

New Zealand Weekly Data Wrap

19 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 February 2024, 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.

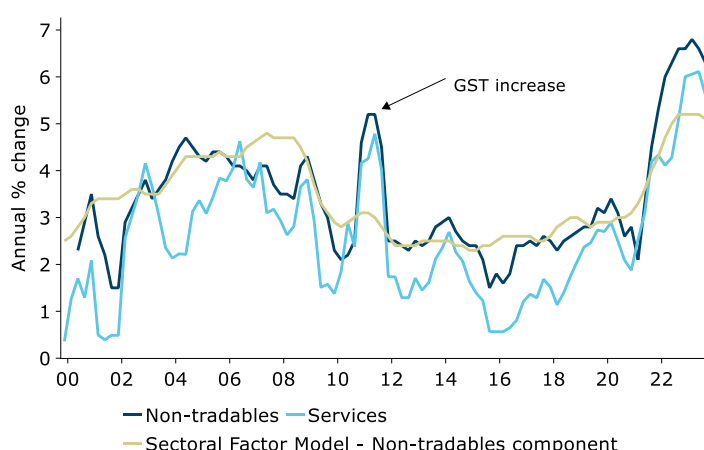
Break in the clouds

Annual inflation decelerated from 6.0% to 5.6% in Q3, below the RBNZ's August MPS forecast of 6.0%. The downside surprise is certainly welcome news for the RBNZ, even though all of it was due to weaker tradables inflation, over which the RBNZ has limited influence. Ongoing global goods disinflation is enormously helpful, but it can't be relied on to solve our inflation problem or our [trade deficit](#). The recent volatility in oil prices as a result of the Israel-Hamas war is a stark reminder of that.

Annual non-tradables inflation (the domestically driven 'sticky' component that broadly follows the business cycle) came in at 6.3%, a touch above the RBNZ's expectation of 6.2%. Some of the big movers in non-tradables inflation like insurance and local council rates bills (both up 9.6% y/y) are also beyond the direct influence of monetary policy, but to some extent they are symptomatic of broad-based inflation pressures across the economy and highlight a concerning persistence. Extreme inflation is fading, but inflation for 84% of the CPI basket is still running in excess of 2% y/y.

That's not to say there wasn't progress in the Q3 data for the RBNZ. Encouragingly, there were broad declines across the suite of core inflation measures. The RBNZ's own core inflation measure, the sectoral factor model fell from 5.7% (where it had been since Q4 last year) to 5.2% in Q3 – all things the RBNZ needs to see. That buys the RBNZ some time to assess the sustainability of the downward trend. There's no question inflation is easing, but it remains highly uncertain whether the pace of progress is consistent with inflation returning to target in a reasonable timeframe. To be confident of that, further cooling in the labour market is needed to dampen the feedback between wages and prices.

Figure 1: Domestic inflation



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

It's a high bar for the RBNZ to restart hikes. Naturally the Committee don't want to cause unnecessary damage to the economy and employment. Following the CPI data, we don't expect there will be enough evidence to get the RBNZ over the line in November, as things are still heading in the right direction. But when it comes down to it, we think the RBNZ will need to revise its output and domestic inflation forecasts higher in November, as it did at the August MPS. Continued upward revisions will naturally raise the question of whether an OCR of 5.50% is enough. We think the RBNZ's next move will be a hike, but now see that occurring in February.



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Insight: finding external balance
- NZ Agri Focus: regaining ground
- NZ Property Focus: going up
- NZ Property Focus: regional revelations
- NZ Economic Outlook: waiting on the last domino
- 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



NZ Economic News

View latest data and policy releases

- NZ GDP: what recession ... but one looming?
- NZ REINZ housing data: on ice
- RBNZ MPR Review: a more sustained period of time
- NZ CPI and OCR call change: progress buys time
- NZ labour market: relatives and absolutes
- NZ PREFU 2023: more debt, more bonds, more deficits

