

New Zealand Weekly Data Wrap

13 October 2023



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Forecast updates

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

- [NZ Property Focus: going up](#)
- [NZ Forecast Update: milk price revised down further](#)
- [NZ Forecast Update: the much-needed adjustment](#)
- [NZ Forecast Update: milk price forecasts trimmed further](#)

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 cooling.
- 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, with China in focus.



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.

Holding pattern

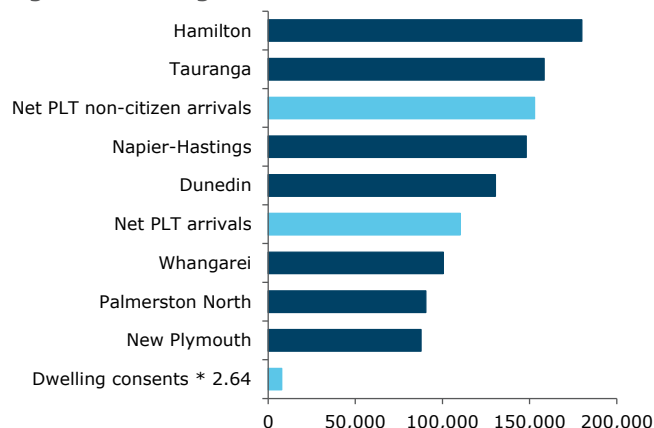
The [September REINZ](#) release this week saw the House Price Index (HPI) level off, with house prices flat on a seasonally adjusted basis. Sales fell 1.9% m/m sa, partially unwinding their 6.4% rise last month, and remain below their historical average. Meanwhile, days to sell remain slightly above the historical average of 39, printing at 40 (August: 41).

New Zealand's major cities painted a mixed picture. Auckland's house prices matched the rest of the country (0.0% m/m sa); Wellington prices lifted 0.8% m/m; and Canterbury's HPI fell 0.7% m/m.

In our [September Property Focus](#) we upgraded our near-term house price forecast, expecting house prices to rise 4% over the second half of 2023. While the latest data presents some downside risk to that, it remains unclear what role the election may be playing. It is typical for the market to pause ahead of an election, reflecting uncertainty around policy changes. We expect sales to lift a touch after the election as inertia dissipates, but the effect on house prices is less clear at this stage.

It's not just the election that will affect momentum in the housing market. Inbound migration is still near record levels. This week's data showed that 110,200 people (net) moved to New Zealand over the last year on a permanent or long term (PLT) basis (figure 1) – record numbers. 199,500 non-New Zealand citizens immigrated to New Zealand over the last 12 months with almost half coming from just three countries: India (38,197), the Philippines (30,350) and China (19,876).

Figure 1: Net migration in context



Source: Stats NZ, ANZ Research

All those migrants need a place to live and we are not consenting and building enough new dwellings to keep pace (figure 1). The lags vary, but we expect this inbound migration to keep the upwards pressure on house prices and rent inflation for a while yet. Outbound migration is also elevated, meaning churn is likely to remain high. This will further support house sales volumes and also rents, to the extent it makes rent reviews more frequent (within the constraint of the new rules limiting the frequency of rent changes).

It's only one month of data, and may be partly an election hiatus, but all else equal the RBNZ will be happy to see a cooler month in the housing market. The RBNZ won't have any data on early election impacts on house prices when they meet in November, given the latest data at that point will be for the month of October. The details of next week's CPI data will be crucial for whether they deliver our forecast of a 25bp hike in November.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Agri Focus: regaining ground
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- NZ Economic Outlook: waiting on the last domino
- NZ Property Focus: running start
- NZ ETS: Change of price and volumes settings
- NZ Agri Focus: winter chill
- NZ Insight: divergence across the Tasman, recession for NZ but not for Oz
- NZ Insight: Inflation rotation
- NZ Insight: RBA/RBNZ policy divergence back in the spotlight



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- NZ REINZ housing data: on ice
- RBNZ MPR Review: a more sustained period of time
- NZ CPI Review: Not a good news day after all
- NZ labour market: relatives and absolutes
- NZ PREFU 2023: more debt, more bonds, more deficits

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ANZ Proprietary data

Check out our latest releases below.

