ANZ Research

New Zealand Weekly Data Wrap

18 October 2024

Contact us

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: September 2024

Key forecasts and rates

Our forecasts can be found on page 4.

Glossary

Confused by acronyms or jargon? See a glossary here.

A disinflationary housing market (for now)

REINZ housing data released this week confirmed that recent weak momentum in the housing market continued into September but may be close to finding a floor. Meanwhile, the Q3 CPI data suggests that the slowdown we've seen in housing market activity and the residential construction sector is contributing to lower CPI inflation pressures.

Broadly, the housing market's pulse in September was weak: after seasonal adjustment sales fell 2.3% m/m (broadly flat in y/y terms), the number of days it is taking houses to sell lifted by 2 days to 50 (very high by historical standards), and the number of properties available for sale, while starting to plateau, edged a little higher (currently at their highest level since July 2015). The market is very clearly running cold. But despite all this, the national-level house price index lifted 0.3% m/m after seasonal adjustment, leaving prices down 0.4% y/y on a 3-month moving average basis.

There is significant uncertainty around the likely pace of recovery in the housing market as mortgage rates continue to decline, with plenty for forecasters to weigh up: falling mortgage rates, rising unemployment, a fundamental undersupply of houses, changes in tax policy, affordability constraints, and of course "animal spirits" (ie the tendency for the housing market to break away from "the fundamentals", and where sentiments such as "fear of missing out" or "fear of overpaying" can induce a degree of volatility that's difficult to see coming and incorporate into a forecast). For now, the housing market's animal spirits appear to be sleeping, but anecdote suggests buyer interest has picked up meaningfully since the RBNZ started cutting the OCR, which is perhaps a signal that there might be a "buy the dip" mentality forming.

Our forecast is for house prices to start recovering over coming months, with annual house price inflation contained by the fact that house prices relative to incomes are already stretched and that a decent deviation would see the RBNZ's new debt-to-income ratio restrictions become binding.

For the RBNZ, housing is a key part of the transmission mechanism between monetary policy and CPI inflation, with housing momentum translating to consumption and therefore consumer prices (all else equal). Some indicators are already pointing to upside risks to their and our house price forecast (eg auction clearance rates), but this could still turn out to be an initial cutting-cycle flurry that fizzles out as the reality of pipeline labour market weakness continues to hit home – time will tell.

But what we do know from the Q3 CPI data is that recent housing market weakness has translated directly into weaker CPI inflation pressures. The cost of building a new house (excluding land) makes up almost 10% of the CPI basket; it recorded its weakest quarterly rise since March 2011 (Q3 2024: +0.1% q/q). In annual terms, it was running at 2.5%, well down from its peak of 18.3% y/y in early 2022 (when total CPI inflation was peaking at 7.3%). In other words, this one component of the CPI has gone from adding almost 1.7% pts to annual inflation in 2022 to contributing just over 0.2% pts of Q3 2024's 2.2% y/y rise in the CPI.

Turning to the Q3 CPI data more broadly, the main surprise versus our forecast came from Stats NZ's treatment of the FamilyBoost rebate, which resulted in a 22.8% q/q decline in the price of early childhood education (ECE). Headline CPI inflation came in at 2.2%, which was 0.1% pt below our forecast. Tradable inflation at -1.6% y/y was in line with our forecast, but non-tradable inflation was weaker than forecast (4.9% vs 5.2%). Excluding ECE, non-tradables came in at 5.2% y/y. On the next page we discuss our updated forecasts and implications for the RBNZ.

Looking ahead

NZ Economic News

ANZ's latest data releases, forecast updates and insights

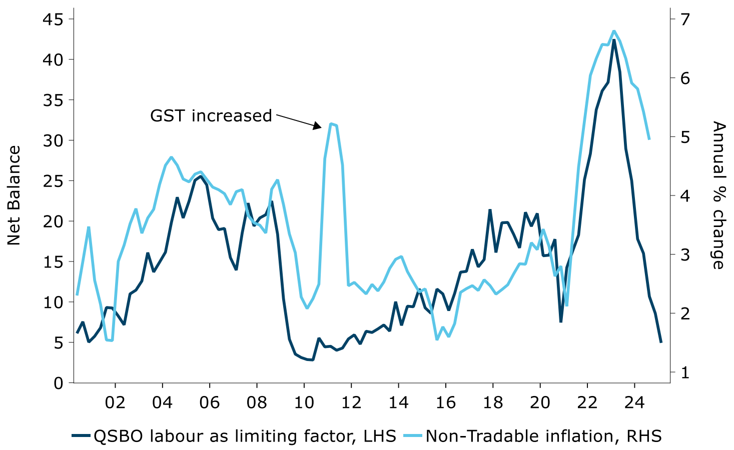
- NZ CPI Review: back in the band; now keep it there
- NZ REINZ housing data: finding a floor
- NZ Insight: fiscal musings
- NZ Agri Focus: seasonal change
- NZ Insight: playing by the rules?
- RBNZ MPR Preview: taking what's on the plate
- NZ Property Focus: regional revelations
- NZ GDP: better than feared
- NZ REINZ housing data: still subdued
- NZ Property Focus: kicking off into the wind
- NZ forecast update: milk price forecast revised up
- NZ Agri Focus: outlook improving
- NZ Carbon Market: Emissions Trading Scheme settings
- 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
- ANZecdotes – June 2024
- NZ Insight: non-tradable inflation – a waiting game
- NZ Budget 2024: fiscal reshuffle not a game-changer for the economic outlook
- NZ Insight: new Government, new fiscal strategy

