ANZ Research

New Zealand Weekly Data Wrap

11 October 2024

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Contact us

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: September 2024

Key forecasts and rates

Our forecasts can be found on page 4.

Glossary

Confused by acronyms or jargon? See a glossary here.

RBNZ doubles down and ups the ante

The RBNZ cut the Official Cash Rate by 50bp to 4.75% at this week's Monetary Policy Review. Financial markets and almost all economists approached this week's decision with the view that the RBNZ would likely cut 50bp, despite the August Monetary Policy Statement setting up a 25bp cut, and no significant data surprises since then. The Record of Meeting notes that the Committee discussed the relative benefits of cutting 25 or 50bp and agreed that "a 50-basis point cut at this time is most consistent with the Committee's mandate," describing a 4.75% OCR as "still restrictive." In a hint that, as we anticipated, the universality of expectations of such a move may have played into the decision, the Committee "noted that current short-term market pricing is consistent with this decision."

We approached this week's meeting with the feeling that the arguments for a 25bp versus 50bp cut were balanced. The data since the August Monetary Policy Statement has not provided much in the way of reasons to revise down activity or inflation forecasts. Indeed, the RBNZ noted that the "economy has evolved largely as expected" and that "the outlook is broadly consistent with the August Monetary Policy Statement". However, what the data has provided, particularly the Quarterly Survey of Business Opinion, is more *confidence* in their forecasts of near-term disinflation.

The tone of the Policy Assessment tilted to the dovish side, consistent with ongoing cuts. The Committee "noted that while domestic price-setting behaviour is now more in line with its mandate, there are still risks that further adjustments might be faster or slower than currently expected," but there was very little mention of upside risks beyond that. Early signs of the impact of rate cuts (surging business confidence and expectations, a lift in the housing vibe) were not mentioned. Rather, the Committee noted that "high-frequency indicators point to continued subdued growth in the near term." We agree Q3 GDP growth is looking likely to be another grim one. The Committee noted labour market conditions are expected to ease further, and "weak house price growth, lower levels of net immigration, and ongoing fiscal consolidation are expected to constrain aggregate demand growth." Out of those three, there's upside risk to the RBNZ's house price forecasts.

There was nothing in the commentary to dissuade the market from continuing to price a follow-up 50bp cut in November. That seems entirely fair, and it's our forecast. If the RBNZ remains confident that inflation is beaten, then getting the OCR rapidly closer to neutral is a very defensible strategy. It would be a further divergence from the OCR track laid out in August without any data surprises to point to (so far), but we've all now learned to disregard the RBNZ's previous OCR forecasts. Watch the data, but another 50bp cut in November is a very reasonable expectation at this point, particularly since that meeting has to do the work of two, due to the missing January meeting. A 50bp cut could be sold as the same effective pace of easing.

That would take the OCR to 4.25%, which would still be considered by most to be in restrictive territory, though to a much lesser degree. We expect the RBNZ to then step down the pace of easing to 25bp moves from February. The RBNZ's own estimate of the long-run neutral OCR is 2.8%, but the range surrounding its estimate is 1.8% to 4.2%! And with evidence emerging in recent high-frequency data that the economy is already responding to lower interest rates (and with non-tradable inflation still too high), there are good reasons for the RBNZ to move more cautiously as its foot gets nearer the accelerator. As always, the data will have a huge say, with next week's Q3 CPI release the next cab off the rank (see page 2).

Looking ahead

NZ Economic News

ANZ's latest data releases, forecast updates and insights

- NZ CPI Preview: home stretch
- NZ Insight: fiscal musings
- NZ Agri Focus: seasonal change
- NZ Insight: playing by the rules?
- RBNZ MPR Preview: taking what's on the plate
- NZ Property Focus: regional revelations
- 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 CPI Review: reassuring
- ANZecdotes – June 2024
- NZ Insight: non-tradable inflation – a waiting game
- NZ Budget 2024: fiscal reshuffle not a game-changer for the economic outlook
- NZ Insight: new Government, new fiscal strategy

Click here for more.

