

New Zealand Weekly Data Wrap

19 July 2024



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See [page 5](#).



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 2024](#)

Key forecasts and rates

Our forecasts can be found on [page 4](#).

Glossary

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

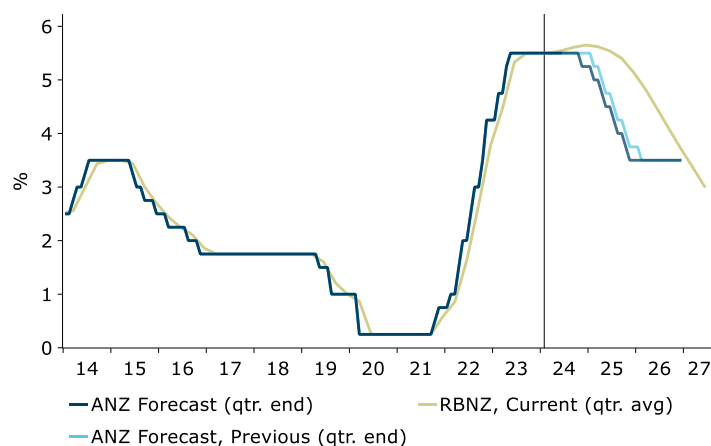
Reassuring Q2 CPI paves way for a November cut

This week's [Q2 CPI report](#) all but confirmed that headline inflation will be back within the RBNZ's 1-3% target band next quarter. Headline inflation fell from 4.0% to 3.3%, in line with our forecast, but below the RBNZ's May MPS forecast of 3.6%. The attention was on non-tradable inflation, which eased to 5.4% y/y, marginally above our and the RBNZ's forecast of 5.3%. At face value, another upward surprise for the RBNZ isn't a good news story (their fifth in a row). But under the surface, that 0.1%pt forecast miss was driven by an unusually large increase in road-user charges, which reflected a methodological change from Stats NZ to make up for previous underreporting. Without this, non-tradable would have likely printed in line with our and the RBNZ's forecast. Overall, there were plenty of details across the release showing inflation pressures are reducing.

On the back of the more reassuring CPI data, we have [changed our OCR call](#) and now expect the first OCR cut to occur in November (previously February), with the risks tilted towards an earlier start (see [page 3](#) for a discussion of these risks). The recent run of economic data has been dire. [NZIER QSBO](#), our own [Business Outlook](#) survey and the BNZ-Business NZ PMI and PSI all suggest economic activity deteriorated sharply in Q2. The labour market continues to weaken with job ads plummeting. Activity in the [housing](#) market nose-dived in June. [Consumer spending](#) remains very soggy. It's a long list of indicators pointing south.

But these data are largely 'soft' data (surveys) and seeing these disinflationary dynamics playing out in the 'hard' data (GDP, CPI and labour market statistics) is crucial for the RBNZ's confidence. The Q2 CPI marked a step along that path. It certainly wasn't a slam dunk, with domestic and services inflation still above 5%. But the report was sufficiently encouraging for us to reassess our medium-term outlook (see [page 2](#)) and centralise some of these downside risks. The RBNZ's confidence will grow, but we think a few more months of data will be required.

Figure 1. OCR forecast



Source: RBNZ, Macrobond, ANZ Research

From November, we are forecasting 25bp cuts at each meeting, taking the OCR to a terminal rate of 3.5%. We will reassess the medium-term OCR outlook when we undertake our quarterly forecast round in mid-August. If the data continues to head south, the odds will increase that the RBNZ will have to cut below their estimate of long-run neutral (currently 2.75%) in order to minimise an inflation undershoot, all else equal (which it never is).



