

New Zealand Weekly Data Wrap

1 March 2024



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See [page 5](#).

Forecast updates

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

- [NZ Forecast Update: milk price revised up](#)
- [NZ OCR Call Change – 25bp hikes in Feb and April](#)
- [NZ Economic Outlook: ups and downs](#)
- [NZ Property Focus: renovation nation](#)

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

What's the view?

- A modest recovery in activity from a recessionary 2023.
- Labour market loosening, but relatively slowly.
- Inflation cooling, back in the RBNZ's band this year, but non-tradables still sticky.
- Risk of further hikes remains, but not a story for here and now.

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 sees rents and house prices start to rise more quickly.



Unemployment rises more quickly and/or to a higher level than expected.

A shift to less hawkish

The RBNZ left the Official Cash Rate (OCR) unchanged at its February meeting. We had anticipated a hike, and failing that, for the RBNZ to up the ante on hikes with a higher forecast OCR peak. But that was not the case. In fact, the RBNZ revised down its forecast OCR peak by 9bp to 5.60%. While that does signal the RBNZ retains a tightening bias, the direction of travel signals the Monetary Policy Committee have grown more confident that policy settings are restrictive enough to return inflation sustainably to the 2% target midpoint in an acceptable time frame.

The RBNZ put more weight than we expected on the weaker Q3 GDP print, revising down their estimate of capacity pressures in the economy. That came despite a fairly mixed bag of indicators through the summer months, which suggested that capacity pressures may not have eased much at all.

The RBNZ also had an upward surprise on the non-tradables (domestic-driven) component of inflation to contend with, and despite some fairly hawkish remarks by MPC members in recent weeks that sticky domestic inflation risks remained a key concern, the RBNZ appears to have put more stock in the slightly larger than expected fall in headline inflation. While headline inflation did undershoot the RBNZ's November forecast in Q4, that reflected sharp falls in the more volatile, largely imported tradables side of the basket over which the RBNZ has little influence.

The Monetary Policy Statement did highlight that upside global inflation risks remain a concern, particularly the recent rise in shipping costs, but the Committee felt comfortable looking through these impacts under the assumption they would be transitory, and would not affect the steady decline in inflation expectations that has been seen over recent months. Nonetheless, we do remain concerned by the RBNZ's optimistic non-tradables inflation outlook, though clearly there is greater tolerance for slower falls here provided headline inflation continues to obediently fall.

What was also evident in the RBNZ's willingness to publish a lower projected OCR peak was there is also more tolerance for the easing in financial conditions that this was likely to (and did) bring about. The RBNZ seems more comfortable with falls in retail interest rates than we had anticipated, which may reflect the current sluggish housing market outlook. That said, all else equal, the easing in financial conditions brought about by yesterday's decision can only increase the risk that the RBNZ could be surprised by renewed housing momentum, aggregate demand and CPI inflation pressures. But for the housing market looming policy changes are probably more important.

The RBNZ's comfort that "risks to the outlook for inflation have become more balanced since the November 2023 Statement" clearly increase the threshold for the evidence required to recommence tightening, and accordingly we are no longer expecting hikes. That said, we continue to see OCR risks tilted to the upside and have pushed out the timing of easing to mid-2025, and a more gradual easing cycle is now expected. The trade-off for not acting proactively now is that rates are required to be high for longer to do the job.

We will be watching the data just as closely as the RBNZ. Next stop, Q4 GDP on 21 March, then the April Monetary Policy Review, followed by Q1 CPI. May brings the Budget, and a much clearer picture of the likely net stance of fiscal policy from an inflation-fighting point of view – though a little awkwardly, the MPS is eight days before the Budget (30 May).



Looking ahead



NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Agri Focus: harvest time
- NZ Property Focus: Down. Then up?
- NZ Insight: house prices - impacts from proposed DTI and LVR settings
- NZ Insight: recession?
- NZ Insight: labour market capacity indicators
- NZ Insight: Coalition policy announcements
- NZ Insight: what an oil price shock could mean for inflation
- NZ Insight: macro impacts in New Zealand from an increase in global term rates



NZ Economic News

View latest data and policy releases

- NZ GDP: weaker across the board
- NZ REINZ housing data: prices strong, everything else weak
- RBNZ MPS Review: pivot!
- NZ CPI Review: getting there
- NZ labour market: hawkish surprise brings Feb into play
- 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: January 2024