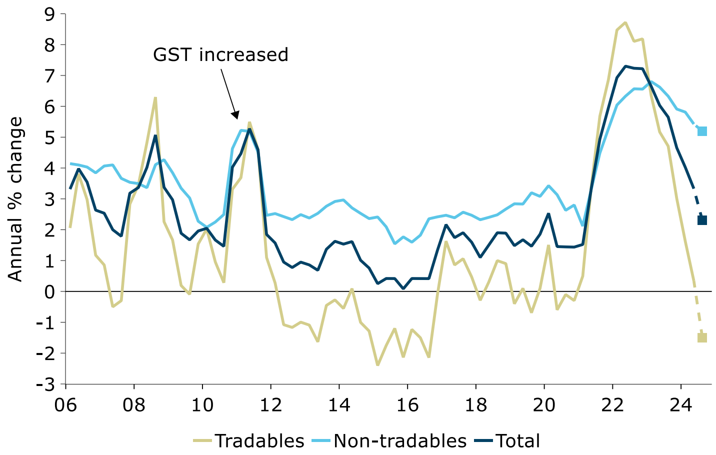
Q3 CPI preview

Next Wednesday the Q3 CPI data are released. We expect annual headline inflation to slow 1%pt to 2.3%, marking the first time annual inflation has been back in the 1-3% target band since Q1 2021. Our forecast is in line with the RBNZ's August MPS forecast and our previously published view. However, we think risks are skewed towards yet another (albeit small) upside miss to the RBNZ's non-tradables forecast; where we've pencilled in 1.5% q/q (5.2% y/y) vs the RBNZ's 1.4% q/q (5.1%). A miss that size certainly wouldn't be a game-changer for the RBNZ, but nor would it be their first upside non-tradables inflation forecast miss in recent times. For context, non-tradables inflation typically needs to be running at around 3% y/y to be consistent with headline holding around 2% – there's clearly still a long way to go to get there, but the economy's current trajectory suggests it's a waiting game, rather than a case of having to do more work.

While non-tradables inflation does tend to be a slow ship to turn, it has unambiguously turned. And all major indicators of capacity stretch in the labour market, combined with our (and the RBNZ's) expectation that the labour market will continue to weaken (given typical lags), suggests domestic inflation will continue to ease for a while yet.

There are some sticking points. As we have noted in the past, there are components of the CPI such as council rates and insurance that will take time to respond to a lower-inflation environment, and may continue to run at a greater-than-historical pace going forward, due to factors including ongoing infrastructure needs and weather-related risk. If that turns out to be the case, other parts of the CPI basket may need to compensate in order to stabilise inflation at 2% over the medium term. This *structural* inflation risk is a good reason for the RBNZ to tread cautiously as it takes the OCR closer to its estimated neutral level. But structural concerns aside, the *cyclical* part of this story is looking like the RBNZ has done enough to continue withdrawing monetary restriction – in fact, some indicators suggest the RBNZ is a little behind the curve.

Figure 1. CPI forecast



Source: Stats NZ, Macrobond, ANZ Research

All in all, if the Q3 CPI data come in as we expect, we'd characterise it as a major milestone (inflation back in the band), but we got here in large part by hitching a ride from global forces. It won't be a definitive end to the marathon (maintaining inflation at 2% on a sustained basis) until non-tradable inflation is running close to 3%. But provided the economy holds its current trajectory then that should just be a matter of time. Given the balance of risks, it is entirely appropriate for the RBNZ to be withdrawing monetary restriction.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
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
Tue 12 Nov (10:45am)	Electronic Card Transactions – Oct
Wed 13 Nov (10:45am)	Net Migration – Sep
Thu 14 Nov (10:45am)	Selected Price Indexes – Oct
Fri 15 Nov (10:45am)	BusinessNZ Manuf PMI – Oct
Mon 18 Nov (10:30am)	Performance Services Index – Oct
Mon 25 Nov (10:45am)	Retail Sales – Q3
Wed 27 Nov (2:00pm)	**RBNZ MPS**
Thu 28 Nov (1:00pm)	ANZ Business Outlook – Nov
Fri 29 Nov (10:00am)	ANZ-RM Consumer Confidence – Nov
Mon 2 Dec (10:45am)	Building Permits – Oct
Tue 3 Dec (10:45am)	Terms of Trade – Q3
Wed 4 Dec (1:00pm)	ANZ Commodity Price Index – Nov

