

New Zealand Weekly Data Wrap: OCR Call Change

29 November 2024



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- [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

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OCR call change: third 50bp cut now expected in February

As expected, the RBNZ delivered another 50bp cut in the OCR to 4.25% at its November Monetary Policy Statement – a Statement that had something for everyone, making it difficult to label as either “hawkish” or “dovish” relative to expectations.

The updated OCR track implies slightly more than even odds of yet another 50bp cut in February (certainly more than the 25bp cut signalled in August), but at 3.06% the terminal OCR is 8bp higher.

However, while the published OCR track might have been non-committal about what the 19 February MPS will bring, RBNZ communications subsequent to its publication have been anything but. Senior figures have reiterated at every opportunity that a third 50bp cut is the default expectation, should the data evolve as expected.

Accordingly, one would now have to have markedly different near-term forecasts from the RBNZ to not also have a 50bp cut as the default expectation at this point. And in fact, our forecasts are almost identical:

- GDP (19 Dec): ANZ and RBNZ: -0.2% q/q;
- QSBO (14 Jan): to show significant spare capacity;
- Q3 CPI (22 Jan): RBNZ 2.1%, ANZ: 2.2%; and
- Unemployment rate (5 Feb): RBNZ and ANZ: 5.1%.

Of course, the RBNZ has been careful to stress the conditionality of future policy moves; if the above data prints provide any hawkish surprises, a 25bp cut could easily become a broad-based expectation. But here and now, another 50bp cut is clearly the baseline, and that is our updated forecast.

Beyond February, and in terms of where the OCR ultimately ends up, the uncertainty widens rapidly. The RBNZ was very upfront this week about the uncertainty regarding where the neutral OCR lies and thus about how the economy will respond to the easing being delivered. For now, we’ve just front-loaded our forecast cuts slightly: a 50bp cut in February and a final 25bp cut in April (rather than three 25bp cuts) taking the OCR to a low of 3.5% as before, at which point the RBNZ goes into watch mode. We will all have to wait and see to what extent the ‘hard’ data backs up rapidly improving anecdote and sentiment.

In the medium term, the RBNZ’s GDP forecast has been revised lower. This was driven by supply-side factors (productivity and other assumption changes that impact their potential GDP forecast), meaning a weaker outlook for activity is not expected to translate into weaker CPI inflation. In fact, their output gap projection is less negative (troughing at -1.5% of GDP rather than -2.2%). Relatedly, they are now forecasting the unemployment rate to peak at 5.2% rather than 5.4%. That sees their non-tradable inflation forecast retreats a little more slowly than previously, *despite* a weaker GDP forecast, but still at an acceptable speed, given weak tradable inflation helpfully keeps headline inflation close to the middle of the target band throughout.

It might not feel like it right now, but a lower unemployment rate peak would be a relative good-news story if it were to come to fruition. While the fall in GDP per capita has been spectacular (though [upcoming GDP revisions](#) imply this will be softened), both unemployment and business failures will hopefully peak lower in this downturn than originally looked likely to be the case.



Looking ahead



NZ Economic News

ANZ's latest data releases, forecast updates and insights

- NZ Property Focus: the lights are coming on
- RBNZ MPS Review: 50bp cut, as expected
- 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
- 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

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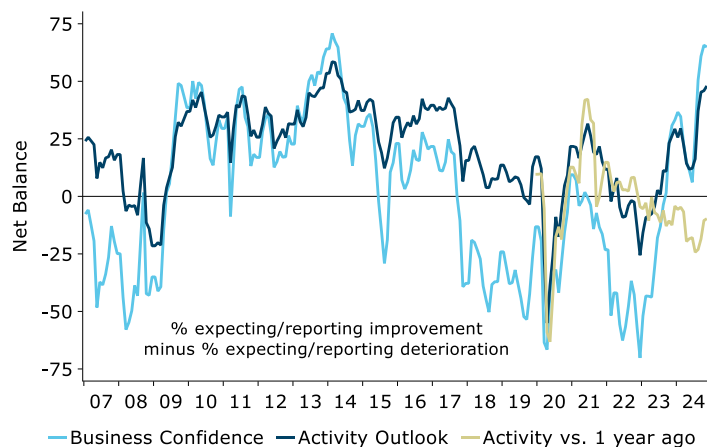
Better times ahead

This week's economic data continued to highlight the stark divergence between current conditions and expectations for the future. The week began with the release of Q3 retail sales data, the first GDP partial ahead of Q3 GDP on 19 December. Retail sales volumes fell 0.1% q/q in Q3, close to our expectation, though above the market consensus for a 0.5% q/q contraction. That said, the underlying details of the release were on the softer side of our expectations, with "strength" reflecting the more volatile industry components. 10 of 15 industries experienced contractions in sales volumes in the quarter. Of the industries that bucked the trend, motor vehicles and parts and electronic goods saw the largest bounce, up 4.3% q/q and 4.6% q/q, respectively. However, in both cases, that followed sharp contractions in the previous quarter.

