

New Zealand Weekly Data Wrap

15 December 2023



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See [page 5](#).

Forecast updates

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

- NZ Forecast Update: milk prices trend higher
- NZ Economic Outlook: ups and downs
- NZ Property Focus: going up
- NZ Forecast Update: milk price revised down further
- NZ Forecast Update: the much-needed adjustment

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

What's the view?

- GDP shows demand momentum is weak, particularly in per capita terms.
- Labour market now cooling.
- Inflation way above target and looking sticky.
- OCR on hold at 5.50% until February 2025, then lower.

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.

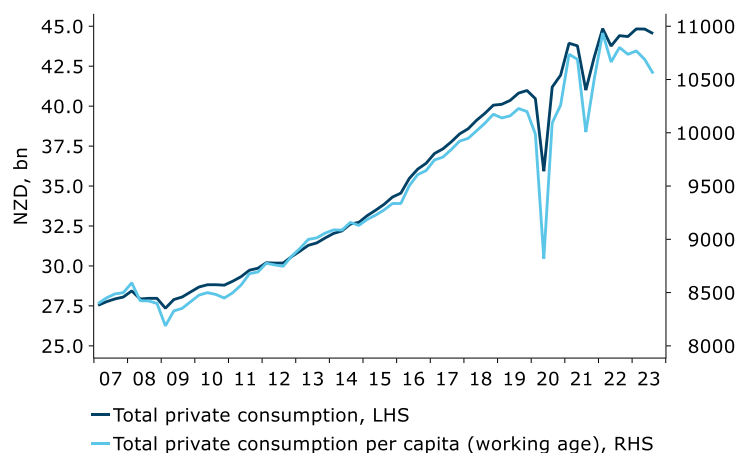
Sinking feeling

The New Zealand economy contracted 0.3% q/q in Q3 on a seasonally adjusted basis, weaker than our (and the RBNZ's) forecast of +0.3% and the market consensus expectation. GDP per capita has shrunk 3.0% over the last year, with headline GDP down 0.6% y/y. The difference: rapid population growth, fuelled by the 129,800 new net migrants that arrived in NZ over the last year.

Compared to the RBNZ's November MPS forecast there appears to be a bit less momentum out there, and all else equal that raises the bar considerably for a hike. However, the evolution of capacity indicators between now and the February MPS will be key. Importantly, today's data is not an obvious catalyst for a cut any time soon. Sticky inflation remains the big concern.

Of note, consumption per person tells a very different story now than it did two weeks ago, and is much weaker than outlined in the November MPS. Headline private consumption appears to be on a softer trajectory too.

Figure 1. Consumption has a softer bent than in the MPS, especially per capita



Source: Stats NZ, Macrobond, ANZ Research

Meanwhile, the Q3 balance of payments release this week showed progress towards a narrowing current account deficit stalled in Q3, with the annual deficit unchanged as a share of GDP at 7.6%. Our updated forecast has the deficit narrowing to 5.1% of GDP come Q4 2025, but downside risks (eg drought, weaker global demand) are front of mind.

This week also brought the selected price indexes for November, covering monthly price changes for food (-0.2%), rents (+0.3%), alcohol and tobacco (+0.1%), domestic airfares (+3.6%), international airfares (-3.8%), domestic accommodation (+6.2%), overseas accommodation (-1.2%), petrol (-2.7%) and diesel (-2.4%). Overall, these were broadly in line with our expectations, outside of food prices, confirming downside risks to our Q4 CPI forecast of 0.6% q/q are building (RBNZ: 0.8% q/q).

All else equal, faster falls in headline inflation and domestic activity should buy the RBNZ time, and keep them on the sidelines come February, but it is unlikely to materially change the medium-term monetary policy outlook just yet, where we still see the OCR remaining at current levels until early 2025.



This is our last *Weekly Data Wrap* for the year. Our first edition for 2024 will be released on 12 January. We would like to wish our readers a safe and enjoyable festive season. *Meri Kirihimete.*



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Agri Focus: long, hot summer ahead
- NZ Insight: navigating the watch-worry-wait summer
- NZ Insight: labour market capacity indicators
- NZ Property Focus: a spring chill
- NZ Insight: Coalition policy announcements
- NZ Insight: what an oil price shock could mean for inflation
- NZ Property Focus: new faces, not many new places
- NZ Insight: macro impacts in New Zealand from an increase in global term rates
- NZ Insight: finding external balance



NZ Economic News

View latest data and policy releases

- NZ GDP: weaker across the board
- NZ REINZ housing data: going nowhere quickly
- RBNZ MPS Review: when hawks fly
- NZ CPI and OCR call change: progress buys time
- NZ labour market: the ship has turned
- NZ Half-Year Update 2023 Preview: new team, new game plan