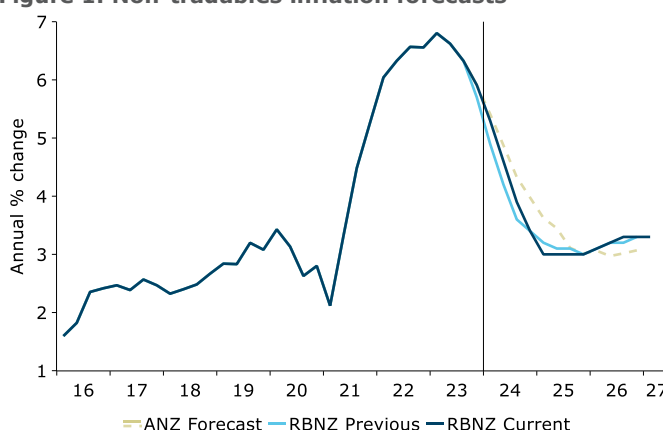
Risks to our forecasts

The easing in financial conditions following the RBNZ's decision, all else equal, has shifted the risk profile around our central forecasts. We will be watching confidence and business survey measures as well as housing market outturns closely in coming months as these data are likely to first reflect these risks if they were to materialise. Improving business and consumer sentiment alone are not a cause for concern for the RBNZ, but if they were to flow into stronger demand more broadly in the economy, that may lead to a more gradual emergence in spare capacity than is required for a sustained moderation in core inflation.

Similarly, easing financial conditions could also affect the housing market. If retail rates were to fall and households lower their interest rate expectations, that could catalyse into renewed momentum. Rising house prices only feed into the CPI indirectly via construction costs, but household demand, and therefore inflation pressures, can be influenced by the wealth channel, with willingness to consume rising along with wealth. All that said, interest rates remain at restrictive levels and this will limit not only how far house prices can rise, but also the scope for households to leverage any increasing wealth via rising house prices due to servicing constraints. This may result in a more muted passthrough of any lift in house prices into demand.

If demand pressures were to emerge via the housing or confidence channel that would likely concern the RBNZ, given it could delay the return of inflation to target. However, demand is only half of the inflation equation. The ongoing supply-side recovery in the economy does provide a meaningful offset to demand pressures. It is the balance between supply and demand that matters for inflation outcomes and there remains a scenario where the economy could experience a pickup in economic activity yet falling inflation. But the stickiness of non-tradables inflation highlights that restrained demand remains necessary to generate spare capacity across the economy.

Figure 1. Non-tradables inflation forecasts



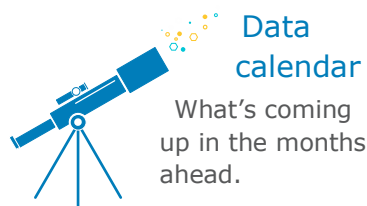
Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Non-tradables inflation has been slow to fall, and we continue to expect that to be the case relative to the RBNZ's forecast (figure 1). However, the progress on the tradables side of the basket has increased the RBNZ's tolerance for a slower moderation in non-tradables inflation. More persistent domestic inflation pressures do increase the risk that a positive global inflation shock necessitates further action from the RBNZ, higher shipping costs being top of the stack currently.

All up, while we have dropped additional hikes from our forecast, we certainly don't see them as being off the table, and all else equal the easing in financial conditions increases the risk additional tightening is required.



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 4 Mar (10:45am)	Terms of Trade – Q4
Tue 5 Mar (1:00pm)	ANZ Commodity Price Index – Feb
Wed 6 Mar (early am)	GlobalDairyTrade auction
Wed 6 Mar (10:45am)	Volume of All Buildings – Q4
Thu 7 Mar (10:45am)	Economic Survey of Manufacturing – Q4
Tue 12 Mar (10:00am)	ANZ Truckometer – Feb
Tue 12 Mar (10:45am)	Electronic Card Transactions – Feb
Wed 13 Mar (10:45am)	Selected Price Indexes – Feb
Thu 14 Mar (10:45am)	Net Migration – Jan
Fri 15 Mar (10:30am)	BusinessNZ Manuf PMI – Feb
Mon 18 Mar (10:30am)	Performance Services Index – Feb
Wed 20 Mar (early am)	GlobalDairyTrade auction
Wed 20 Mar (10:45am)	Current Account – Q4
Thu 21 Mar (10:45am)	GDP – Q4
Fri 22 Mar (10:45am)	Merchandise Trade – Feb
Wed 27 Mar (tbc)	Budget Policy Statement 2024
Thu 28 Mar (10:00am)	ANZ-RM Consumer Confidence – Mar
Thu 28 Mar (10:45am)	Employment Indicators - Feb
Thu 28 Mar (1:00pm)	ANZ Business Outlook – Mar
Wed 3 Apr (early am)	GlobalDairyTrade auction
Wed 3 Apr (1:00pm)	ANZ Commodity Price Index – Mar
Thu 4 Apr (10:45am)	Building Permits – Feb
Wed 10 Apr (2:00pm)	RBNZ MPR
Thu 11 Apr (10:00am)	ANZ Truckometer – Mar
Fri 12 Apr (10:30am)	BusinessNZ Manuf PMI – Mar
Fri 12 Apr (10:45am)	Selected Price Indexes – Mar
Mon 15 Apr (10:45am)	Net Migration – Feb