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: September 2023

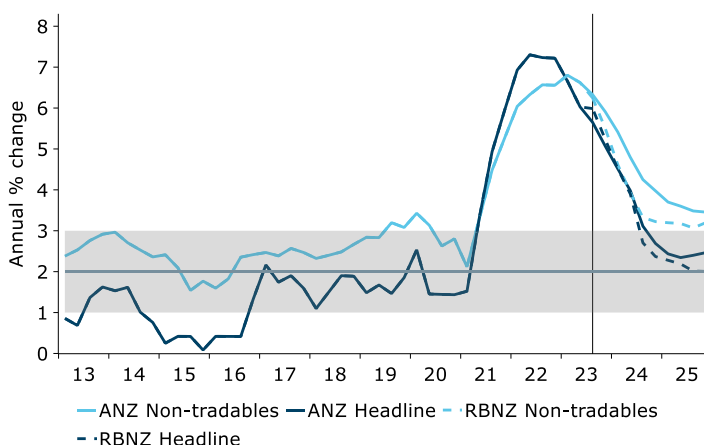
Updating our inflation forecasts

Despite the lower starting point, our inflation outlook remains broadly unchanged from our previous forecast. A faster normalisation in tradables inflation faces a meaningful offset from sticky domestic inflation. We now expect annual headline inflation to finish to the year at 5.1%.

While headline inflation is falling, that somewhat masks the challenge still presented by domestic inflation, tied to a labour market that for now remains tight (while turning). Tradables inflation, which was the initial culprit of the surge in inflation in 2021, is normalising, and in some cases, prices are outright falling. But the normalisation in tradables alone isn't enough to get inflation sustainably back to target, and progress on that front is going to become reliant on domestic inflation pressures moderating.

The RBNZ's August MPS forecasts showed non-tradables inflation falling sharply in Q4 to 0.8% q/q. After seasonal adjustment that implies the domestic inflation impulse will have returned to levels consistent with inflation at target – RBNZ are assuming that domestic inflation will have resolved itself from next quarter. We see that as overly optimistic given that economic momentum, while certainly patchy, is not rolling over abruptly, due to the elevated demand from fiscal policy and strong population growth.

Figure 2. Headline CPI and non-tradables forecast



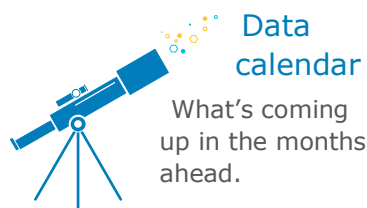
Source: RBNZ, Stats NZ, Macrobond, ANZ Research

That said, despite our expectation of much more persistent domestic inflation, our forecasts for headline inflation aren't that different to the RBNZ's August forecast, reflecting tradables inflation normalising faster than expected. The RBNZ's target is for headline inflation, so why should the RBNZ care about the mix? The main reason is that the RBNZ has little influence over tradables inflation and given the continued risks of negative supply shocks, putting all our eggs in the global disinflation basket leaves us vulnerable. For the RBNZ to be confident that inflation is returning sustainably to target, further (and faster) progress on domestic inflation is required.

Our new forecasts have headline inflation back within the 1-3% target band by the end of 2024, one quarter later than the RBNZ. But once the cycle in tradables inflation washes through, and returns to its historic average of around 1%, non-tradables inflation could remain too high for headline inflation to be consistent with the 2% target. And there are also plenty of arguments why global inflation may settle higher than experienced last decade: climate change, geopolitical fragmentation, increasing trade protectionism and re-shoring. Inflation targeting isn't likely to be 'easy' anytime soon. We're yet to be convinced that the moderation in domestic inflation is occurring fast enough to secure progress and we continue to expect the RBNZ will raise the OCR again. Further upwards revisions to its non-tradables inflation forecasts will be a key part of that decision.



