


New Zealand Weekly Data Wrap

21 June 2024



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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: May 2024](#)

Key forecasts and rates

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

Glossary

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

RBNZ talks sticky inflation; NZ's external imbalance persists

RBNZ Chief Economist, Paul Conway delivered a speech this week titled "[the road back to 2% inflation](#)". This leaned heavily on a bunch of RBNZ research papers released at the same time that investigated recent inflation dynamics, with a particular focus on explaining recent sticky non-tradables and services inflation. Overall, we didn't spot much to suggest the RBNZ is about to materially change its view of the inflation outlook, and the speech itself presented a relatively balanced view of the risks. The clear message is that non-tradable, services and core inflation matter a great deal when it comes to bringing inflation sustainably lower (but we already knew that), and that these components will continue to guide policy decisions going forward. However, given the long and variable lags between changes in the OCR and inflation outcomes, the RBNZ can't afford to be solely guided by past inflation prints. Otherwise, they'd be almost guaranteed to overshoot.

Meanwhile, the [Q1 balance of payments](#) release showed only gradual improvement. The annual current account deficit narrowed just 0.1%pts of GDP to 6.8% – a touch wider than the 6.7% we had pencilled in. That's certainly wider than any reasonable estimate of sustainable, and as we noted last week, the stalling recovery in short-term visitor arrivals suggests the services deficit may not flip back into surplus as quickly as previously thought.

We've baked exactly that into our updated forecast, and do not see the services balance sustainably back in surplus over our forecast horizon. Overall, the current account deficit is expected to continue narrowing, but at a slower pace than previously forecast. Our updated forecast has the deficit narrowing to 5% of GDP by Q4 2026, significantly wider than the NZ Treasury's recent forecast.

Figure 1: Current account forecasts



Source: NZ Treasury, RBNZ, Macrobond, ANZ Research

New Zealand's external imbalance improved at a much slower pace in Q1 than forecast by either the RBNZ and NZ Treasury's (6.4% and 6.3% of GDP respectively). But what really matters is the degree of tolerance among ratings agencies. New Zealand's external position has already breached comfort levels, which combined with a weaker growth outlook (see page 2) and more persistent fiscal deficits adds to the risk that New Zealand's rebalancing act with the rest of the world ends up requiring a more abrupt and painful correction in domestic demand than currently anticipated. High CPI inflation certainly isn't the only symptom of an overheated, overstimulated economy through COVID, and the medicine is bitter.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- [NZ Agri Focus: brighter days ahead](#)
- [NZ GDP: kicking off 2024 with a tiny bounce](#)
- [NZ REINZ housing data: sluggish May](#)
- [NZ OCR Call Change - First cut in February rather than May](#)
- [ANZecdotes – June 2024](#)
- [NZ Insight: non-tradable inflation – a waiting game](#)
- [NZ Property Focus: soggy – and unaffordable](#)
- [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](#)
- [RBNZ MPR Review: keep calm and carry on](#)
- [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](#)
- [NZ Insight: macro impacts in New Zealand from an increase in global term rates](#)

Click [here](#) for more.

Q1 GDP in line with forecast, but outlook looking a touch softer

The production measure of GDP expanded 0.2% q/q in Q1 on a seasonally adjusted basis, in line with our and the RBNZ's forecast. However, under the hood, the details were a little softer than expected. Services industries contracted 0.1% q/q, driven by broad-based weakness that suggests momentum in this relatively smoothly evolving part of the economy is indeed slowing. Recent weakness in the Performance of Services Index corroborates that, and it all suggests sticky services inflation risks are mitigated.

However, the expenditure cut of the GDP data was little more mixed. Headline GDP growth of 0.1% q/q was marginally weaker than our and the RBNZ's forecasts of 0.3% and 0.2% q/q respectively, but the underlying details suggest domestic demand was still on the more robust side of expectations. However, Stats NZ warned that the seasonal pattern in the components of the expenditure data is still being thrown around by the fact that travel-related spending hasn't yet normalised. There is a risk that the RBNZ diagnose this domestic strength as being a little more inflationary than expected, but if they do, we think there's a very real chance they'll have to unwind that view after the Q2 GDP release.