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- NZ OCR Call Change: 25bp cut in November
- NZ CPI Review: reassuring
- NZ REINZ housing data: a very chilly June
- RBNZ MPR Review: watch this space
- NZ Property Focus: on ice
- NZ Agri Focus: brighter days ahead
- NZ GDP: kicking off 2024 with a tiny bounce
- ANZecdotes – June 2024
- NZ Insight: non-tradable inflation – a waiting game
- NZ Property Focus: soggy – and unaffordable
- NZ Budget 2024: fiscal reshuffle not a game-changer for the economic outlook
- RBNZ MPS Review: get back in your box
- NZ Economic Outlook: the ducks are lining up
- NZ labour market: softening
- NZ Property Focus: looking for a signal from Auckland
- NZ Agri Focus: high and dry
- NZ CPI Review: strong underbelly
- NZ Property Focus: buy vs rent
- NZ Insight: new Government, new fiscal strategy
- NZ Forecast Update: milk price revised up
- NZ Property Focus: cruel summer
- NZ Economic Outlook: calibrating the landing
- NZ Half-Year Update 2023 Preview: new team, new game plan
- NZ Insight: house prices - impacts from proposed DTI and LVR settings
- NZ Insight: labour market capacity indicators
- NZ Insight: what an oil price shock could mean for inflation

Click [here](#) for more.

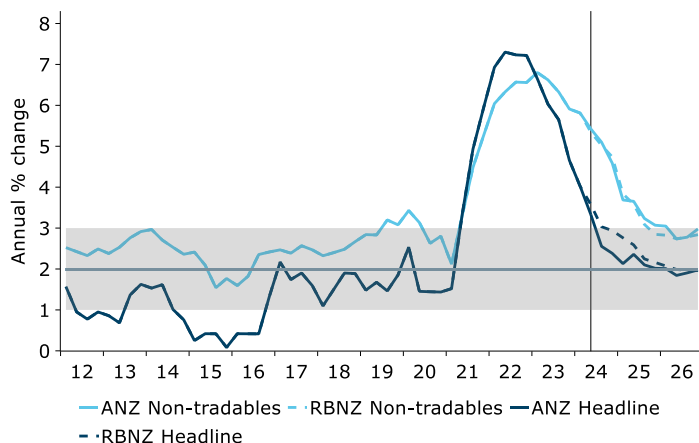
Updating our inflation forecasts

With the Q2 CPI data in the bag, we've updated our inflation forecasts. Our near-term outlook is broadly unchanged. Headline inflation looks set to be comfortably back within the 1-3% target band in Q3 on its way to 2%. Weaker tradable inflation continues to drive headline inflation lower, and we are growing increasingly confident that disinflation momentum will persist. Domestic inflation pressures continue to ease more gradually. But traction from monetary policy is becoming increasingly clear; there are just still some elements of persistence due to the lingering impacts of past high inflation.

One example is the Commerce Commission's recent draft decision to increase revenue limits for Transpower and local electricity distributors from Q2 2025. The new revenue limits would result in an average annual increase of \$180 (+GST) to household power bills, adding roughly 0.25%pts to annual headline inflation and 0.45%pts to non-tradable inflation, all else equal. The increase will support the sector to deliver network investment and reflects significant costs increases over the past few years. Council rates and insurance are other examples. The RBNZ is increasingly likely to look through these impacts with headline inflation now much lower and risks to inflation expectations mitigated.

Outside of persistence effects, we have downgraded our medium-term inflation outlook, reflecting the recent broad deterioration in activity and labour market indicators. When compared to the RBNZ's May MPS, our non-tradable inflation forecast is actually very similar. However, the key difference is that the RBNZ thought that the OCR would need to remain on hold until August 2025 to generate a similar non-tradable track – quite a marked difference in view.

