


New Zealand Weekly Data Wrap

16 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: July 2024](#)

Key forecasts and rates

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

Glossary

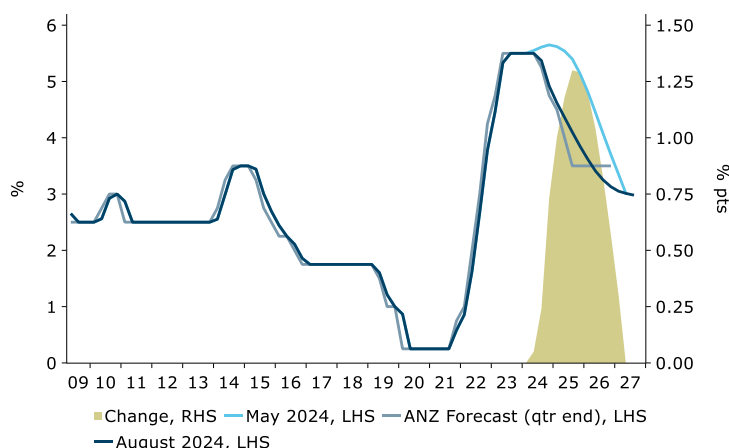
Confused by acronyms or jargon? See a glossary [here](#).

And so the easing cycle begins

The RBNZ cut the Official Cash Rate (OCR) 25bp to 5.25% this week in what the Record of Meeting notes was a consensus decision. Our updated OCR forecast is for 25bp cuts at each meeting, to a low of 3.5%.

We went into this week's meeting expecting the RBNZ to hold (but potentially signal decent odds of an October kick-off). That view was partly premised on the fact that we struggled to get from the May MPS OCR forecast for no cuts until August 2025 to cutting in August 2024 based on the economic data alone. As we noted last week, [the starting point for the tier one data](#) has been close to the RBNZ's forecast, and while the high-frequency data (eg PSI, job ads, business and consumer confidence) warrant a downgrade to the near-term outlook, it was a stretch to think this could be worth more than 100 basis points off the track. But as figure 1 shows, the peak change in the track was -130bp.

Figure 1. Change in RBNZ OCR forecast



Source: RBNZ, Macrobond, ANZ Research

How to square this circle? The RBNZ has also made a key modelling change in its forecast; it is now assuming that price-setting behaviour will adjust to lower inflation outcomes faster than previously thought. In other words, they are now assuming (based on their analysis) there will be less stickiness in the underlying inflation pulse. This type of analysis is crucial for understanding the likely path for inflation going forward, particularly given the pandemic experience was like nothing we've ever seen before: it included the largest macroeconomic stimulus in living memory, perhaps the most overheated economy, housing and labour market we'll ever see, and a quirky mix of supply shocks. But at the end of the day, this is an *assumption* change, and while it may provide a better balance of risks around the outlook, it could still be proven incorrect. Ultimately, the data will decide where the OCR goes and how quickly, and the RBNZ will continue to recalibrate their modelling assumptions to best fit observed history.

Speaking of data, the July [Selected Price Indexes](#) release this week points to a smidgen of downside risk to our Q3 CPI forecast of 1.0% q/q. However, this is just the first month of the quarter, and given some of the surprise came from the more volatile components we're happy noting the risk to our forecast and waiting for the August release. Compared to the RBNZ's Q3 CPI forecast of 0.8% q/q, the July SPI is pretty much in line, and therefore do not present a roadblock to another 25bp cut in October.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- [NZ Economic Outlook: tipping point?](#)
- [RBNZ MPS Review: the first cut is the deepest](#)
- [RBNZ MPS starting-point surprise chart pack](#)
- [NZ labour market: no smoking gun](#)
- [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 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](#)
- [NZ Economic Outlook: the ducks are lining up](#)
- [NZ Agri Focus: high and dry](#)
- [NZ Property Focus: buy vs rent](#)
- [NZ Insight: new Government, new fiscal strategy](#)
- [NZ Forecast Update: milk price revised up](#)
- [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.

Tipping point?

This week we published our [Quarterly Economic Outlook](#). Recent high-frequency data suggests the slowdown in the economy is broadening and gathering pace. While interest rates are heading lower, there are still risks to the disinflation trajectory and the pace of policy easing remains uncertain.