Interest rate markets

It was all about the MPS this week for local markets, with the RBNZ's surprisingly dovish shift causing the market to reassess the rates outlook. Markets are now pricing 50bp of cuts by year end, up from around 30bp prior to the MPS, while market expectations of any further tightening have all but faded. Those shifts have been reflected across the curve with the NZ 2yr swap rate down over 20bp to 5.01% following the MPS. Next week, in the absence of major NZ data, NZ rates are likely to return to dancing to the tune of global rates markets. US non-farm payrolls at the end of next week are likely to be key for Fed policy expectations. This morning's January PCE data in US highlighted the bumpy path of the moderation in US inflation. Despite the rise in the monthly impulse, provided inflation trends turn lower again from March, that would still be consistent with the Fed's inflation outlook and cuts starting over the summer. Markets shrugged off the firmer data and US rates look set to end the week lower.

FX markets

The Kiwi struggled this week on the back of the RBNZ's MPS, as markets repriced NZ interest rate expectations. Against the USD, the Kiwi has fallen from around 61.80 prior the MPS to 60.90 today. Stronger inflation data in Japan this week has also reignited market expectations of a policy pivot by the Bank of Japan, and the NZD has steadily weakened against the JPY into the end of the week. Worth keeping an eye on.

Key data summary

RBNZ Monetary Policy Statement – February. A less hawkish hold. See our [Review](#).

ANZ Business Outlook – February. [Business confidence](#) eased 2 points to +35 but expected own activity rose 4 points. Inflation indicators still strong.

ANZ-Roy Morgan Consumer Confidence – February. [Consumer confidence](#) lifted 1 point in Feb to 94.5, still a very subdued level. Inflation expectations lifted from 4.3% to 4.5%.

Building Permits – January (Friday 1 March, 10:45am). Very weak, down 8.8% m/m, suggesting downside risk to our residential investment forecast.

The week ahead

Overseas Trade Indices – Q4 (Monday 4 March, 10:45am). Export prices were weak in Q4 as the lift in dairy prices won't feed through until 2024. We expect a 2.1% q/q fall in terms of trade as slightly weaker import prices (-0.3%) aren't sufficient to offset the drop in export prices (-2.4%).

ANZ Commodity Price Index – February (Tuesday 5 March, 1:00pm).

GlobalDairyTrade auction (Wednesday 6 March, early am). Dairy futures indicate a price correction may occur at this event. However, we think there will be sufficient demand for prices to hold near current levels.

Building Work Put in Place – Q4 (Wednesday 6 March, 10:45am). Consenting remains in a downtrend. We have pencilled in a 2% q/q contraction in the volume of building work put in place.

Economic Survey of Manufacturing – Q4 (Thursday 7 March, 10:45am). Excluding food and petroleum (the latter is no longer manufactured in NZ), this survey has been losing steam since bouncing out of the Auckland lockdown in Q4 2021. Forward indicators suggest that even if we see a technical bounce in Q4, it won't be the start of a strong uptrend.



Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jan-24	Feb-24	Today	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
NZD/USD	0.612	0.608	0.609	0.620	0.620	0.630	0.630	0.640	0.640
NZD/AUD	0.930	0.937	0.936	0.912	0.899	0.900	0.900	0.901	0.901
NZD/EUR	0.565	0.561	0.563	0.559	0.549	0.553	0.548	0.552	0.552
NZD/JPY	90.4	91.3	91.5	86.8	85.6	86.3	85.7	85.8	84.5
NZD/GBP	0.483	0.481	0.482	0.477	0.470	0.474	0.470	0.474	0.474
NZ\$ TWI	71.5	71.4	71.5	70.9	70.2	70.8	70.4	71.1	70.8
Interest rates	Jan-24	Feb-24	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	5.50	5.25
NZ 90 day bill	5.67	5.64	5.65	5.60	5.53	5.33	5.23	4.93	4.68
NZ 2-yr swap	4.78	4.98	4.97	4.94	4.72	4.54	4.39	4.25	4.16
NZ 10-yr bond	4.56	4.70	4.70	5.00	4.75	4.50	4.25	4.25	4.25

