Uncertainty is the new normal

ANZ Research

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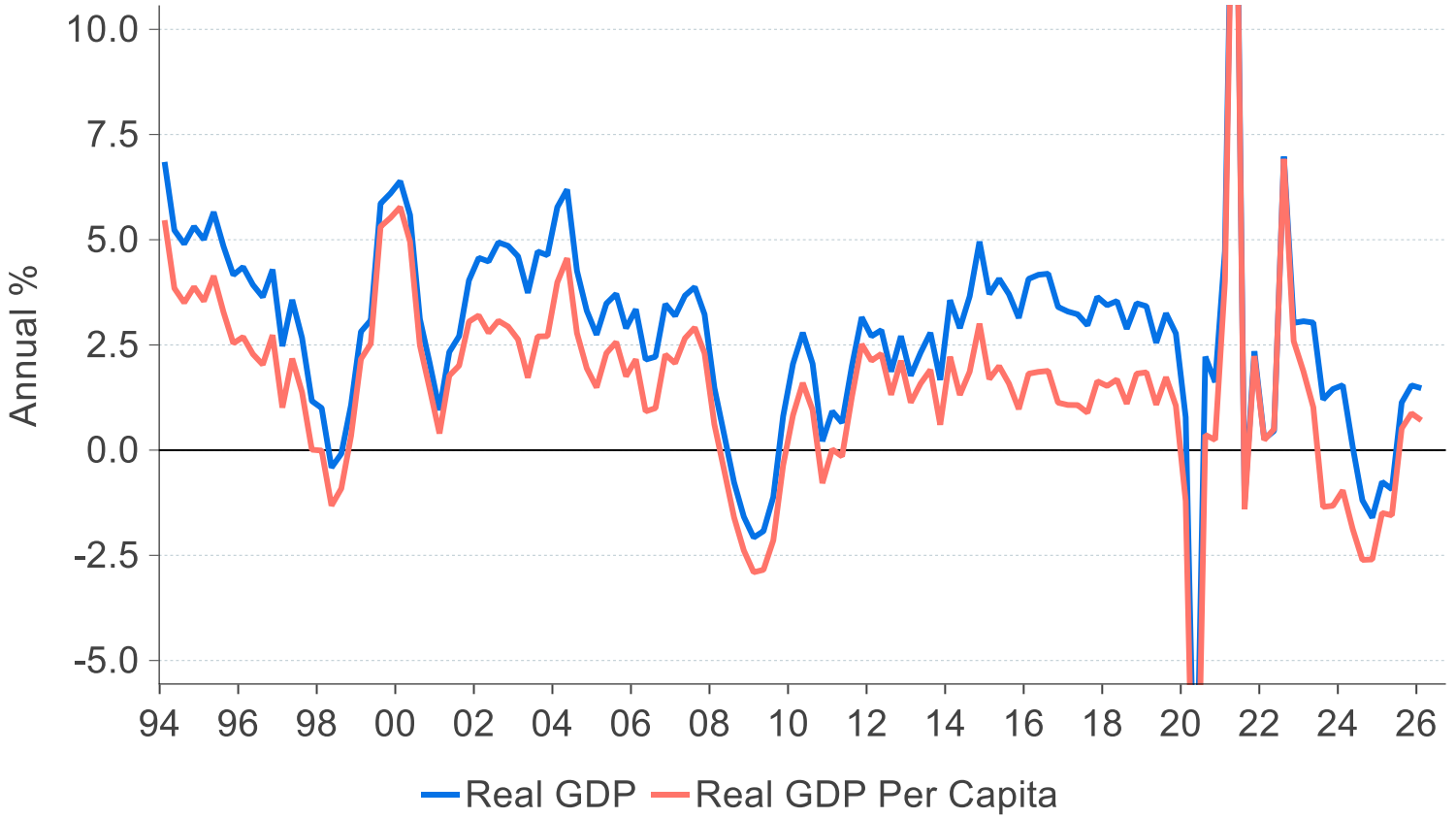
Annual GDP growth