The uncertainty is brought about by the fact that by and large this downturn is policy induced. That's extremely unusual. Compared to previous downturns, external shocks (global financial crises, earthquakes, extreme droughts, pandemics ...) are far less of a factor. There has been no sudden income or confidence shock that would suggest the economy should be collapsing even more dramatically than it did in response to the Global Financial Crisis. Momentum is clearly very weak, but the early signs of improvement in sentiment following the easing in monetary conditions suggest there is a chance that the economy could bounce back faster than anticipated. Some activity will have been deferred, not cancelled. The transmission via mortgage rates may also be quicker this cycle, given the shift toward short-term fixed terms in the past six months or so as households have banked on lower rates coming soon.

If the economy does bounce back relatively quickly there remains a risk that disinflation progress slows. The RBNZ will be wary of this possibility, and the easing cycle may be a little stop-start in practice. The RBNZ could choose to move more slowly with some pauses if, say, a sharp recovery in the housing market were to fuel renewed inflation pressures. Very early indicators of housing activity (auction clearance rates) do hint at the possibility of a lift. To be clear, we're forecasting the housing market to remain subdued for a long time yet. But it has unexpectedly risen from the dead before.

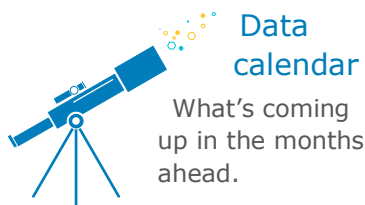
On the flipside, if the slowdown in the economy is deepening, and inflation risks start to shift to the downside, the RBNZ may need to respond more aggressively. Market pricing, which is implying a high chance of 50s at each of the next three meetings, suggests this is some observers' base case. The recent deterioration in high-frequency data has highlighted these risks, but it's worth bearing in mind that the significant deterioration in confidence and activity indicators in June came in the wake of the RBNZ's hawkish May MPS, which suggested rate cuts were a very long way off. That is highly likely to have impacted the confidence of households and businesses who have been desperate for relief. Following the easing in financial conditions over the past month, we've already seen consumer and business confidence increase, and bounces in July in some of the activity indicators that fell sharply in June.

Our forecasts make the case that monetary policy has indeed already gained sufficient traction to return inflation to target, and we're now expecting OCR cuts at each meeting to take the OCR to a terminal rate of 3.5% in Q3 2025. There are always risks surrounding any forecast. The skew of those risks will become much clearer over the next three months and monetary policy won't be on a preset course; the data, as always, will ultimately decide.

We've downgraded our GDP outlook and now expect the economy to contract 0.3% q/q in Q2 and growth to stall across the rest of 2024. Weakness is likely to persist into the first half of 2025, before recovering as the economy responds to lower interest rates. But impacts of changes in interest rates typically take quite a long time to emerge. The labour market is also yet to fully reflect the impacts of past tightening and we expect it will continue to loosen well into 2025, with the unemployment rate rising to a peak of 5.5%. With increasing evidence that weaker growth is now flowing through to lower inflation, risks to the inflation outlook have become more balanced. Inflation is all but confirmed to return to the 1-3% target band and is likely to settle at 2% late next year.



Financial markets update



Date	Data/event
Mon 19 Aug (10:30am)	Performance Services Index – Jul
Tue 20 Aug (9:00am)	REINZ Housing Data – 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 30 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 (10:00am)	ANZ Truckometer - Aug
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
Wed 18 Sep (early am)	Global Dairy Trade auction
Wed 18 Sep (10:45am)	Balance of Payments – Q2
Thu 19 Sep (10:45am)	GDP – Q2
Mon 23 Sep (10:45am)	Merchandise Trade – Aug
Fri 27 Sep (10:00am)	ANZ-RM Consumer Confidence – Sep
Mon 30 Sep (10:45am)	Employment Indicators – Aug
Mon 30 Sep (1:00pm)	ANZ Business Outlook – Sep

Interest rate markets

It was another volatile week in global markets as US bond yields drifted lower over the first few days of the week only to rise sharply overnight on stronger-than-expected retail sales data there. But locally it was all about the RBNZ's OCR cut; the reaction to that and lower global rates saw the bellwether 2yr swap rate fall almost 30bp to a new low for the cycle. With 85bp of cuts priced in over the next two RBNZ meetings (meaning that markets expect one to be a 50bp cut and the other a line call on 25bp or 50bp), rate cut expectations look stretched, especially given that the next meeting is only a Review rather than an MPS, and given that the RBNZ started cutting early. While that leaves us a little cautious, we're also mindful that the RBNZ's new, lower track was like a proverbial red flag to a bull. So, without a reason to think otherwise (and there isn't one right now given the weak data flow), for the foreseeable future, markets will assume the new OCR track represents the bare minimum of what the RBNZ is likely to deliver going forward. That's likely to keep a lid on local interest rates, especially at the short end.