Click here for more.

CPI forecast update and monetary policy implications

The bulk of the surprise in the Q3 CPI vs our forecast came from the one-off impact of the FamilyBoost rebate, meaning there wasn't a lot of new news to incorporate into our updated CPI forecast other than the starting point. We continue to pencil in a 0.4% q/q rise in the CPI in Q4, driven by a 0.7% q/q lift in non-tradables and a 0.1% contraction in tradables. That would see annual headline inflation slow 0.1% pt to 2.1%. But more importantly, non-tradable inflation will slow a further 0.4%pts to 4.5% (still above the "goldilocks" ~3% y/y level but getting there). Indeed, indicators of capacity stretch in the labour market suggest the risk that labour costs drive a reacceleration in domestic inflation pressures any time soon is small.

Figure 1. Non-tradable inflation vs labour as a limiting factor on production



Source: NZIER, Stats NZ, Macrobond, ANZ Research

Given current cyclical indicators, including the widening degree of slack in the labour market, it's fair to say that withdrawing the first 150bp or so of monetary restriction is a relatively low-risk strategy. That is, of course, provided we and the RBNZ are right in assuming the neutral level of the OCR over the medium term is below 4%; there's always significant uncertainty on that score. Beyond that, as the OCR approaches the common range of neutral estimates (between 3-4%), the RBNZ is likely to tread more cautiously, particularly if it is concerned about a potential premature reacceleration in domestic inflation pressures.

But for now, measures of underlying inflation are going the right way and there is nothing in the Q3 CPI data (or our updated CPI forecast) suggesting it would be inappropriate to cut another 50bp cut in November. Talk of a 75bp cut in November may even continue to gather momentum between now and then, and may well be something the RBNZ considers if the Q3 labour market data (out 6 November) comes in significantly weaker than forecast. We remain comfortable with our expectation for a 50bp cut next month.

And of course, risks to our and the RBNZ's CPI outlook haven't gone away. There are plenty of structural reasons to think parts of the CPI basket (eg council rates, insurance, electricity) may run hotter than their historical pace over coming years (eg weather-related risk and infrastructure needs), but there is also plenty of evidence to suggest the RBNZ has engineered enough spare economic capacity to tame inflation in a cyclical sense. In fact, there are some indicators suggesting the RBNZ has been a little slow to cut the OCR, which, all else equal, increases the risk they'll have to take monetary conditions into stimulatory conditions for a time. Plugging the Q3 Sectoral Factor Model of core inflation and non-tradables inflation into our inertial Taylor Rules shows the OCR 35-45bp higher than where these rules have landed as at the end of Q3. But based on reasonable assumptions, that gap can be closed by the end of Q4 with another 50bp cut in November.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Tue 22 Oct (10:45am)	Merchandise Trade – Sep
Fri 25 Oct (10:00am)	ANZ-RM Consumer Confidence – Oct
Tue 29 Oct (10:45am)	Employment Indicators – Sep
Thu 31 Oct (1:00pm)	ANZ Business Outlook – Oct
Fri 1 Nov (10:45am)	Building Permits – Sep
Tue 5 Nov (1:00pm)	ANZ Commodity Price Index – Oct
Wed 6 Nov (early am)	Global Dairy Trade auction
Wed 6 Nov (09:00am)	RBNZ Financial Stability Report
Mon 11 Nov (3:00pm)	RBNZ 2Yr Inflation Expectations – Q4
Tue 12 Nov (10:00am)	ANZ Truckometer – Oct
Tue 12 Nov (10:45am)	Electronic Card Transactions – Oct
Wed 13 Nov (10:45am)	Net Migration – Sep
Thu 14 Nov (10:45am)	Selected Price Indexes – Oct
Fri 15 Nov (10:30am)	BusinessNZ Manuf PMI – Oct
Mon 18 Nov (10:30am)	Performance Services Index – Oct
Wed 20 Nov (early am)	Global Dairy Trade auction
Mon 25 Nov (10:45am)	Retail Sales – Q3
Wed 27 Nov (2:00pm)	**RBNZ MPS**
Thu 28 Nov (1:00pm)	ANZ Business Outlook – Nov
Fri 29 Nov (10:00am)	ANZ-RM Consumer Confidence – Nov
Mon 2 Dec (10:45am)	Building Permits – Oct
Tue 3 Dec (10:45am)	Terms of Trade – Q3
Wed 4 Dec (early am)	Global Dairy Trade auction
Wed 4 Dec (1:00pm)	ANZ Commodity Price Index – Nov
Thu 5 Dec (10:45am)	Volume of All Buildings – Q3
Wed 11 Dec (10:45am)	Economic Survey of Manufacturing – Q3
Wed 11 Dec (10:45am)	Electronic Card Transactions – Nov