Source: Stats NZ, Macrobond, ANZ Research

Boom

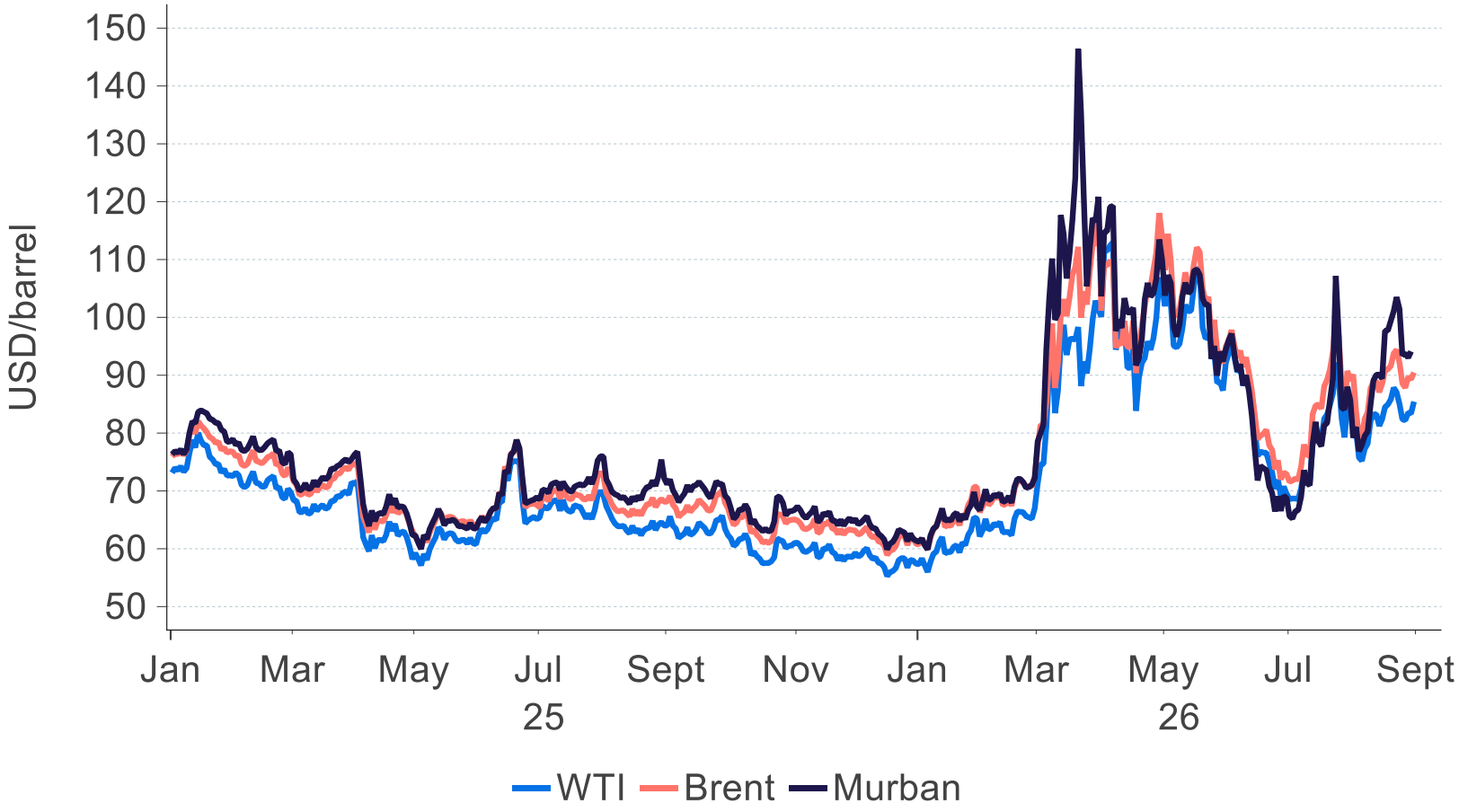
Bust

Recover

The slowdown after the COVID boom achieved a lot

- CPI inflation fell from 7.3% to around 3%.
- Current account deficit shrank from 9% of GDP to under 4%.
- Household debt as % of GDP is back where it was pre-COVID.
- Corporate/agri debt as % of GDP is the lowest in 20 years, though small-business balance sheets are more stretched.
- Real house prices are back where they were before the bubble.
- Main hangover: the level of government debt constrains choices now.
- Dark clouds: oil prices, El Niño, rising interest rates
- Tailwinds: still-strong commodity prices, tourism, low NZD, lagged effects of rate cuts