To summarise, we'd characterise the GDP data as follows:

- Headline production GDP growth looks **neutral** vs the RBNZ's expectation.
- The details of production GDP look **dovish**.
- Headline expenditure GDP was on the mildly **dovish** side.
- The details of expenditure GDP look **hawkish** on the surface, but we think that interpretation would be a mistake.
- Meanwhile, risks to the outlook (more below) are looking **dovish**.

Turning to our updated GDP forecast, forward indicators such as our [Business Outlook survey](#), the PMI and PSI, house sales and visitor arrivals suggest the economy is sputtering and that quarterly growth in Q2 is likely to be weaker than Q1. Accordingly, we've downgraded our Q2 GDP forecast from +0.2% q/q to -0.1% (RBNZ: +0.1% q/q).

In big-picture terms, we see the economy growing just 0.2% on an annual average basis over 2024, but for the typical household things are probably going to feel softer than that. That's because final domestic demand is expected to contract around 0.6% over 2024, with headline growth propped up by the fact that belt-tightening will continue to suppress demand for imports (a positive for GDP), which alongside a further gradual recovery in services exports will see net exports make a positive contribution to growth. But as the Q1 data showed, we'll need to brace for volatility in these components.

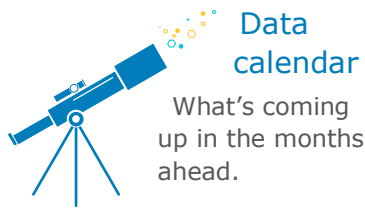
Beyond 2024, we see growth gradually accelerating over 2025 (1.2%) and 2026 (2.5%), as OCR cuts from February 2025 give domestic demand a bump.

While our updated GDP forecast is a touch weaker than previously, our take is that given lingering volatility in the GDP data and the fact we've only downgraded slightly, this doesn't meaningfully change the risks around our current February 2025 timing for the first OCR cut. All else equal, it does tilt the risks slightly towards November, but we suspect any miss versus the RBNZ's forecast in the upcoming CPI and labour market releases are likely to carry more weight.

All in all, the Q1 GDP doesn't look like a smoking gun for the RBNZ to meaningfully change tack from its May MPS guidance of no cuts until August 2025, but the details could be used to justify a small shift in either direction (depending on what takes the Committee's fancy). Our take is that the economy is soft and well into disinflationary territory, and we're comfortable predicting that OCR cuts will arrive sooner than the RBNZ has signalled.



Financial markets update



Date	Data/event
Mon 24 Jun (10:45am)	Merchandise Trade – May
Thu 27 Jun (10:00am)	ANZ-RM Consumer Confidence – Jun
Thu 27 Jun (1:00pm)	ANZ Business Outlook – Jun
Mon 1 Jul (10:45am)	Employment Indicators – May
Tue 2 Jul (10:00am)	NZIER QSBO – Q2
Tue 2 Jul (10:45am)	Building Permits – May
Wed 3 Jul (early am)	GlobalDairyTrade auction
Wed 3 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Wed 10 Jul (10:45am)	Net Migration – May
Wed 10 Jul (2:00pm)	RBNZ MPR
Thu 11 Jul (10:00am)	ANZ Truckometer – Jun
Thu 11 Jul (10:45am)	Selected Price Indexes – Jun
Fri 12 Jul (10:45am)	BusinessNZ Manuf PMI – Jun
Fri 12 Jul (10:45am)	Electronic Card Transactions – Jun
Mon 15 Jul (10:30am)	Performance Services Index – Jun
Wed 17 Jul (early am)	GlobalDairyTrade auction
Wed 17 Jul (10:45am)	CPI – Q2
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)	GlobalDairyTrade 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

