

New Zealand Weekly Data Wrap

20 December 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](#)

Key forecasts and rates

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

Glossary

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



This is our last *Weekly Data Wrap* for 2024. Our first edition for 2025 will be released on 17 January. We would like to wish our readers a safe and enjoyable festive season.
Meri Kirihimete

A decade of deficits

There was a lot to digest in [this week's Half-Year Economic and Fiscal Update and Budget Policy Statement](#). The Treasury not only downgraded their economic outlook; they also revised down their forecast assumptions regarding how "tax rich" they expect the economy to be going forward. That led to a \$13bn downgrade to the forecast tax take to June 2028, which, combined with higher non-discretionary operating expenditure and a tiny bit more capex, saw NZDM's bond issuance guidance lift by a whopping \$20bn.

The extent of deterioration in the fiscal position was surprising. Core Crown residual cash deficits are now forecast over the entire forecast horizon. And with a 2028/29 forecast cash deficit of \$5.6bn, in the absence of a course correction, 10 years of consecutive cash deficits could be a best-case scenario. Concern is only cemented by the fact that the Treasury's estimate for the structural balance is also in deficit for as long as the Treasury's forecasts extend. That means it's not the state of the economy to blame for persistent deficits; it's the hangover from the previous Government's ballooning expenditure combined with this Government's slow-burn approach to correcting for that.

On the fiscal strategy front, the Government reiterated their gradual approach to consolidation: keeping a lid on spending growth and reprioritising from within existing baselines, but little else. Should the Government become sufficiently concerned with the underlying state of the books to course correct, they do have options, though none are likely to be politically palatable:

- The pace of growth in new spending could be lowered further by taking an even more aggressive approach to reprioritising less-effective spending from within existing baselines. For example, a "zero Budget" in 2025 would strip almost \$10bn out of operating expenditure on a cumulative basis to 2028/29. That's easier said than done, naturally, but by our estimates there's scope to do this and maintain higher cost-adjusted government expenditure than prior to the pandemic. Some may call this response "pro-cyclical" given the output gap is negative and the RBNZ is cutting rates, but it's important to remember that the only reason monetary policy has been restrictive is because the fiscal and monetary response to the pandemic was too much. Correcting for that while the economy is running cool was always likely to be part of the cost of the previous Government's pro-cyclical expansion.
- New or higher taxes could be considered, but the message from the Minister this week is that this is not on the table. But given the tax burden placed on the younger generation to cover all the COVID-era debt costs, an aging population (NZ Super and health) and maintaining other government services and investments, a broadening of the tax system is just a matter of time. It's not on the policy agenda right now, but policy does tend to change alongside the preferences of the voting public, and the status quo is not looking equitable through an intergenerational lens.
- Government assets could be sold. While some are already arguing the case for this, we'd caution against being too hasty on this front. Playing this card too early (if it is required) may skip an important step in the process: forcing Ministers and departments to take a long hard look at what they are doing, how, and why they are doing it. Potential public sector efficiency gains could be missed by hastily selling the silverware.

All told, getting the books back into shape before the inevitable next crisis won't be easy. But failure to do so may limit options to respond to it.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- NZ GDP: Thunk.
- NZ 2024 HYEPU: staying the course amid choppy seas
- NZ REINZ housing data: house prices stabilising
- NZ Agri Focus: sun going down on 2024
- NZ Forecast Update: farmgate milk price revised up to \$9.85
- NZ Property Focus: the lights are coming on
- RBNZ MPS Review: 50bp cut, as expected
- RBNZ MPS starting-point surprise chart pack
- NZ Economic Outlook: finding neutral
- NZ labour market: not a game changer
- NZ Insight: FTA with Gulf countries bolsters trade opportunities
- NZ Property Focus: on the up
- NZ CPI Review: back in the band; now keep it there
- RBNZ MPR Review: doubling down
- NZ Insight: fiscal musings
- NZ Agri Focus: seasonal change
- NZ Insight: playing by the rules?
- NZ Property Focus: regional revelations
- NZ Carbon Market: Emissions Trading Scheme settings
- NZ Insight: China consumer caution impacting NZ exports
- NZ Insight: Draft Emissions Reduction Plan
- NZ Insight: non-tradable inflation – a waiting game
- NZ Insight: new Government, new fiscal strategy

Click [here](#) for more.