Retail sales account for around 7% of GDP, however its broad coverage means it tends to give a good steer on the overall GDP release. On that note, we remain comfortable with our current forecast for the economy to contract 0.2% q/q in Q3. While that would mark another technical recession (the third this cycle), the outlook from here is much improved. Forward-looking indicators of the economy have continued to lift in recent months, signalling the recovery in activity is getting underway.

That was evident in our November [Business Outlook](#) survey. Business confidence eased 1 point to a still-impressive +65, near the decade high set in October, while expected own activity rose 2 points to +48. There was also another lift in reported past activity and employment. The latter are (mostly) still negative across the various sectors, implying more firms are reporting lower activity and employment versus a year earlier than are saying they are higher, but the tide has turned. These reported activity measures have strong correlations with GDP and employment data.

Figure 1. Business confidence, activity outlook and reported past activity



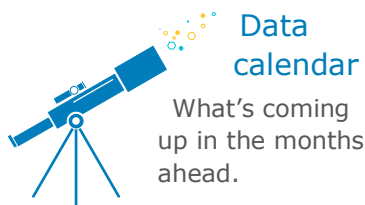
Source: Macrobond, ANZ Research

On the inflation front, the net proportion of firms expecting higher costs over the next three months eased very slightly to 62.9%, while the net proportion intending to raise their prices over the same timeframe fell 2%pts from 44% to 42%. Both remain above pre-COVID levels but are trending in the right direction. Inflation expectations saw a decent fall and at 2.5% are getting steadily closer to the magic 2% mark.

All in all, the economy is clearly still very weak, but firms are saying that things are looking brighter. And similar themes were evident in our [Consumer Confidence](#) survey this morning, with a 9-point lift that was broad-based across the various questions that make up the index.



Financial markets update



Date	Data/event
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
Mon 13 Jan (10:45am)	Employment Indicators – Nov
Tue 14 Jan (10:00am)	NZIER QSBO – Q4
Thu 16 Jan (10:45am)	Selected Price Indexes – Dec
Tue 21 Jan (10:45am)	Electronic Card Transactions – Dec
Wed 22 Jan (10:45am)	CPI – Q4

Interest rate markets

New Zealand interest rates fell across the yield curve this week, fuelled by lower US bond yields as markets there consolidated and took a more measured view of the possible impact of a Trump 2.0 presidency. Although the RBNZ also delivered another outsized 50bp cut this week, markets went into the decision with a 57bp cut priced in (implying that they saw a ~30% probability of a 75bp cut), so were somewhat disappointed, and short-end rates partially unwound earlier falls. On balance though, short-end rates are lower than they were this time a week ago, and in the wake of emphatic forward guidance from RBNZ Governor Orr and other senior staffers about a 50bp cut being more likely in February, we have tweaked our OCR forecast. As discussed on page 1, we now expect a 50bp cut in February and a 25bp cut in April. This will see the OCR get to 3.5% earlier than our prior forecasts and current market pricing, and consequently, we see scope for short-end rates to continue drifting lower. We have also revised our forecasts for bank bill and swap rates, as well as bond yields, a touch lower (page 4).

FX markets

The Kiwi hit a new low for 2024 this week, dipping below 0.58 for a brief moment. As we noted in our latest [NZD Update](#), there are crosscurrents aplenty, and that could make for a bumpy ride into the end of the year. The Kiwi has seasonality, rising dairy prices and gravitation to fair value (which we see at around 0.62) in its corner, but going the other way, interest rate differentials are narrow, and USD exceptionalism could return at any time.

Key data summary

Overseas Merchandise Trade – October. The annual deficit narrowed to \$8.96bn, supported by stronger dairy export returns.

Retail Sales – Q3. Retail sales volumes fell 0.1% q/q in Q3, a touch above the 0.2% q/q fall we had pencilled in and above the market consensus of -0.5% q/q.

RBNZ Monetary Policy Statement – November. The RBNZ cut the OCR 50bp to 4.25% as expected. See our [Review](#).

Monthly Employment Indicators – October. Filled jobs fell 0.1% m/m in October versus a revised -0.1% in September.

ANZ Business Outlook – November. Confidence held up, while expected own activity, past activity and past employment all inched higher. Inflation expectations dropped from 2.8% to 2.5%.

ANZ-Roy Morgan Consumer Confidence – November. Confidence rose 9 points to 99.8, with a broad-based lift across all the component questions.

The week ahead

Building Permits – October. (Monday 2 December, 10:45am). Looking for further confirmation that the downtrend in consents has bottomed out.

Overseas Trade Indices – Q3 (Tuesday 3 December, 10:45am). Terms of trade is expected to be positive (+0.2%) as dairy prices lifted rapidly during the quarter.

GlobalDairyTrade auction (Wednesday 4 December, early am). A further 3% lift is forecast for dairy prices as strong demand for whole milk powder has driven futures prices for 2025 contracts above USD4000/t.

ANZ Commodity Price Index – November (Wednesday 4 December, 1:00pm).

Building Work Put in Place – Q3 (Thursday 5 December, 10:45am). We've pencilled in a 0.2% q/q lift for volumes, with firmer residential activity offsetting weakness in non-residential building.



