

New Zealand Weekly Data Wrap

21 July 2023



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See [page 5](#).

Forecast updates

Recent ANZ NZ Forecast Updates can be found [here](#).

- [NZ Forecast Update: milk price forecast drops sharply](#)
- [NZ Forecast Update: the much-needed adjustment](#)
- [NZ Forecast Update: milk price forecasts trimmed further](#)
- [NZ Property Focus: On the floor, ready to floor it?](#)

Our other recent publications are on [page 2](#).

What's the view?

- GDP transitioning from acute supply constraints to a softening demand pulse.
- Labour market still tight, but expected to cool.
- Inflation way above target and looking sticky.
- OCR on hold at 5.50% until November 2023, then higher.

Our forecasts are on [page 4](#).

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

Key risks to our view



Global growth and financial market risks persist, as markets debate the rates outlook.



Soaring net migration could see rents and house prices start to rise more quickly.



Booming migration plus fiscal stimulus could see demand hold up for longer.



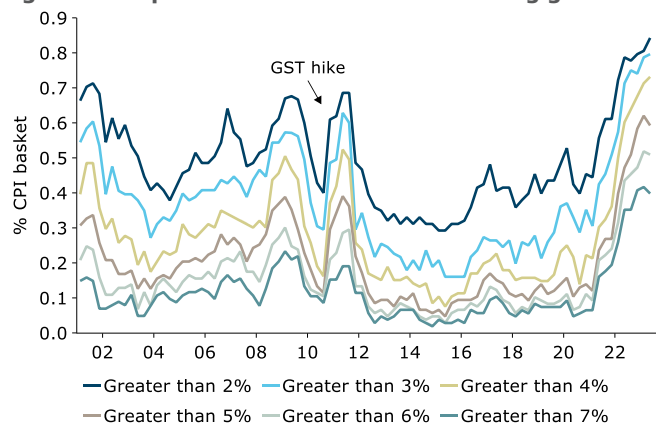
NZ's large external imbalances could see the market impose a more abrupt adjustment path.

Details of Q2 CPI unlikely to give the RBNZ much comfort

While headline inflation was in line with the RBNZ's May MPS forecast, [the details](#) of the release were on the more worrying side. Non-tradables inflation (the domestic and potentially sticky kind) came in stronger than their forecast (1.3% q/q vs 1.0% expected). Core measures of inflation were mixed, but the entire suite of core measures is still running way too high. The RBNZ's own Sectoral Factor Model of core inflation moved sideways in Q2 at a whopping 5.8%, with upwards revisions to history suggesting there has been no progress on the core inflation front since it first touched this level in Q4 2022.

While the drop in headline inflation is certainly welcome news, there was some evidence in the details to suggest inflation could be 'normalising' above the RBNZ's 2% target midpoint – which is ultimately the RBNZ's biggest fear. While some of the more extreme rises are now becoming less frequent, the proportion of the CPI basket running greater than 2% y/y lifted further in Q2 to 84% (figure 1).

Figure 1. Proportion of the CPI basket running greater than X% y/y



Source: Stats NZ, Macrobond, ANZ Research

Ultimately, sticky domestic inflation risks are going to remain a big worry for the RBNZ for as long as the labour market is unsustainably hot, with high labour cost inflation passing through to consumer prices. The Q2 labour market data is published 2 August – we'll get our Preview out next week. At the current juncture, we're not seeing material risks around our (and the RBNZ's) forecast for the unemployment rate to come in at 3.5%, but we'll firm this up next week. But we think the hurdle for the RBNZ to deviate from its relatively fresh 'on hold' strategy before November is high. So far, the RBNZ will be going into the August MPS with weaker GDP than expected, but a stronger housing impulse (adding upside risk to the activity outlook), and stronger-than-expected domestic inflation.

In other news this week, [we have revised down our farmgate milk price forecast](#) for the 2023-24 season by 50c to \$7.75/kg milksolid. Global demand for dairy products has been impacted by deteriorating economic conditions affecting consumer demand, particularly in China. Our forecast for 2022-23 remains at \$8.20/kg milksolid.