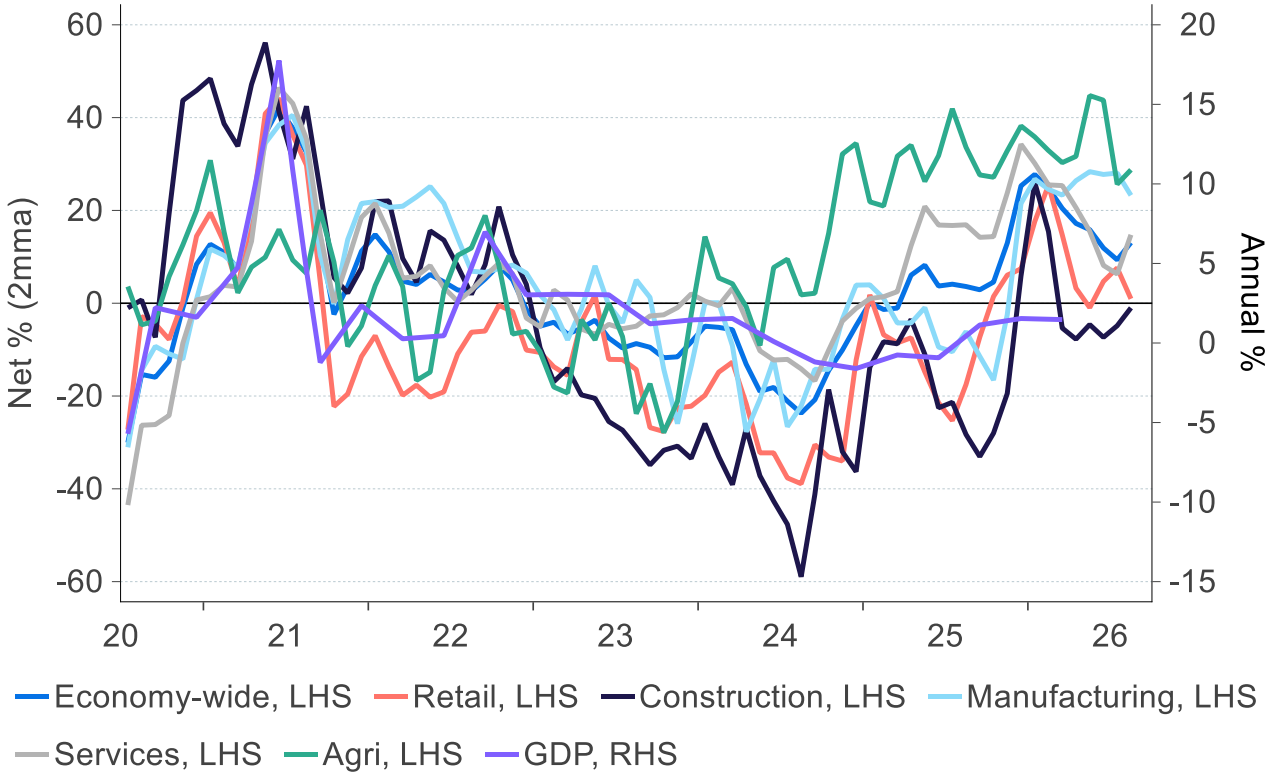
Crude oil



Source: Bloomberg, Macrobond, ANZ Research

ANZBO experienced activity: recovery, interrupted

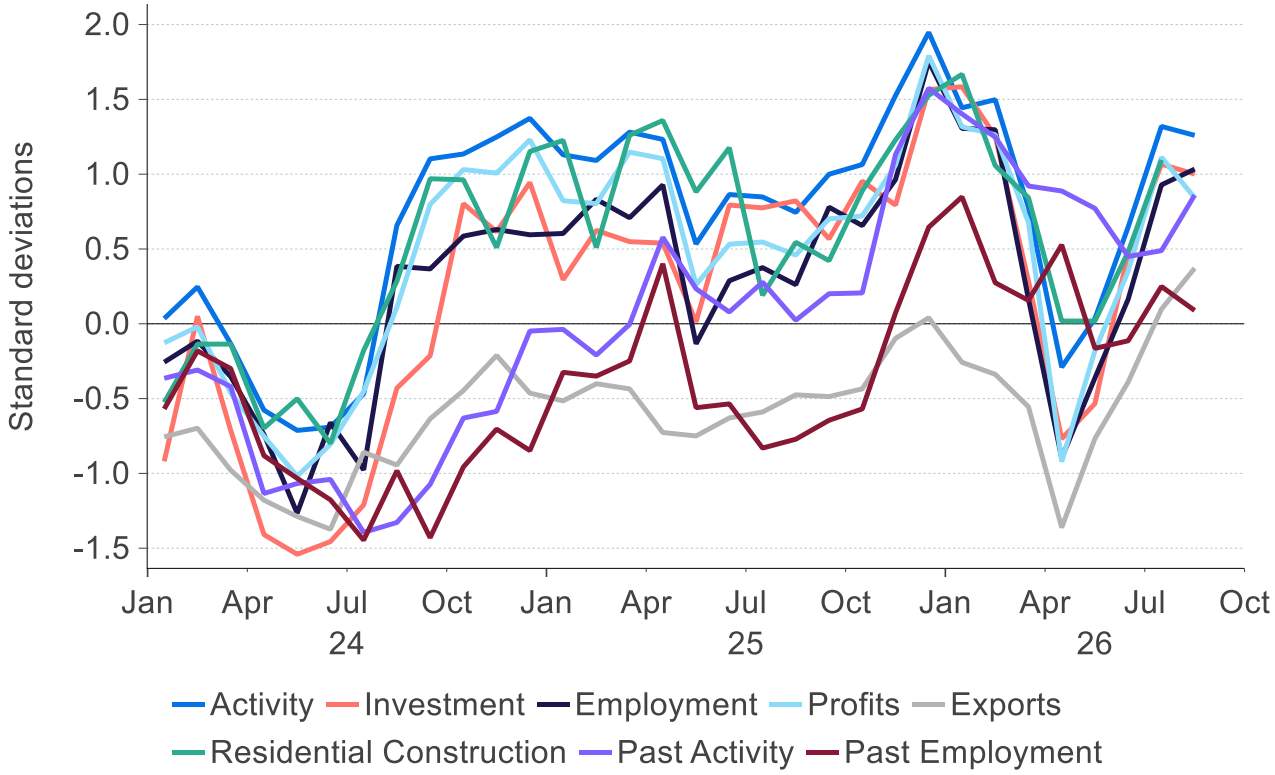
- The second half of last year was much better across a wide range of sectors.
- The agriculture sector has enjoyed good prices, a strong production season, and a low NZD.
- The recovery was getting solid momentum before stalling in response to the oil shock.
- However, things are tentatively turning higher once more.



Source: Stats NZ, Macrobond, ANZ Research

ANZBO optimism

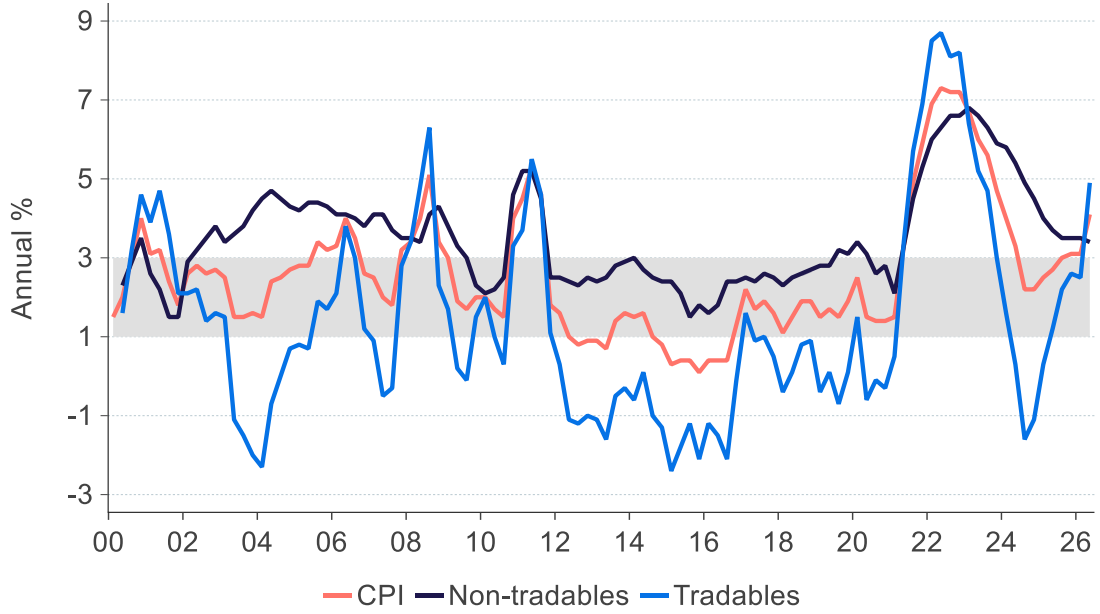
- Firms expect better times ahead and are making plans accordingly.