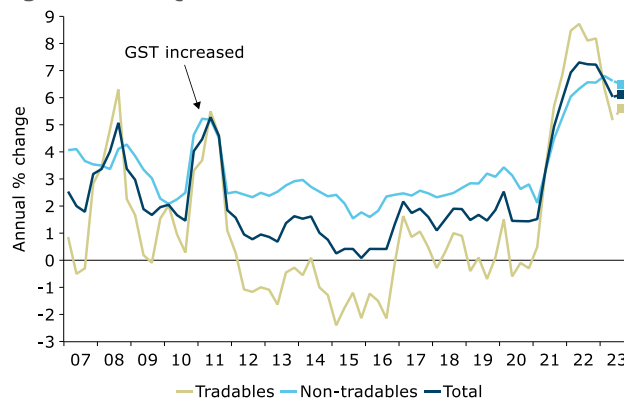
- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index
- ANZ NZ Merchant and Card Spending: August 2023

Pouring fuel on the fire

Stats NZ will release CPI inflation figures for the September quarter next Tuesday (17 October). We **anticipate** that the report will highlight that the inflation problem has by no means been solved, and that there are still real question marks around whether an OCR of 5.50% is sufficient to get inflation sustainably back to target in an acceptable time frame.

Our forecast for headline inflation of 2.2% q/q is a touch higher than the RBNZ's (2.1% q/q), but there's plenty of noise from one-off boosts due to the end of transport subsidies, sharply higher oil prices and the seasonal boosts from government-related charges. That creates plenty of scope for a headline surprise on the day in either direction, but the RBNZ will look through that to a large extent. The Committee will be wary of the potential impacts on inflation expectations of any upside surprise, regardless of the cause, but they'd likely wait to see if there's any damage done rather than assuming the worst.

Figure 2. Our Q3 CPI forecast



Source: Stats NZ, Macrobond, ANZ Research

Broader domestic inflation pressures are expected to remain intense. We expect annual non-tradables inflation to barely budge, falling from 6.6% to 6.5%, still roughly twice the level consistent with the RBNZ's overall CPI target, and higher than what the RBNZ expects (6.2%). That will highlight upside risks to the RBNZ's forecast that non-tradables inflation is going to start to plummet from Q4.

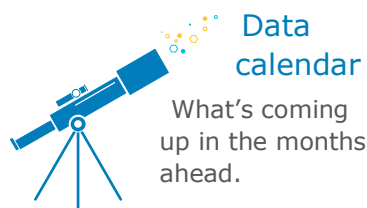
The suite of core measures will be closely watched for signs of moderation in Q3. We don't forecast these measures, but we do expect to see an easing across the suite (some of which were still rising in Q2!). But in the bigger picture the core measures are likely to remain far too high for comfort.

Inflation starting point surprises absolutely matter; they are what drove the OCR higher so quickly last year. But they matter via their impact on *forecast* inflation, not in isolation. And the important context in that regard: after we seasonally adjust the RBNZ's forecasts, it seems the RBNZ are expecting non-tradables inflation to fall from an average of around 1.5% q/q (sa) across the first three quarters of this year (including their Q3 forecast), to just 0.8% q/q (sa) in Q4. Non-tradable inflation tends to evolve smoothly. So short either an abrupt capitulation in the economic data or a hefty fall in the core inflation measures in this Q3 CPI read (neither of which we expect), we believe the RBNZ is going to have to revise up its non-tradable inflation forecasts meaningfully come November.

That may not immediately result in a hike. It's going to take a solid body of evidence to draw the Committee back to the hiking table, naturally. But we do think that evidence will accrue; the question is one of timing.



Financial markets update



Date	Data/event
Mon 16 Oct (10:30am)	Performance Services Index – Sep
Tue 17 Oct (10:45am)	CPI – Q3
Wed 18 Oct (early am)	GlobalDairyTrade auction
Fri 20 Oct (10:45am)	Merchandise Trade – Sep
Wed 25 Oct (10:00am)	ANZ Truckometer – Sep
Fri 27 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Tue 31 Oct (10:45am)	Building Permits – Sep
Tue 31 Oct (1:00pm)	ANZ Business Outlook – Oct
Wed 1 Nov (10:45am)	Labour Market – Q3
Mon 6 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Wed 8 Nov (early am)	GlobalDairyTrade auction
Wed 8 Nov (10:45am)	RBNZ Inflation Expectations – Q4
Fri 10 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Mon 13 Nov (10:30am)	Performance Services Index – Oct
Tue 14 Nov (10:45am)	Food Price Index – Oct
Tue 14 Nov (10:45am)	Rental Price Index – Oct
Wed 15 Nov (10:45am)	Electronic Card Transactions – Oct
Wed 15 Nov (10:45am)	Net Migration – Sep
Tue 21 Nov (10:45am)	Merchandise Trade – Oct
Wed 22 Nov (early am)	GlobalDairyTrade auction
Fri 24 Nov (10:00am)	ANZ Truckometer – Oct
Fri 24 Nov (10:45am)	Retail Trade – Q3
Wed 29 Nov (2:00pm)	RBNZ MPS
Thu 30 Nov (10:45am)	Building Permits – Oct
Thu 30 Nov (1:00pm)	ANZ Business Outlook – Nov
Fri 1 Dec (10:00am)	ANZ-RM Consumer Confidence – Nov
Mon 4 Dec (10:45am)	Terms of Trade – Q3