Interest rate markets

Term interest rates drifted higher this week, led by the long end, which followed US bond yields higher in the wake of stronger than expected US payroll data last Friday. Somewhat surprisingly, the NZ 2yr-10yr swap yield curve barely steepened throughout the week, with higher global yields driving both ends of the curve higher, leaving only the very, very short end of the curve lower in the wake of the RBNZ's larger 50bp cut. Compared to a week ago, while the 3mth bill rate, 1yr swap rate and market expectations for the OCR out to February are lower, 2yr and longer swap rates, and market expectations for the OCR from April and beyond are all higher. We think that mostly reflects the global interest rate environment, notably the US, where recent data has surpassed expectations and brought into question the need for rapid-fire and/or front-loaded rate cuts. We certainly think it's worth considering whether we've seen the lows in US long end interest rates – if they are indeed headed for a soft landing, we may well have, and that'll have implications for local long end rates. Returning to the short end, the focus now turns to CPI data next week, which markets are looking closely at to validate their view that the RBNZ may up the pace of easing in November. Markets are currently pricing in 56bp for November, implying roughly 75/25 odds of a 50bp, rather than 75bp cut. But the key point is that markets have gone beyond 50bp and are straying towards 75bp. With an unusually long 3mt gap to the February meeting, it's a possibility, but the data will ultimately decide whether a faster pace of easing is appropriate. For now, we remain comfortable with our call for another 50bp cut next month.

FX markets

The Kiwi has had a bad week, with yesterday's tiny uptick saving it from recording 8 down days in a row. While weakness has mostly been a function of dollar strength, with the USD DXY index rebounding with US data and bond yields, local factors are also playing a role. One key vulnerability we see is that short end bond yields are now below their US counterparts, with market expectations pointing to the OCR falling further below the fed funds rate by year end. Given that outlook and global geopolitical risks, there are reasons to be cautious about the Kiwi, even though it has thus far held above 0.6050.

Key data summary

RBNZ OCR Review – October. As almost universally expected, the RBNZ today cut the Official Cash Rate 50bp to 4.75%. See our Review.

Manufacturing PMI – September. The manufacturing PMI lifted 0.8pts to 46.9 in September, continuing its gradual recovery from very low levels.

Selected Price Indexes – September. Our estimated weighted SPI index rose 0.1% m/m, a little stronger than expected.

Net Migration – August. The annual net inflow fell to 53.8k. Monthly departures appear to have peaked, while monthly arrivals continue to fall.

The week ahead

Performance Services Index – September (Monday 14 October, 10:30am). Has lifted for the past two months, though from a very weak level. Will the recovery kick on or fizzle out?

Electronic Card Transactions – September (Monday 14 October, 10:45am). ANZ card spend data suggest a modest lift.

ANZ Truckometer – September (Tuesday 15 October, 10:00am).

GlobalDairyTrade auction (Wednesday 16 October, early am). Prices are forecast to firm 0.5% with offer volumes now near their seasonal peak.

CPI – Q3 (Wednesday 16 October, 10.45am). We expect Q3 CPI to come in at 0.8% q/q, 2.3% y/y. See our Preview.

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Aug-24	Sep-24	Today	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
NZD/USD	0.625	0.635	0.610	0.620	0.620	0.620	0.630	0.630	0.630
NZD/AUD	0.924	0.918	0.904	0.899	0.886	0.886	0.887	0.887	0.887
NZD/EUR	0.566	0.567	0.557	0.564	0.554	0.544	0.543	0.534	0.534
NZD/JPY	91.3	90.5	90.6	91.8	89.3	88.0	88.2	85.7	85.7
NZD/GBP	0.476	0.474	0.467	0.477	0.470	0.459	0.463	0.463	0.463
NZ$ TWI	71.8	71.9	70.3	70.5	69.8	69.4	70.0	69.7	69.7
Interest rates	Aug-24	Sep-24	Today	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
NZ OCR	5.25	5.25	4.75	4.25	4.00	3.50	3.50	3.50	3.50
NZ 90 day bill	5.23	4.87	4.64	4.15	3.72	3.65	3.65	3.65	3.65
NZ 2-yr swap	3.94	3.58	3.71	3.50	3.54	3.61	3.65	3.65	3.65
NZ 10-yr bond	4.27	4.24	4.39	4.00	4.00	4.00	4.00	4.25	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 2. GDP level

