ANZ Research

New Zealand Weekly Data Wrap

22 November 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: October 2024

Key forecasts and rates

Our forecasts can be found on page 4.

Glossary

Confused by acronyms or jargon? See a glossary here.

The last OCR decision of 2024

Next Wednesday at 2pm, the RBNZ will announce its final OCR decision for 2024 and publish the accompanying Monetary Policy Statement.

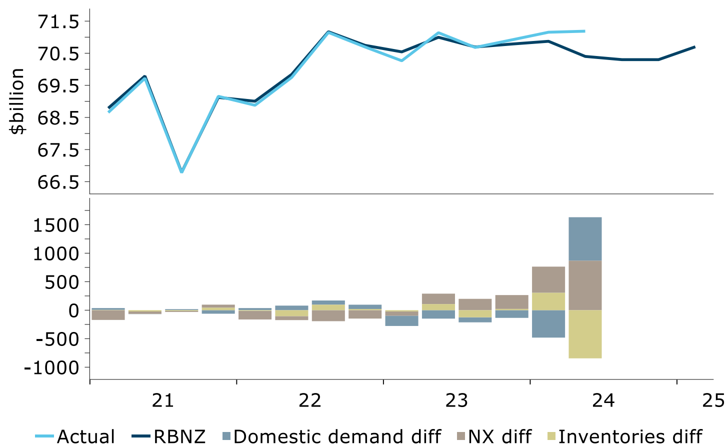
We expect the RBNZ to cut 50bp, taking the OCR to 4.25% to welcome in the new year. A 50bp cut would be consistent with RBNZ October messaging, economists' forecasts, and market pricing. Indeed, a 50bp cut is fully priced, with around a 18% chance of a 75bp cut. That seems fair. A 50bp cut is clearly the path of least resistance, but if there is going to be a surprise, given the RBNZ's confidence regarding the inflation outlook and the unusually long gap until the next meeting (February 2025), 75bp seem likelier than 25bp.

The forecast OCR track will have a steeper downhill starting point, given August's track suggested two upcoming 25bp cuts whereas (barring a surprise), they will have delivered two 50-pointers. We expect a similar track thereafter with the OCR falling to around 3%, but getting there faster.

In terms of guidance, there's no need for the RBNZ to take a strong stance on what happens next. We'd expect them to say that they considered cutting both 25bp and 75bp, and that future moves will be data dependent. We see two-sided risks around our OCR forecast. Yes, the economy is indubitably weak and wage pressures are very modest. But the bottom for growth is in and the vibe is shifting, while domestic inflation is still around 5%, not 3%, even if a few stubborn components account for a good chunk of that gap. Given the usual lags from policy settings to activity and then from activity to inflation it's clearly time to cut, but the appropriate degree of easing remains uncertain and the RBNZ's (and market's) views on that are likely to keep shifting with the data flow. With a 12-week break until the next meeting, it's truer than ever that nothing is set in stone as regards the path ahead.

Given scope for underlying judgements to change, assuming consistency between the RBNZ's forecasts and policy decisions is risky. But starting point surprises still matter, and our RBNZ starting-point surprise chart pack shows some recalibration for recent data and OCR decisions will be required. Despite an upward surprise on Q2 GDP and Q3 CPI inflation printing broadly in line with the RBNZ's forecast (after looking through government policy impacts), the RBNZ cut the OCR 50bp in October vs the 25bp cut signalled by the August MPS forecast. In subsequent data, Q3 unemployment rose by less than the RBNZ forecast.

Figure 1. Expenditure GDP vs the August MPS forecast



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Looking ahead

NZ Economic News

ANZ's latest data releases, forecast updates and insights

- RBNZ MPS Preview: 50bp OCR cut expected next week
- RBNZ MPS starting-point surprise chart pack
- NZ Economic Outlook: finding neutral
- NZ REINZ housing data: a shift in momentum
- NZ labour market: not a game changer
- NZ Insight: FTA with Gulf countries bolsters trade opportunities
- NZ Property Focus: on the up
- NZ CPI Review: back in the band; now keep it there
- NZ REINZ housing data: finding a floor
- RBNZ MPR Review: doubling down
- NZ Insight: fiscal musings
- NZ Agri Focus: seasonal change
- NZ Insight: playing by the rules?
- NZ Property Focus: regional revelations
- NZ GDP: better than feared
- 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
- RBNZ MPS Review: the first cut is the deepest
- NZ Insight: China consumer caution impacting NZ exports
- NZ Insight: Draft Emissions Reduction Plan
- 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.

