May. Consents fell 1.7% m/m. While the downtrend looks to be flattening, it's still too soon to say the floor is approaching.

Global Dairy Trade auction. The Global Dairy Trade Price Index fell 6.9%. A fall was anticipated but this was sharper than markets had priced in. Whole milk powder fell 4.3%; milkfat products plunged more than 10%.

ANZ Commodity Price Index – June. The [ANZ World Commodity Price Index](#) was up 1.5% m/m in June as prices for dairy, meat and forestry lifted.

The week ahead

Net Migration – May (Wednesday 10 July, 10:45am). We expect the net annual inflow to fall further, but we're braced for volatility in the monthly read, given the volatile nature of these data.

RBNZ OCR Review – July (Wednesday 10 July, 2:00pm). We expect the RBNZ to leave the OCR at 5.5% next week, remaining in watch-worry-wait mode awaiting the hard data. See our [Preview](#).

ANZ Truckometer – June (Thursday 11 July, 10:00am).

Selected Price Indexes – June (Thursday 11 July, 10:45am). We've pencilled in a 0.5% m/m increase in food prices and 0.3% m/m increase for rents. MBIE data suggests petrol prices fell 3.7% m/m in June, more than our prior assumption. Airfares are a key source of uncertainty, though modest increases are expected across both domestic and international airfares. For accommodation, we expect a flat print for domestic prices, while we've pencilled a modest lift in overseas prices. The details of next week's SPI are the last piece of the puzzle for Q2 CPI. As things stand, risks to our Q2 CPI pick of 0.6% q/q (3.5% y/y) are skewed to the downside, though we will wait for next week's data before we finalise our pick.

Manufacturing PMI – June (Friday 12 July, 10:30am). A sub-50 print would not surprise, but the trend has been lifting in recent months.

Electronic Card Transactions – June (Friday 12 July, 10:45am). ANZ card spending data suggests mildly positive growth in total spending.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD/USD	0.614	0.609	0.612	0.610	0.620	0.620	0.620	0.630	0.630
NZD/AUD	0.923	0.913	0.910	0.910	0.899	0.886	0.886	0.887	0.887
NZD/EUR	0.566	0.569	0.566	0.560	0.564	0.554	0.544	0.543	0.534
NZD/JPY	96.6	98.0	98.6	91.5	91.8	89.3	88.0	88.2	85.7
NZD/GBP	0.482	0.482	0.479	0.477	0.477	0.470	0.459	0.463	0.463
NZ\$ TWI	72.3	71.9	72.1	71.2	71.5	70.8	70.3	70.9	70.5
Interest rates	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZ OCR	5.50	5.50	5.50	5.50	5.50	5.25	4.75	4.25	3.75
NZ 90 day bill	5.63	5.63	5.61	5.52	5.40	4.93	4.43	3.93	3.68
NZ 2-yr swap	5.10	4.96	4.87	4.59	4.23	3.90	3.71	3.63	3.60
NZ 10-yr bond	4.81	4.67	4.73	4.50	4.25	4.25	4.25	4.25	4.50

Economic forecasts

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (% qoq)	0.2	-0.1	0.2	0.2	0.3	0.4	0.5	0.6	0.6
GDP (% yoy)	0.3	-0.3	0.2	0.5	0.6	1.1	1.4	1.8	2.1
CPI (% qoq)	0.6	0.6	1.1	0.3	0.4	0.4	0.9	0.3	0.4
CPI (% yoy)	4.0	3.5	2.8	2.6	2.4	2.2	2.0	2.0	2.0
Employment (% qoq)	-0.2	-0.1	-0.3	-0.1	0.0	0.1	0.2	0.3	0.4
Employment (% yoy)	1.3	0.1	-0.2	-0.7	-0.5	-0.3	0.2	0.6	1.0
Unemployment Rate (% sa)	4.3	4.6	4.9	5.1	5.2	5.4	5.4	5.5	5.4

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. [Click here](#) for full ANZ forecasts