FX markets

The RBNZ's OCR cut shaved about 75bp off the Kiwi on Wednesday and was also the main talking point in FX markets. But with markets now pricing in at least as much easing as the RBNZ has flagged, lower rates should now be well and truly priced into the Kiwi. We expect global themes to re-emerge as the dominant drivers, so keep an eye on US data – and geopolitics.

Key data summary

ANZ Truckometer – July. The Light Traffic Index lifted 1.5% m/m, while the [Heavy Traffic Index](#) recovered much of its June fall, rising 6.1%.

Net Migration – June. Annual net migration fell to 73.3k, well down from its October 2023 peak of 136.6k. The data remain volatile, with both departures and arrivals revised down significantly over history.

RBNZ Monetary Policy Statement – August. See our [Review](#).

Selected Price Indexes – July. July's [SPI](#) suggest a smidgen of downside risk to our Q3 CPI forecast of 1.0% q/q.

Electronic Card Transactions – July. Total spending rose 0.7% m/m, though retail spending was down 0.1% m/m, the sixth contraction in a row.

Manufacturing PMI – July. The PMI rose 2.8pts to 44.0, still well into contractionary territory.

The week ahead

Performance Services Index – July (Monday 19 August, 10:30am).

After the marked deterioration over recent months, a bounce wouldn't surprise. But given how far into contractionary territory the PSI has fallen, a bounce is unlikely to signal anything positive about momentum.

REINZ House Prices – July (Tuesday 20 August, 9:00am). Momentum is likely to continue south in the near term. However, recent falls in mortgage rates increase the risk of a swift recovery.

Overseas Merchandise Trade – July (Tuesday 20 August, 10:45am).

Export returns are forecast to stabilise at 6.2bn, while a bounce back in petroleum imports is expected to see imports at ~\$6.5b for July.

GlobalDairyTrade auction (Wednesday 21 August, early am). Dairy markets remain positive, but price gains will be tempered by higher volumes. We expect prices to lift by just 0.5% at next week's auction.

Retail Sales – Q2 (Friday 23 August, 10:45am). We have pencilled in a 1% q/q fall, but our indicator models suggest plenty of scope for a surprise on the day.



Key forecasts and rates

	Actual			Forecast (end month)					
	Jun-24	Jul-24	Today	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
FX rates									
NZD/USD	0.609	0.592	0.599	0.610	0.620	0.620	0.620	0.630	0.630
NZD/AUD	0.913	0.911	0.905	0.910	0.899	0.886	0.886	0.887	0.887
NZD/EUR	0.569	0.546	0.545	0.560	0.564	0.554	0.544	0.543	0.534
NZD/JPY	98.0	89.1	89.3	91.5	91.8	89.3	88.0	88.2	85.7
NZD/GBP	0.482	0.461	0.466	0.477	0.477	0.470	0.459	0.463	0.463
NZ\$ TWI	71.9	69.7	69.8	71.0	71.4	70.6	70.2	70.8	70.4
Interest rates									
NZ OCR	5.50	5.50	5.25	5.25	4.75	4.50	4.00	3.50	3.50
NZ 90 day bill	5.63	5.46	5.25	4.89	4.69	4.20	3.70	3.62	3.62
NZ 2-yr swap	4.96	4.23	3.81	3.86	3.77	3.67	3.62	3.62	3.62
NZ 10-yr bond	4.67	4.34	4.20	4.25	4.00	4.00	4.00	4.00	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	-0.3	0.0	0.1	0.2	0.3	0.4	0.5	0.6
GDP (% yoy)	0.3	-0.5	-0.2	0.0	0.0	0.6	1.0	1.4	1.8
CPI (% qoq)	0.6	0.4	1.0	0.3	0.4	0.7	0.7	0.2	0.3
CPI (% yoy)	4.0	3.3	2.6	2.4	2.1	2.4	2.1	1.9	1.9
Employment (% qoq)	-0.3	0.4	-0.3	-0.2	-0.1	0.0	0.1	0.2	0.4
Employment (% yoy)	1.3	0.6	0.3	-0.4	-0.2	-0.6	-0.2	0.2	0.7
Unemployment Rate (% sa)	4.4	4.6	4.8	5.0	5.2	5.4	5.5	5.5	5.5

