

September 2024

Light at the end of the tunnel

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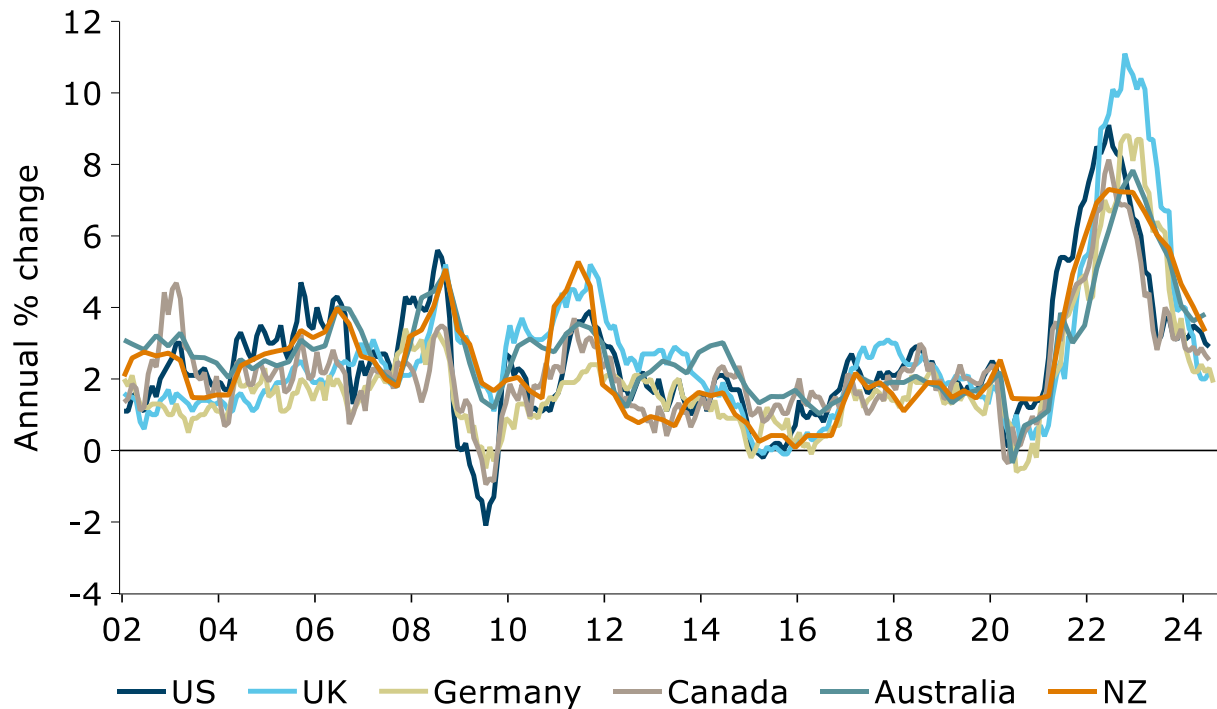
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A trouble
shared

CPI inflation

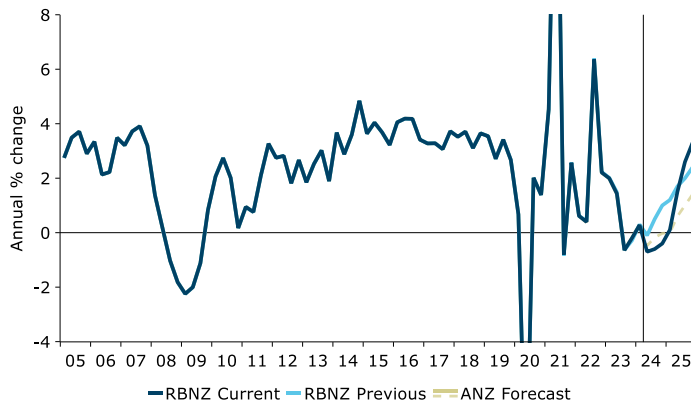


Source: BLS, ONS, DESTATIS, StatCan, ABS, Stats NZ, Macrobond, ANZ Research

Monetary
policy has
certainly
worked

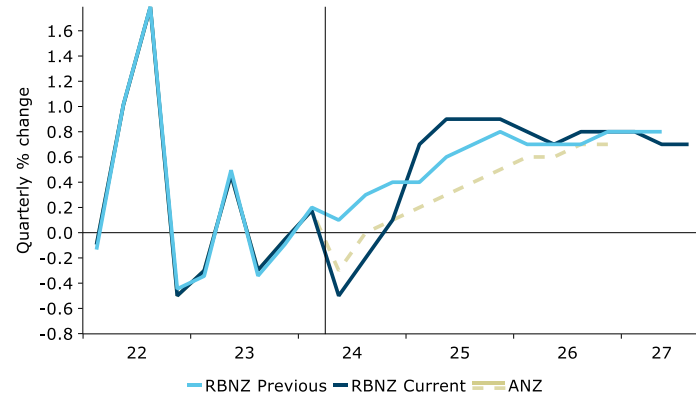
GDP

Annual GDP growth



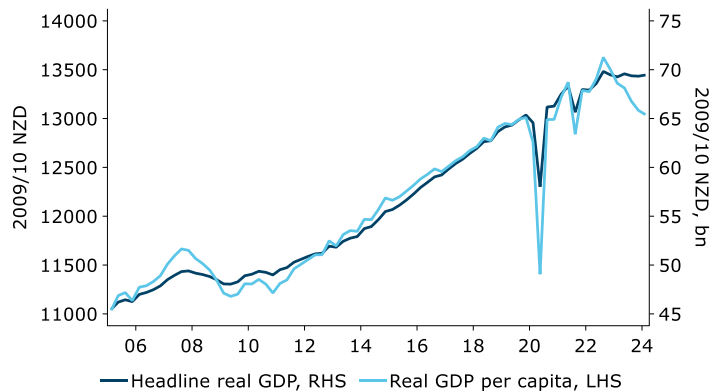
Source: Stats NZ, Macrobond, ANZ Research

Quarterly GDP growth




Source: Stats NZ, Macrobond, ANZ Research

Level of GDP



Source: Stats NZ, Macrobond, ANZ Research

- A shallow but triple-dip recession.



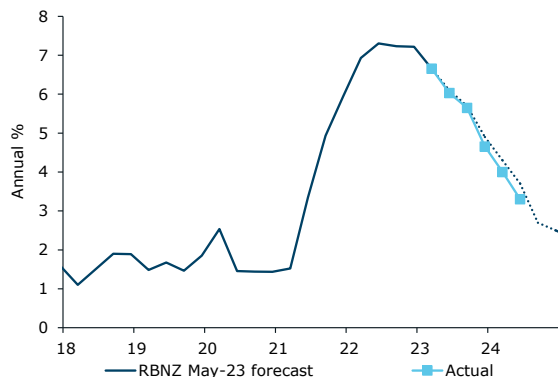
Why
has it been
so hard?

Overheating overachievers

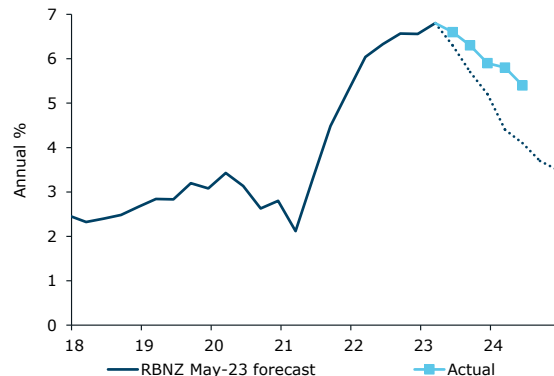
- The IMF estimates that NZ was one of the most overheated advanced economies in the world in both 2021 and 2022.
- Three special factors:
 - Biggest housing bubble in the world
 - The closed border interrupting labour supply
 - Fiscal policy was very slow to turn
- Upshot: the RBNZ faced a bigger homegrown inflation problem than most (albeit one they helped create).

How have things evolved since the RBNZ called a halt to hikes in May 2023?