Quarterly Economic Outlook: finding neutral

This week we published our Quarterly Economic Outlook. We now expect a faster recovery in economic activity, following front-loaded easing by the RBNZ and emerging signs the economy is already responding. Business confidence has lifted sharply, the housing market is showing signs of life, and activity indicators are off their lows. That said, it will take time for lower interest rates to be reflected in hard economic outcomes. There's still a tough period to navigate in the near term with the economy still near the bottom of the cycle and labour market conditions still adjusting.

For the RBNZ's part, current guidance is that the OCR is on a path towards neutral – ie the RBNZ feel confident enough in the inflation outlook to withdraw monetary restriction, but do not deem it necessary to inject stimulus. That could change, of course. Should the economy and inflation pulse undershoot expectations, the RBNZ will not hesitate to take the OCR into stimulatory territory. However, given the scope for "structurally higher" inflation going forward, they will need to tread cautiously.

The economy is currently operating with significant spare capacity and pipeline disinflation pressures are building with inflation already near the 2% target midpoint. Capacity indicators make the case that the cyclical position of the economy justifies a little stimulus (an OCR below neutral). However, strong contributions to CPI inflation from 'non-market' sources, such as council rates, insurance, private health care, and electricity (regulated increases in distribution charges from Q2 2025), are not set to dissipate any time soon, which means that for a given level of activity there is a risk that CPI inflation will run hotter than it did over the decade prior to the pandemic. And if the housing market gets wind in its sails over 2025, housing-related components of the CPI could easily join in to see headline inflation settle above the 2% target midpoint over the medium term. In other words, the "cyclical" case for OCR cuts is strong, but the "structural" reality is that the RBNZ needs to balance risks on both sides. There's also a scenario where the economic cycle justifies a sub-neutral OCR to stabilise inflation at the 2% target midpoint in the near term, before structural factors see the OCR rise in the medium term.

We remain comfortable with our forecast for the OCR to reach 3.5% by mid-2025, our neutral OCR assumption. Gauging where the neutral level of the OCR is in real time (and forecasting it) is a significant challenge for policymakers. That said, the structural factors that underpin neutral are slow moving. The RBNZ's long-run neutral OCR estimate is currently 2.8%, but the RBNZ's own model suite ranges from 1.8% to 4.2%! Both our and the RBNZ's estimate will be influenced by how the economy responds to rate cuts.

Turning to our forecasts, the economy is expected to grow 1.1% over 2025 (previously 0.8%), and 3.0% over 2026 (previously 2.2%). While economic activity is expected to gradually recover, labour market conditions are expected to continue to weaken into 2025 as the impacts of past monetary tightening continue to flow through. The unemployment rate is expected to peak at 5.5% in the middle of 2025 before a recovery in labour demand spurs a return to a better balance. Inflation is expected to remain around 2% over the coming years as rising tradable inflation offsets continued domestic disinflation. While the threat of inflation shocks is heightened in a challenging global environment, the normalisation in inflation expectations provides the RBNZ flexibility to look through transitory inflation shocks. While there will be bumps along the road to 2%, the conditions are in place for a sustained return to a low-inflation environment.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Mon 25 Nov (10:45am)	Merchandise Trade – Oct
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 (10:00am)	ANZ Truckometer – Nov
Wed 11 Dec (10:45am)	Economic Survey of Manufacturing – Q3
Thu 12 Dec (10:45am)	Electronic Card Transactions – Nov
Fri 13 Dec (10:30am)	BusinessNZ Manuf PMI – Nov
Fri 13 Dec (10:45am)	Net Migration – Oct
Mon 16 Dec (10:30am)	Performance Services Index – Nov
Mon 16 Dec (10:45am)	Selected Price Indexes – Nov
Tue 17 Dec (1:00pm)	HYEFU 2024
Wed 18 Dec (early am)	Global Dairy Trade auction
Wed 18 Dec (10:45am)	Balance of Payments – Q3
Thu 19 Dec (10:45am)	**GDP – Q3**
Thu 19 Dec (1:00pm)	ANZ Business Outlook – Dec
Fri 20 Dec (10:00am)	ANZ-RM Consumer Confidence – Dec
Fri 20 Dec (10:45am)	Merchandise Trade – Nov
Wed 8 Jan (early am)	Global Dairy Trade auction
Wed 8 Jan (1:00pm)	ANZ Commodity Price Index – Dec
Mon 13 Jan (10:45am)	Building Permits – Nov

