

New Zealand Weekly Data Wrap

20 September 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: August 2024](#)

Key forecasts and rates

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

Glossary

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

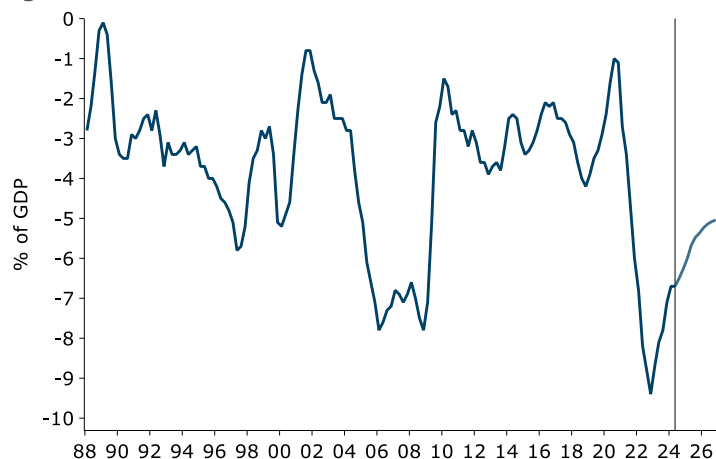
We're still living beyond our means

GDP and [balance of payments](#) for Q2 headlined the domestic data calendar this week. We'll discuss GDP on page 2 (including our updated forecast). But starting with the balance of payments, unfortunately the news wasn't quite as good as we had hoped.

The annual current account deficit was little changed from a downwardly revised \$27.6bn in Q1 to \$27.8bn in Q2. As a share of GDP, it was unchanged at 6.7%, still wider than any reasonable estimate of sustainable levels. We had gone into this release expecting better news, with a narrower deficit (6.6%) and possible upwards revisions to services exports. While the latter did occur, they were accompanied by offsetting revisions to the income deficit. All in all, the data now show that the annual deficit troughed at a wider share of GDP than previously thought (9.4% in Q4 2022 vs 8.8% previously), and while the subsequent narrowing from there to early 2024 has been relatively sharp, the lack of progress in Q2 is concerning.

Looking ahead, we expect the annual current account deficit to narrow as the ongoing recovery in international tourism eventually pushes the services balance back into surplus, while a recovery in the goods terms of trade and weak domestic demand result in a narrowing goods deficit. High global interest rates have been adding widening pressure to the income deficit. As the global easing cycle continues, this pressure is likely to fade. However, this adjustment is likely to be gradual with the deficit expected to settle above pre-COVID levels in the medium term. All told, we continue to expect the annual deficit to narrow to around 5% of GDP in 2026, wider than the 3% average seen in the decade prior to the pandemic.

Figure 1. Current account forecast



Source: Stats NZ, Macrobond, ANZ Research

Speaking of the global easing cycle, the US Federal Reserve this week joined the ranks of advanced economy central banks easing, delivering a 50bp cut. While that was the first 50-pointer delivered by a G10 central bank, and was a bigger cut than most analysts expected, markets were open to the idea, and it was well received. While US bond yields fell immediately after the decision, they quickly rebounded and ended up higher on the day as chair Powell struck a balanced tone at the press conference. Not only did Powell reiterate that policy is not on a pre-set course and remains data-dependent, but with the new "dot plots" implying just 2 x 25bp cuts this year, markets had little reason to price in a string of 50bp cuts.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- NZ GDP: better than feared
- NZ REINZ housing data: still subdued
- NZ GDP Preview: how bad was it?
- NZ Property Focus: kicking off into the wind
- NZ forecast update: milk price forecast revised up
- NZ Agri Focus: outlook improving
- NZ Carbon Market: Emissions Trading Scheme settings
- NZ REINZ housing data: southbound for now
- NZ Economic Outlook: tipping point?
- RBNZ MPS Review: the first cut is the deepest
- RBNZ MPS starting-point surprise chart pack
- NZ labour market: no smoking gun
- NZ Property Focus: crossing the Tasman
- NZ Insight: China consumer caution impacting NZ exports
- NZ Insight: Draft Emissions Reduction Plan
- NZ OCR Call Change: 25bp cut in November
- NZ CPI Review: reassuring
- RBNZ MPR Review: watch this space
- NZ Agri Focus: brighter days ahead
- 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
- NZ Economic Outlook: the ducks are lining up
- NZ Insight: new Government, new fiscal strategy
- NZ Insight: house prices - impacts from proposed DTI and LVR settings

[Click here](#) for more.