This week we introduced a new publication: [ANZ NZ Merchant and Card Spending](#), a monthly chartpack showing the annual change in nominal merchant spend using ANZ data. There's plenty of nuance and insight to be gained, as we can cut the data into more disaggregated categories than is typically available. Enjoy.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: sure to rise?
- NZ ETS Review: public consultation on options
- NZ Agri Focus: winter chill
- NZ Property Focus: On the floor, ready to floor it?
- NZ Insight: divergence across the Tasman, recession for NZ but not for Oz
- NZ Economic Outlook: moving parts
- NZ Agri Focus: a further lift required
- NZ Insight: Inflation rotation
- NZ Insight: inflationary risks from Gabrielle
- NZ Insight: RBA/RBNZ policy divergence back in the spotlight



NZ Economic News

View latest data and policy releases

- NZ GDP: Cyclone nudges NZ into recession
- NZ REINZ housing data: going up
- RBNZ MPR Review: nothing to see here
- NZ CPI Review: Not a good news day after all
- NZ labour market: still super-tight in Q1
- NZ Budget 2023 brings the bonds

[Click here](#) for more.



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: June 2023

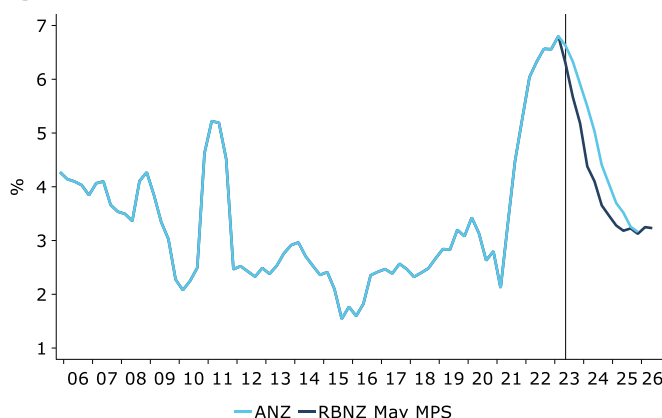
Updating our CPI forecasts

With the Q2 CPI data now in the bag, we have updated our outlook. Broadly, the Q2 release was close enough to our expectation that it doesn't warrant a wholesale change to our medium-term outlook. While the starting point suggests slightly higher annual non-tradables in the near term, and slightly weaker tradables than previously, the implications for medium-term inflation appear limited.

We now expect annual inflation to decline only slightly in Q3, from 6.0% y/y in Q2 to 5.8% y/y (previously 5.6%). That, in part, reflects temporary price increases from the unwind of subsidies to the fuel excise duty, road user charges and public transport, which together add roughly 0.6%pts to annual inflation. However, with big local council rate increases also on the cards, symptomatic of a still intensely inflationary environment, we're expecting annual non-tradables inflation will slow only slightly from 6.6% in Q2 to 6.3% in Q3. That compares unfavourably to the RBNZ's May MPS Q3 forecast of 5.7%. The stickiness of non-tradables will be a real concern for the RBNZ.

It was evident in the details of the Q2 CPI release that the underlying inflation impulse is yet to slow meaningfully. That, in part, reflects the ongoing resilience of the labour market, which is underpinning strong wage pressures. In order for the RBNZ to be confident that core inflation is trending down sustainably towards target, it will need to see capacity open up in the labour market. And unfortunately, that means the unemployment rate will need to rise from its current unsustainable level. However, the demand impulse from net migration, sizeable fiscal stimulus in the next 12 months, improving business sentiment and a housing market showing signs of life all amount to upside risks around labour market resilience and thus medium-term inflation.