Figure 2. GDP level

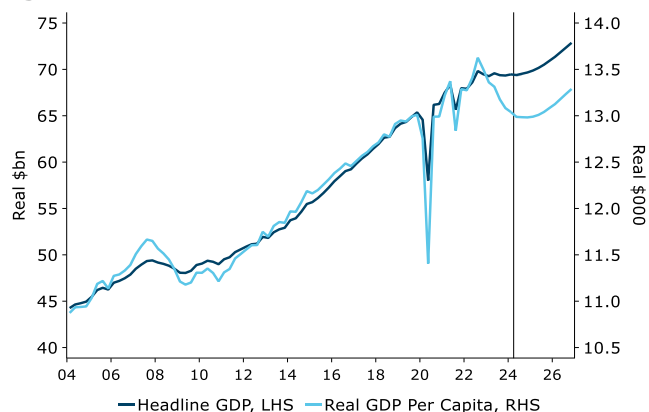


Figure 3. CPI inflation components

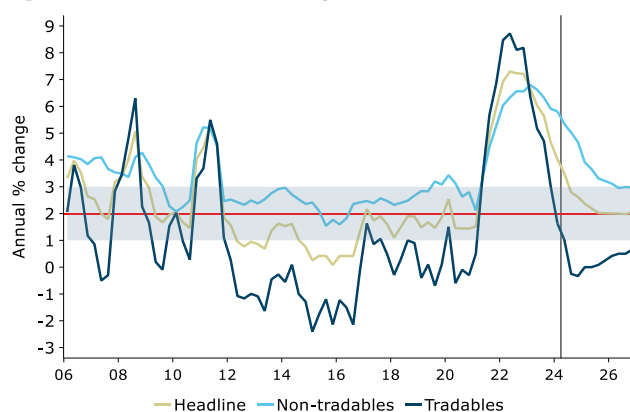


Figure 4. OCR forecast

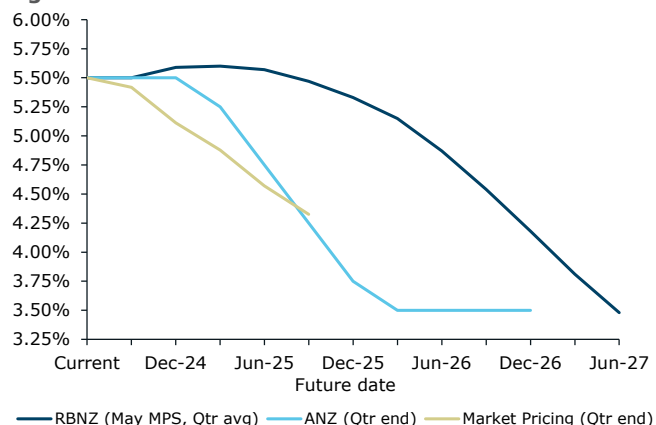
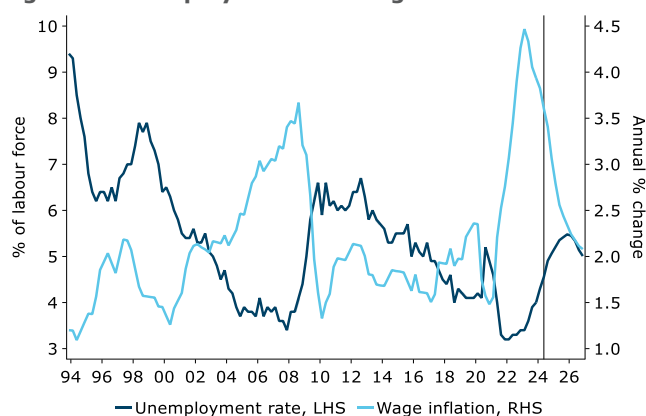


Figure 5. Unemployment and wage inflation



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



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on X
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
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



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



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



Henry Russell
Economist

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

Telephone: +64 21 629 553
Email: henry.russell@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



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

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Last updated: 20 February 2024

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