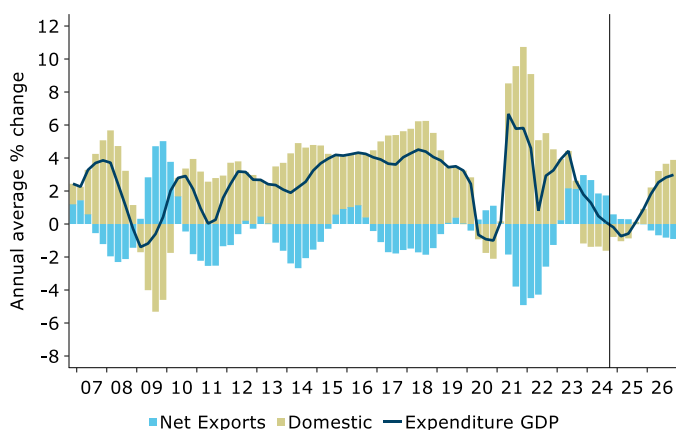
GDP and BoP forecast update

GDP contracted 1.0% q/q in Q3, significantly weaker than our expectation of -0.4% and the RBNZ's November MPS forecast of -0.2%. Add the revised contraction in Q2 of 1.1% q/q (from -0.2%), and current economic momentum appears significantly weaker than previously thought – though the *level* of activity is not, courtesy of positive revisions to history that actually revised away the previous recessions. The economy has experienced the largest contraction over a six-month period since 1991, outside of COVID disruption, and that could see the RBNZ reconsider how low the OCR will ultimately likely need to go. On the other hand, timelier activity indicators are rebounding in a broad-based fashion, and for the Committee, weighing up these contrasting signals is not straightforward.

Given the evidence of a rebound rather than a downward spiral, we are comfortable with our expectation of a 50bp cut in February. There's still the QSBO, labour market data and the CPI to come, and a dovish surprise in any of those could put a 75bp cut on the table. But three consecutive 50bp cuts is already rapid, and the hurdle for -75bp is probably pretty high. The risk that the OCR will end up lower than our forecast of a 3.5% trough has clearly risen, but we'll wait to see harder data about what the rebound is looking like. By May next year this GDP data will be ancient history.

Our updated GDP forecast has the recovery starting in Q4 and gathering momentum over 2025, reflecting our expectation for further withdrawal of monetary restriction. We have pencilled in a 0.4% q/q expansion for Q4, which is a little above our previous forecast of +0.2% q/q, despite the downward surprise in Q3. Digging into the details of the Q3 release, there was plenty of "noise" from the likes of the balancing item, the unallocated tax component and temporary supply-side disruption to electricity generation and manufacturing, increasing the scope for a bounce in Q4. That would see GDP growth come in at -0.5% y/y on an annual average basis. For 2025, the economy is forecast to expand 1.0% as momentum picks up, finishing 2026 up around 3.0%.

Figure 1. Real GDP forecasts

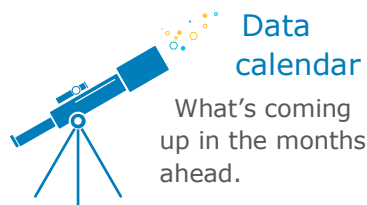


Source: Stats NZ, Macrobond, ANZ Research

We expect the annual current account deficit to continue 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 see a narrowing goods deficit. High global interest rates have been adding 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. Putting it all together, 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.



Financial markets update



Date	Data/event
Wed 8 Jan (early am)	Global Dairy Trade auction
Wed 8 Jan (1:00pm)	ANZ Commodity Price Index – Dec
Mon 13 Jan (10:45am)	Building Permits – Nov
Mon 13 Jan (10:45am)	Employment Indicators – Nov
Tue 14 Jan (10:00am)	NZIER QSBO – Q4
Thu 16 Jan (10:45am)	Selected Price Indexes – Dec
Fri 17 Jan (10:30am)	BusinessNZ Manuf PMI – Dec
Tue 21 Jan (10:30am)	Performance Services Idx – Dec
Tue 21 Jan (10:45am)	Electronic Card Transactions – Dec
Wed 22 Jan (early am)	Global Dairy Trade auction
Wed 22 Jan (10:45am)	CPI – Q4
Thu 23 Jan (10:45am)	Net Migration – Nov
Tue 28 Jan (10:45am)	Employment Indicators – Jan
Thu 30 Jan (10:45am)	Merchandise Trade – Dec
Thu 30 Jan (1:00pm)	ANZ Business Outlook – Jan
Fri 31 Jan (10:00am)	ANZ-RM Consumer Confidence – Jan
Tue 4 Feb (10:45am)	Building Permits – Nov
Wed 5 Feb (early am)	Global Dairy Trade auction
Wed 5 Feb (1:00pm)	ANZ Commodity Price Index – Jan
Tue 11 Feb (10:00am)	ANZ Truckometer – Dec/Jan
Thu 13 Feb (10:45am)	Electronic Card Transactions – Jan
Thu 13 Feb (3:00pm)	RBNZ 2Yr Inflation Expectation – Q1
Fri 14 Feb (10:30am)	BusinessNZ Manuf PMI – Jan
Fri 14 Feb (10:45am)	Selected Price Indexes – Jan
Mon 17 Feb (10:30am)	Performance Services Idx – Jan
Mon 17 Feb (10:45am)	Net Migration – Dec
Wed 19 Feb (early am)	Global Dairy Trade auction