GDP forecast update

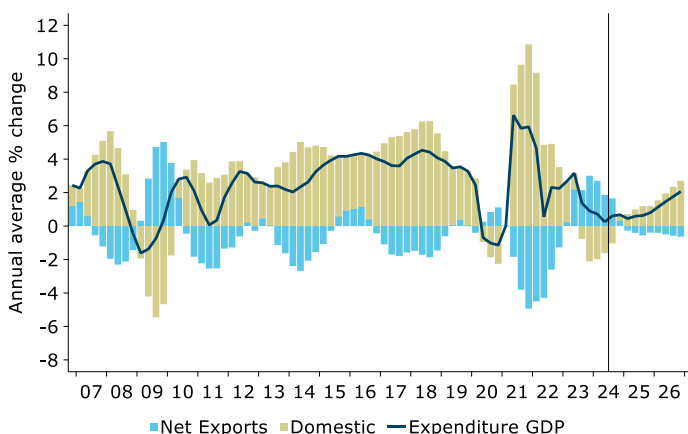
This week's Q2 GDP report was better than feared, though certainly not strong in any sense of the word. The economy **contracted 0.2% q/q in Q2**, close to our expectation of -0.1% q/q, but well above the RBNZ's forecast of -0.5% q/q. Putting the weakness into perspective, the RBNZ's potential output growth assumption (the economy's growth speed limit before generating inflation) was +0.6% q/q for Q2. Given today's outturn was well below this threshold, it's highly likely that the RBNZ will interpret these data as consistent with rising spare capacity and ongoing disinflation.

Turning to the details, momentum in services industries (over 70% of the economy) continued to soften, with quarterly growth coming in flat (0.0% q/q), a touch below our expectation. Goods-producing industries rose 0.7% q/q, reflecting a surprisingly strong 1.9% q/q bounce in manufacturing activity. Meanwhile, primary industries GDP fell 1.6% q/q, weighed down by a sharp contraction in forestry. All up, albeit with some unders and overs, the Q2 data were close to our expectation.

In fact, our production GDP forecasts are largely unchanged. Economic activity is expected to be flat in 2024, before falling interest rates enable a gradual recovery over 2025. On our forecasts, the economy will grow 0.8% over 2025, still well below the long-run historic average of 2.6%. Lower interest rates will take time to flow through to activity and economy isn't likely to get back to 'normal' levels of growth until 2026.

Easing monetary conditions will support a gradual recovery in private consumption and investment as growth tailwinds from fiscal policy and net migration fade. Meanwhile, the positive net exports contribution that has supported growth over the past few years is expected to reverse as the post-COVID recovery in international tourism slows and imports rise as domestic demand recovers (figure 2).

Figure 2. GDP forecast

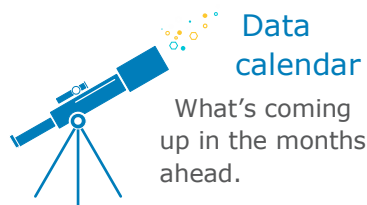


Source: Stats NZ, Macrobond, ANZ Research

All up, this week's GDP data shouldn't deter the RBNZ from its current policy path. Economic momentum remains indisputably weak, but the good news is that for now, it appears to be bouncing along the bottom rather than sinking into a deep hole, that the RBNZ had feared based on the signal from high-frequency indicators back in August. Those same high-frequency indicators are already suggesting the economy is responding to lower interest rates, and the RBNZ will be keenly watching these over the coming months to get a sense of the risks to the recovery. We continue to expect 25bp cuts at both the October and November meetings before the summer hiatus, giving the RBNZ time to observe the dataflow before it returns to the table in February 2025.



Financial markets update



Date	Data/event
Mon 23 Sep (10:45am)	Merchandise Trade – Aug
Fri 27 Sep (10:00am)	ANZ-RM Consumer Confidence – Sep
Mon 30 Sep (10:45am)	Employment Indicators – Aug
Mon 30 Sep (1:00pm)	ANZ Business Outlook – Sep
Tue 1 Oct (10:00am)	NZIER QSBO – Q3
Tue 1 Oct (10:45am)	Building Permits – Aug
Wed 2 Oct (early am)	Global Dairy Trade auction
Thu 3 Oct (1:00pm)	ANZ Commodity Price Index – Sep
Wed 9 Oct (2:00pm)	RBNZ MPR
Fri 11 Oct (10:45am)	BusinessNZ Manuf PMI – Sep
Fri 11 Oct (10:45am)	Selected Price Indexes – Sep
Fri 11 Oct (10:45am)	Net Migration – Aug
Mon 14 Oct (10:30am)	Performance Services Index – Sep
Mon 14 Oct (10:45am)	Electronic Card Transactions – Sep
Tue 15 Oct (10:00am)	ANZ Truckometer – Sep
Wed 16 Oct (early am)	Global Dairy Trade auction
Wed 16 Oct (10:45am)	CPI – Q3
Tue 22 Oct (10:45am)	Merchandise Trade – Sep
Fri 25 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Tue 29 Oct (10:45am)	Employment Indicators – Sep
Thu 31 Oct (1:00pm)	ANZ Business Outlook – Oct
Fri 1 Nov (10:45am)	Building Permits – Sep
Tue 5 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Wed 6 Nov (early am)	Global Dairy Trade auction
Wed 6 Nov (09:00am)	RBNZ Financial Stability Report
Mon 11 Nov (3:00pm)	RBNZ 2Yr Inflation Expectations – Q4
Tue 12 Nov (10:00am)	ANZ Truckometer – Oct