Interest rate markets

Interest rates have fluctuated within reasonably tight trading ranges at both ends of yield curves this week and remain at the lower end of trading ranges seen over recent weeks. While we have seen intraday volatility around local data releases, markets remain resolute in their desire to gun for early cuts, with 32bp of cuts priced in by November and 88bp by next May. Although we think that's too aggressive, we acknowledge that markets are "bullied up" and are unlikely to back down in the lead-up to the July RBNZ decision. Some upward movement seems likely on that day if the RBNZ echoes a similar tone to that taken in May, which seems likely. However, as time advances, and markets look further into the future, any near-term disappointment on the OCR front is likely to be more than offset by even more pent-up expectations of cuts further down the track, keeping a lid on short-end rates. Long-end rates and bond yields are expected to fall gradually, but to lag their short-end counterparts, held back by fiscal challenges and cyclical curve-steepening dynamics. On that score, we will be keeping a close eye on how French and UK bonds perform into their respective elections.

FX markets

The Kiwi has also fluctuated within tight ranges and has been caught in a bit of a fight for relevance amid weakness in EUR and GBP as elections near and markets contemplate rate cuts, and AUD's rebound following the RBA's slight hawkish tilt this week. The common theme there: it's global rather than local events and themes that matter, with markets almost unmoved through this week's tier-one local data. Overall FX volatility remains low, and cross-market correlations remain high, all of which speaks to muted ranges as we approach the European summer and await the Fed's first rate cut (likely in September).

Key data summary

REINZ House Prices – May. The nationwide [REINZ House Price Index \(HPI\)](#) fell 0.4% m/m (sa).

Performance of Services Index – May. Fell to 43.0 from a downwardly revised April print of 46.6.

Global Dairy Trade auction. The Global Dairy Trade Price Index fell 0.5% after trending higher at the past five events. Whole milk powder fell 2.5% and anhydrous milkfat declined 1.2%, but butter prices surged a further 6.2% to trade at a record price of USD7,350/t.

Current Account Balance – Q1. The annual current account deficit narrowed just 0.1%pts to 6.8% of GDP in Q1, wider than the 6.7% we had expected. See our [Review](#).

GDP – Q1. The New Zealand economy expanded 0.2% q/q in Q1 on a seasonally adjusted basis, in line with our and the RBNZ's forecast. See our [Review](#).

The week ahead

Overseas Merchandise Trade – May (Monday 24 June, 10:45am).

Imports and exports are expected to be relatively weak in May, but stronger than April, with imports of \$6.8bn outpacing exports of \$6.4bn, resulting in a trade deficit in the vicinity of \$400m for the month.

ANZ-Roy Morgan Consumer Confidence – June (Thursday 27 May, 10:00am).

ANZ Business Outlook – June (Thursday 27 May, 1:00pm).



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Apr-24	May-24	Today	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
NZD/USD	0.595	0.614	0.612	0.600	0.610	0.620	0.620	0.620	0.630
NZD/AUD	0.911	0.923	0.920	0.909	0.910	0.899	0.886	0.886	0.887
NZD/EUR	0.554	0.566	0.572	0.556	0.560	0.564	0.554	0.544	0.543
NZD/JPY	93.3	96.6	97.2	91.2	91.5	91.8	89.3	88.0	88.2
NZD/GBP	0.474	0.482	0.483	0.476	0.477	0.477	0.470	0.459	0.463
NZ\$ TWI	70.5	72.3	72.4	70.6	71.2	71.5	70.8	70.3	70.9
Interest rates	Apr-24	May-24	Today	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
NZ OCR	5.50	5.50	5.50	5.50	5.50	5.50	5.25	4.75	4.25
NZ 90 day bill	5.63	5.63	5.61	5.57	5.52	5.40	4.93	4.43	3.93
NZ 2-yr swap	5.11	5.10	4.95	4.95	4.59	4.23	3.90	3.71	3.63
NZ 10-yr bond	4.90	4.81	4.61	4.65	4.50	4.25	4.25	4.25	4.25