[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: November 2023

Updated GDP outlook: softer momentum

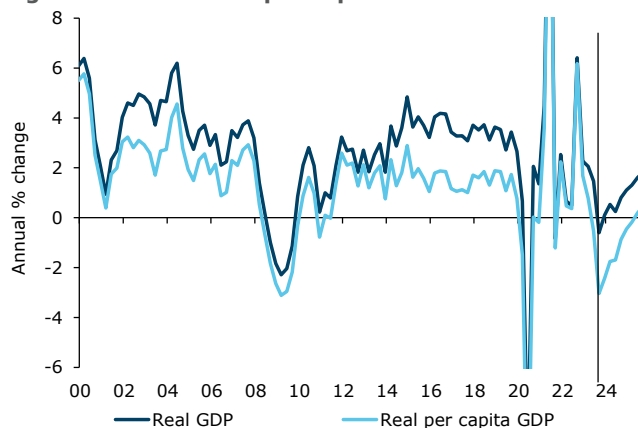
With the Q3 GDP data now in the bag, we've updated our outlook for economic activity. In one line: economic momentum is softer than previously.

Compared to our previous forecast, the overall narrative is little changed. Interest rate sensitive pockets of the economy such as residential investment, business investment, and household spending on durable goods are expected to underperform the broader economy. And that's expected to weigh on demand for imports, which, alongside the ongoing recovery in services exports (eg international tourism and education) should see net exports provide some offset to weak domestic demand over 2024. Importantly, this positive net exports contribution to growth masks what can only be described as tough going for primary goods exporters, where high costs are weighing and possible drought conditions are threatening to the pain. Our outlook does not 'centralise' a significant drought event over the coming season, but that's a key downside risk.

While the broad compositional story is little changed, the degree of weakness (particularly across domestic demand) appears more severe than previously thought. Surging migration, near term fiscal stimulus, a weaker NZD, and the recent turn in the housing market appear to be providing a smaller offset to tight monetary conditions than previously thought. But while our GDP forecast is for the economy to avoid another technical recession at the headline level (but only just), the same isn't true for the per capita cut.

On our forecast, per capita GDP (which has contracted every quarter since Q4 2022) is expected to continue shrinking on a quarterly basis over most of 2024. So while the economy may eke out some small quarterly expansions over 2024, the vibe at the individual household level is unlikely to be a rosy one for a while yet – not until CPI inflation is tamed and the RBNZ can start normalising monetary conditions.

Figure 2. Headline vs per capita GDP

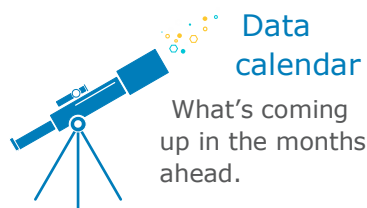


Source: Stats NZ, ANZ Research

On face value, the weaker GDP data suggest the imbalance between aggregate supply and demand is resolving a little faster than previously thought. Our updated estimate suggests the output gap was zero (neither inflationary or disinflationary) in Q3 and will be contractionary from Q4 onwards. The RBNZ needs the output gap to enter negative territory and, most importantly, remain there until they are confident that core inflation is going to return to target and that inflation expectations are contained. Our updated GDP forecast certainly suggests this is happening, but it's early days. There is still plenty of scope for upside (more inflationary) data surprises over the coming year or so, and the RBNZ has signalled it will not tolerate them. While GDP certainly wasn't an 'inflationary surprise', inflation remains a long way from target: a battle won, yes; but the war is not over.



Financial markets update



Date	Data/event
Mon 18 Dec (10:00am)	ANZ Truckometer – Nov
Mon 18 Dec (10:30am)	Performance Services Index – Nov
Tue 19 Dec (10:45am)	Merchandise Trade – Nov
Tue 19 Dec (1:00pm)	ANZ Business Outlook – Dec
Wed 19 Dec (early am)	GlobalDairyTrade auction
Wed 20 Dec (10:00am)	ANZ-RM Consumer Confidence – Dec
Wed 20 Dec (1:00pm)	HYEFU 2023
Wed 3 Jan (early am)	GlobalDairyTrade auction
Wed 10 Jan (10:45am)	Employment Indicators – Nov
Wed 10 Jan (1:00pm)	ANZ Commodity Price Index – Dec
Thu 11 Jan (10:00am)	ANZ Truckometer – Dec
Thu 11 Jan (10:45am)	Building Permits – Nov
Tue 16 Jan (10:00am)	NZIER QSBO – Q4
Wed 17 Jan (early am)	GlobalDairyTrade auction
Wed 17 Jan (10:45am)	Electronic Card Transactions – Dec
Thu 18 Jan (10:45am)	Selected Price Indexes – Dec
Fri 19 Jan (10:30am)	BusinessNZ Manuf PMI – Nov
Fri 19 Jan (10:45am)	Net Migration – Nov
Tues 23 Jan (10:30am)	Performance Services Index – Dec
Wed 24 Jan (10:45am)	CPI – Q4
Mon 29 Jan (10:45am)	Merchandise Trade – Dec
Wed 31 Jan (1:00pm)	ANZ Business Outlook – Jan
Fri 2 Feb (10:00am)	ANZ-RM Consumer Confidence – Jan
Fri 2 Feb (10:45am)	Building Permits – Dec
Wed 7 Feb (10:45am)	Labour Market – Q4
Fri 9 Feb (10:00am)	ANZ Truckometer – Jan
Tue 13 Feb (3:00pm)	RBNZ 2Yr Inflation Expectations