Interest rate markets

It was a busy rush into the Christmas period this week with the surprisingly large \$20bn lift in bond issuance guidance seeing NZGB yields rise, while weak Q3 GDP figures out yesterday saw the curve steepen, with market's reassessing how far the RBNZ may need to cut the OCR. Markets are pricing in an OCR of around 3% by the end of next year.

FX markets

A more hawkish Fed and weak NZ economic data saw the kiwi get battered this week, hitting a low of 0.5602 on Thursday.

Key data summary

Performance Services Index – November. The PSI rose from 46.2 to 49.5: a decent improvement, though still in contractionary territory.

Selected Price Indexes – November. [A touch stronger than expected](#), but with temporary "gig" impacts.

REINZ House Prices – November. The seasonally adjusted [REINZ House Price Index](#) rose 0.2% m/m in November, after last month's 0.4% m/m fall.

Half-Year Economic and Fiscal Update. A much more pessimistic fiscal outlook than anticipated. See our [Review](#).

GlobalDairyTrade auction. The Price Index fell 2.8%, with both whole milk and skim milk powder 2.9% lower.

Current Account Balance – Q3. The annual deficit narrowed to 6.4% of GDP – close to our expectation.

GDP – Q3. Much weaker than expected (in change terms). See our [Review](#).

ANZ Business Outlook – December. The improvement continues, with past activity suggesting Q4 GDP won't be nearly as ugly as Q2 and Q3.

ANZ-Roy Morgan Consumer Confidence – December. Pretty flat, but with a sharp lift in "good time to buy" that's good news for retailers.

Upcoming in January

GlobalDairyTrade auction (Wednesday 8 January, early am). Dairy prices are expected to soften a little further before stabilising.

ANZ Commodity Price Index – December (Wed 8 January, 1:00pm).

Building Permits – November (Monday 13 January, 10:45am). Typical volatility suggests a lift after October's 5.2% m/m fall.

Monthly Employment Indicators – November (Monday 13 January, 10:45am). Weekly data point to a broadly flat read.

NZIER Quarterly Survey of Business Opinion – Q4 (Tuesday 14 January, 10:00am). Our ANZBO points to a higher (but still negative) read on past domestic trading activity. Employment and investment should improve too. Most important for the RBNZ will be the signal on costs, prices and capacity. Costs and prices could be a little mixed, but labour as a limiting factor on production (a key capacity indicator) looks set to remain low.

Selected Price Indexes – December (Thursday 16 January, 10:45am). A flat month for food prices, a small rise in petrol (~0.5% m/m), a 0.3% rise in rents, payback from November's gig-induced strength in domestic airfares and accommodation, but seasonal strength in international airfares is expected to net out in a 0.1% m/m lift in our estimated weighted SPI index.

Manufacturing PMI – December (Friday 17 January, 10:30am). At just 45.5 in November, this indicator is a long way from expansionary levels.



Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Oct-24	Nov-24	Today	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
NZD/USD	0.597	0.593	0.563	0.590	0.580	0.590	0.610	0.620	0.620
NZD/AUD	0.910	0.909	0.903	0.922	0.921	0.908	0.910	0.899	0.899
NZD/EUR	0.549	0.560	0.543	0.573	0.569	0.567	0.581	0.585	0.574
NZD/JPY	91.0	88.7	88.6	90.3	89.3	88.5	90.3	90.5	89.3
NZD/GBP	0.460	0.465	0.451	0.468	0.464	0.461	0.462	0.466	0.463
NZ\$ TWI	69.6	69.7	67.7	70.2	69.6	70.3	72.2	72.8	72.4
Interest rates	Oct-24	Nov-24	Today	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
NZ OCR	4.75	4.25	4.25	3.75	3.50	3.50	3.50	3.50	3.50
NZ 90 day bill	4.52	4.36	4.25	3.62	3.62	3.62	3.62	3.62	3.62
NZ 2-yr swap	3.64	3.70	3.52	3.57	3.57	3.59	3.62	3.62	3.67
NZ 10-yr bond	4.48	4.38	4.53	4.50	4.50	4.75	5.00	5.00	5.00

