

New Zealand Weekly Data Wrap

2 August 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

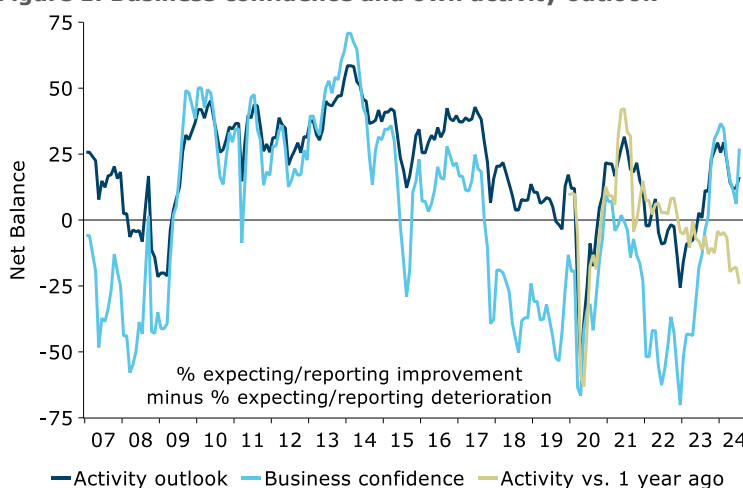
Confused by acronyms or jargon? See a glossary [here](#).

Living in hope

The July [ANZ Business Outlook survey](#) was a mixed bag. Forward-looking activity indicators generally bounced, but it's worth remembering that they are expressed as expectations of higher or lower versus current conditions, and those generally continue to worsen. Business confidence rose 21 points to 27.1, while expectations for firms' own activity outlook rose 4 points to 16.3. Reported past activity, which has the best correlation to GDP, fell further to a net 24% of firms reporting that activity in the previous month was lower than a year earlier. On the inflation front, pricing intentions lifted 3pts after a sharp fall last month, while cost expectations edged lower. 1-year ahead inflation expectations fell from 3.46% to 3.20%.

While economic conditions remain very challenging here and now, the improvement in forward-looking indicators does highlight the question that will be front of mind for the RBNZ: how responsive will the economy be to interest rate cuts? The month of July included the RBNZ's Monetary Policy Review, which struck a more dovish tone and drove a rapid repricing of OCR expectations, as well as an encouraging Q2 CPI print. The prospect of interest rate cuts by year end has clearly buoyed sentiment, but for the RBNZ, are we still in a "good news is potentially bad news" world? The RBNZ will be weighing the risk of easing prematurely and the potential for a resurgence in demand that puts inflation's return to 2% at risk against the risk that unnecessary damage has already been done to the economy. Crucial to that assessment will be how the labour market evolves, with next week's Q2 report the last key data before the August MPS (see [page 2](#)).

Figure 1. Business confidence and own activity outlook



Source: Macrobond, ANZ Research

In other news this week, we downgraded our near-term [house price forecast](#) and now expect a 1% contraction in prices over 2024 (previously +1%). Subdued sales activity and rising stock on the market suggest that weakness is likely to persist in the near term. However, it's largely a timing story insofar as the weaker starting point means more scope for a recovery over 2025 as mortgage rates drop. That said, there's still plenty of headwinds facing the housing market, with the weak economy and deteriorating labour market conditions likely to weigh on household confidence. We expect these headwinds will outweigh the impact of falling interest rates, at least in the near term.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- NZ Property Focus: crossing the Tasman
- NZ Insight: China consumer caution impacting NZ exports
- NZ Insight: Draft Emissions Reduction Plan
- 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 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.

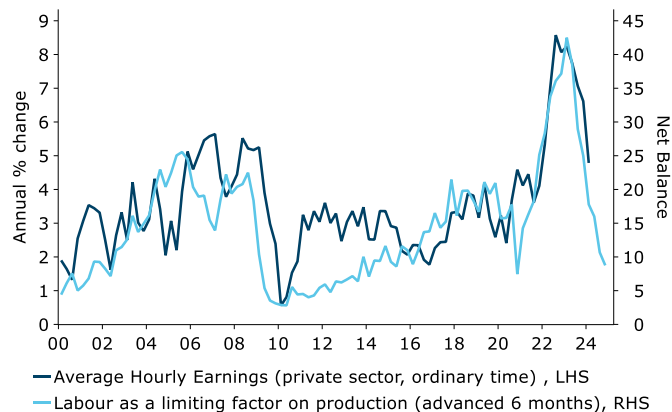
Q2 labour market: the last major data ahead of the August MPS

The Q2 labour market statistics are out at 10:45am next Wednesday (7 August), marking the last major piece of data ahead of the RBNZ's August Monetary Policy Statement (2pm 14 August). Broadly, we expect the Q2 data to provide further evidence that spare economic capacity is building, and that disinflationary progress is set to continue.