Source: Macrobond, ANZ Research

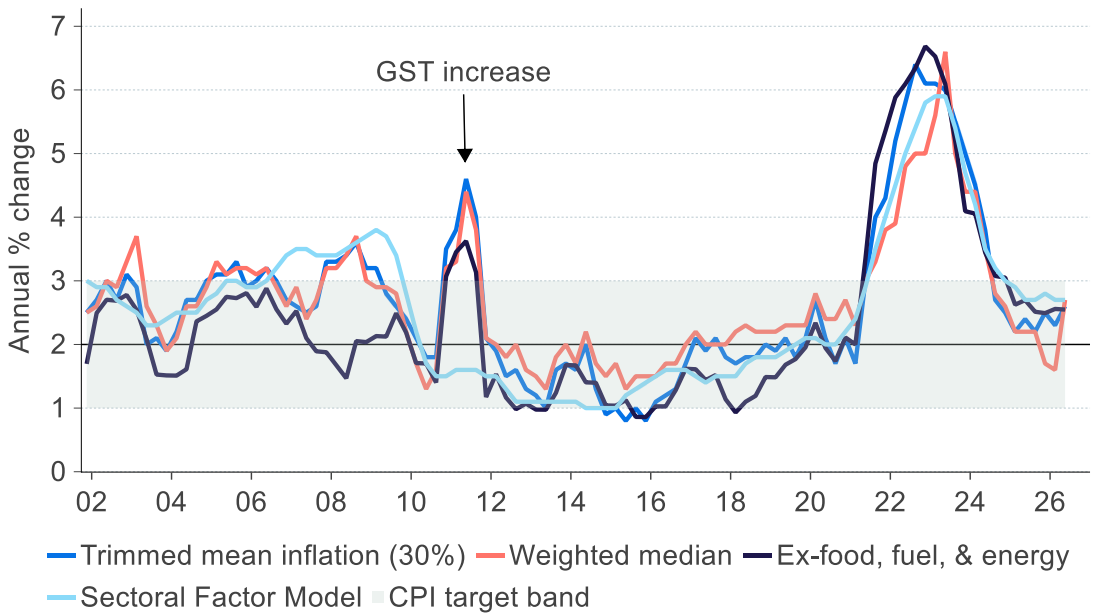
The fly in the ointment before the oil shock was already inflation

Headline inflation measures



Source: Stats NZ, Macrobond, ANZ Research

Core inflation measures



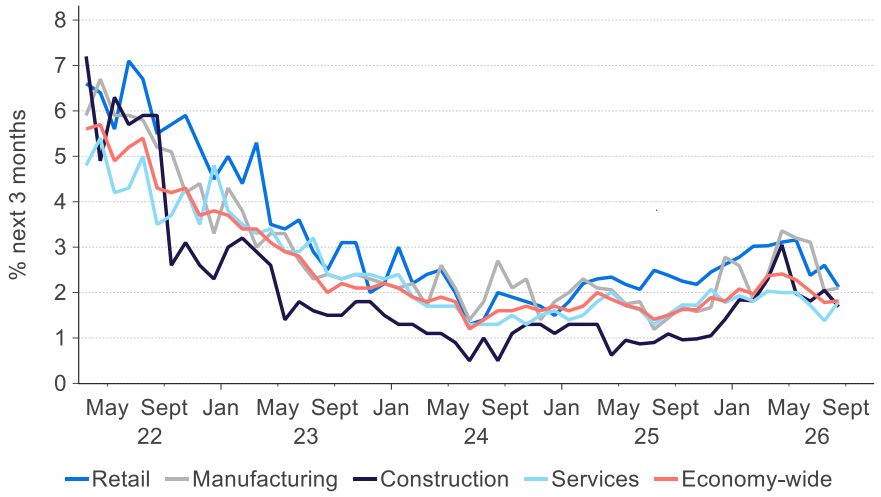
Source: Stats NZ, RBNZ, Macrobond, ANZ Research

High headline, core mixed

- Non-tradable inflation has been stubbornly around 3.5% since Q4, while the RBNZ had been expecting it to fall.
- A higher inflation starting point is an unhelpful backdrop for an oil price shock.
- However, core inflation measures are more benign (albeit mixed).

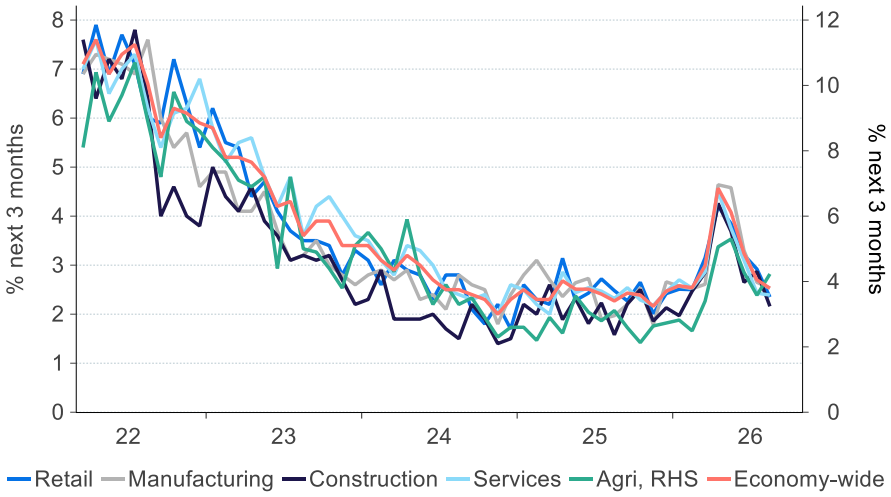
ANZBO inflation signals retreating but still a bit high

Expected average own price increases (%)