Figure 2. ANZ non-tradables forecast vs the RBNZ



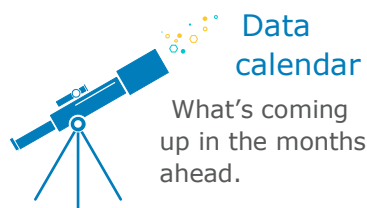
Source: RBNZ, Macrobond, ANZ Research

While we do expect to see the labour market loosen across the second half of the year, largely driven by migration-led improvements to labour supply, we expect that to occur more gradually than the RBNZ does. In fact, we think it will be the middle of 2024 before the labour market transitions to an outright disinflationary state, at which point, non-tradables inflation should be firmly on a moderating path. That all said, we think it will take a higher OCR than the RBNZ is currently signalling to make this come to pass. Indeed, at the end of the day, it's not really a question of whether too-high domestic inflation will slow; it's a question of how high the OCR needs to go to make it happen.

All up, following the Q2 inflation figures the RBNZ is likely to be feeling a little less confident that underlying inflation pressures are turning as quickly as they thought. And while it's a high hurdle to recommence tightening in the very near term (as the RBNZ waits to assess the impact of hikes delivered to date), we think the evidence will be there come November that domestic inflation isn't dropping fast enough and that more tightening will be needed.



Financial markets update



Data calendar
What's coming up in the months ahead.

Date	Data/event
Mon 24 Jul (10:45am)	Merchandise Trade – Jun
Tue 25 Jul (10:00am)	ANZ Truckometer – Jun
Fri 28 Jul (10:00am)	ANZ-RM Consumer Confidence – Jul
Mon 31 Jul (1:00pm)	ANZ Business Outlook – Jul
Mon 31 Jul (3:00pm)	RBNZ Sectoral Lending – Jun
Tue 1 Aug (10:45am)	Building Permits – Jun
Wed 2 Aug (early am)	GlobalDairyTrade auction
Wed 2 Aug (10:45am)	Labour Market – Q2
Thu 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul
Wed 9 Aug (10:45am)	Electronic Card Transactions – Jul
Wed 9 Aug (3:00pm)	RBNZ 2yr Inflation Expectations – Q3
Fri 11 Aug (10:30am)	BusinessNZ Manuf PMI – Jul
Fri 11 Aug (10:45am)	Food Price Index – Jul
Fri 11 Aug (10:45am)	Rental Price Index – Jul
Mon 14 Aug (10:30am)	Performance Services Index – Jul
Mon 14 Aug (10:45am)	Net Migration – Jun
Wed 16 Aug (early am)	GlobalDairyTrade auction
Wed 16 Aug (2:00pm)	RBNZ MPS
Mon 21 Aug (10:45am)	Merchandise Trade – Jul
Wed 23 Aug (10:45am)	Retail Trade – Q2
Thu 24 Aug (10:00am)	ANZ Truckometer – Jul
Wed 30 Aug (1:00pm)	ANZ Business Outlook – Aug
Thu 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Fri 1 Sep (10:00am)	ANZ-RM Consumer Confidence – Aug
Mon 4 Sep (10:45am)	Terms of Trade – Q2
Tue 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 6 Sep (early am)	GlobalDairyTrade auction

Interest rate markets

Market pricing for the OCR cycle peak (currently November) has lifted a few basis points in the wake of the NZ CPI release. Next stop: the Q2 labour market report (out 2 August), which will be the last big piece of domestic data before the August MPS. Globally, the bellwether US 10-year yield had a relatively stable week, before lifting around 10 basis points overnight to 3.85% as disappointing earnings and still-robust labour market data weighed. Next week's FOMC decision carries its usual event risk (out Thursday 6am NZT). We expect the Fed to hike 25bps, taking the fed funds target range to 5.25-5.50%, which is our terminal forecast. However, we acknowledge the FOMC's work may not be done yet, and will be watching the upcoming data. Near-term developments in US private consumption and labour market conditions will be particularly important.