Interest rate markets

Global long term interest rates are on the rise again, and while key bellwethers like the US 10yr Treasury bond haven't climbed back to last week's yield highs, markets are going into the weekend on the back foot. This latest move was sparked by 'firm' rather than 'worse' US core CPI data, but bond markets seem even more worried about bond supply, with the results of this week's US 3yr, 10yr and 30yr bond auctions worsening progressively over the week. This week's NZGB tender fared a lot better, we think thanks mainly to very wide spreads to Australian bonds, and the RBNZ's more balanced tone, but broadly speaking, NZ is in the same proverbial boat as the US, seemingly facing years of never-ending bond supply. That leaves us still cautious about calling a top in yields, even up here. Short end rates are bouncing around, and where they go next depends on next week's CPI number. We are higher than the consensus and the RBNZ, and still expect a hike in November. We also think the details in the data will matter. Last week we noted that our term interest rate forecasts were under review, and that remains the case, pending next week's CPI data, global market moves and the election outcome. Nonetheless, we stand by our earlier call that we're cautious about calling the high in rates, and still think it'll be a long time before policy rates are eased.

FX markets

The Kiwi experienced a sharp fall overnight as the USD rebounded. While that wasn't overly remarkable in the context of it still being within well-established trading ranges, the re-coupling of USD to US bond yields was. While the New Zealand 'story' is unremarkable at present, our bond yields do stand out, and that's a tail wind. But going the other way, as we discussed in this week's NZD Update, we have USD exceptionalism, and it's hard to that changing given the still strong 'soft landing' vibe in the US. That leaves us neutral on the NZD.

Key data summary

Net Migration – August. Record breaking. 110,200 net migrants over the last year.

REINZ House Prices – September. [House prices](#) were flat m/m s.a. Sales dipped slightly.

Food Prices – September. Food prices down 0.4% m/m, close to forecast.

Rental Price Index – September. Stock measure of rents up 0.3% m/m, a touch weaker than expected.

Manufacturing PMI – September. Very soft at 45.3. A mix of falling sales and rising costs.

Electronic Card Transactions – September. -0.1% total, -0.8% retail. Mostly unwind from an unusually strong August. Noisy.

The week ahead

Performance Services Index – September (Monday 16 October, 10:30am). Expecting this to continue to bounce along at recent lows.

CPI – Q3 (Tuesday 17 October, 10.45am). We expect annual CPI inflation reaccelerated to 6.1% y/y in Q3, slightly above the RBNZ's August MPS forecast of 6.0% y/y. See our [Preview](#).

GlobalDairyTrade auction (Wednesday 18 October, early am). Dairy prices are forecast to lift another 4% as expectations of lower milk production this season will spur buyer activity.

Overseas Merchandise Trade – September (Friday 20 October, 10:45am). Imports (~\$6.8b) are expected to exceed exports (~\$5.1b) as exports prices remain soft, expanding the current account deficit.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Aug-23	Sep-23	Today	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
NZD/USD	0.594	0.600	0.592	0.590	0.610	0.610	0.620	0.630	0.630
NZD/AUD	0.919	0.932	0.938	0.908	0.897	0.897	0.886	0.875	0.875
NZD/EUR	0.547	0.567	0.562	0.541	0.550	0.540	0.544	0.543	0.543
NZD/JPY	86.7	89.6	88.7	85.6	85.4	83.0	81.8	80.6	80.6
NZD/GBP	0.469	0.492	0.486	0.465	0.473	0.462	0.463	0.463	0.463
NZ\$ TWI	69.8	71.5	70.5	68.7	69.8	69.1	69.4	69.5	69.4
Interest rates	Aug-23	Sep-23	Today	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
NZ OCR	5.50	5.50	5.50	5.75	5.75	5.75	5.75	5.50	5.25
NZ 90 day bill	5.65	5.74	5.70	5.95	6.00	5.93	5.78	5.68	5.58
NZ 2-yr swap	5.44	5.72	5.69	5.70	5.60	5.44	5.32	5.17	5.08
NZ 10-yr bond	4.87	5.31	5.42	5.25	5.25	5.25	5.25	5.00	5.00