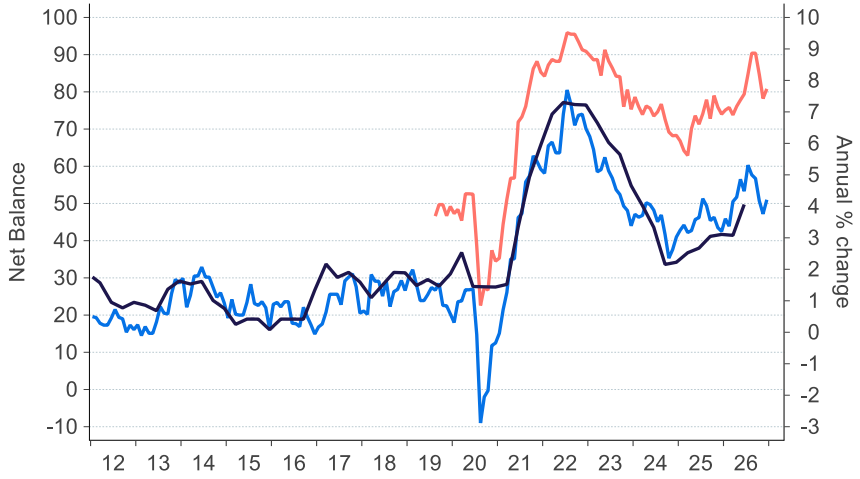
Source: Macrobonc, ANZ Research

Average cost % expectations



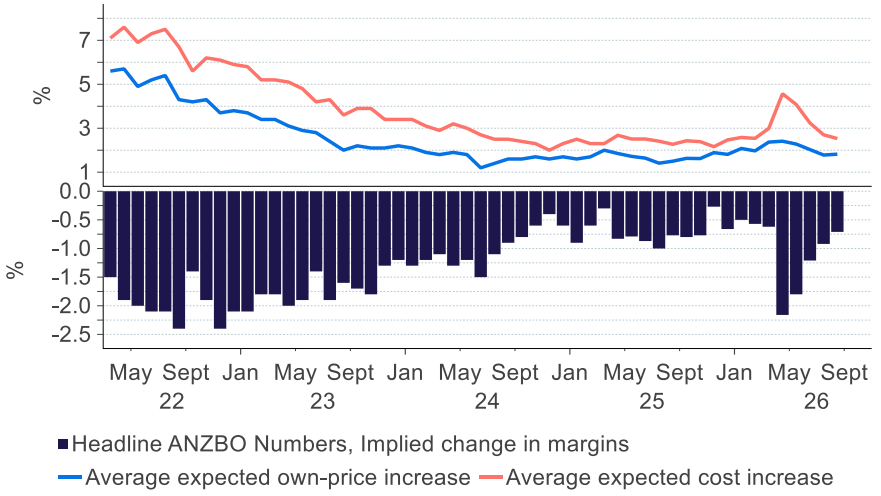
Source: ANZ Research

Pricing intentions, cost expectations, CPI



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

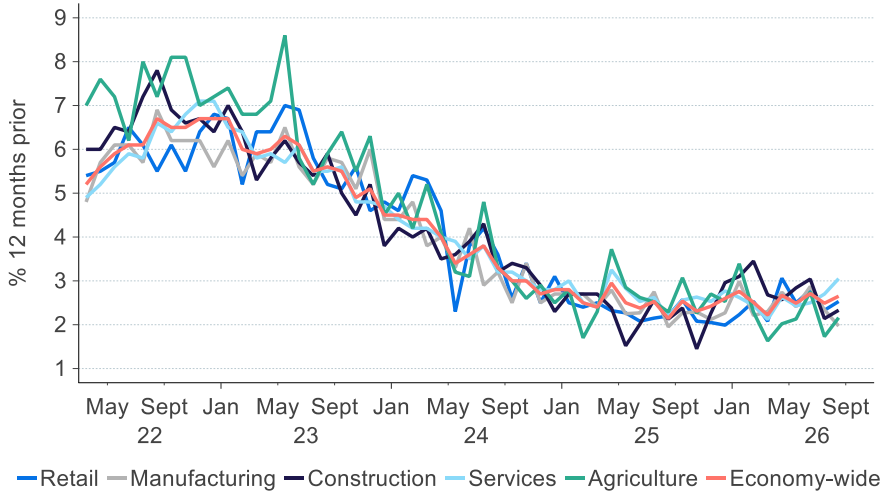
Implied margin pressure



Source: ANZ Research

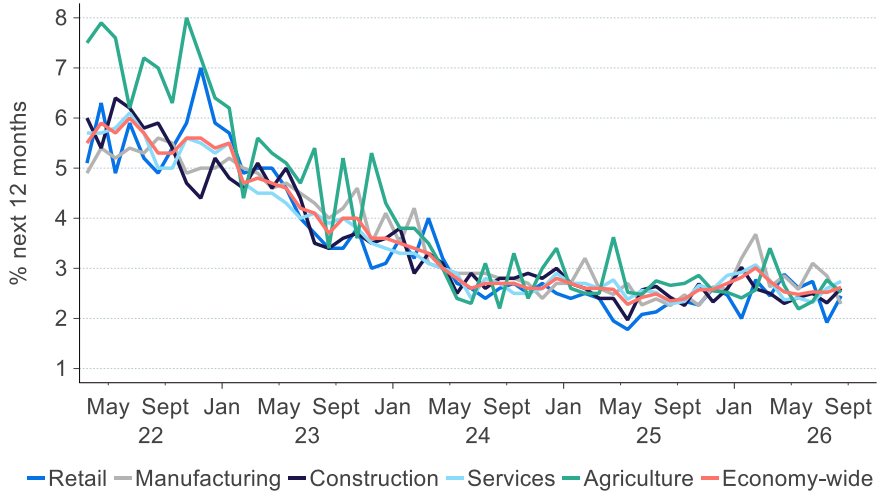
ANZBO wage signals: watch this space

Past average own wage increases (%)