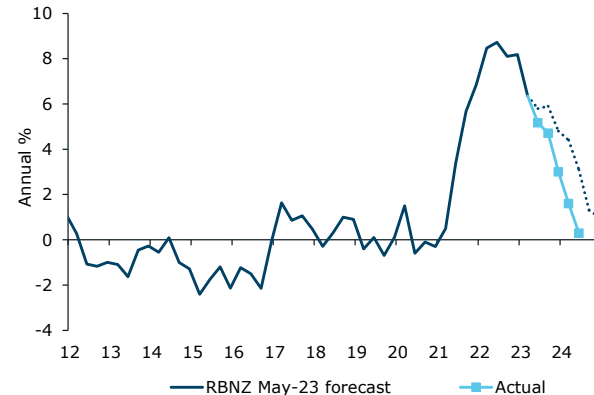
Headline CPI inflation



Non-tradable inflation



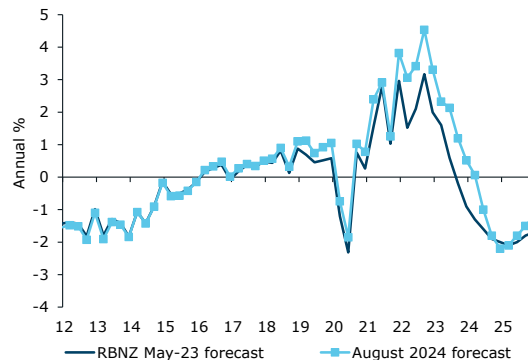
Tradable inflation



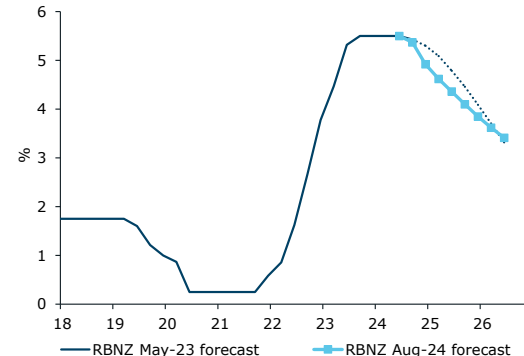
Unemployment



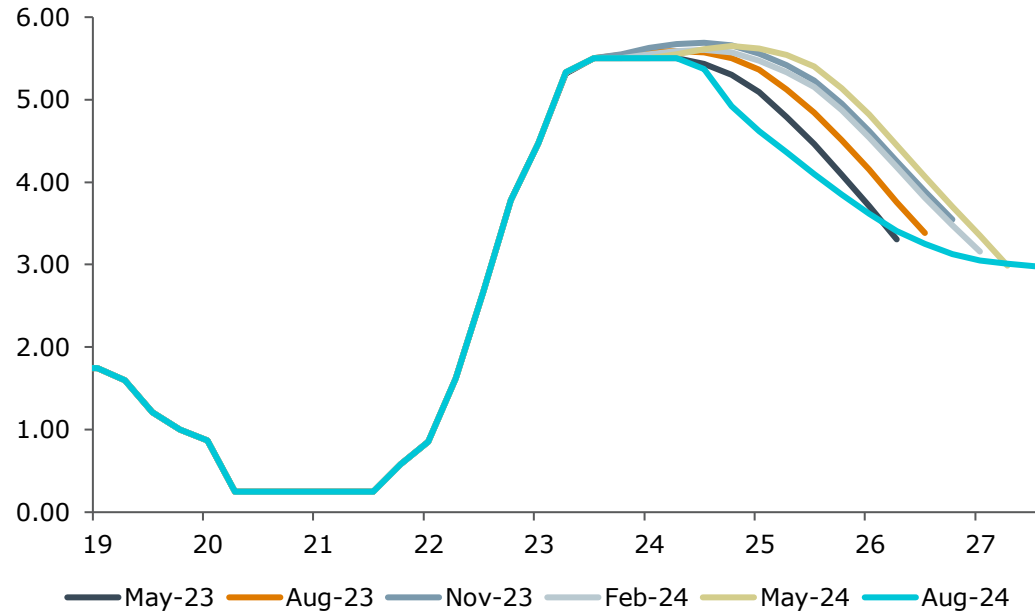
Output gap



OCR



Evolution of RBNZ OCR forecasts since it hit 5.5%

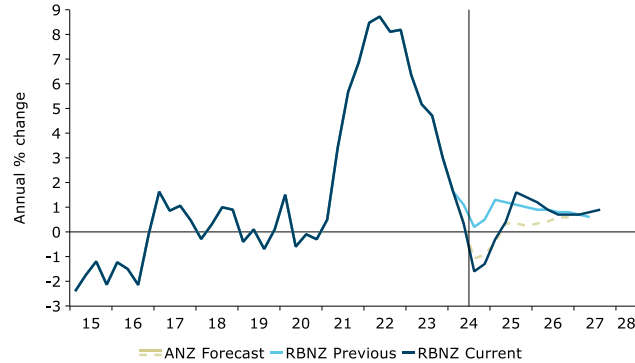


- The RBNZ sounded quietly confident in February and April but very worried in May. In July, they sounded much more confident again, and in August they passed the confidence threshold to cut.
- For our part we've simply pencilled in a 25bp cut at each meeting to 3.5%, but there are risks on both sides of that.



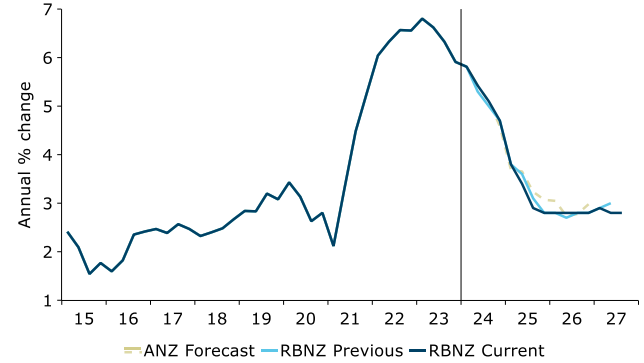
ANZ and RBNZ forecasts

Tradables inflation



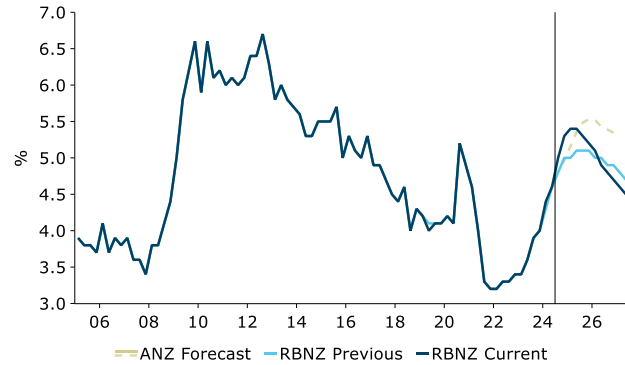
Source: RBNZ, Stats NZ, Macrobond, ANZ Research

Non-tradables inflation



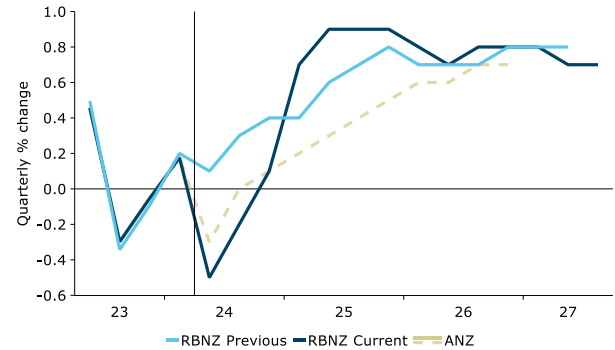
Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Unemployment



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

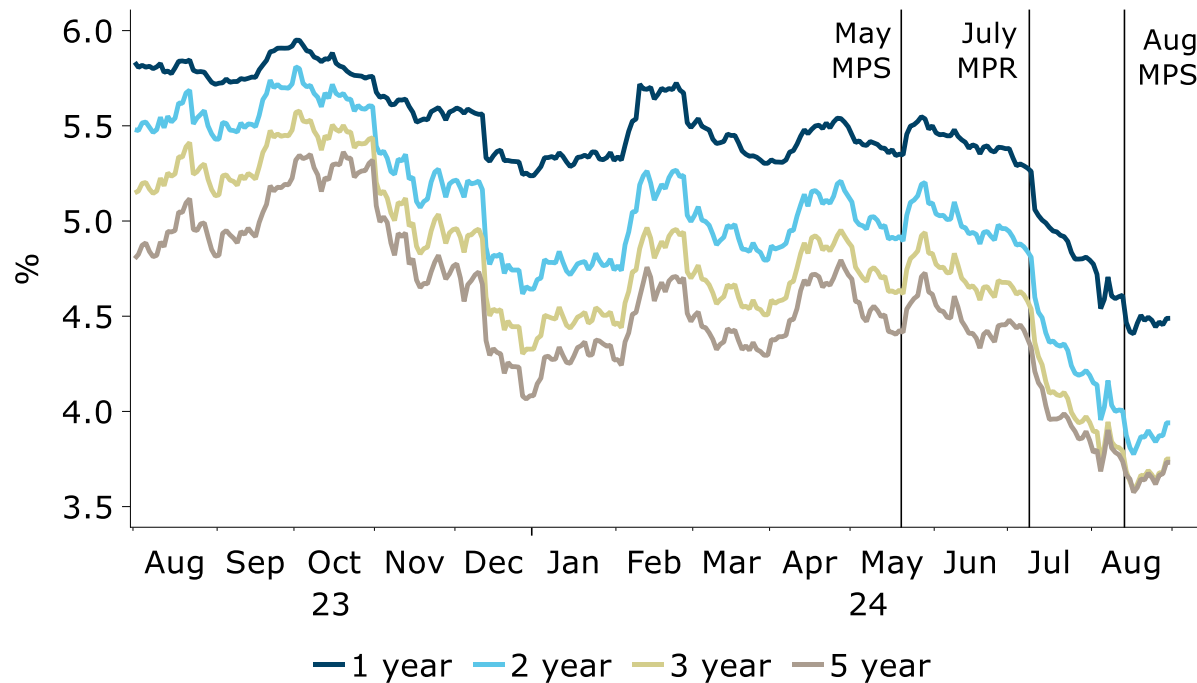
GDP



Source: Stats NZ, Macrobond, ANZ Research

Markets
didn't wait
to be told

Swap yields

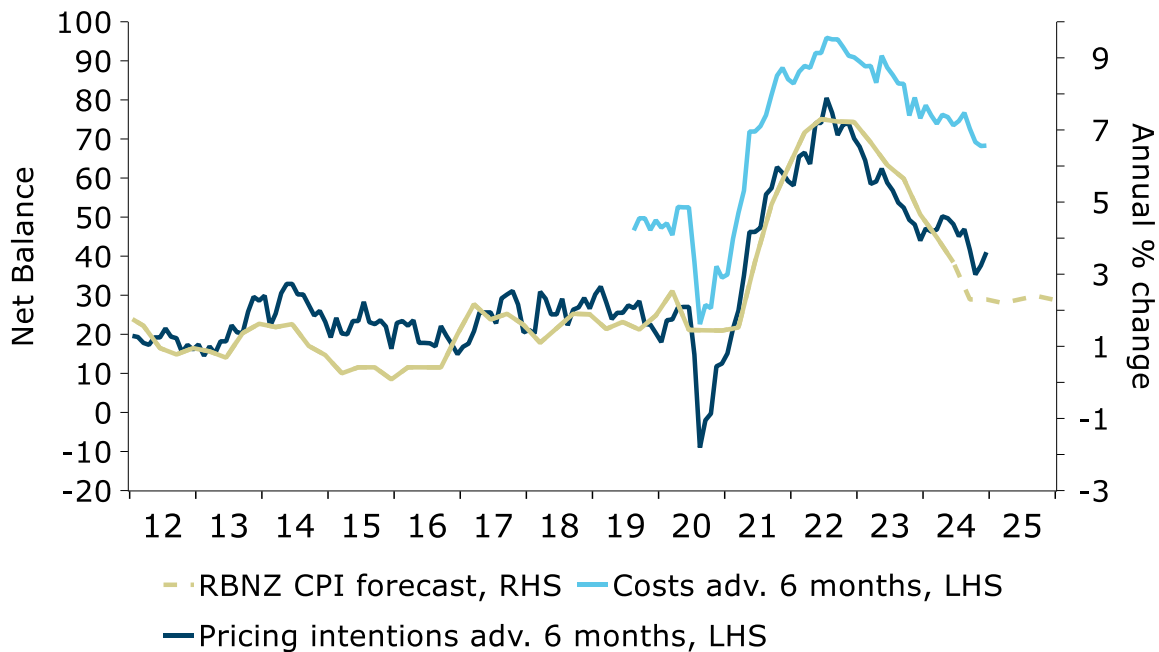


Source: Bloomberg, Macrobond, ANZ Research

- Slide started with weaker NZ data in June
- Add some global volatility
- And then a pivot to cuts from the RBNZ