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

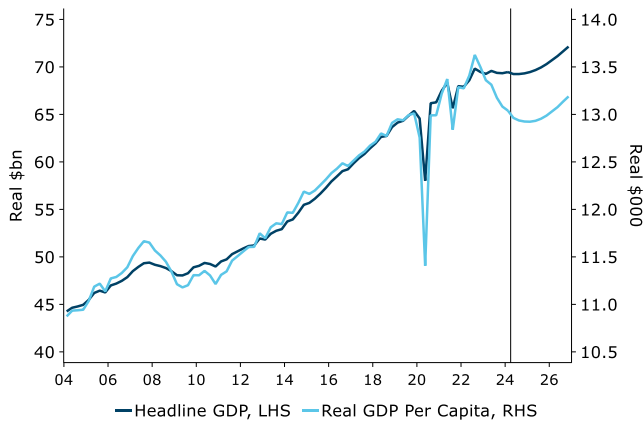


Figure 3. CPI inflation components

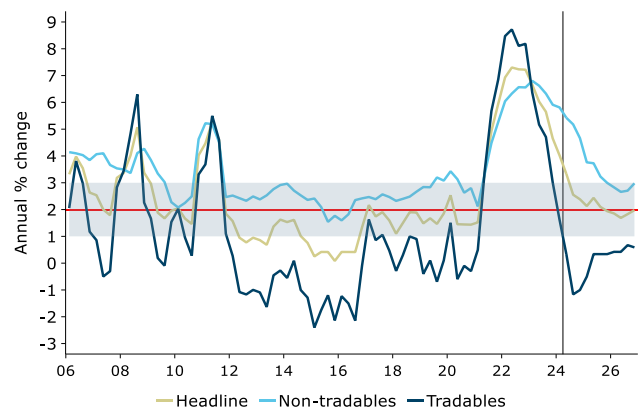


Figure 4. OCR forecast

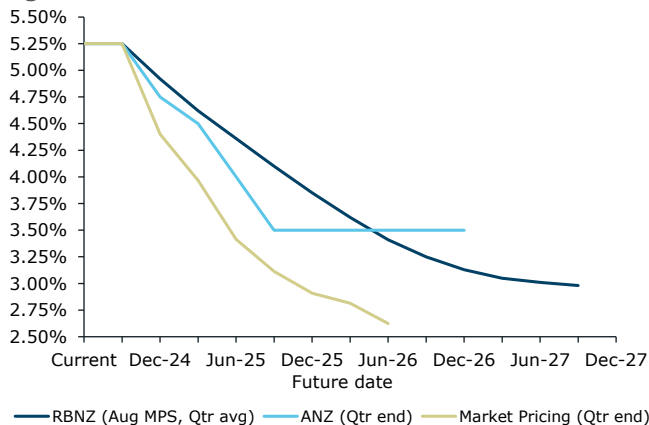
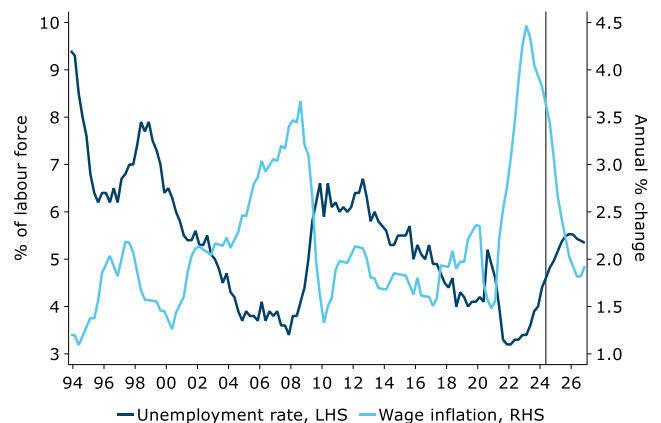


Figure 5. Unemployment and wage inflation



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



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