Key forecasts and rates

	Actual			Forecast (end month)					
	Sep-24	Oct-24	Today	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
FX rates									
NZD/USD	0.635	0.597	0.589	0.620	0.620	0.620	0.630	0.630	0.630
NZD/AUD	0.918	0.910	0.906	0.899	0.886	0.886	0.887	0.887	0.887
NZD/EUR	0.567	0.549	0.558	0.564	0.554	0.544	0.543	0.534	0.534
NZD/JPY	90.5	91.0	89.3	91.8	89.3	88.0	88.2	85.7	85.7
NZD/GBP	0.474	0.460	0.464	0.477	0.470	0.459	0.463	0.463	0.463
NZ\$ TWI	71.9	69.6	69.5	70.5	69.8	69.4	70.0	69.7	69.7
Interest rates									
NZ OCR	5.25	4.75	4.25	4.25	3.75	3.50	3.50	3.50	3.50
NZ 90 day bill	4.87	4.52	4.36	4.04	3.62	3.62	3.62	3.62	3.62
NZ 2-yr swap	3.58	3.64	3.69	3.64	3.57	3.57	3.59	3.62	3.62
NZ 10-yr bond	4.24	4.48	4.39	4.50	4.50	4.50	4.75	5.00	5.00

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

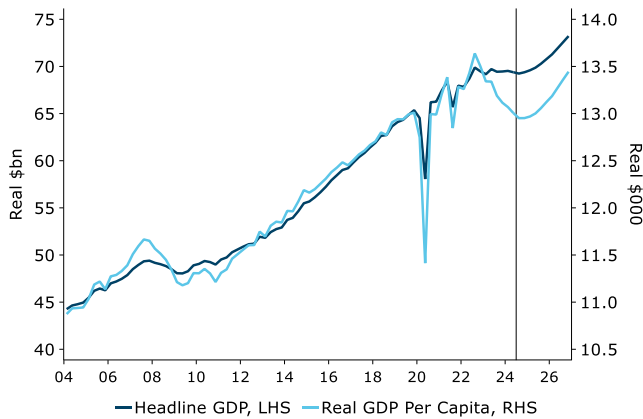


Figure 3. CPI inflation components

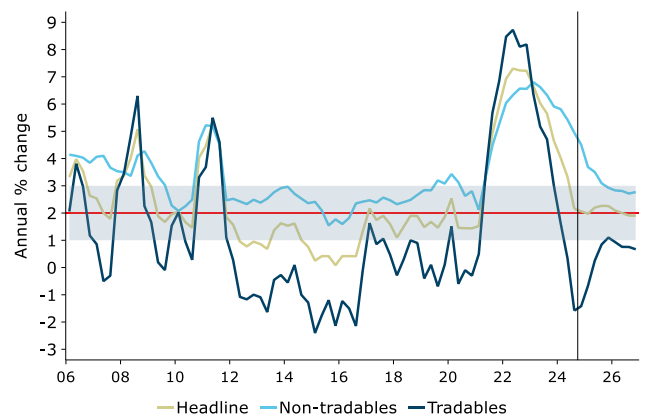


Figure 4. OCR forecast

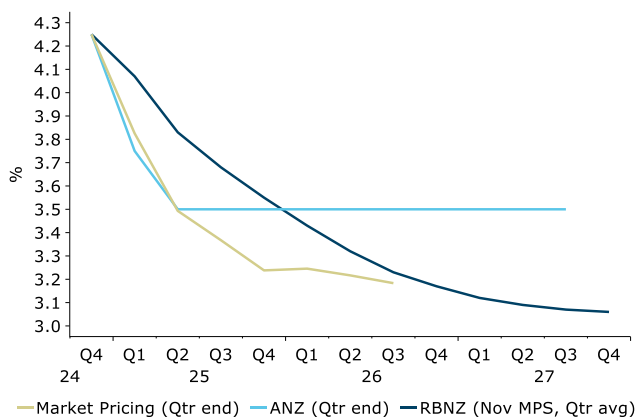
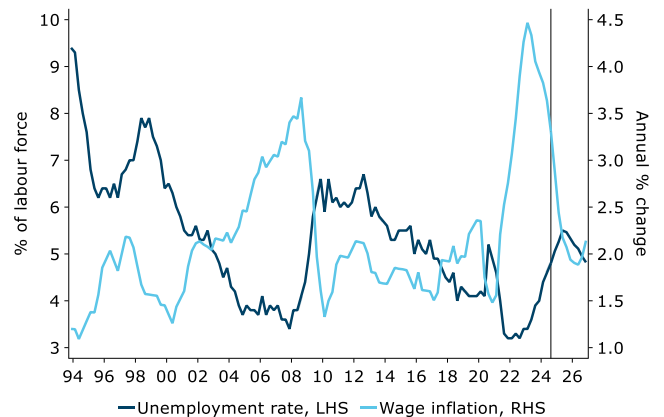


Figure 5. Unemployment and wage inflation



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



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