Financial markets update



Date	Data/event
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
Tue 5 Dec (10:45am)	Volume of All Buildings – Q3
Tue 5 Dec (1:00pm)	ANZ Commodity Price Index – Nov
Wed 6 Dec (early am)	GlobalDairyTrade auction
Fri 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3

Interest rate markets

Global bond yields continue to rise, with the bellwether US 10yr Treasury bond yield hitting a cycle high of 4.915% overnight, exceeding the high seen about 2 weeks ago by around 3bp. This move has been driven by a combination of resilient US data and bond supply concerns, with the US market struggling to digest issuance. Despite ever higher yields, three of the last four bond auctions have cleared at yields above where the market was going into the auctions, with bid cover down on the prior auction in each case. Owing to this being perceived mainly as an externality, Fed speakers have understandably been united in suggesting that the rise in term yields takes pressure off them to raise rates, signalling that higher bond yields might be 'worth' about one Fed Funds rate hike. Ordinarily that'd be good news for bond markets, but if yields do revert lower, hikes may be back on the table. For our part, we assume that the Fed is done tightening, in part because of higher long-term yields. Local bond yields have risen, but not by as much, with NZ/US spreads contracting in the wake of last week's less hawkish RBNZ MPR and this week's softer than expected CPI data. Those events have helped drive a moderation in short end yields, with the 2yr swap rate down about 20bps since the MPR, and markets now pricing in about 15% odds of a November OCR hike, and 50/50 odds of one by April. Pricing for November seems reasonable since no local economists are calling for a hike in November, but several expect a hike in February (us included, on both fronts), but our new OCR forecasts clearly imply upside risks for early 2024 OCR expectations. To be fair, markets are less convinced, especially given the rise in term rates, and we acknowledge that some sort of 'smoking gun' in the data may be needed to get markets over the line on another hike. All up, we remain cautious on the outlook for both short- and long-term rates, and this is echoed in our new interest rate forecasts, which envisage further upside and a steeper yield curve. To our knowledge, our NZ interest rate forecasts are top-of-market, but without a catalyst for them to fall (and 6.3% domestic inflation isn't one, and nor is resilient US activity data), we still worry more about the upside risks.

FX markets

The Kiwi has struggled this week as USD strength has returned amid rising US bond yields, and NZ interest rate spreads to other geographies have narrowed following last week's MPR and Q3 CPI data this week. NZD price action looks weak, with lower lows and lower highs seen including a break below the September low. Looking ahead, the biggest risk seems to be a continuation of the 'USD exceptionalism' theme, noting that a noticeable gap (that could close) has opened up between the USD DXY and bond yields.

Key data summary

Performance Services Index – September. Bounced back into expansionary territory at 50.7 – consistent with our Business Outlook survey.

CPI – Q3. Annual inflation surprised on the downside, falling to 5.6%. See our [Review](#).

GlobalDairyTrade auction (Wednesday 18 October, early am). Prices lifted 4.3%, the fourth consecutive increase. Prices have now recovered to the level they were at in June.

The week ahead

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 trade deficit.

ANZ Truckometer – September (Wednesday 25 October, 10:00am).

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



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	0.584	0.590	0.610	0.610	0.620	0.630	0.630
NZD/AUD	0.919	0.932	0.926	0.908	0.897	0.897	0.886	0.875	0.875
NZD/EUR	0.547	0.567	0.554	0.541	0.550	0.540	0.544	0.543	0.543
NZD/JPY	86.7	89.6	87.4	85.6	85.4	83.0	81.8	80.6	80.6
NZD/GBP	0.469	0.492	0.481	0.465	0.473	0.462	0.463	0.463	0.463
NZ\$ TWI	69.8	71.5	69.6	68.7	69.8	69.1	69.4	69.5	69.4
Interest rates	Actual			Forecast (end month)					
	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	5.50	5.75	5.75	5.75	5.50	5.25
NZ 90 day bill	5.65	5.74	5.66	5.83	6.07	6.10	5.93	5.82	5.57
NZ 2-yr swap	5.44	5.72	5.68	5.68	5.64	5.48	5.35	5.25	5.17
NZ 10-yr bond	4.87	5.31	5.58	5.70	5.75	5.65	5.50	5.35	5.25