Interest rate markets

It's been an eventful week in global bond markets, with the US Federal Reserve (the "Fed") taking centre stage yesterday with its outsized 50bp cut. While that move surprised most analysts (of the 113 analysts surveyed by Bloomberg, only 9 were calling for a 50bp cut), US markets were much more open to the idea, going into the decision with -41bp priced in, and thus took it in their stride. While there was some angst going into the decision that if a 50bp cut was delivered markets might start to ask, 'what does the Fed know that we don't?', and leap to price in a string of 50bp cuts going forward, that did not eventuate. Instead, markets took heed of Fed chair Powell's more balanced tone at the post-meeting press conference, especially his comment that "I do not think that anyone should look at this [the 50bp cut] and say oh, this is the new pace". While US short-end interest rates have drifted lower, US 10yr bond yields rose, with markets taking the view (appropriately, we think) that cutting more aggressively ought to quell US recession fears and keep hopes of a soft landing alive. These moves have driven local long-end rates higher too, but we don't expect them to rise too far, and we consider the move to be an overdue correction rather than the start of a sustained uptrend. By contrast, local short-end rates have struggled to move higher, even in the wake of stronger-than-expected Q2 GDP data. We don't think that data changes the overall picture of a soggy economy in need of cuts, but we think that data and other data since the August MPS point to a 25bp, rather than 50bp cut next month. However, financial markets continue to look to the US, rather than at local data, for inspiration, and continue to bet on larger OCR cuts, with [126bp of cuts priced in by February](#) (ie an average of 42bp per RBNZ meeting). While we worry that markets will ultimately be disappointed, ahead of the RBNZ meeting itself, markets are likely to give the case for bigger cuts the benefit of the doubt.

FX markets

In contrast to bond markets, currency markets have been much more volatile. Since the Fed's outsized cut, the USD DXY index has moved up, down, up again, then down again. While peaks and troughs have been less pronounced each time, overall volatility remains elevated. The USD's fall has helped the Kiwi move higher, and we may see further strength in coming weeks if the RBNZ "only" cuts by 25bp next month. But how the Kiwi fares is likely to depend more on whether the USD finds a base here (of which it is showing signs) or continues drifting lower.

Key data summary

Performance of Services Index – August. Rose 0.3pts to 45.5 from a revised 45.2 in July.

Global Dairy Trade auction. The Global Dairy Trade headline index lifted 0.8% as higher returns for milk powder and cheese offset slightly weaker prices for milkfat products.

Current Account Balance – Q2. At 6.7% of GDP, we're still in vulnerable territory. See our [Review](#).

GDP – Q2. See our [Review](#).

The week ahead

Overseas Merchandise Trade – August (Monday 23 September, 10:45am). Trade volumes for August are expected to be relatively low with imports (~\$6.5b) outpacing exports (~\$5.5b), which are at the seasonal low point in terms of volumes.

ANZ-Roy Morgan Consumer Confidence – September (Friday 27 September, 10:00am).



Key forecasts and rates

	Actual			Forecast (end month)					
	Jul-24	Aug-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
FX rates									
NZD/USD	0.592	0.625	0.623	0.610	0.620	0.620	0.620	0.630	0.630
NZD/AUD	0.911	0.924	0.916	0.910	0.899	0.886	0.886	0.887	0.887
NZD/EUR	0.546	0.566	0.559	0.560	0.564	0.554	0.544	0.543	0.534
NZD/JPY	89.1	91.3	89.0	91.5	91.8	89.3	88.0	88.2	85.7
NZD/GBP	0.461	0.476	0.470	0.477	0.477	0.470	0.459	0.463	0.463
NZ\$ TWI	69.7	71.8	71.1	70.3	70.6	69.9	69.4	70.1	69.8
Interest rates									
NZ OCR	5.50	5.25	5.25	5.25	4.75	4.50	4.00	3.50	3.50
NZ 90 day bill	5.46	5.23	4.99	4.90	4.70	4.23	3.73	3.65	3.65
NZ 2-yr swap	4.23	3.94	3.66	3.88	3.78	3.70	3.65	3.65	3.65
NZ 10-yr bond	4.34	4.27	4.17	4.25	4.00	4.00	4.00	4.00	4.25