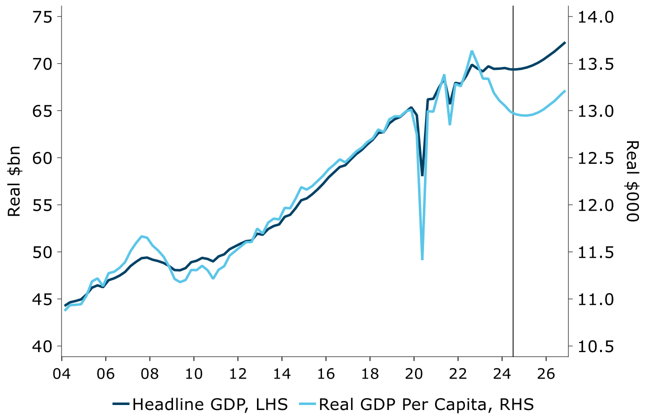


Figure 3. CPI inflation components

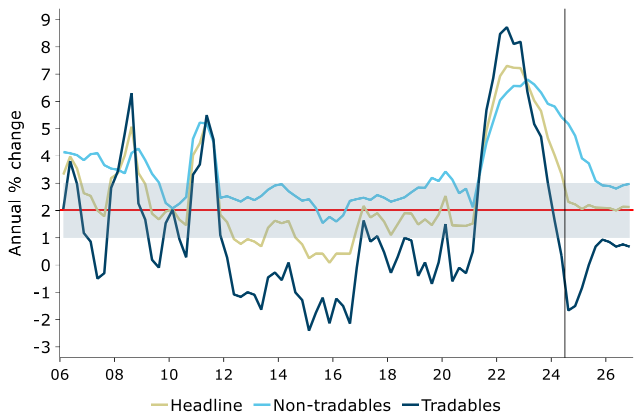


Figure 4. OCR forecast

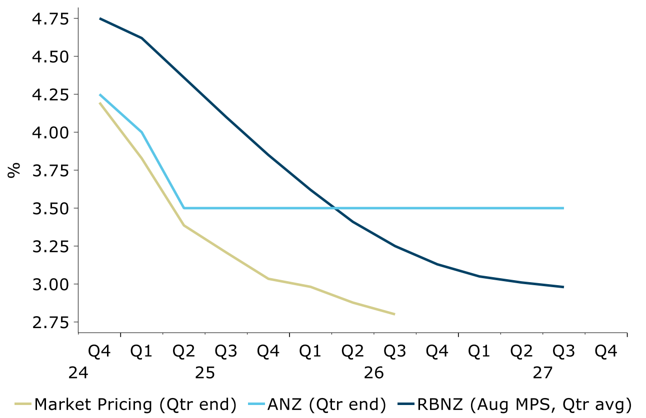
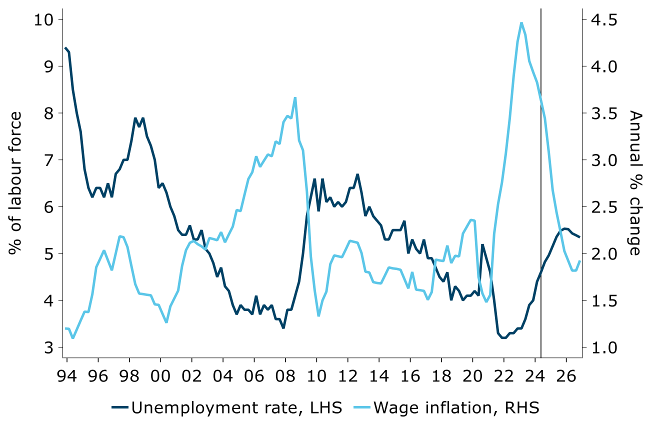


Figure 5. Unemployment and wage inflation



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

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