

New Zealand Economic Watch

RBNZ preview: Last hold of 2023, cuts next?

OCR on hold in November

The Reserve Bank of New Zealand (RBNZ) meets for the last time this year on Wednesday, 29 November and is widely expected to keep the official cash rate (OCR) unchanged at 5.5% for the fifth consecutive meeting. The OCR track and changes to the Bank's main macro forecasts will be the key focus at this meeting. The Bank will also publish an updated Monetary Policy Statement (MPS) that will reflect some downside surprises to data versus August, in our view. We expect neutral guidance given economic data has printed on the softer side and new additions to the monthly inflation measures suggest CPI will weaken further.

Currently, the OCR track reflects very modest easing from March 2025. With demand slowing, the unemployment rate rising and CPI surprising to the downside, we think the new OCR track is likely to reflect earlier cuts. Measures of inflation expectations also suggest traction from tighter financial conditions. Businesses expect inflation back into target in the next two years (Exhibit 1). The RBNZ's assumption is for CPI to reach the target in 3Q 2024.

Exhibit 1: Inflation expectations move down

But longer-term measures move sideways



Source: RBNZ, Macrobond

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The outlook is cloudy, next move is likely a cut

We expect a hard landing in New Zealand in early 2024 and a lower OCR from 2Q 2024. Slower global growth and weak domestic conditions are downside risks in 2024 while offsets come from tax cuts after the centre-right National Party signed an agreement to govern in a coalition with the liberal ACT and populist NZ First parties.

The agricultural sector is facing difficult economic conditions with lower dairy and meat prices, elevated operating expenses and increased debt and services cost. El Niño could place further pressure on the sector.

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The economy is turning

The resilience of the consumer sector is coming to an end with retail spending volumes falling for two consecutive quarters. In the September quarter, total retail sales volumes fell 3.4%, with thirteen of the 15 retail industries recording lower spending in the quarter. This is in spite of a 183% rise in migrant arrivals in the year to September 2023.

In addition, the labour market is showing signs of easing. The RBNZ was assuming a 0.3%qoq rise in employment in 3Q, but the outcomes reflected a -0.2% decline. The unemployment rose to 3.9%, a two-year high and above the RBNZ's 3.8% assumption for 3Q, compared with 3.6% last quarter. The underutilisation rate was 10.4% compared with 9.9% from the previous quarter, and 8.9% from the previous year.

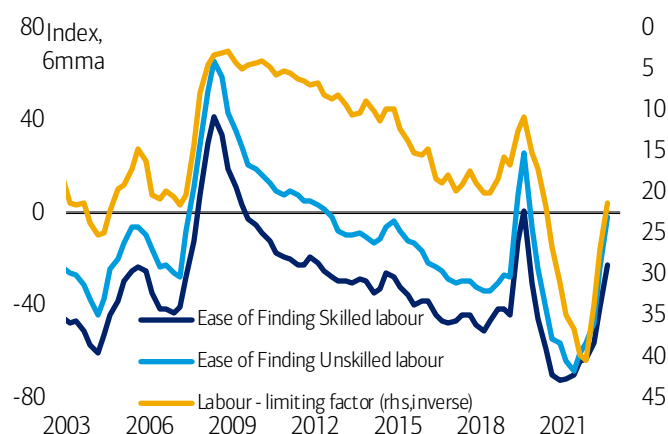
While momentum in the labour market is clearly easing, wages growth is yet to decline. An increase to public sector salary and wages (collective agreements for teachers, nurses, and the NZ Defence Force) kept wages growth unchanged at 4.3%yoy, but private sector wage cost inflation was 4.1% down from 4.3% in 2Q. Easing labour supply constraints (Exhibit 2) and softer demand is likely to see higher unemployment ahead, in our view.

Inflation data is also showing signs of a return to target. As demand slows, we expect inflation to average 3% next year (Exhibit 3). See: [Global Economics: Year Ahead 2024: Growing apart, cutting together 19 November 2023](#)

StatsNZ has released the first Selected Price indexes (SPI). The index will expand on, combine, and replace food price index (FPI) and rental price indexes (RPI) releases. It will provide six monthly indexes about inflation in a single, monthly release. The combined data covers 44% (by weight) of the CPI basket. The first release for the month of October reflected: a 0.9% decline in food prices, a 1.3% rise in Alcoholic beverages and tobacco and 0.4% rise in rent. Petrol prices fell 1.1%, while diesel prices rose 1.6%. Domestic air transport prices fell 9.4%, international air transport prices fell 7.5%. Lastly, Accommodation services prices rose 2.7% in October 2023 domestic accommodation prices rose 2.8%; overseas accommodation prices rose 2.7%. Altogether, these outcomes suggest some downside risk to the Bank's forecast for CPI at 0.7%qoq 5.2%yoy.

Exhibit 2: Labour supply constraints are easing

Due to strong population growth



Source: REINZ, Macrobond

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Exhibit 3: Key Macro forecasts

Weak growth, lower rates, and softer inflation

New Zealand	2023F	2024F	2025F
GDP (% avg)	1.2	0.8	2
CPI (% avg)	5.8	3	2.5
Policy Rate (end of period)	5.5	3.75	3.0

Source: BofA

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