Figure 2. ANZ vs RBNZ May MPS forecast



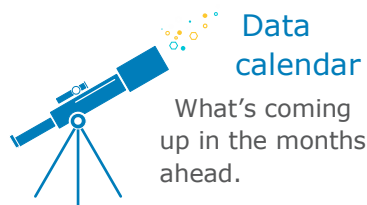
Source: RBNZ, Stats NZ, Macrobond, ANZ Research

So, what will bring the RBNZ around? The key will be a shift in the RBNZ's assessment of the degree of spare capacity in the economy. At the May MPS, the RBNZ revised its output gap estimate higher, suggesting that there was less spare capacity across the economy than it had previously thought. That in part reflected continued upward surprises on the RBNZ's non-tradable forecast. But as we discussed in [this insight](#), we saw strength as reflecting lagged impacts of past inflation outcomes, rather than less policy traction.

We are also forecasting inflation to be back at 2% six months earlier than the RBNZ, reflecting our weaker view of tradable inflation. While upside risks to global inflation certainly remain, the weakness in demand across the NZ economy means the extent of passthrough to consumers is likely to be more muted. The RBNZ's confidence in the outlook will grow too, but that will likely take another CPI release, with the Q3 data due out on 16 October, one week after the October Monetary Policy Review.



Financial markets update



Date	Data/event
Mon 22 Jul (10:45am)	Merchandise Trade – Jun
Fri 26 Jul (10:00am)	ANZ-RM Consumer Confidence – Jul
Mon 29 Jul (10:45am)	Employment Indicators – Jun
Wed 31 Jul (10:45am)	Building Permits – Jun
Wed 31 Jul (1:00pm)	ANZ Business Outlook – Jul
Mon 5 Aug (1:00pm)	ANZ Commodity Price Index – Jul
Wed 7 Aug (early am)	Global Dairy Trade auction
Wed 7 Aug (10:45am)	Labour Market – Q2
Thu 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectations – Q3
Tue 13 Aug (10:45am)	Net Migration – Jun
Wed 14 Aug (2:00pm)	RBNZ MPS
Thu 15 Aug (10:45am)	Selected Price Indexes – Jul
Thu 15 Aug (10:45am)	Electronic Card Transactions – Jul
Fri 16 Aug (10:45am)	BusinessNZ Manuf PMI – Jul
Mon 19 Aug (10:30am)	Performance Services Index – Jul
Tue 20 Aug (10:45am)	Merchandise Trade – Jul
Wed 21 Aug (early am)	Global Dairy Trade auction
Fri 23 Aug (10:45am)	Retail Sales – Q2
Wed 28 Aug (10:45am)	Employment Indicators – Jul
Thu 29 Aug (1:00pm)	ANZ Business Outlook – Aug
Fri 30 Aug (10:00am)	ANZ-RM Consumer Confidence – Aug
Fri 31 Aug (10:45am)	Building Permits – Jul
Tue 3 Sep (10:45am)	Terms of Trade – Q3
Wed 4 Sep (early am)	Global Dairy Trade auction
Wed 4 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Fri 6 Sep (10:45am)	Volume of All Buildings – Q2
Tue 10 Sep (10:45am)	Economic Survey of Manufacturing – Q2

Interest rate markets

Despite non-tradables inflation coming in marginally stronger than the RBNZ's forecast, this week's Q2 CPI has done little to challenge last week's July MPR-induced readjustment in market expectations for rate cuts. As of today, the upcoming August, October, and November meetings have a cumulative 12, 31, and 67bp of cuts priced in respectively, little changed from how we started the week. Compared to our OCR call for cuts from November, that's around a 40bp gap! We certainly agree that risks to our call are skewed to earlier, but not to the extent that October should be more than fully priced and August a coin toss. We'd put maybe a 30-40% probability on an October kick off, but see August as unlikely given the limited data between now and then. On that front, the Q2 labour market release (out 7 August) will be the next major piece of domestic data, where a decent miss versus the RBNZ's expectation for the unemployment rate to rise to 4.6% would likely be needed for them to opt not to wait for just a little more evidence that recent weakness in the soft data does indeed carry as much signal as the market expects, and isn't in part a reaction to the hawkish May MPS. Globally, the bellwether US 10-year yield is down slightly from where it started the week, but drifting higher at the time of writing. NZ 10-year yields have drifted around 10 basis points lower over the week following global moves. The table on the next page updates our short-end rate forecasts following our OCR call change. At the long end, our NZ 10-year bond forecast is unchanged, but the starting point presents some downside risk to the near-term forecast.