Not quite there yet

ANZBO pricing intentions and cost expectations vs CPI

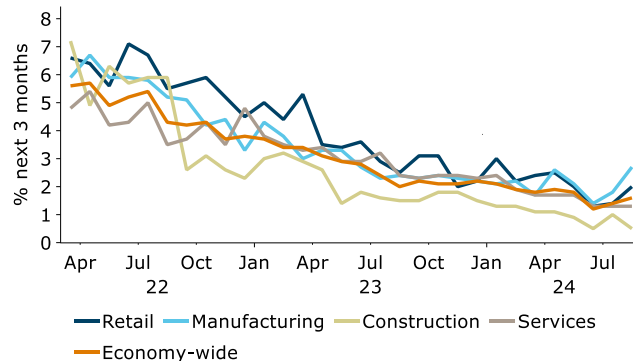


Source: RBNZ, Macrobond, ANZ Research



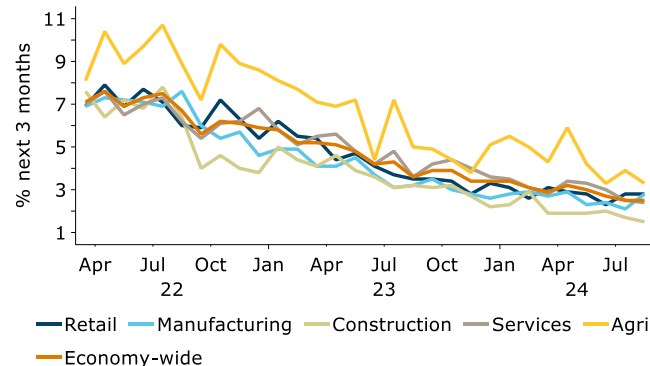
ANZBO signals are encouraging but not slam dunks

Pricing intentions by sector



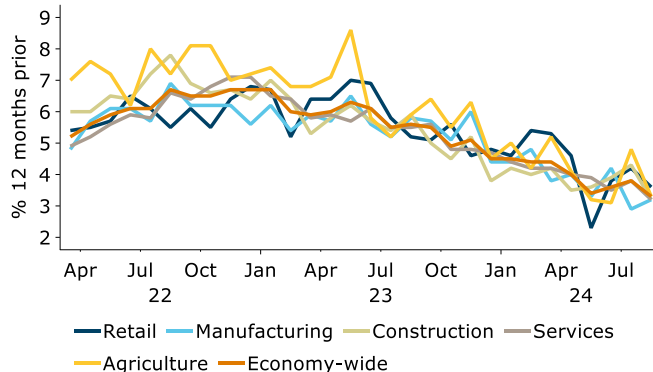
Source: ANZ Research

Cost expectations by sector



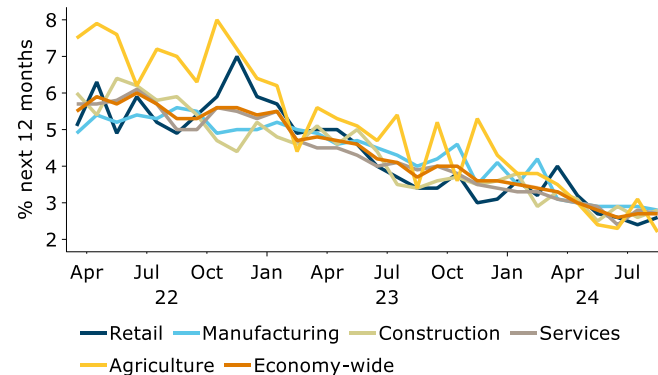
Source: ANZ Research

Wage settlements by sector



Source: ANZ Research

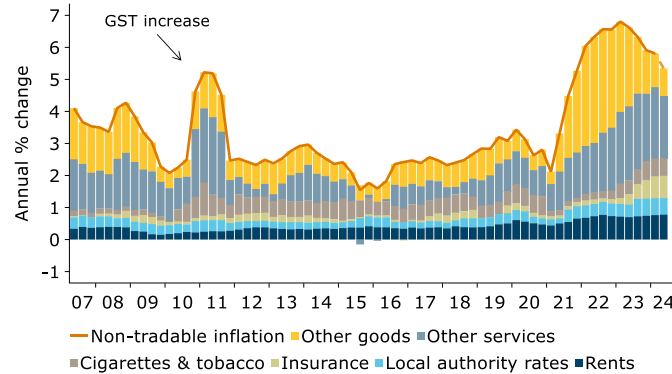
Wage-setting intentions by sector



Source: ANZ Research

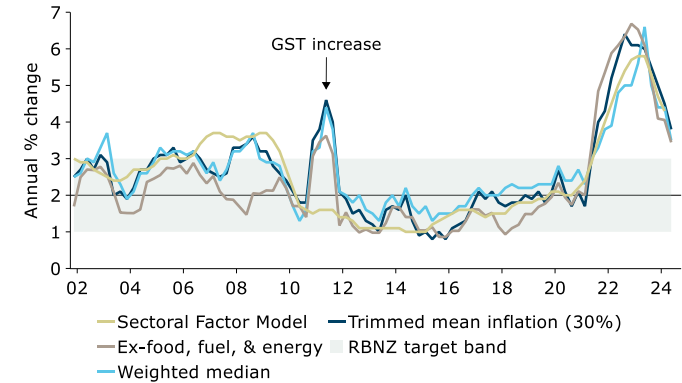


Contributions to non-tradable inflation



Source: Stats NZ, Macrobond, ANZ Research

Core inflation measures

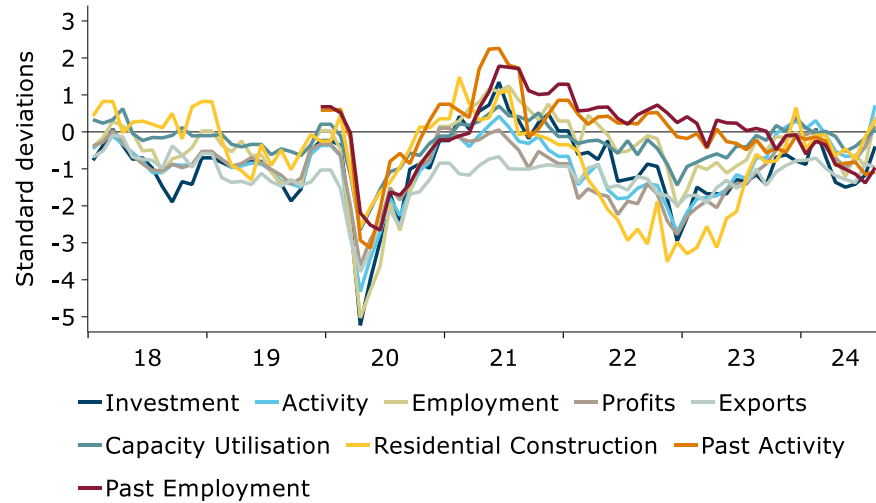


Source: Stats NZ, Macrobond, ANZ Research

- A lot of the persistence in these components looks related to previous high inflation, rather than monetary policy not working as intended.
- The RBNZ now has the confidence to look through them.