Economic forecasts

	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
GDP (% qoq)	-0.2	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.6
GDP (% yoy)	-0.5	-0.1	0.0	0.1	0.6	1.0	1.4	1.8	2.1
CPI (% qoq)	0.4	0.8	0.4	0.5	0.5	0.7	0.4	0.5	0.5
CPI (% yoy)	3.3	2.3	2.2	2.1	2.2	2.1	2.1	2.1	2.0
Employment (% qoq)	0.4	-0.3	-0.2	-0.1	0.0	0.1	0.2	0.4	0.5
Employment (% yoy)	0.6	0.3	-0.4	-0.2	-0.6	-0.2	0.2	0.7	1.2
Unemployment Rate (% sa)	4.6	4.8	5.0	5.2	5.4	5.5	5.5	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 3. GDP level

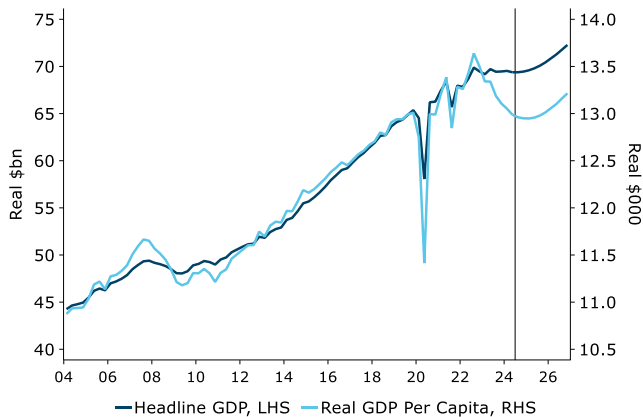


Figure 4. CPI inflation components

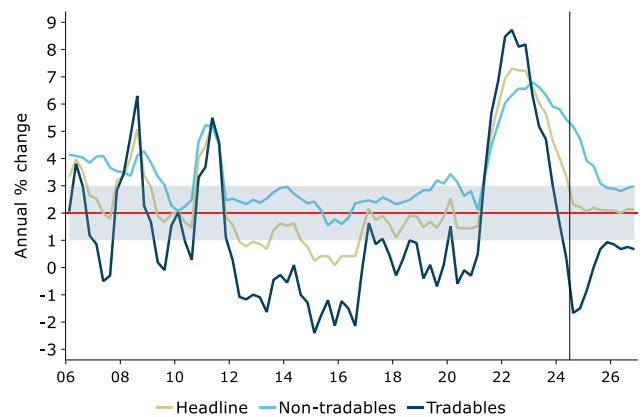


Figure 5. OCR forecast

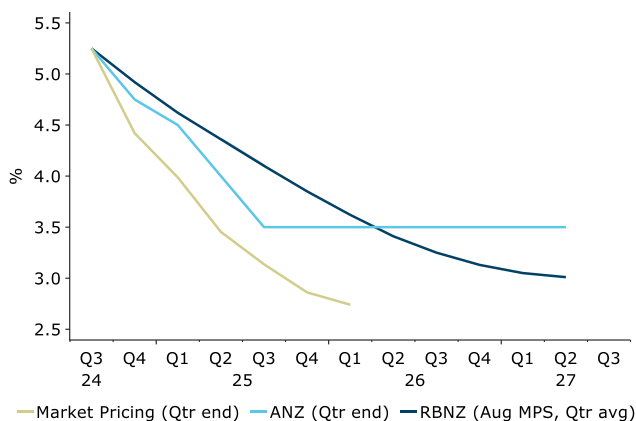
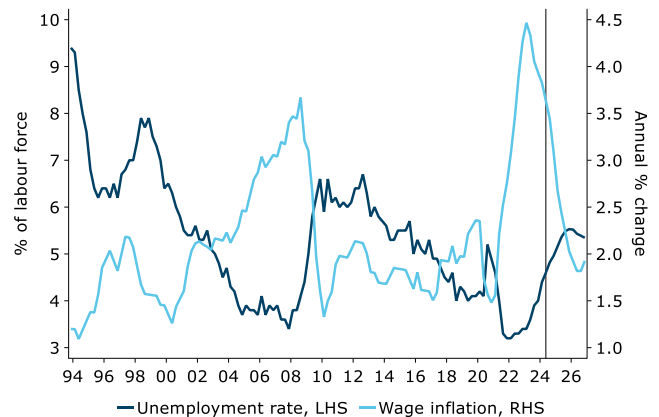


Figure 6. Unemployment and wage inflation



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



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Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



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