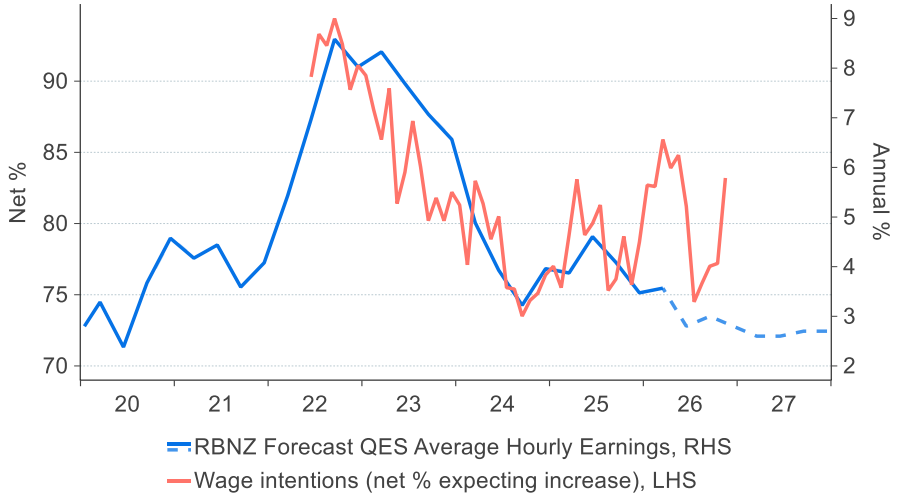
Source: ANZ Research

Expected average own wage increases (%)



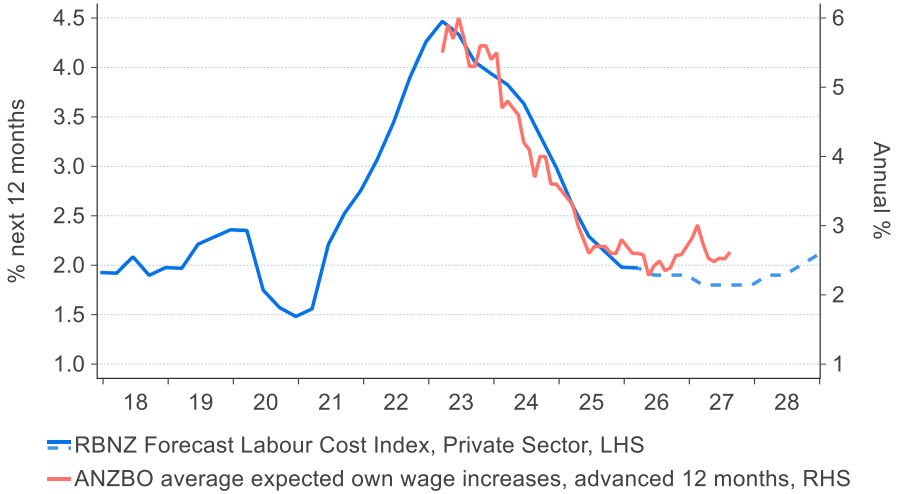
Source: ANZ Research

Wage-setting intentions: net % expecting to lift wages



Source: RBNZ, Macrobond, ANZ Research

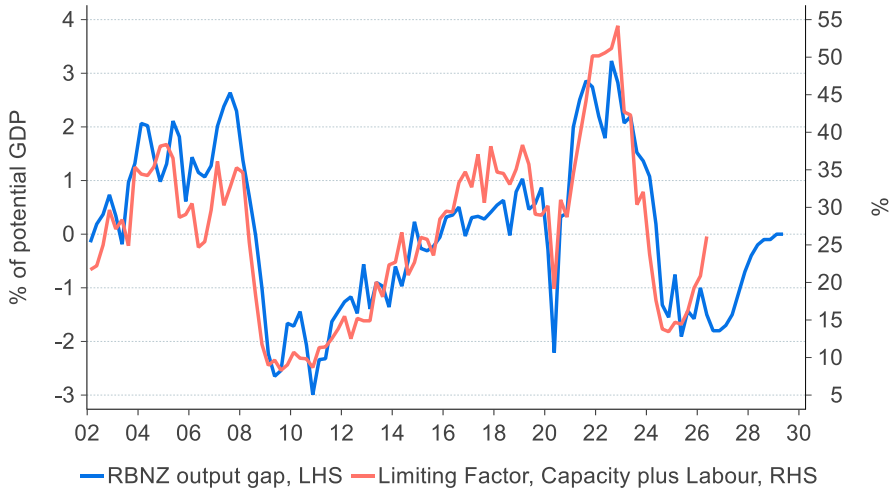
Wage-setting intentions vs RBNZ forecast