Looking
up – out of
a hole

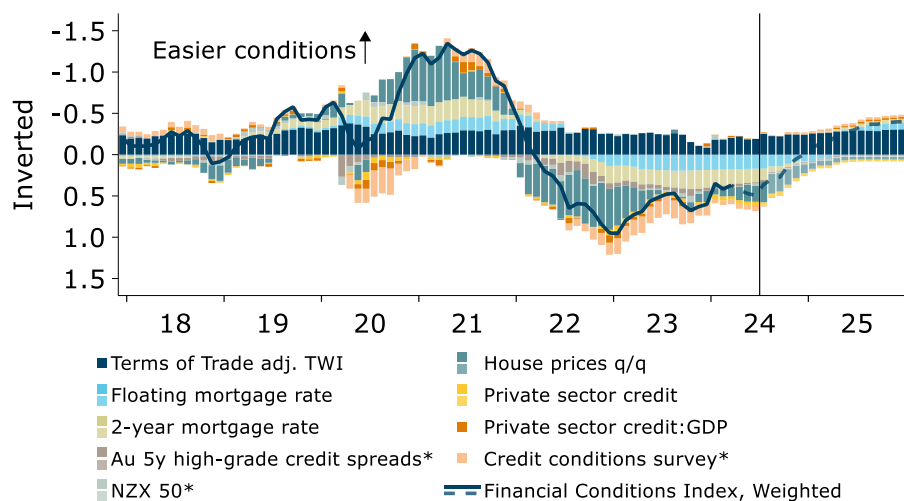
ANZBO activity indicators



Source: Macrobond, ANZ Research

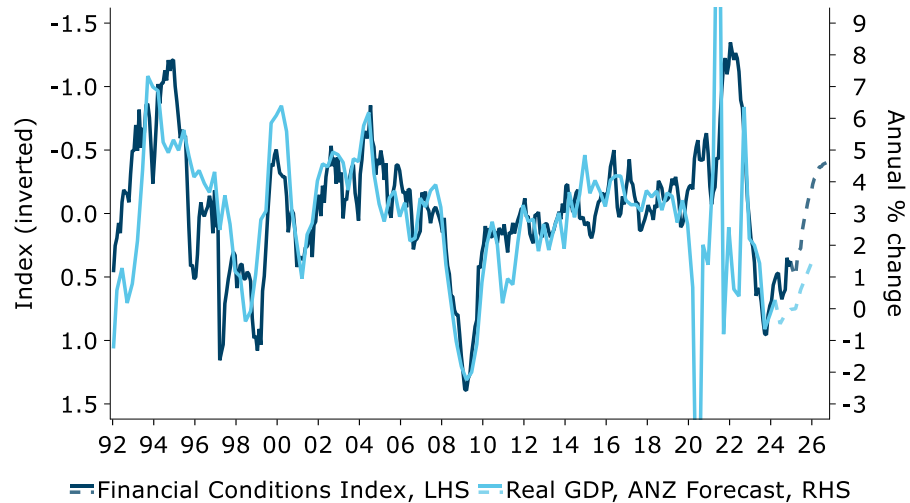
	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	56.4	52.2	48.3	44.7	51.4
Own activity outlook	38.2	34.8	21.4	39.5	42.3
Activity vs. same month one year ago	-36.4	-8.9	0.0	-57.9	-17.1
Exports	4.5	15.0	11.1	-4.3	11.8
Investment	5.6	22.2	-17.9	0.0	8.1
Capacity Utilisation	3.6	23.9	6.9	5.6	17.5
Residential Construction	19.4	...
Commercial Construction	18.8	...
Employment	3.6	26.1	-7.1	2.7	16.4
Employment vs. same month one year ago	-16.7	-2.2	-29.6	-34.2	-11.2
Profits	0.0	13.0	-14.3	-18.4	20.0
Ease of Credit	29.1	32.6	10.3	24.3	29.9
Costs	67.3	71.7	75.9	58.3	67.7
Pricing Intentions	50.9	58.7	27.6	22.2	37.6

Financial conditions are already easing



* Held constant after last observed value

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

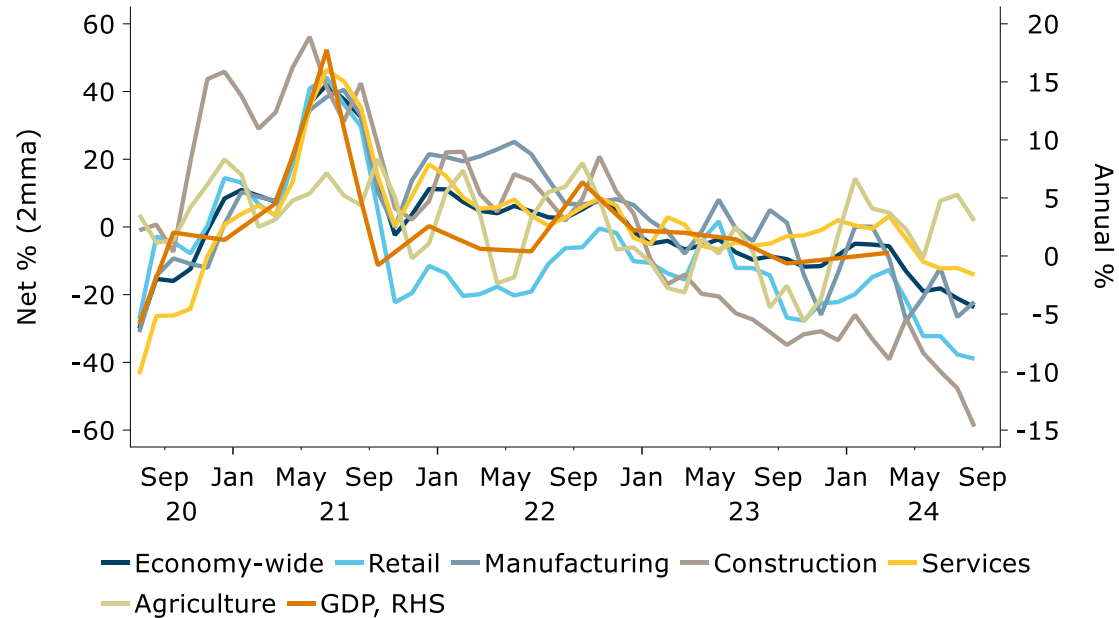


Source: Stats NZ, Macrobond, ANZ Research

- Darkest before the dawn.
- Further easing in financial conditions in our forecasts is driven by easing mortgage rates and a steadier housing market.

In the
thick
of it

Experienced activity

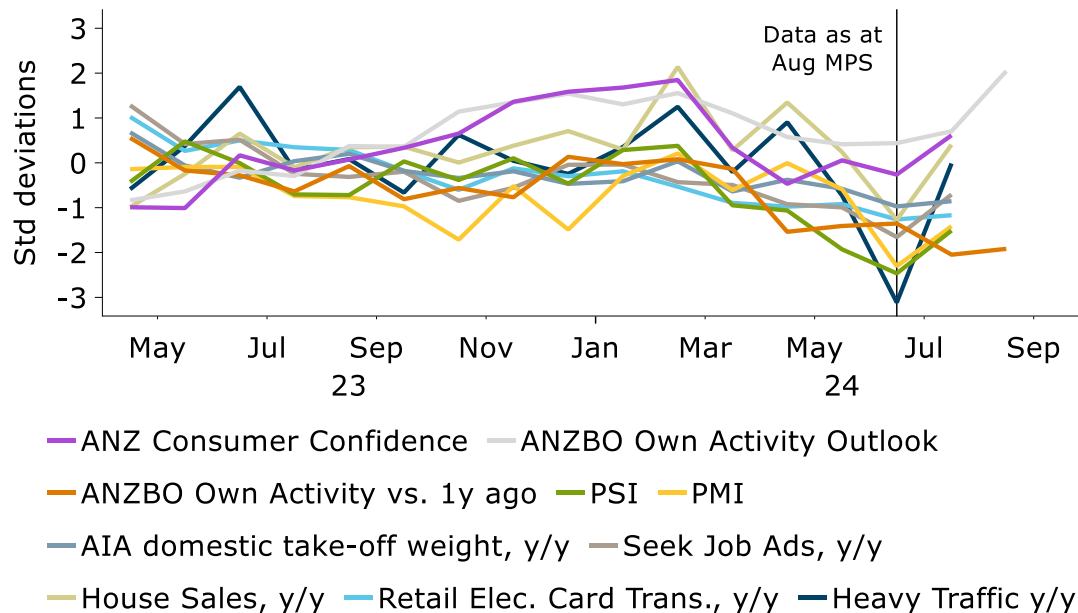


Source: Stats NZ, ANZ, Bloomberg, Macrobond, ANZ Research

- Times are particularly tough for construction and retail – the most rate-sensitive sectors.
- The services sector has been the most resilient – it's 70% of GDP and 75% of jobs. But it has now rolled over too.

In sync

Selected high-frequency activity data

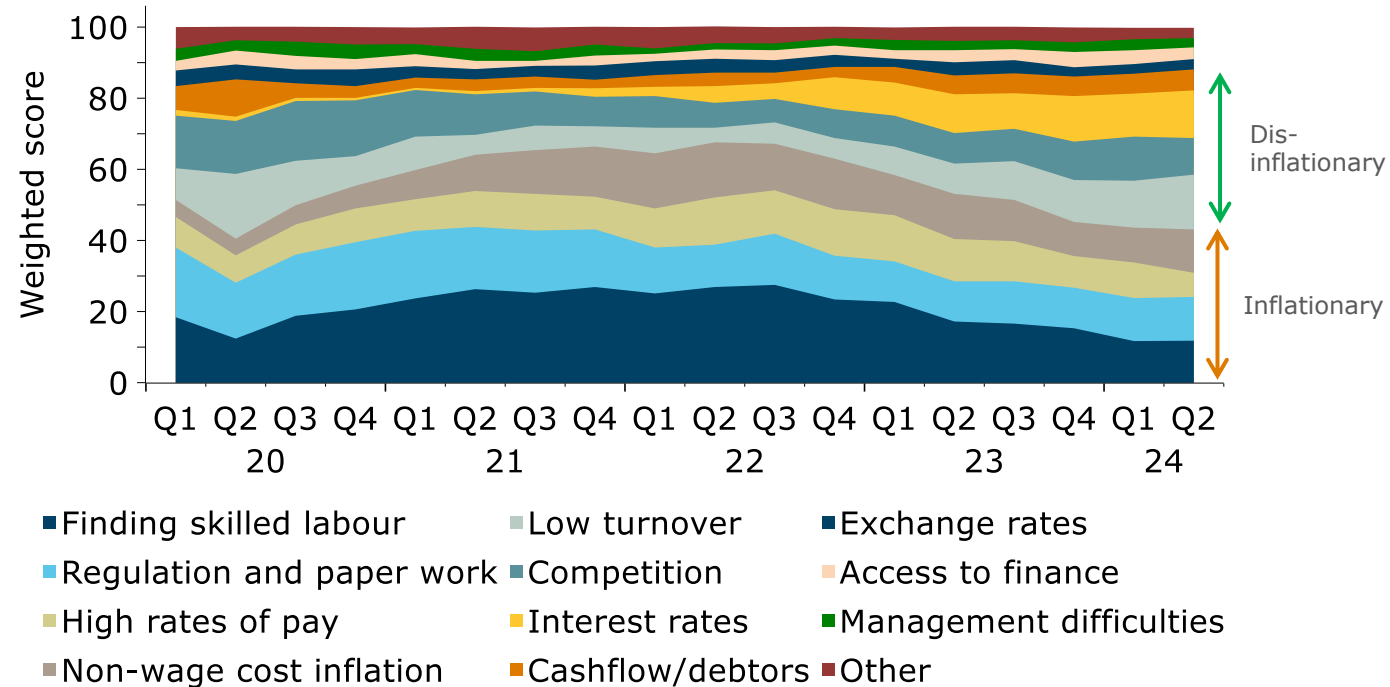


Source: Stats NZ, BusinessNZ, AIA, REINZ, Seek NZ, Macrobond, ANZ Research

- The recent slowdown in activity indicators has been very broad based.
- But so has the July bounce. Risks aren't one-sided around the RBNZ's updated forecasts (-0.5% q/q GDP in Q2, -0.2% in Q3).