FX markets

The NZD-TWI is around 2% off last week's peak (where it kissed 73), but remains firmly above its 200-day moving average. NZ's external imbalance (a very wide and unsustainable current account deficit) combined with more bad news out of China this week (Q2 GDP disappointed, with the details pointing to a softer household sector) and another softer GlobalDairyTrade result raises big questions around whether NZD should head lower. Meanwhile, yuan lifted after the PBoC lifted its daily fixing by 680 pips yesterday, but CNH has since trimmed gains against USD following lifting US yields overnight. GBP gets a shoutout this week, after softer UK CPI data caused GBP/USD to record its largest intraday decline in four months.

Key data summary

Performance Services Index – June. Dipped 3.2 points to 50.3. While a reading above 50 is still 'expansionary', the overall trend certainly appears to be a moderating one. And with the employment sub-index dipping to 49.1, slack across services industries does appear to be opening up.

GlobalDairyTrade auction. The GDT price index fell 1.0% with dairy products selling at an average price of USD3,289/t, the lowest level since September 2020. Whole milk powder prices fell 1.5%, while skim milk powder was down 0.6%. Ongoing weakness in China's economy is the major driver of the lower prices.

CPI – Q2. Annual CPI inflation decelerated from 6.7% in Q1 to 6.0% in Q2, a little stronger than our forecast of 5.9%, but slightly below the RBNZ's May MPS forecast of 6.1%. That was where the good news ended for the RBNZ, however, with an unwelcome upward surprise in the key non-tradables inflation component. See our [Review](#).

The week ahead

Overseas Merchandise Trade – June (Monday 24 July, 10:45am). The trade balance is expected to have turned back to a deficit in June as the change to importing more refined fuel adds to the cost of imports whilst relatively low prices for commodities curb export returns. We have pencilled in \$6.3b worth of exports and \$6.5b of imports for June.

ANZ Truckometer – June (Tuesday 25 July, 10:00am).

ANZ Roy Morgan Consumer Confidence – July (Friday 28 July, 10:00am).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	May-23	Jun-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD/USD	0.601	0.613	0.623	0.620	0.630	0.650	0.650	0.650	0.650
NZD/AUD	0.927	0.921	0.919	0.912	0.900	0.903	0.890	0.890	0.890
NZD/EUR	0.562	0.561	0.560	0.554	0.553	0.560	0.551	0.542	0.542
NZD/JPY	84.1	88.5	87.3	85.6	85.1	85.8	83.2	81.9	80.6
NZD/GBP	0.486	0.482	0.484	0.484	0.485	0.492	0.485	0.478	0.478
NZ\$ TWI	69.9	70.9	71.5	70.1	69.9	71.2	70.5	70.0	69.8
Interest rates	May-23	Jun-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
	May-23	Jun-23	Today	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZ OCR	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.75	5.50
NZ 90 day bill	5.69	5.71	5.66	5.77	5.85	5.85	5.85	5.68	5.43
NZ 2-yr swap	5.20	5.47	5.54	5.48	5.21	4.97	4.73	4.48	4.37
NZ 10-yr bond	4.29	4.62	4.59	4.75	4.50	4.25	4.00	4.00	4.00

Economic forecasts

	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
GDP (% qoq)	-0.1	0.4	-0.1	-0.2	0.3	0.3	0.3	0.3	0.4
GDP (% yoy)	2.2	1.1	-0.5	0.0	0.4	0.3	0.7	1.2	1.3
CPI (% qoq)	1.2	1.1	2.0	0.8	0.8	0.6	0.9	0.5	0.6
CPI (% yoy)	6.7	6.0	5.8	5.2	4.8	4.3	3.2	2.8	2.6
Employment (% qoq)	0.8	0.4	0.0	-0.2	-0.1	0.0	0.2	0.2	0.2
Employment (% yoy)	2.4	3.0	1.8	1.1	0.2	-0.3	-0.1	0.3	0.6
Unemployment Rate (% sa)	3.4	3.5	3.9	4.2	4.5	4.7	4.8	4.9	5.0