FX markets

The DXY fell to its lowest levels since March this week after Trump signalled dissatisfaction with USD strength, hinting this may become a focus for the White House if he's elected. However, that move unwound overnight, with the DXY largely back to where it was before his comments, and is little changed over the week. At home, the prospect of earlier OCR cuts and the recent string of softer data have kept NZD contained. The NZ-TWI index is down around 0.5% over the week.

Key data summary

REINZ House Prices – June. The nationwide [REINZ](#) House Price Index (HPI) fell 0.3% m/m (sa) and sales were weak, pointing to some downside risk around our forecast that prices will rise 1% over 2024.

Performance Services Index – June. Fell to 40.2 from a downwardly revised May print of 42.6. If services momentum in GDP is just as soft, services inflation could turn a lot faster than forecast.

GlobalDairyTrade auction. The Global Dairy Trade Price Index lifted 0.5% but the results were mixed. Prices for milkfat products and cheese strengthened, but milk powders remain under pressure as new season milk starts to be forward sold. Whole milk powder and skim milk powder fell 1.6% and 1.1% respectively.

CPI – Q2. Annual CPI inflation decelerated from 4.0% to 3.3% y/y in Q2, in line with our forecast, but below the RBNZ's November MPS forecast of 3.6%. See our [Review](#).

The week ahead

Overseas Merchandise Trade – June (Monday 22 July, 10:45am). Imports (\$6.7bn) are forecast to be slightly larger than exports (\$6.6bn) resulting in a small trade deficit for the month of June.

ANZ-Roy Morgan Consumer Confidence – July (Friday 26 July, 10:00am).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD/USD	0.614	0.609	0.605	0.610	0.620	0.620	0.620	0.630	0.630
NZD/AUD	0.923	0.913	0.901	0.910	0.899	0.886	0.886	0.887	0.887
NZD/EUR	0.566	0.569	0.555	0.560	0.564	0.554	0.544	0.543	0.534
NZD/JPY	96.6	98.0	95.2	91.5	91.8	89.3	88.0	88.2	85.7
NZD/GBP	0.482	0.482	0.467	0.477	0.477	0.470	0.459	0.463	0.463
NZ\$ TWI	72.3	71.9	71.1	71.2	71.5	70.8	70.3	70.9	70.5
Interest rates	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
	May-24	Jun-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZ OCR	5.50	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50
NZ 90 day bill	5.63	5.63	5.54	5.38	5.18	4.68	4.18	3.68	3.60
NZ 2-yr swap	5.10	4.96	4.35	4.16	3.94	3.77	3.65	3.60	3.60
NZ 10-yr bond	4.81	4.67	4.36	4.50	4.25	4.25	4.25	4.25	4.50

Economic forecasts

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (% qoq)	0.2	-0.1	0.2	0.2	0.3	0.4	0.5	0.6	0.6
GDP (% yoy)	0.3	-0.3	0.2	0.5	0.6	1.1	1.4	1.8	2.1
CPI (% qoq)	0.6	0.4	1.0	0.3	0.4	0.6	0.8	0.2	0.4
CPI (% yoy)	4.0	3.3	2.6	2.4	2.1	2.4	2.1	2.0	2.0
Employment (% qoq)	-0.2	-0.1	-0.3	-0.1	0.0	0.1	0.2	0.3	0.4
Employment (% yoy)	1.3	0.1	-0.2	-0.7	-0.5	-0.3	0.2	0.6	1.0
Unemployment Rate (% sa)	4.3	4.6	4.9	5.1	5.2	5.4	5.4	5.5	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 3. GDP level