Interest rate markets

Interest rates are lower across the board in the wake of the Fed's emphatic early pivot and after soft NZ GDP data. We had been wary of the possibility of an upward correction in US rates given still sticky core inflation, and upcoming data may see markets pare back enthusiasm for cuts, but having pivoted, the Fed now effectively has no avenue to hike, and that is likely to cap bond yields for the next few months. The same goes for local short end rates; while they're likely now in a new, lower range, they'll need more data to drive them any lower, and nothing major is scheduled till late January, leaving markets to ponder negative carry in the meantime, which is likely to naturally limit further downside for now. Reflecting recent developments, we have lowered our term interest rate forecasts.

FX markets

The Fed's pivot has hit the USD hard and is likely to cap its prospects for the foreseeable future. While that's likely to keep NZD/USD on a mild upward trajectory, market expectations for aggressive RBNZ cuts in 2024 (there are now 103bp of cuts priced in by next November) pose challenges to the NZD on major crosses.

Key data summary

Electronic Card Transactions – November. Rose 0.8% m/m, robust.

Net Migration – October. Populations in order: Auckland, Christchurch, Wellington, Long-term arrivals (246k), Hamilton, Tauranga, Net migration (129k), Long-term departures (117k), Dunedin.

REINZ House Prices – November. At the national level, the [REINZ house price index](#) was flat at 0.0% m/m (ANZ sa), with mixed regional data.

Current Account Balance – Q3. The annual [current account](#) deficit came in at 7.6% of GDP in Q3, unchanged from in Q2.

Selected Price Indexes – November. November's [Selected Price Indexes](#) were broadly in line with our expectations, outside of food prices, confirming downside risks to our Q4 CPI forecast of 0.6% q/q are building (RBNZ: 0.8%).

GDP – Q3. Weak. See our [review](#).

Manufacturing PMI – November. Decent bounce to 46.7, from a revised 42.9. Still soft.

The week ahead

ANZ Truckometer – November (Monday 18 December, 10:00am).

Performance Services Index – November (Monday 18 December, 10:30am). Will it remain in contractionary territory (Oct: 48.9)?

Overseas Merchandise Trade – November (Tuesday 21 November, 10:45am). Trade deficit of 1.5bn pencilled in for November. Strong import volumes are forecast (\$7.1bn) as Christmas stock arrives, while export (\$5.6bn) prices and volumes remain subdued.

ANZ Business Outlook – December (Tuesday 19 December, 1:00pm).

GlobalDairyTrade auction (Wednesday 20 December, early am). A modest 2% lift in dairy prices is forecast as supply is expected to ease as the season progresses.

ANZ-Roy Morgan Consumer Confidence – December (Wednesday 20 December, 10:00am).

Half-Year Economic and Fiscal Update (Wednesday 20 December, 1:00pm). See our [Preview](#).



Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Oct-23	Nov-23	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZD/USD	0.585	0.615	0.621	0.620	0.620	0.630	0.630	0.640	0.640
NZD/AUD	0.919	0.931	0.927	0.912	0.899	0.900	0.900	0.901	0.901
NZD/EUR	0.549	0.563	0.565	0.559	0.549	0.553	0.548	0.552	0.552
NZD/JPY	88.2	90.7	88.0	86.8	85.6	86.3	85.7	85.8	84.5
NZD/GBP	0.480	0.486	0.486	0.477	0.470	0.474	0.470	0.474	0.474
NZ\$ TWI	69.6	71.4	71.6	70.9	70.2	70.8	70.4	71.1	70.8
Interest rates	Oct-23	Nov-23	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZ OCR	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.00
NZ 90 day bill	5.64	5.62	5.62	5.57	5.38	5.10	4.88	4.55	4.55
NZ 2-yr swap	5.58	5.16	4.77	5.00	4.80	4.63	4.57	4.45	4.45
NZ 10-yr bond	5.55	4.88	4.55	4.60	4.60	4.50	4.50	4.50	4.50