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	1.8	0.9	0.7	0.6	0.9	0.4	0.4	0.5
CPI (% yoy)	6.0	5.6	5.1	4.5	4.0	3.1	2.7	2.4	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

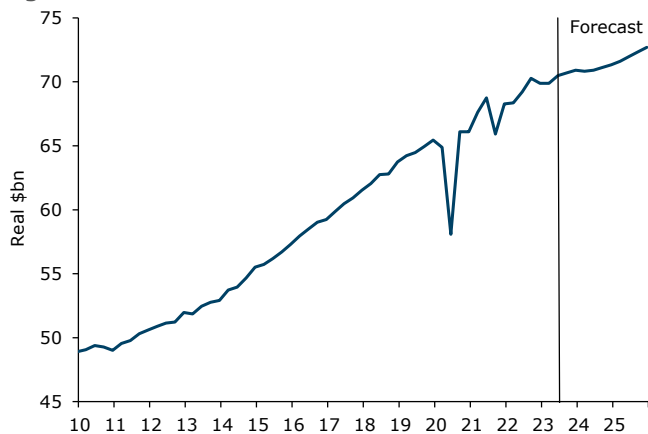
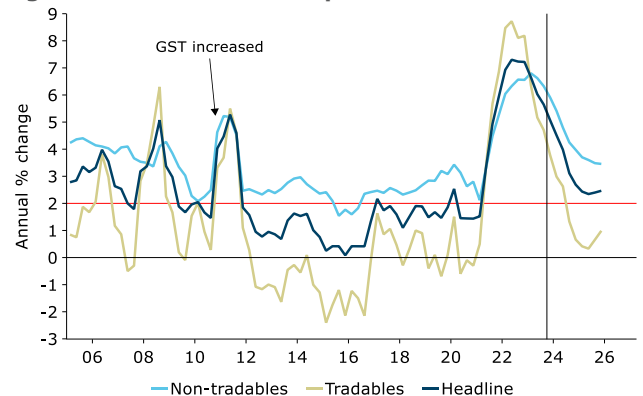
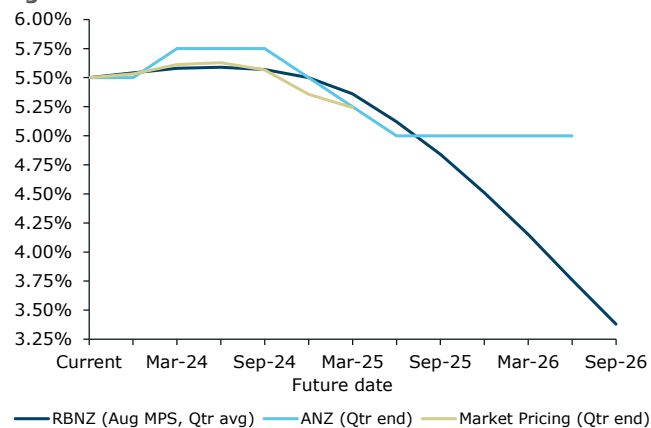


Figure 4. CPI inflation components



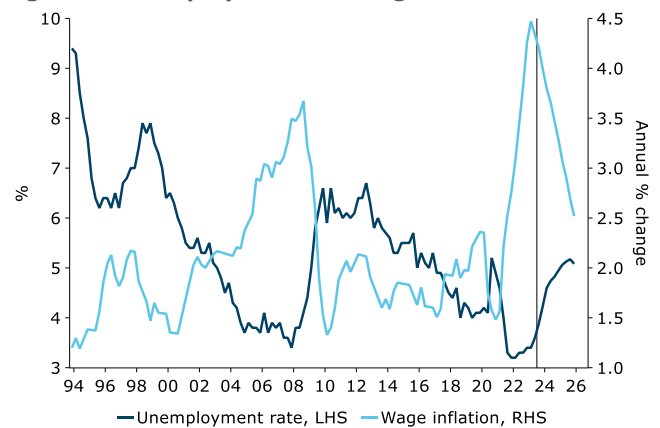
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. OCR forecast



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

Figure 6. Unemployment and wage inflation





Contact us

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