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

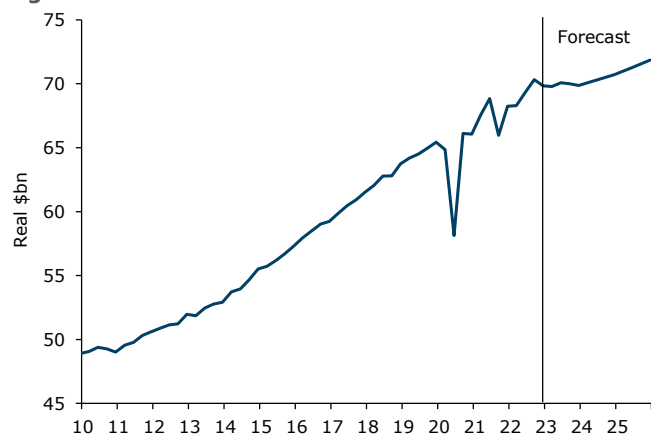


Figure 4. CPI inflation components

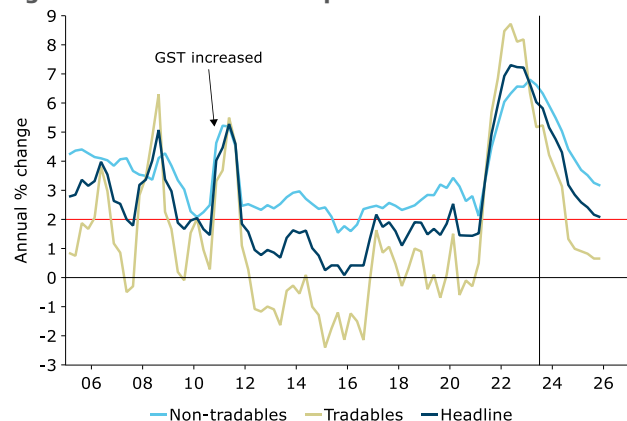


Figure 5. OCR forecast

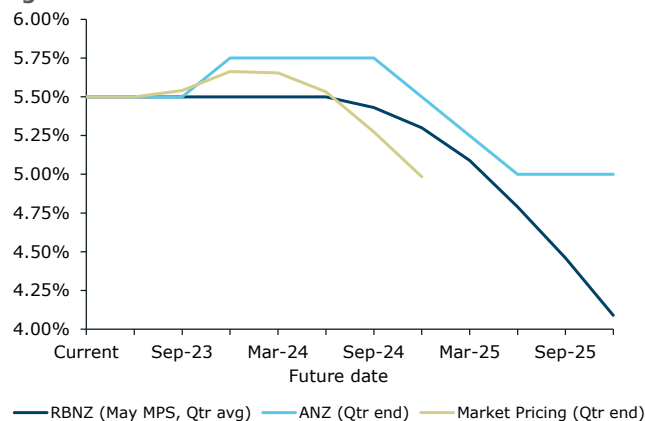
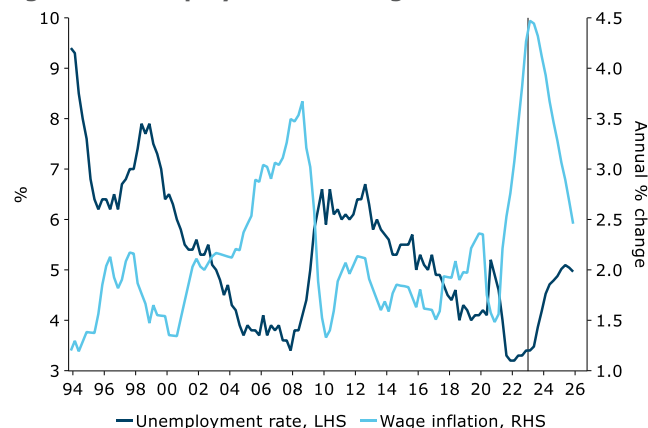


Figure 6. Unemployment and wage inflation



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



Contact us

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