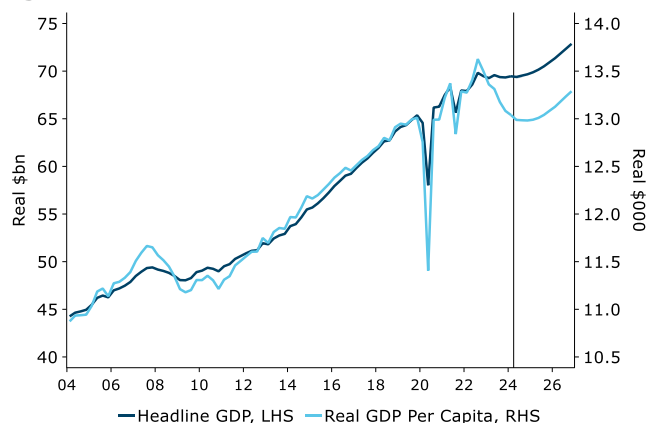


Figure 4. CPI inflation components

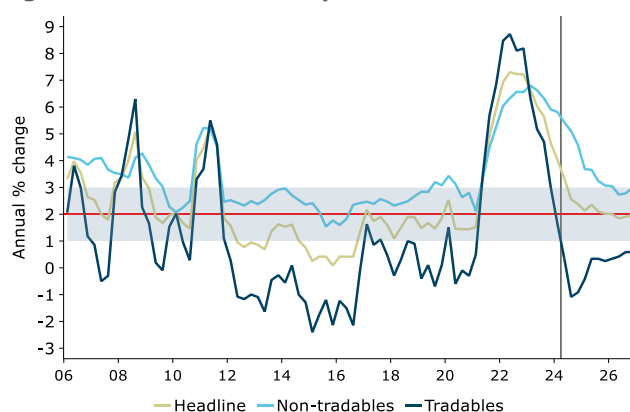


Figure 5. OCR forecast

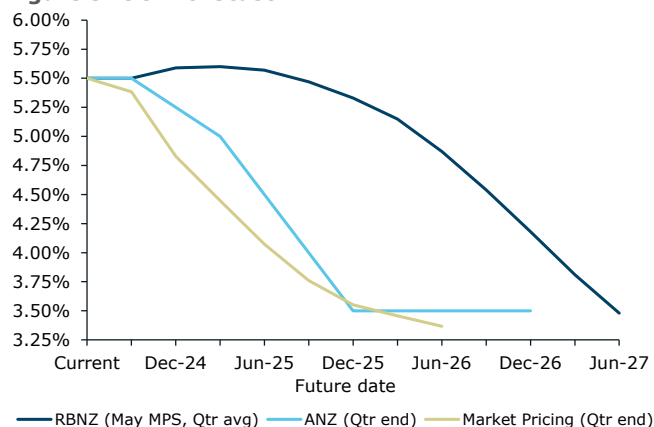
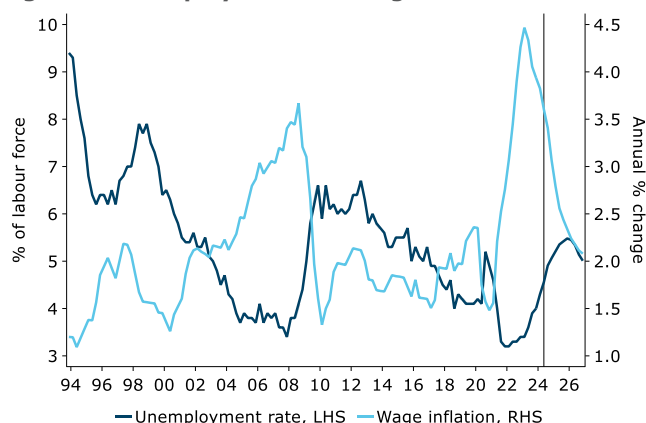


Figure 6. Unemployment and wage inflation



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



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