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

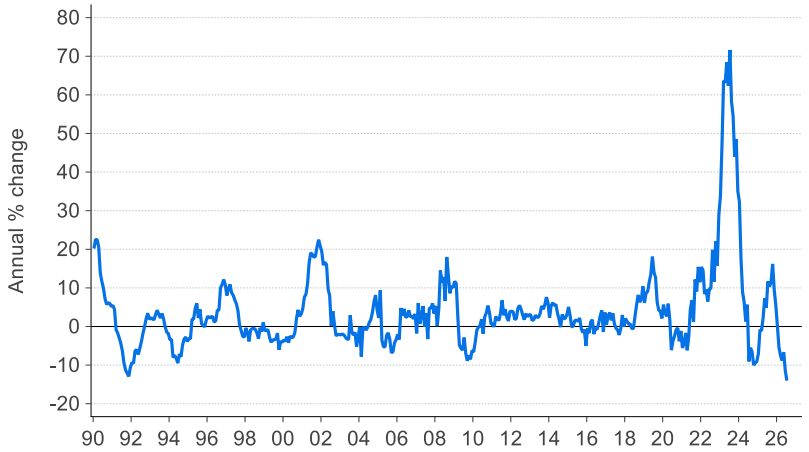
Not just oil: other inflation risks

QSBO capacity indicators vs. RBNZ output gap



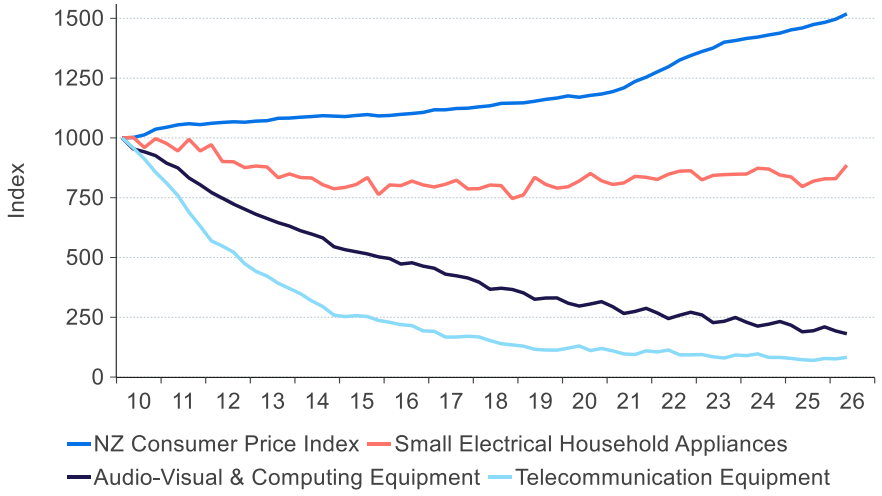
Source: NZIER, Stats NZ, Macrobond, ANZ Research

Bird flu: remember 2023 armageggon?



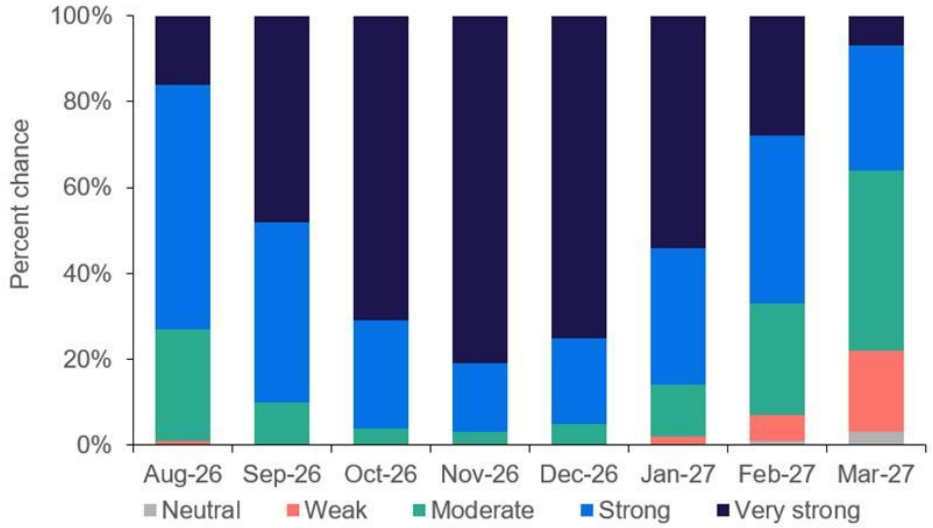
Source: Stats NZ, Bloomberg, Macrobond, ANZ Research

Semiconductor prices: end of an era?



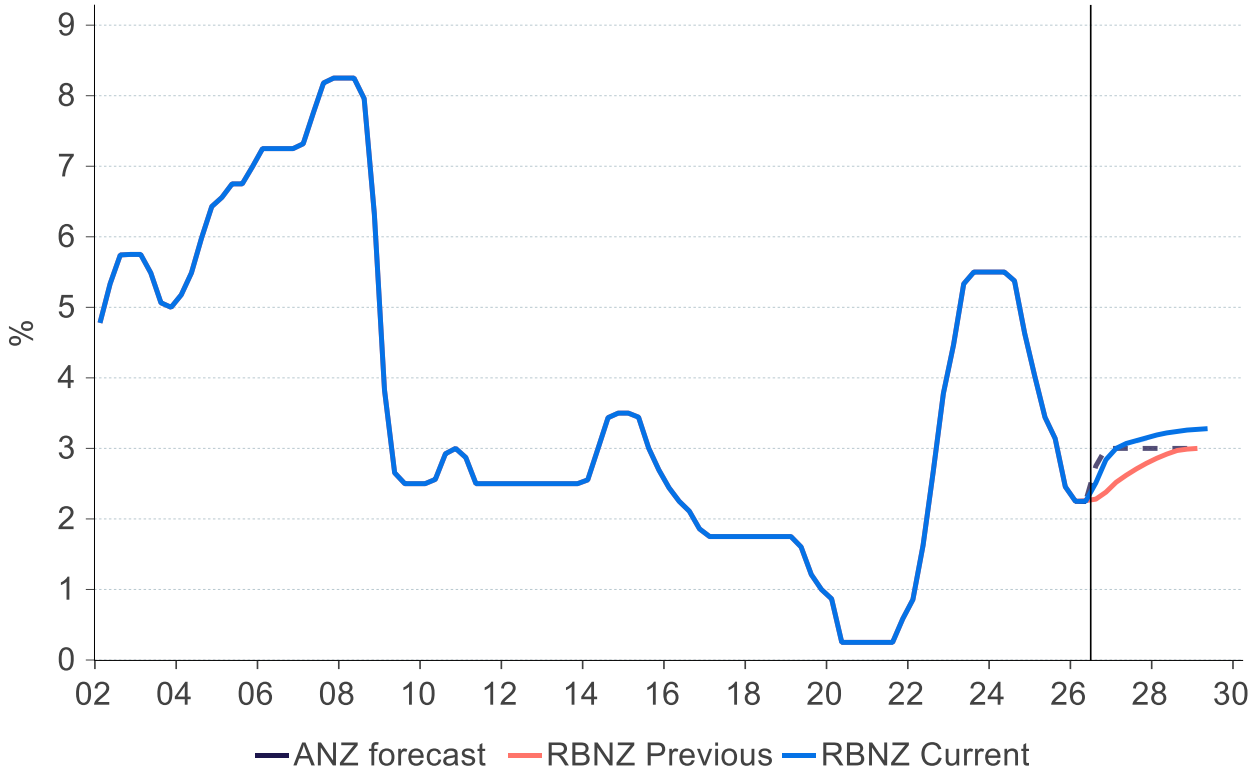
Source: Stats NZ, Macrobond, ANZ Research

El Niño probabilities



OCR forecast

- We see the OCR reaching 3% this year.
- The RBNZ was forecasting three hikes before the oil price shock – that brought them forward.
- It gets trickier beyond neutral (~3%). RBNZ forecasts suggest the likelihood is a bit higher still, but the RBNZ is data dependent.