Firms' reported biggest problems



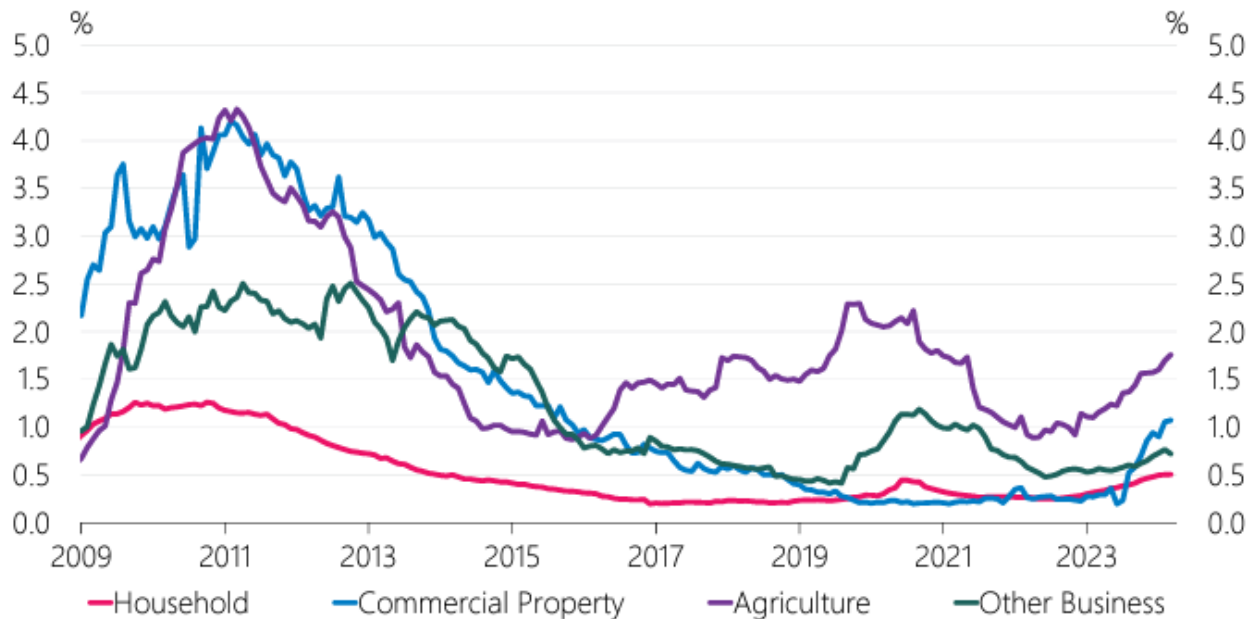
Source: ANZ Research

- Inflationary problems (first four) have steadily ceded ground to disinflationary ones (next four).



Non-performing loans by sector

(share of lending by value, seasonally adjusted)

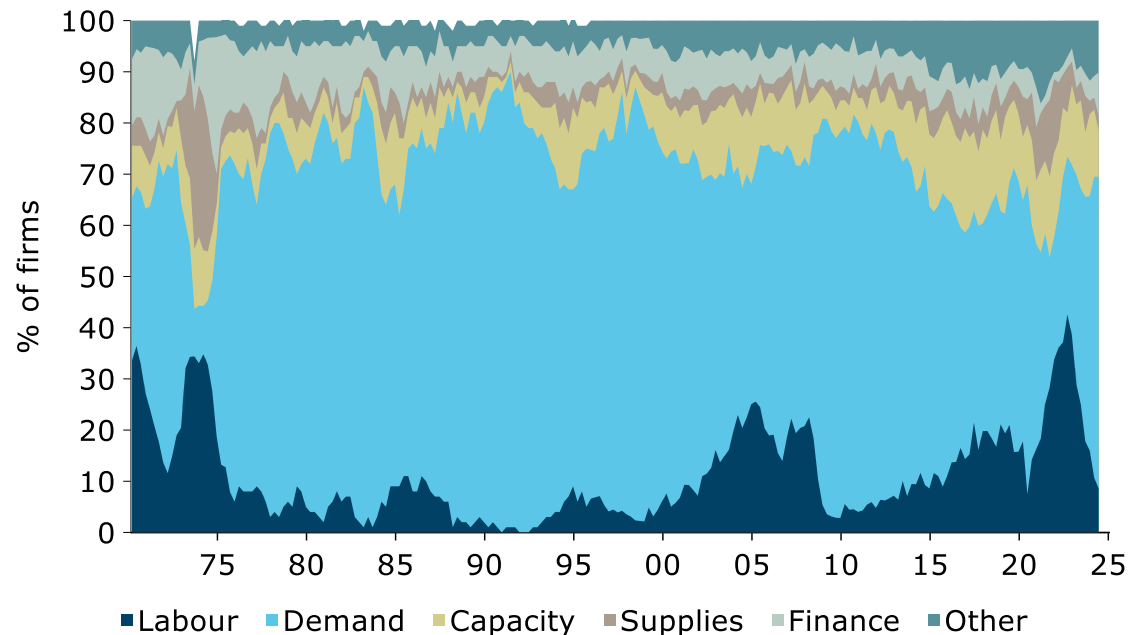


Source: RBNZ Bank Balance Sheet survey, private reporting.

- While GDP per capita data looks like 2008, financial stress is nowhere near as bad – not least because the big run-up in debt in the boom was public, not private.



Firms' limiting factors for production

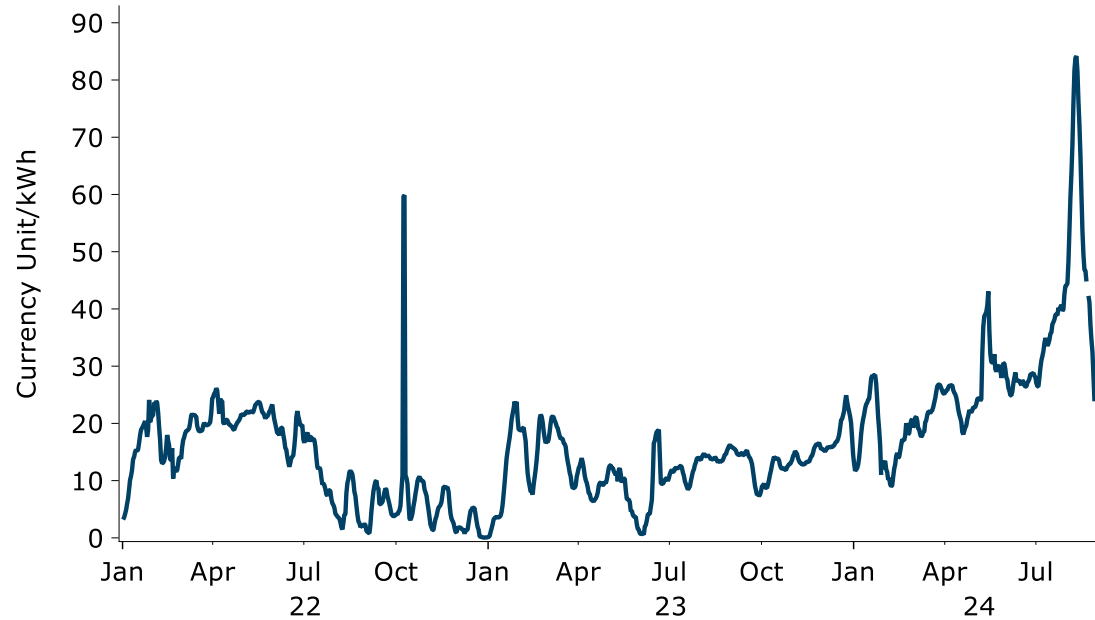


Source: NZIER, Macrobond, ANZ Research

- Labour market tightness had never been such a constraint on growth as it was in the second half of last year.
- Pretty much back to 'normal' now – though still not low.



Wholesale electricity price

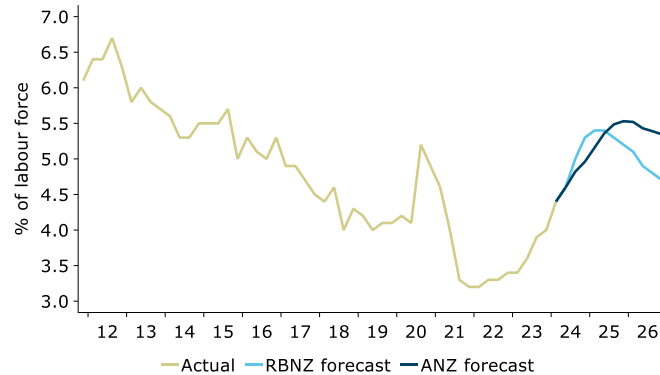


Source: NZX, Macrobond, ANZ Research

- An unpleasant reminder that supply shocks are still a thing.