Economic forecasts

	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
GDP (% qoq)	0.9	0.3	0.3	-0.1	0.1	0.3	0.3	0.4	0.5
GDP (% yoy)	1.8	0.6	1.5	1.4	0.6	0.6	0.6	1.1	1.5
CPI (% qoq)	1.1	2.2	0.8	0.8	0.6	0.9	0.4	0.6	0.4
CPI (% yoy)	6.0	6.1	5.3	4.9	4.4	3.1	2.7	2.3	2.3
Employment (% qoq)	1.0	0.2	0.0	-0.2	0.1	0.2	0.2	0.3	0.3
Employment (% yoy)	4.0	2.9	2.3	1.0	0.1	0.1	0.3	0.8	1.0
Unemployment Rate (% sa)	3.6	3.9	4.2	4.6	4.7	4.8	4.9	5.1	5.1

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

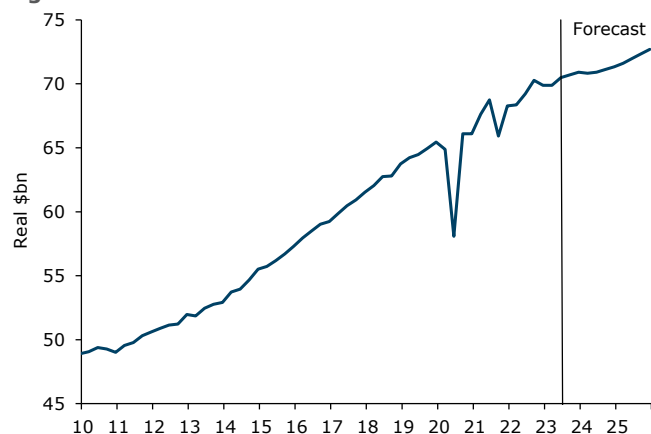


Figure 4. CPI inflation components

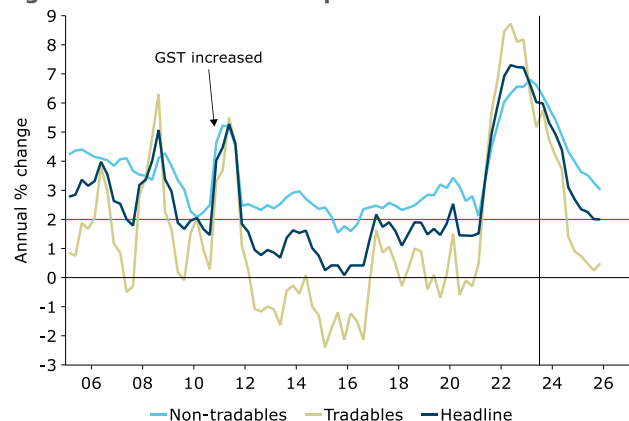


Figure 5. OCR forecast

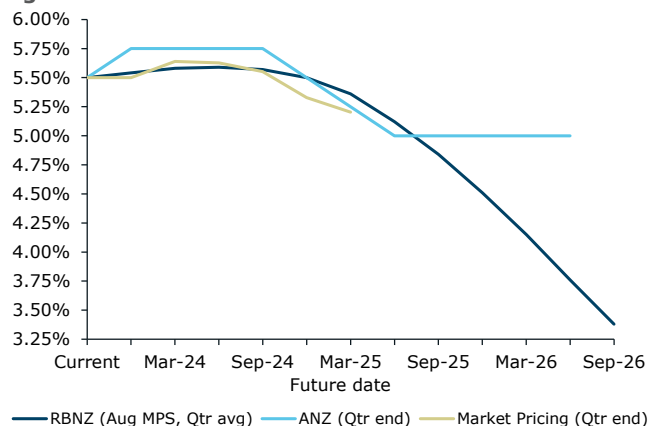
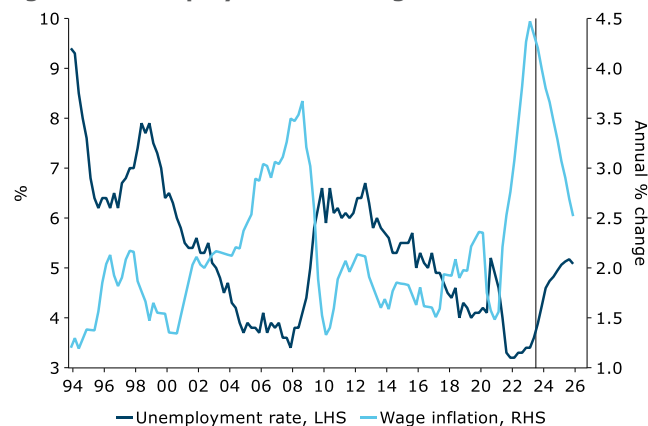


Figure 6. Unemployment and wage inflation



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



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