Economic forecasts

	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
GDP (% qoq)	-1.0	0.4	0.4	0.6	0.8	0.9	0.8	0.7	0.7
GDP (% yoy)	-1.5	-1.4	-1.3	0.4	2.2	2.7	3.1	3.2	3.1
CPI (% qoq)	0.6	0.4	0.5	0.6	0.7	0.4	0.4	0.5	0.6
CPI (% yoy)	2.2	2.1	2.0	2.2	2.3	2.3	2.1	2.0	1.9
Employment (% qoq)	-0.5	-0.2	-0.1	0.0	0.3	0.4	0.4	0.5	0.6
Employment (% yoy)	-0.4	-0.9	-0.6	-0.8	0.0	0.6	1.1	1.6	1.9
Unemployment Rate (% sa)	4.8	5.1	5.3	5.5	5.5	5.3	5.2	5.1	4.9

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

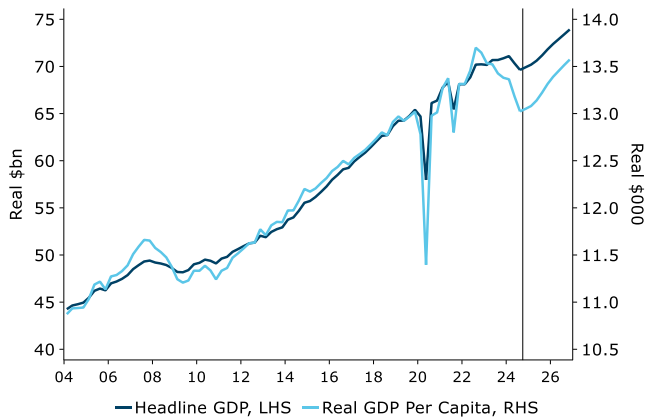


Figure 3. CPI inflation components

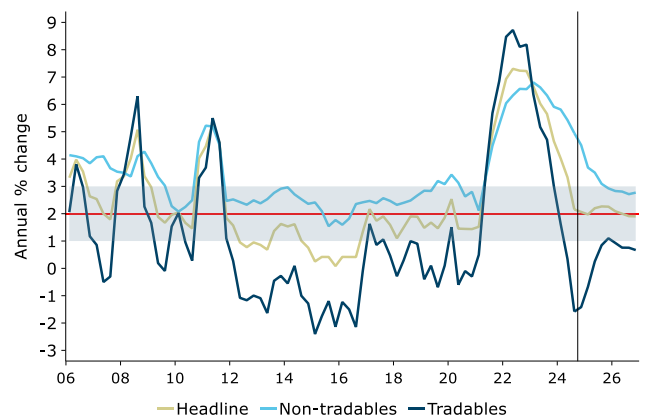


Figure 4. OCR forecast

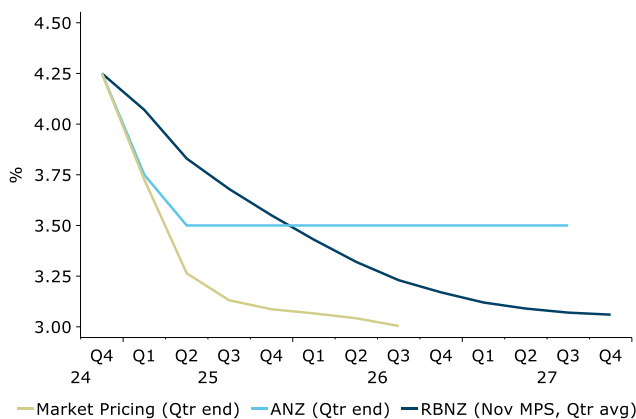
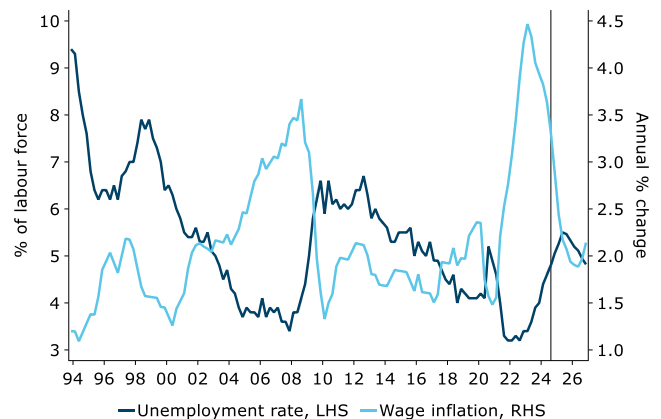


Figure 5. Unemployment and wage inflation



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



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