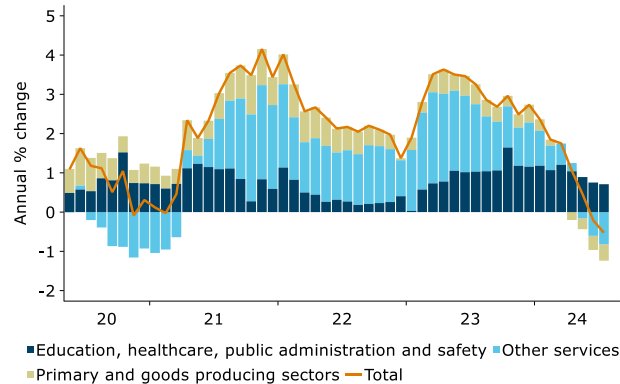


Unemployment & RBNZ forecast



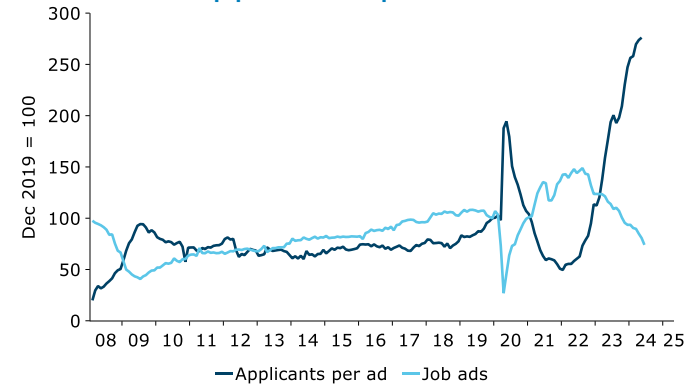
Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Monthly filled jobs



Source: Stats NZ, ANZ, Macrobond, ANZ Research

Job ads & applicants per ad



Source: SEEK, Macrobond, ANZ Research

Workers won't be happy



Source: ANZ Research



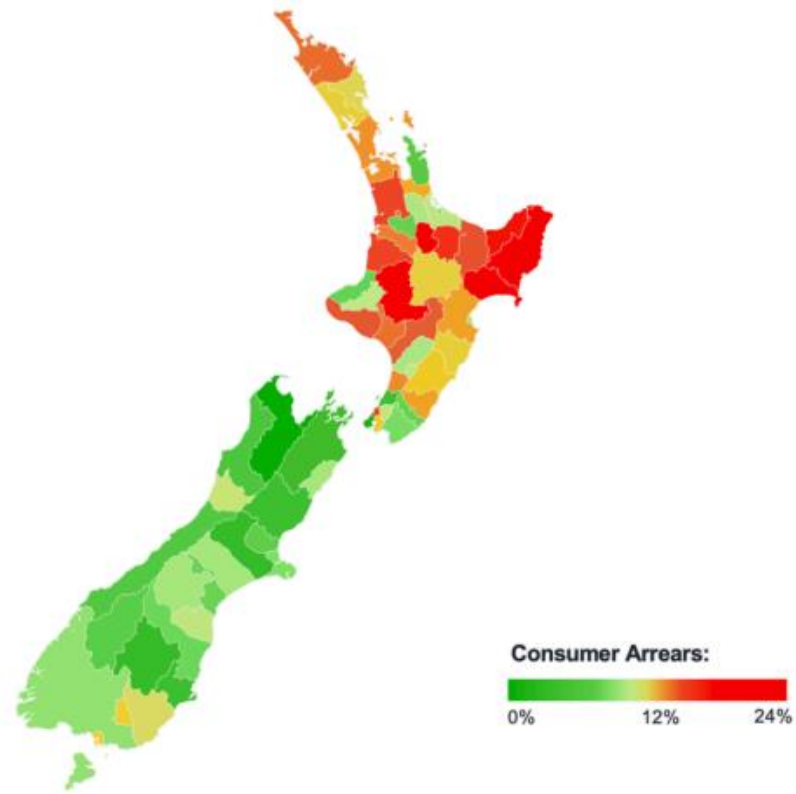
Consumer confidence has been pummeled by inflation



Source: Stats NZ, Macrobond, ANZ Research

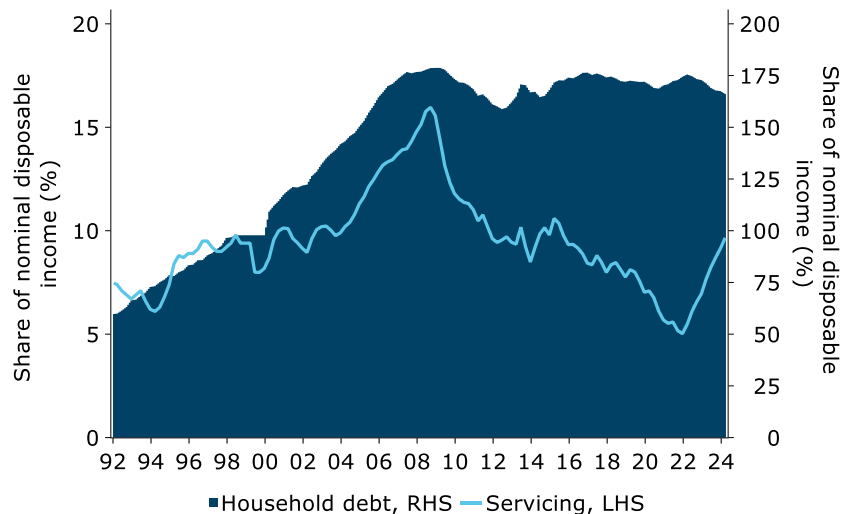
- People despise inflation, even if median incomes are keeping pace.
- Confidence has now been hit by recession headlines and a deteriorating labour market. But falling interest rates are now offering some support.

Consumer arrears by region



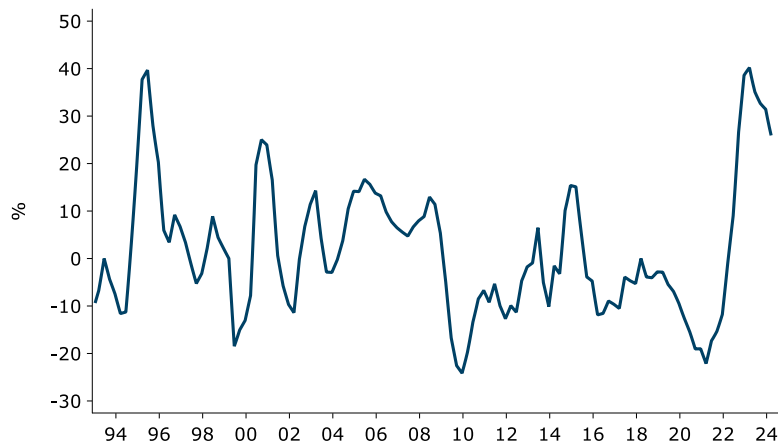
Source: Centrix

Household debt servicing



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

Annual % change in servicing ratio

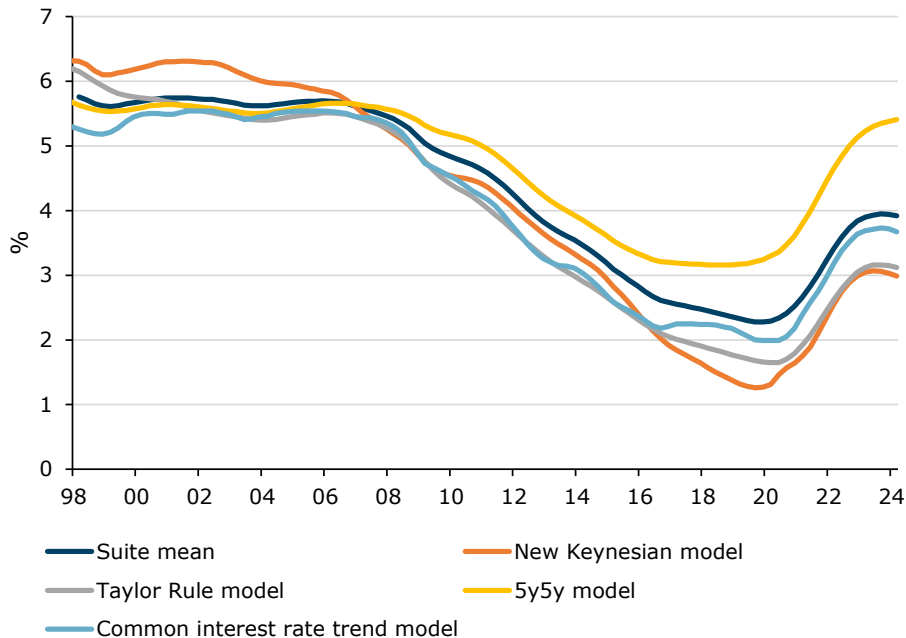


Source: RBNZ, Macrobond, ANZ Research

- Household debt relative to incomes is high, but strong wage inflation and employment have kept it quite steady in recent years.
- Debt-servicing ratio is set to peak at less than 11% vs. a peak of 16% pre-GFC. That's not particularly high. But the pace of increase has been ferocious.



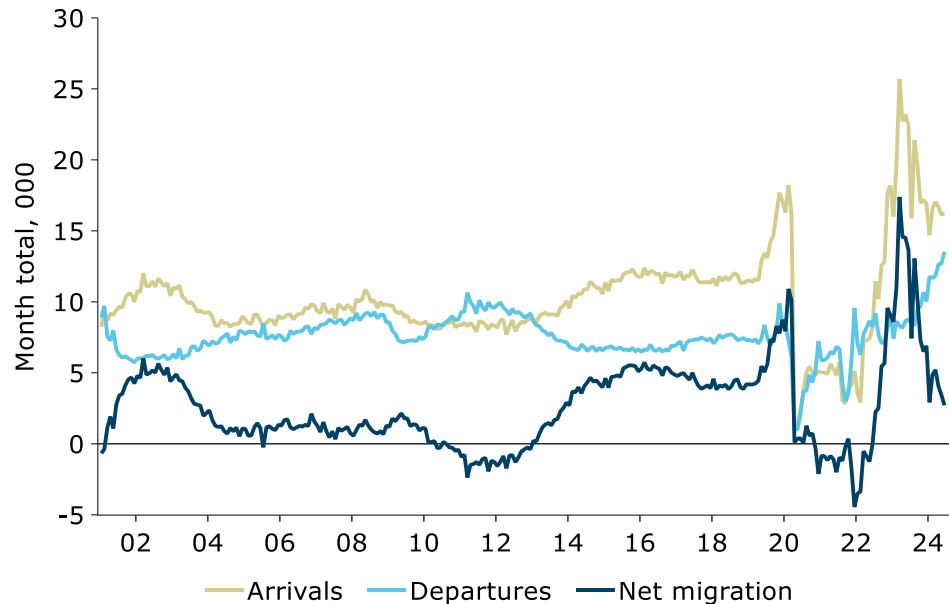
RBNZ estimates of the short-term neutral OCR



- The current level of the OCR is clearly contractionary, but how much so, and whether it will stay that way, is actually highly uncertain.