Interest rate markets

Interest rates have generally moved a little higher this week in the US and Australia, fuelled by stronger US retail sales data end exceptionally strong Australian employment data. Those moves have had an impact locally, as is often the case, but in the wake of the softer Q3 CPI data, that has been felt locally via tighter geographic spreads and steeper yield curves, with NZ rates out to 2-3 years materially lower, but longer-term rates like the 10yr little-changed. The local market continues to take the view that a 50bp OCR cut next month is the most likely outcome, but it views a 75bp (rather than 25bp) cut as the next most likely outcome, with a 58bp cut now priced in. Ultimately the data will dictate what happens, but as the key data isn't due for some weeks (labour market data on 6 November, the RBNZ inflation expectations survey on 11 November, and household inflation expectations on 19 November), it'll take a lot to shift market momentum in the meantime. Global markets are also starting to contemplate the outcome of US elections, with a particular focus on what the result will mean for tax policy, immigration and tariffs. That shift in focus is driving US bond yields higher.

FX markets

Although there have been brief forays below it, the NZD has broadly held the 0.6050 level we discussed last week. That's a key level for technical analysts, marking the 61.8% Fibonacci retracement level of the August-September rally from 0.5850 to 0.6380, and markets are watching it closely. With US bond yields rising and markets pricing in less rather than more Fed easing, but the NZ market still focussed on outsized cuts, we're wary of the risk of a move lower, particularly with EUR and GBP on the skids. NZD/AUD snapped lower after strong employment data there, but it has not made a new low and continues to confound traders. Data suggests that speculators are already short this cross, and a lack of capacity to add to positions may be a factor hampering flow, and thus price movements.

Key data summary

Performance Services Index – September. The PSI was unchanged at 45.7 in September (August was revised 0.2pts higher).

Electronic Card Transactions – September. Core retail spending rose 0.3% m/m. Two months on, income tax relief hasn't generated a meaningful boost to spending.

REINZ House Prices – September. The seasonally adjusted REINZ House Price Index rose 0.3% m/m in September, the first lift since April.

ANZ Truckometer – September. The Light Traffic Index fell 1.0% m/m in September, while the Heavy Traffic Index fell 1.8%.

GlobalDairyTrade auction. The GDT Price Index slipped 0.3%, primarily due to weaker prices for skim milk powder and butter. Whole milk powder prices were stable with large volumes traded.

CPI – Q3. Policy-related noise resulted in marginally weaker inflation than we expected. See our Review.

The week ahead

Overseas Merchandise Trade – September (Tuesday 22 October, 10:45am). Imports (~$6.8b) are once again expected to outpace exports (~$5.3b) as export volumes remain seasonally low.

ANZ-Roy Morgan Consumer Confidence – October (Friday 25 October, 10:00am).

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Aug-24	Sep-24	Today	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
NZD/USD	0.625	0.635	0.606	0.620	0.620	0.620	0.630	0.630	0.630
NZD/AUD	0.924	0.918	0.905	0.899	0.886	0.886	0.887	0.887	0.887
NZD/EUR	0.566	0.567	0.559	0.564	0.554	0.544	0.543	0.534	0.534
NZD/JPY	91.3	90.5	91.0	91.8	89.3	88.0	88.2	85.7	85.7
NZD/GBP	0.476	0.474	0.466	0.477	0.470	0.459	0.463	0.463	0.463
NZ$ TWI	71.8	71.9	70.2	70.5	69.8	69.4	70.0	69.7	69.7
Interest rates	Aug-24	Sep-24	Today	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
NZ OCR	5.25	5.25	4.75	4.25	4.00	3.50	3.50	3.50	3.50
NZ 90 day bill	5.23	4.87	4.59	4.15	3.72	3.65	3.65	3.65	3.65
NZ 2-yr swap	3.94	3.58	3.62	3.50	3.54	3.61	3.65	3.65	3.65
NZ 10-yr bond	4.27	4.24	4.44	4.00	4.00	4.00	4.00	4.25	4.25