Economic forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
GDP (% qoq)	-0.3	0.0	0.2	0.2	0.3	0.4	0.4	0.5	0.5
GDP (% yoy)	-0.6	0.0	0.4	0.1	0.7	1.1	1.3	1.6	1.8
CPI (% qoq)	1.8	0.6	0.6	0.6	0.9	0.4	0.4	0.6	1.0
CPI (% yoy)	5.6	4.8	4.1	3.7	2.8	2.5	2.4	2.4	2.3
Employment (% qoq)	-0.2	-0.2	-0.3	-0.1	0.1	0.1	0.2	0.2	0.3
Employment (% yoy)	2.4	1.6	0.3	-0.8	-0.5	-0.2	0.3	0.6	0.8
Unemployment Rate (% sa)	3.9	4.3	4.7	4.9	5.0	5.1	5.2	5.3	5.2

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

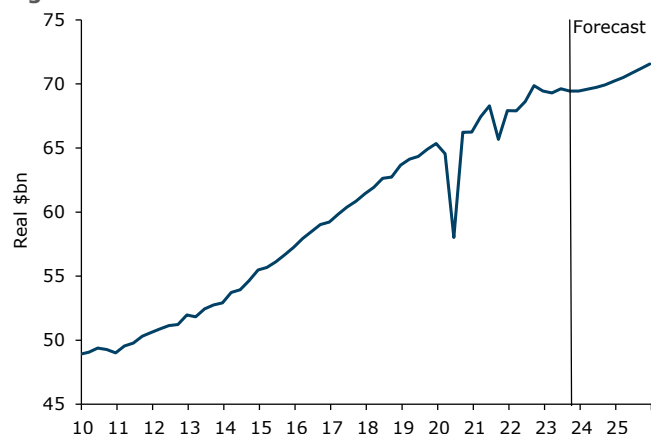


Figure 4. CPI inflation components

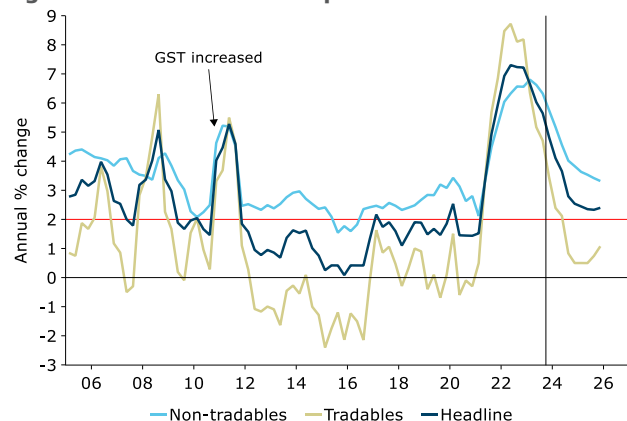


Figure 5. OCR forecast

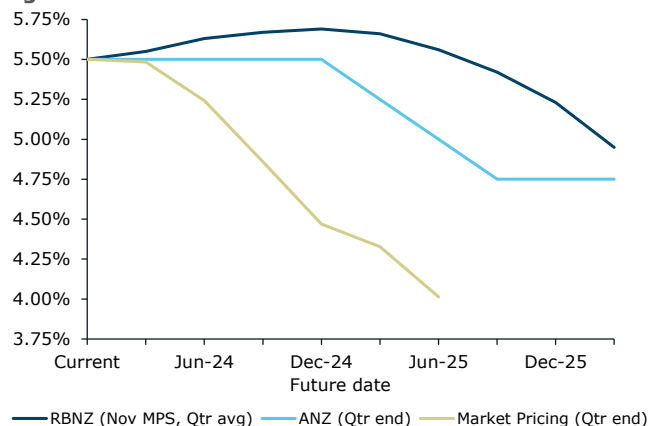
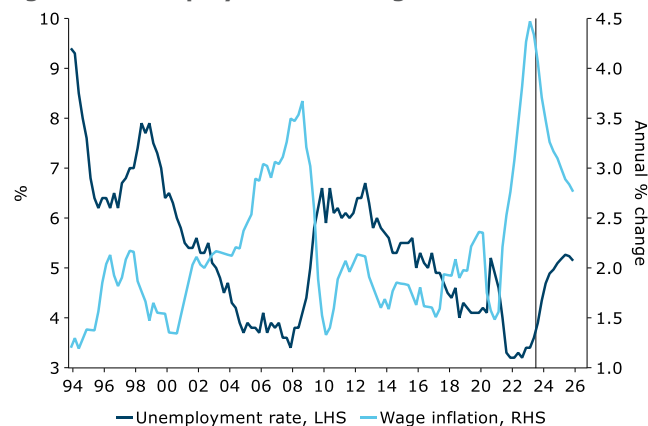


Figure 6. Unemployment and wage inflation



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



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