Net migration: massive churn

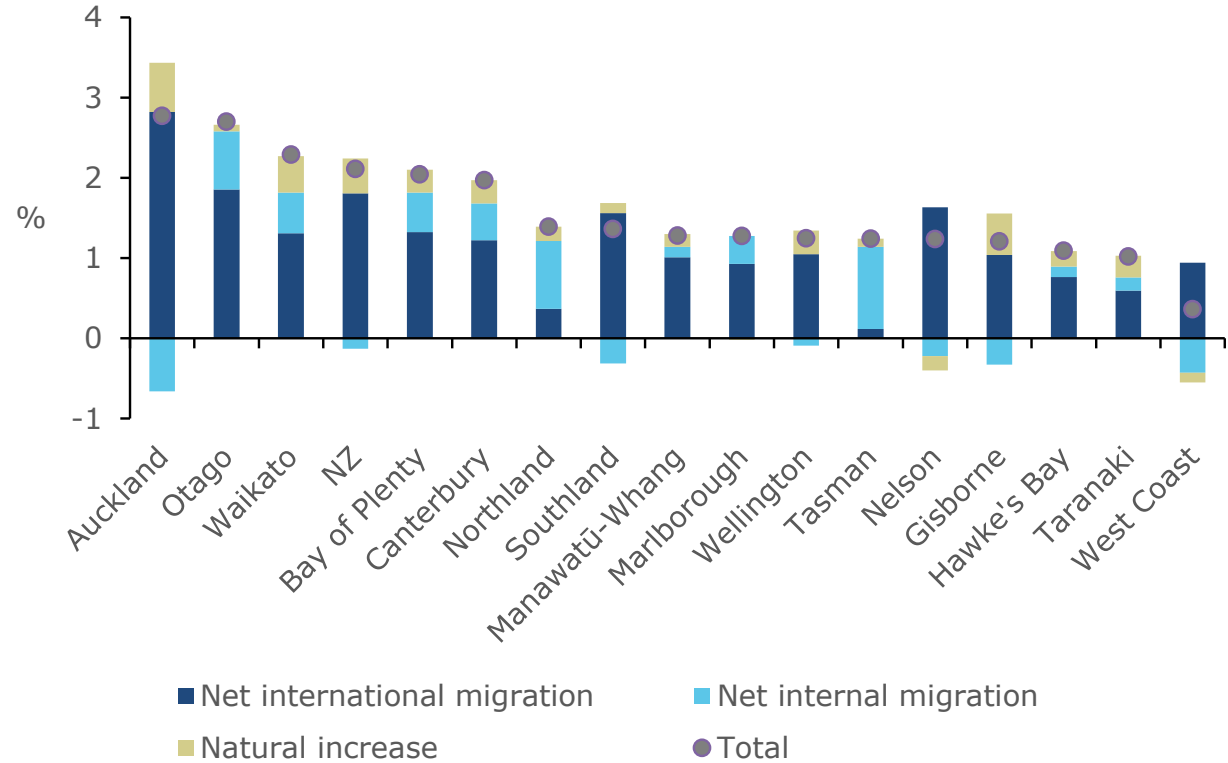


Source: Stats NZ, Macrobond, ANZ Research

- Net migration boosts labour supply but also demand (most notably for housing). Now dropping sharply as departures soar.
- This immigration wave skews low skilled and young. The RBNZ is assuming a positive but small net impact on inflation.



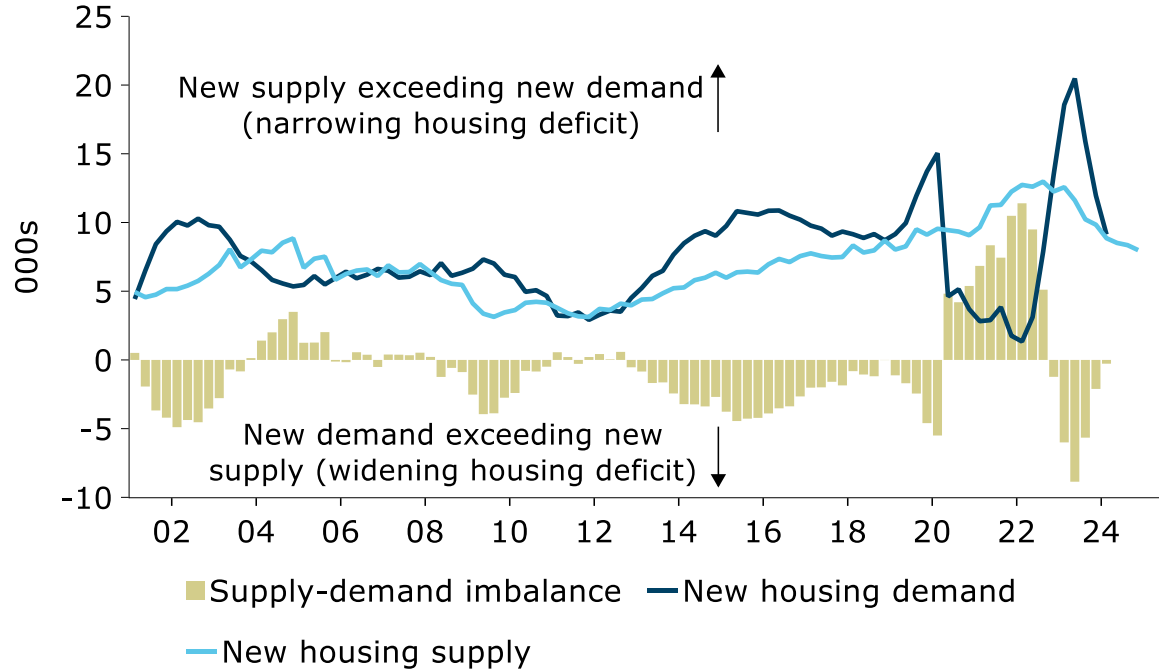
Population growth: year to June 2023



Source: Stats NZ



Just come and they will build it?

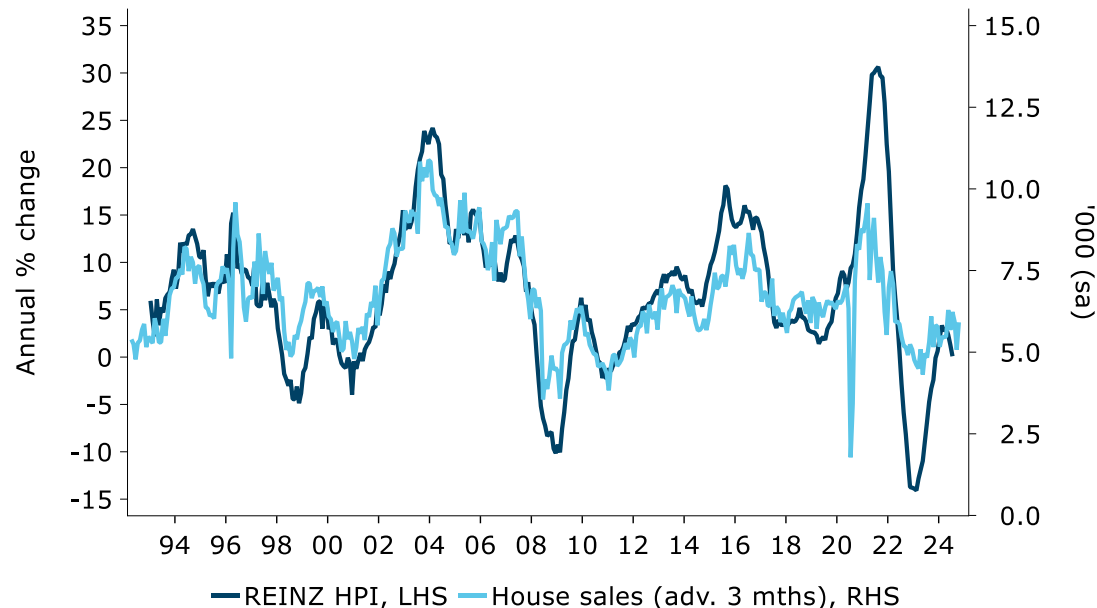


Source: Stats NZ, Macrobond, ANZ Research

- House building slowed just as the population boomed.
- Most immigrants won't be in a position to buy (financially or legally) but the pressure will come through rents.



Housing turnover and house price inflation

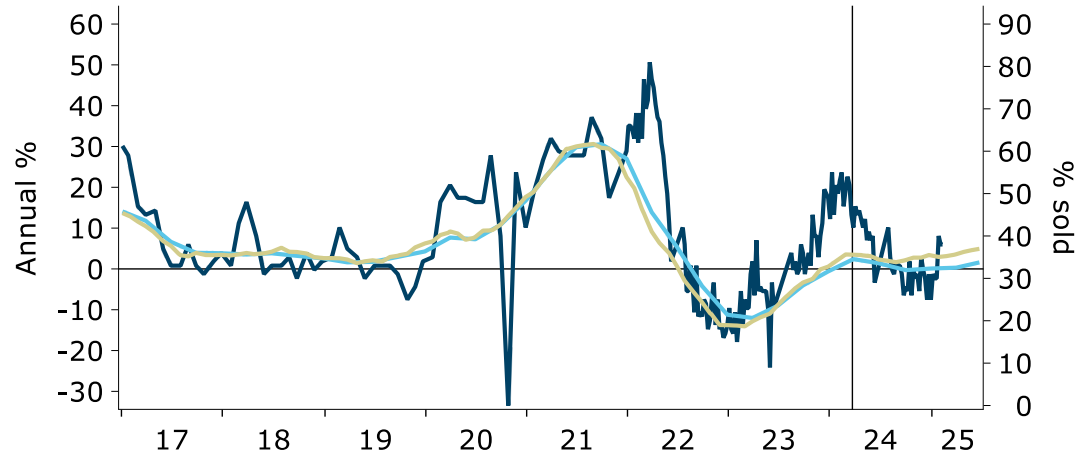


Source: REINZ, Macrobond, ANZ Research

- Prices are currently easing, while house sales are subdued.
- RBNZ estimates the wealth effect of house prices on household spending is alive and well, so housing dynamics may impact for how fast and far the OCR falls.