Economic forecasts

	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
GDP (% qoq)	-0.2	**0.0**	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	**0.6**
GDP (% yoy)	-0.5	**-0.1**	**0.0**	**0.1**	**0.6**	**1.0**	**1.4**	**1.8**	**2.1**
CPI (% qoq)	0.4	0.6	**0.4**	**0.5**	**0.6**	**0.7**	**0.4**	**0.4**	**0.5**
CPI (% yoy)	3.3	2.2	**2.1**	**2.0**	**2.2**	**2.3**	**2.3**	**2.1**	**2.0**
Employment (% qoq)	0.4	**-0.3**	**-0.2**	**-0.1**	**0.0**	**0.1**	**0.2**	**0.4**	**0.5**
Employment (% yoy)	0.6	**0.3**	**-0.4**	**-0.2**	**-0.6**	**-0.2**	**0.2**	**0.7**	**1.2**
Unemployment Rate (% sa)	4.6	**4.8**	**5.0**	**5.2**	**5.4**	**5.5**	**5.5**	**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

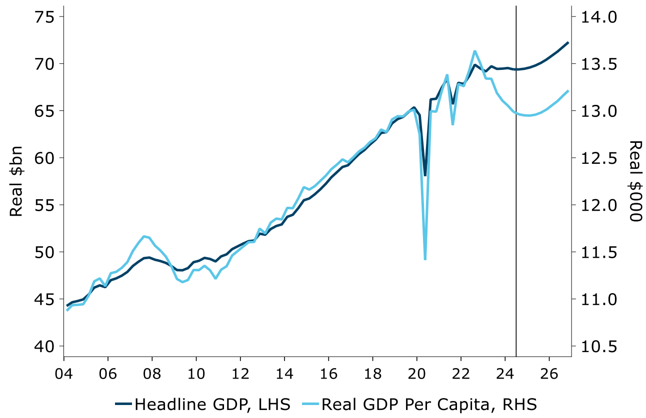


Figure 3. CPI inflation components

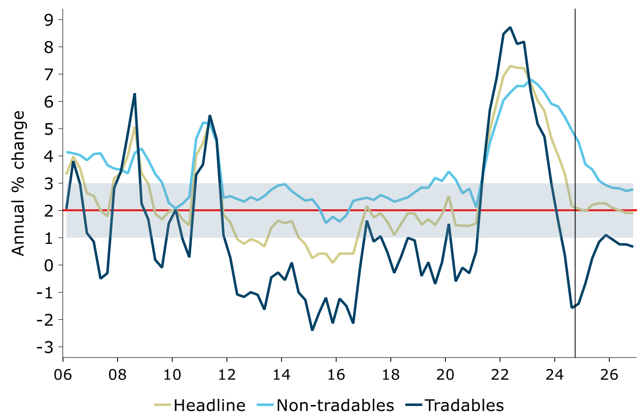


Figure 4. OCR forecast

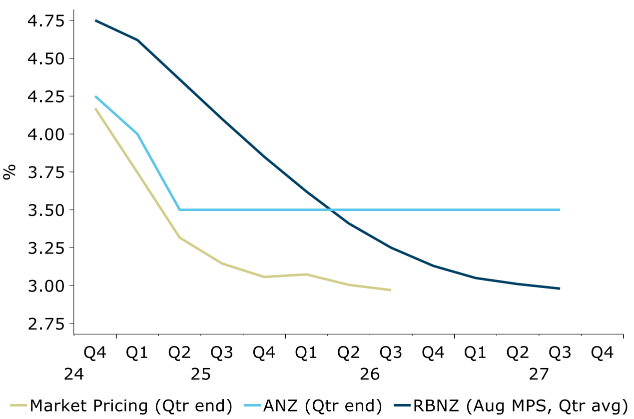
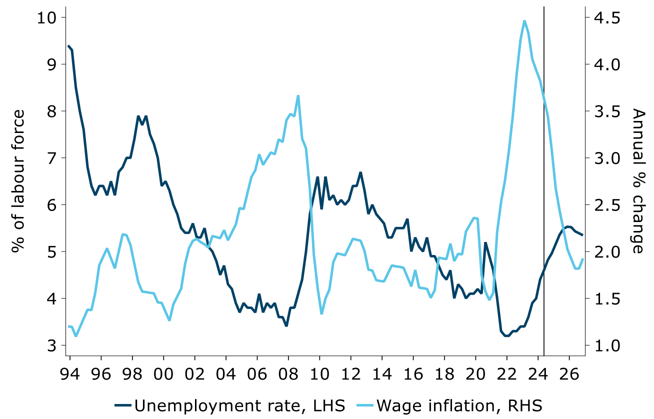


Figure 5. Unemployment and wage inflation



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

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