Interest rate markets

Local and global bond yields fell slightly this week but remain much higher than they were two months ago. We aren't reading much into this week's moves – they look like a textbook consolidation following what has been a very sharp rise across most markets. Stepping back from daily moves, the same familiar themes are at play: a lack of fiscal consolidation in the US (and here), markets having second thoughts about how much Fed easing will come over 2025 (and how quickly), and US data more consistent with a soft landing than a deep recession. All of these factors make us wary of higher long-term yields over the coming year, and that's what drove us to lift our forecasts in our recent Quarterly Economic Outlook. By contrast, we continue to expect short-end rates to drift lower over coming months. While the market is pricing in slightly more easing next week than we expect, which implies that very short-end rates like the 3mth will need to adjust a touch higher if the RBNZ "only" cuts by 50bp, we expect them to deliver a track that is lower and more front-loaded, which we expect to be read "dovishly" by markets. Mildly lower short-end rates and higher long-end rates are expected to deliver steeper yields curves next year.

FX markets

Then Kiwi made a new low and the USD DXY index made a new high for the year this week due to USD exceptionalism (which is a bit of a catch-all phrase to describe optimism over Trump's election win and generalised US economic resilience). Among other things, this vibe has fuelled the rebound in US equities and cryptocurrencies, with moves in the USD DXY supercharged by political uncertainty and poor economic prospects for Europe that have driven the euro down below 1.05. Returning to the NZD, our forecasts assume it will gravitate back towards fair value (which we see in the low-0.60s), but the current strong-dollar vibe poses ongoing near-term downside risks, as do relative interest rates, which provide an offset to home-grown good news developments like stronger dairy prices. While the Kiwi is lower, the decline has been orderly, and observed volatility has been remarkably low.

Key data summary

Performance Services Index – October. Lifted 0.3 points to 46 – still very weak. Activity, employment, new orders, stocks, and deliveries remained in contractionary territory.

GlobalDairyTrade auction. The price index lifted 1.9%, driven by a 3.2% lift in whole milk powder prices.

The week ahead

Overseas Merchandise Trade – October (Monday 25 November, 10:45am). Export returns are forecast to rise to $6.0b in October, driven by stronger dairy prices and volumes, but will still lag imports (~$7b) which are being bolstered by seasonal imports and delivery of defence force planes.

Retail Sales – Q3 (Monday 25 November, 10:45am). We've pencilled in a 0.2% q/q contraction for volumes.

RBNZ Monetary Policy Statement – November (Wednesday 27 November, 2:00pm). See our Preview.

Monthly Employment Indicators – October (Thursday 28 November, 10:45am). Weekly filled jobs data point to a 0.1% m/m contraction.

ANZ Business Outlook – November (Thursday 28 November, 1:00pm).

ANZ-Roy Morgan Consumer Confidence – November (Friday 29 November, 10:00am).

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Sep-24	Oct-24	Today	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
NZD/USD	0.635	0.597	0.586	0.620	0.620	0.620	0.630	0.630	0.630
NZD/AUD	0.918	0.910	0.900	0.899	0.886	0.886	0.887	0.887	0.887
NZD/EUR	0.567	0.549	0.559	0.564	0.554	0.544	0.543	0.534	0.534
NZD/JPY	90.5	91.0	90.6	91.8	89.3	88.0	88.2	85.7	85.7
NZD/GBP	0.474	0.460	0.465	0.477	0.470	0.459	0.463	0.463	0.463
NZ$ TWI	71.9	69.6	69.4	70.5	69.8	69.4	70.0	69.7	69.7
Interest rates	Sep-24	Oct-24	Today	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
NZ OCR	5.25	4.75	4.75	4.25	4.00	3.50	3.50	3.50	3.50
NZ 90 day bill	4.87	4.52	4.38	4.23	3.73	3.65	3.65	3.65	3.65
NZ 2-yr swap	3.58	3.64	3.77	3.80	3.75	3.75	3.75	3.75	3.75
NZ 10-yr bond	4.24	4.48	4.63	4.75	5.00	5.10	5.10	5.20	5.20