The most leading indicator for housing is turning higher



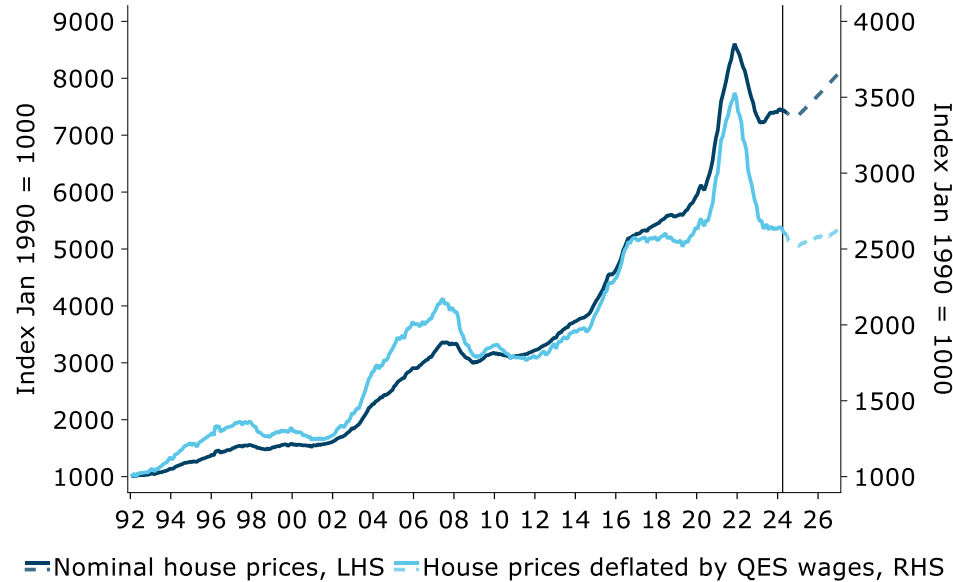
- Barfoot & Thompson Akld auction clearance rate, adv. 6 months, RHS
- RBNZ house price forecast (CoreLogic), LHS
- ANZ house price forecast (REINZ), LHS

Source: CoreLogic, REINZ, B&T, interest.co.nz, Macrobond, ANZ Research

- **Headwinds:** rising unemployment, high inventories.
- **Tailwinds:** falling interest rates, net migration, brightline test shortening, tax deductibility on investor properties, income tax cuts, LVR easing, CCCFA reforms, still-high construction costs.



Still wildly unaffordable

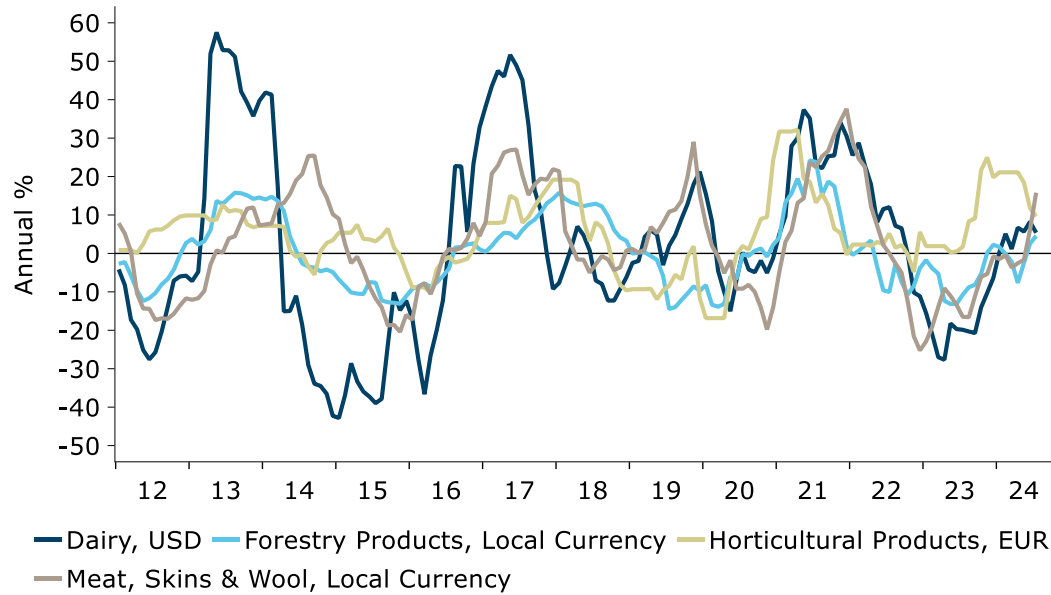


Source: REINZ, Stats NZ, Macrobond, ANZ Research

- Due to strong wage growth, *real* house prices troughed around 25% lower than they were at their peak even as nominal house prices fell 'only' 16%.
- Houses are still horribly unaffordable, but less so than they were.



Tough times given sharp cost rises

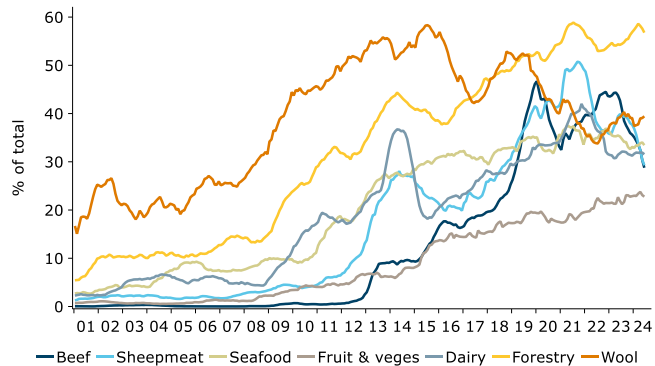


Source: ANZ, Macrobond, ANZ Research

- Sheep farmers are doing it particularly tough presently.
- Cost increases for the agri sector have been very strong (fuel, fertiliser, labour, regulatory).



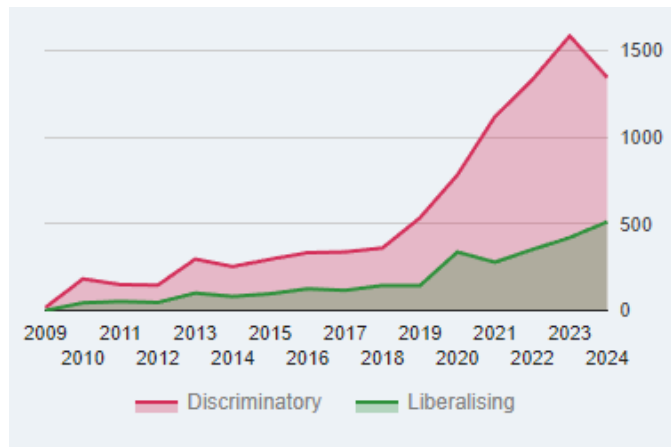
Share of NZ commodity exports to China



Source: Stats NZ, Macrobond, ANZ Research

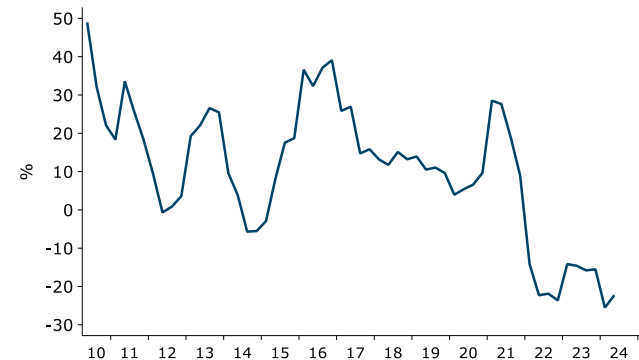
Source: Stats NZ

Trade interventions



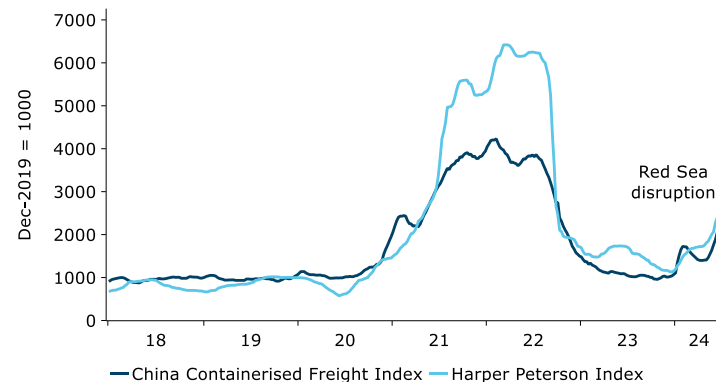
Source: globaltradealert.org

China property sales



Source: PBoC, Bloomberg, Macrobond, ANZ Research

Shipping costs



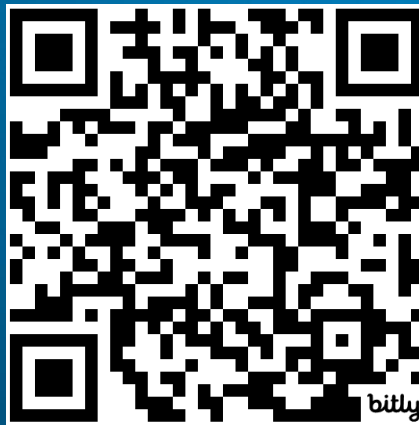
Source: Shanghai Shipping Exchange, Harper Petersen & Co., Bloomberg, Macrobond, ANZ Research

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