We expect the unemployment rate to lift from 4.3% to 4.7% in Q2. While that's very close to the RBNZ's May MPS forecast of 4.6%, the details are expected to be a touch softer than their expectation. Softening demand for labour is expected to see employment contract 0.2% q/q, weaker than the RBNZ's May MPS forecast of +0.1% q/q. Meanwhile, the labour force participation rate is expected to move with employment, providing some offset to the headline unemployment rate. We've pencilled in a small dip in the participation rate from 71.5% to 71.3% (RBNZ: 71.5%).

On the wages front, we expect to see continued evidence that bargaining power is shifting from workers to firms as the labour market loosens. Annual growth in the private sector Labour Cost Index (including overtime) is expected to slow 0.2%pt to 3.6%, and private sector average hourly earnings (ordinary time) is expected to slow 1%pt to 3.8% y/y. While wage pressures are easing, they are likely to remain above levels consistent with inflation at target. However, wage data largely reflect past labour market conditions, meaning the trajectory is at least as important as the overall level. And on that front, the NZIER's QSBO 'labour as a limiting factor' indicator (and our ANZ Business Outlook wage indicators) suggest wage growth is poised to slow meaningfully over the course of the year.

Figure 2. Labour as a limiting factor and wage growth



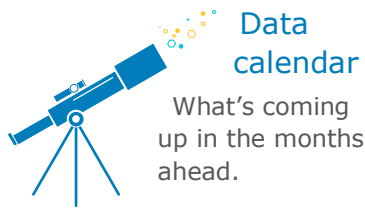
Source: Stats NZ, NZIER, Macrobond, ANZ Research

In big-picture terms, while the Q2 labour market data may not provide the smoking gun for rate cuts that the market appears to be looking for (ie our expectation isn't significantly different from the RBNZ's), the recent downturn in almost all the forward-looking indicators suggests downside risks are emerging around our economic outlook and that the gradual loosening we've seen in the labour market over the past year or so could be on the cusp of accelerating.

Indeed, the big question on the day will be whether the Q2 data suggests the labour market is loosening at a significantly faster pace than the RBNZ expects. Forward indicators suggest that could be the case, it may take a bit longer to manifest in the "hard data". Should the labour market print broadly in line with our expectation (and mildly softer than the RBNZ's), we don't think this would move the RBNZ to cut as early as August, but combined with a persistently weak signal in the soft data, it will add to the risk that they kick off a little earlier than our November call.



Financial markets update



Date	Data/event
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
Wed 11 Sep (10:45am)	Net Migration – Jul
Thu 12 Sep (10:45am)	Selected Price Indexes – Aug
Thu 12 Sep (10:45am)	Electronic Card Transactions – Aug
Fri 13 Sep (10:45am)	BusinessNZ Manuf PMI – Aug
Mon 16 Sep (10:30am)	Performance Services Index – Aug

Interest rate markets

Global interest rates have fallen sharply this week, led by the US and UK in the wake of Fed Chair Powell's suggestion that cuts might begin in September, and a surprise cut from the Bank of England. Softer Australian Q2 CPI data also saw markets across the Tasman shy away from pricing in any risk of RBA hikes, with expectations for November swinging from 5bp of hikes priced in on Monday to 7bp of cuts priced in today. Against that backdrop, it'll come as no surprise that local interest rates are a lot lower, and the yield curve is flatter. At current levels, we think short-end rates have gone too far (with [around 7x 25bp OCR cuts priced in over the next six RBNZ meetings](#)). But while the risk of an upward correction is real, it's not guaranteed, with markets in no mood to be held back. Short-end rates are ultimately anchored to the OCR, whereas long-end rates are globally determined, and lower global bond yields are driving a temporary flattening of local yield curves ahead of OCR cuts expected later this year. Finally, it's worth noting that some key events lie ahead here and abroad, with US non-farm payrolls data due tonight, the RBA's August decision on Tuesday, and NZ labour market data due on Wednesday, as discussed on page 2.

FX markets

It has been a volatile week in FX markets too, with USD/JPY slipping back below 150 following the Bank of Japan hike and halving of QE, the Bank of England's cut, softer-than-expected Australian CPI data and Fed Chair Powell's hint of cuts from September. These events have led to significant volatility on some crosses, especially NZD/AUD, NZD/JPY and NZD/GBP. These moves represent a recalibration of global relativities, and we suspect they may take a few more days to play out, especially with significant US data due tonight and geopolitics still bubbling away in the background. Lower interest rates have not helped the Kiwi of late, but the USD has held up well even as US bond yields have collapsed and equities have weakened (and have been volatile), highlighting the role that positioning and sentiment are playing in FX.

Key data summary

Monthly Employment Indicators – June. Filled jobs fell 0.1% m/m. May's outturn was revised lower from 0.0% m/m to -0.3% m/m.

Building Permits – June. Down 13.8% m/m. These data are volatile, but combined with recent outturns they point to downside risks to our residential investment forecasts (which is a little less pessimistic than the RBNZ's).