Economic forecasts

	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
GDP (% qoq)	-0.2	**-0.2**	**0.2**	**0.3**	**0.4**	**0.6**	**0.7**	**0.7**	**0.9**
GDP (% yoy)	-0.5	**-0.3**	**-0.1**	**0.1**	**0.7**	**1.5**	**2.0**	**2.4**	**2.9**
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)	0.2	-0.5	**-0.2**	**-0.1**	**0.0**	**0.3**	**0.4**	**0.4**	**0.5**
Employment (% yoy)	0.3	-0.4	**-0.9**	**-0.6**	**-0.8**	**0.0**	**0.6**	**1.1**	**1.6**
Unemployment Rate (% sa)	4.6	4.8	**5.1**	**5.3**	**5.5**	**5.5**	**5.3**	**5.2**	**5.1**

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

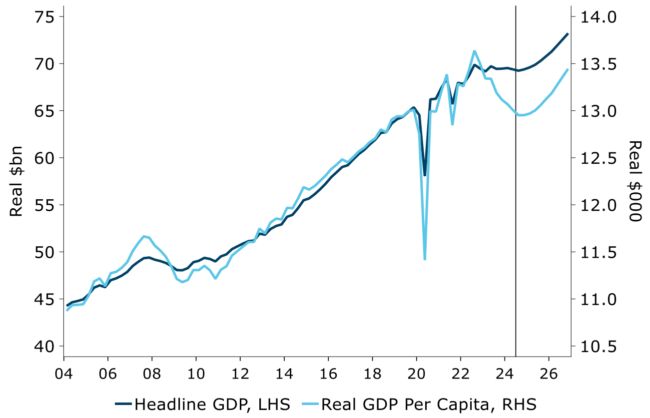


Figure 3. CPI inflation components

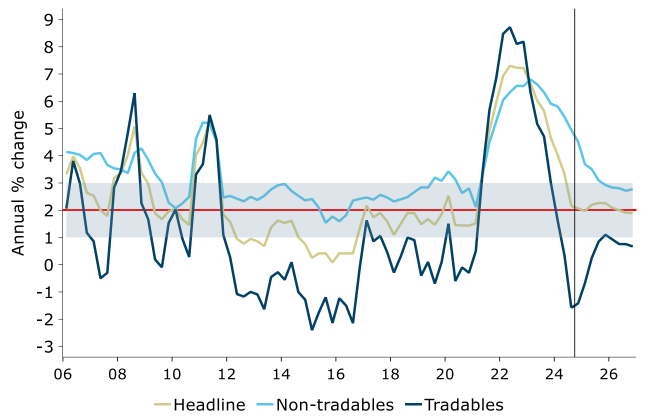


Figure 4. OCR forecast

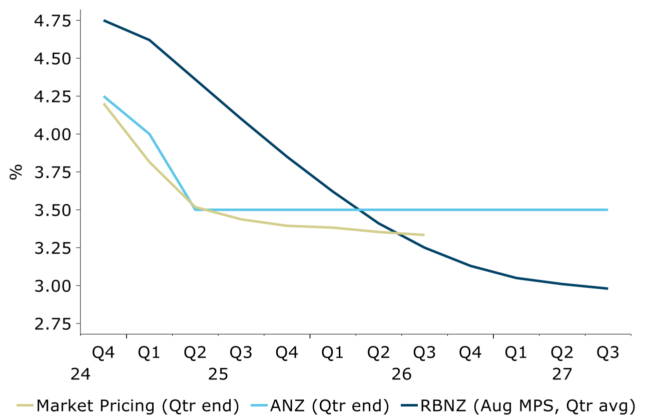
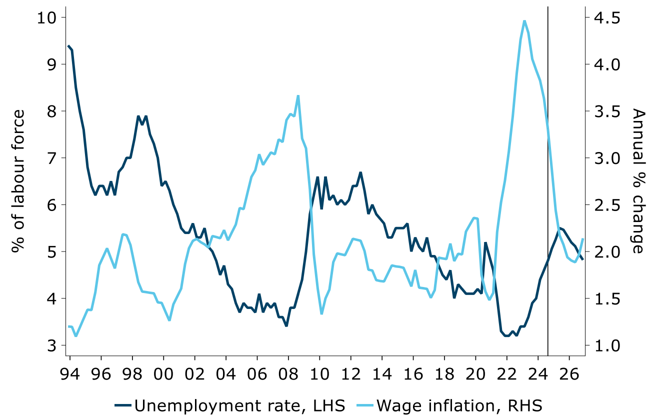


Figure 5. Unemployment and wage inflation



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

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Last updated: 19 November 2024

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