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	0.6	1.1	0.3	0.4	0.4	0.9	0.3	0.4
CPI (% yoy)	4.0	3.5	2.8	2.6	2.4	2.2	2.0	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 2. GDP level

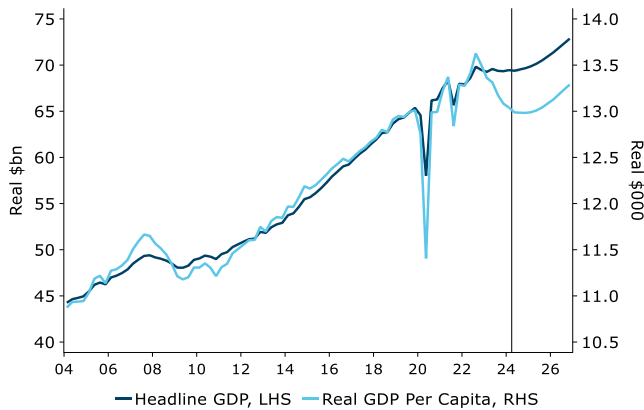


Figure 3. CPI inflation components

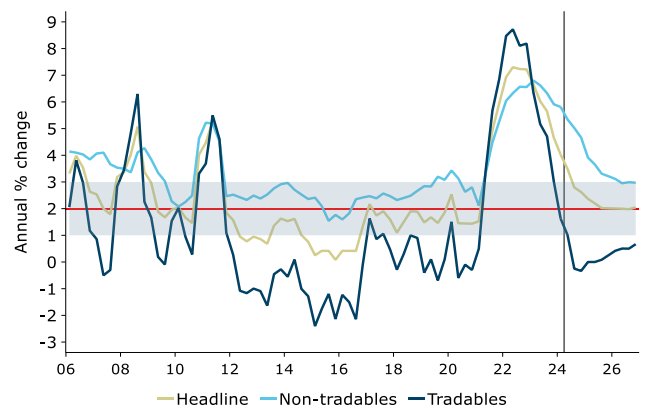


Figure 4. OCR forecast

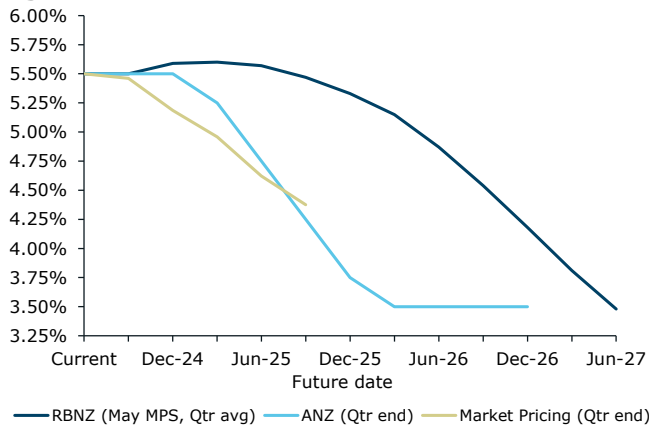
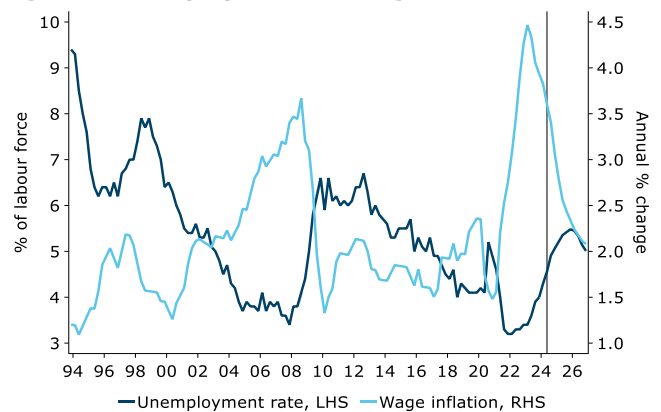


Figure 5. Unemployment and wage inflation



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



Contact us

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Last updated: 20 February 2024

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