Economic forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
GDP (% qoq)	-0.3	0.4	0.4	0.2	0.1	0.2	0.3	0.4	0.5
GDP (% yoy)	-0.6	0.4	1.0	0.7	1.1	0.9	0.8	1.0	1.4
CPI (% qoq)	1.8	0.5	0.6	0.5	0.9	0.4	0.5	0.5	0.8
CPI (% yoy)	5.6	4.7	4.0	3.5	2.6	2.5	2.3	2.2	2.1
Employment (% qoq)	-0.1	0.4	0.2	0.0	-0.1	0.0	0.1	0.2	0.2
Employment (% yoy)	2.7	2.4	1.5	0.5	0.5	0.1	0.0	0.2	0.5
Unemployment Rate (% sa)	3.9	4.0	4.2	4.4	4.6	5.0	5.2	5.3	5.4

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

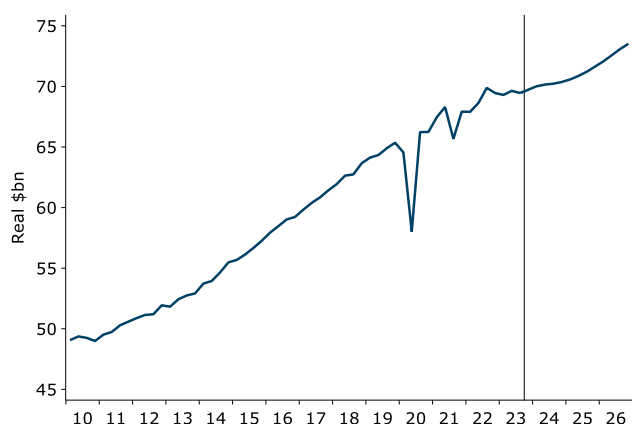


Figure 3. CPI inflation components

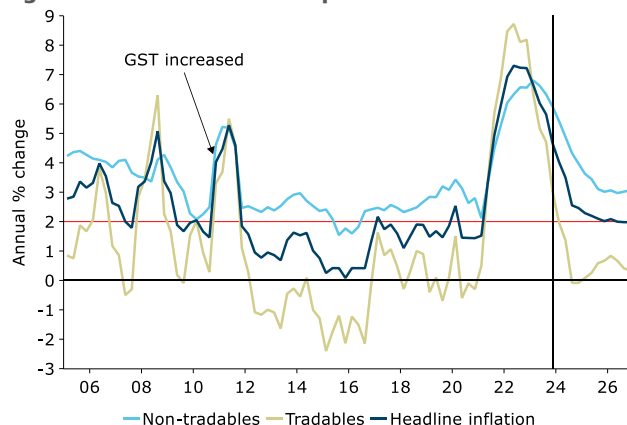


Figure 4. OCR forecast

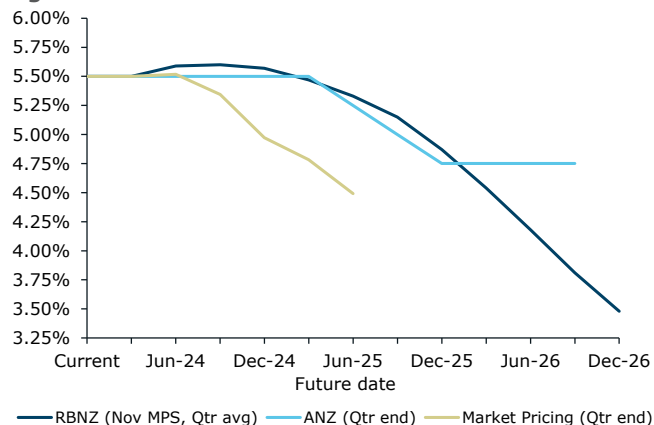
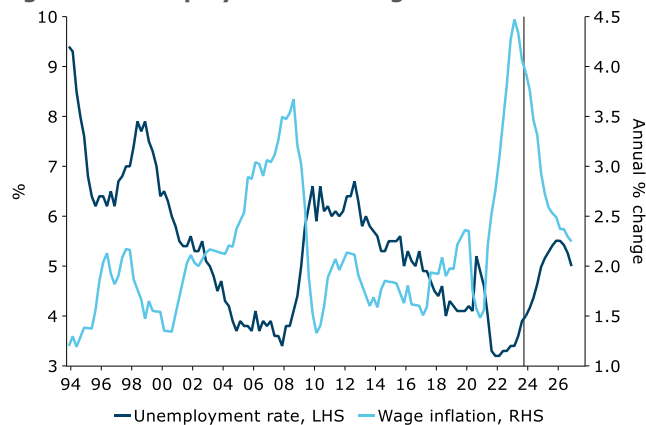


Figure 5. Unemployment and wage inflation



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



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