ANZ Business Outlook – July. [Business confidence](#) jumped 21 points to +27 in July, and expected own activity lifted 4 points to +16.

The week ahead

ANZ Commodity Price Index – July (Monday 5 August, 1:00pm).

Global Dairy Trade auction (Wednesday 7 August, early am). Dairy prices continue to be under pressure as seasonal offer volumes lift. We are expecting a 3.5% fall in the GDT Price Index at the next event.

Labour Market Statistics – Q2 (Wednesday 7 August, 10:45am). Loosening. See our [Preview](#).

RBNZ Inflation Expectations – Q3 (Thursday 8 August, 3:00pm). Given inflation is clearly decelerating, rolling forward a quarter should see near-term measures decline. The vibe of the recent soft data may also see some survey respondents reassess their expectations beyond the near term.



Key forecasts and rates

FX rates	Actual			Forecast (end month)					
	Jun-24	Jul-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD/USD	0.609	0.592	0.594	0.610	0.620	0.620	0.620	0.630	0.630
NZD/AUD	0.913	0.911	0.915	0.910	0.899	0.886	0.886	0.887	0.887
NZD/EUR	0.569	0.546	0.551	0.560	0.564	0.554	0.544	0.543	0.534
NZD/JPY	98.0	89.1	88.6	91.5	91.8	89.3	88.0	88.2	85.7
NZD/GBP	0.482	0.461	0.467	0.477	0.477	0.470	0.459	0.463	0.463
NZ\$ TWI	71.9	69.7	70.0	71.2	71.5	70.8	70.3	70.9	70.5
Interest rates	Jun-24	Jul-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	5.46	5.44	5.38	5.18	4.68	4.18	3.68	3.60
NZ 2-yr swap	4.96	4.23	4.15	4.16	3.94	3.77	3.65	3.60	3.60
NZ 10-yr bond	4.67	4.34	4.21	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	-0.2							
Employment (% yoy)	1.3	0.0	<i>Under review</i>						
Unemployment Rate (% sa)	4.3	4.7							

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

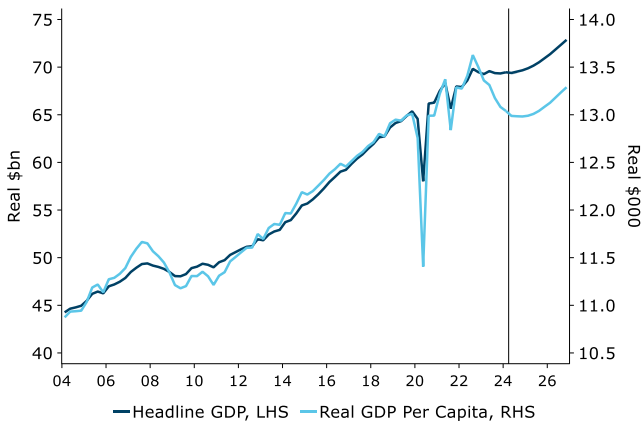


Figure 4. CPI inflation components

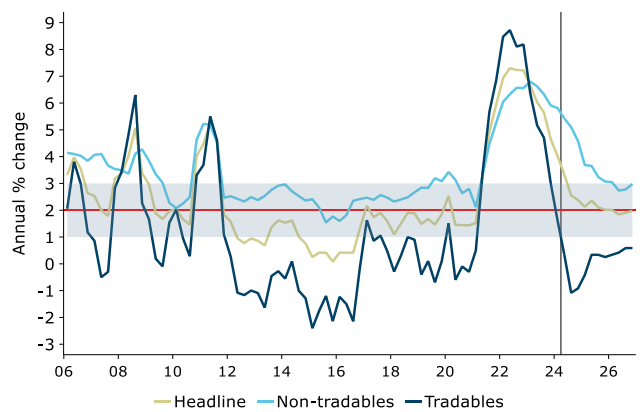


Figure 5. OCR forecast

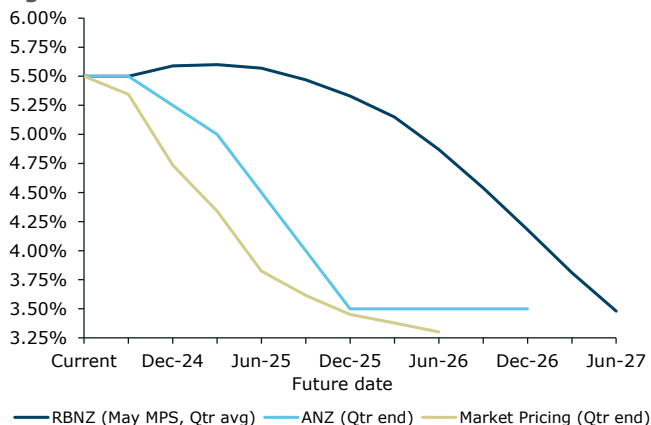


Figure 6. Unemployment and participation



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



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