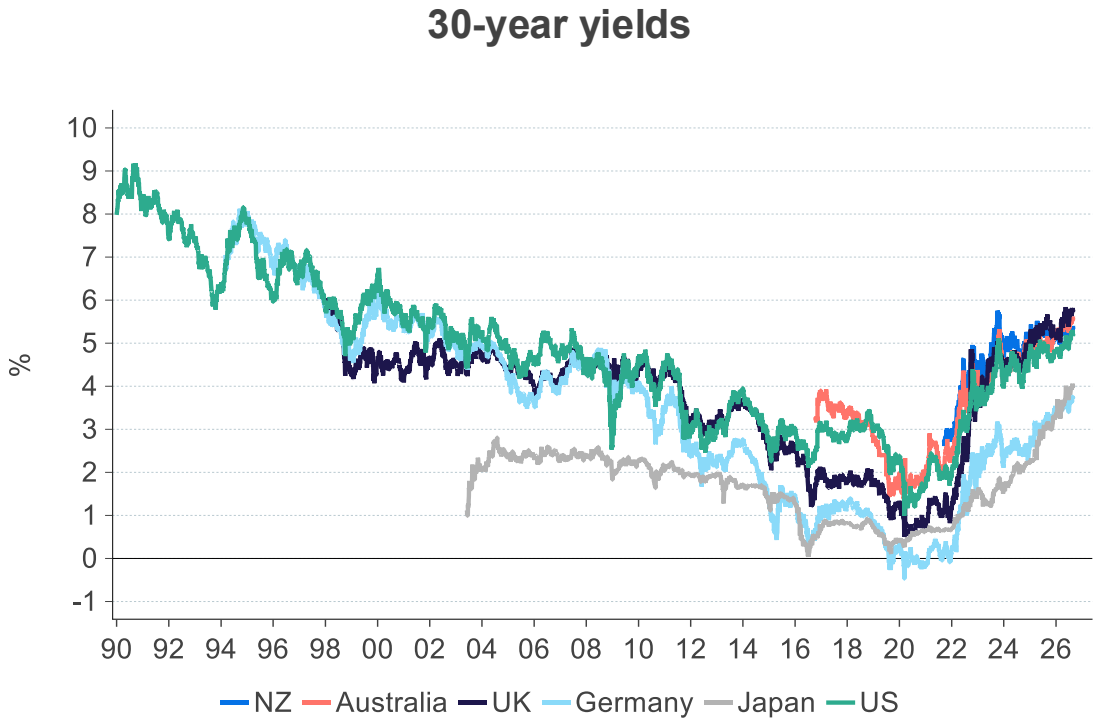


Source: RBNZ, Macrobond, ANZ Research

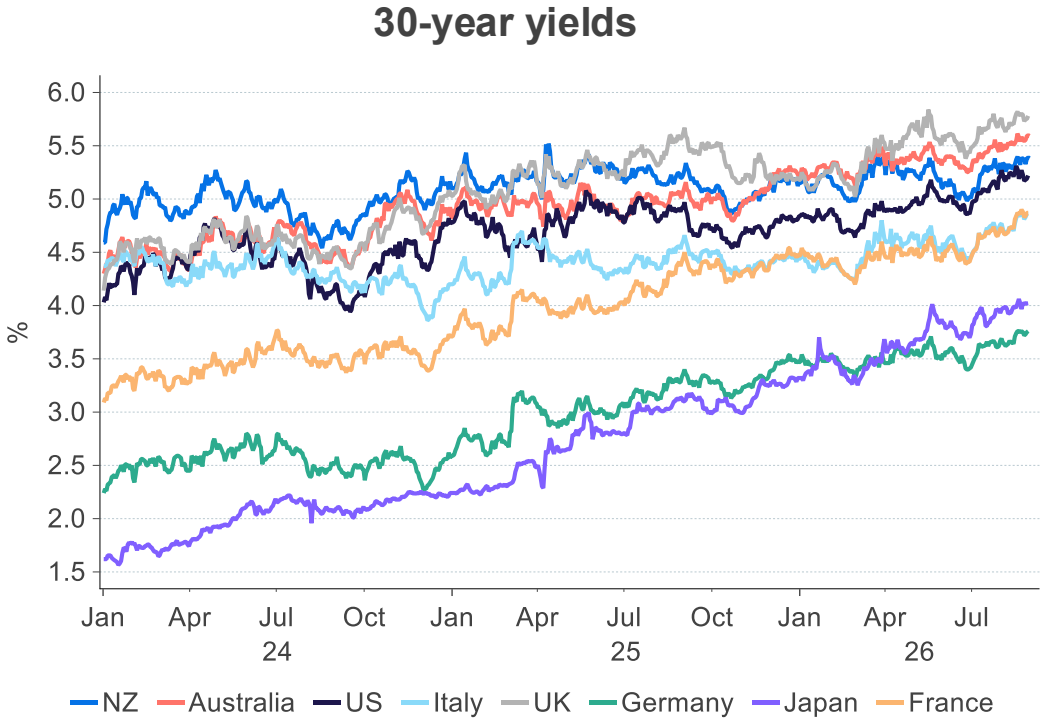
Swap yields: monetary conditions have tightened

Source: Bloomberg, Macrobond, ANZ Research

Bond yields: NZ swept along in a global current

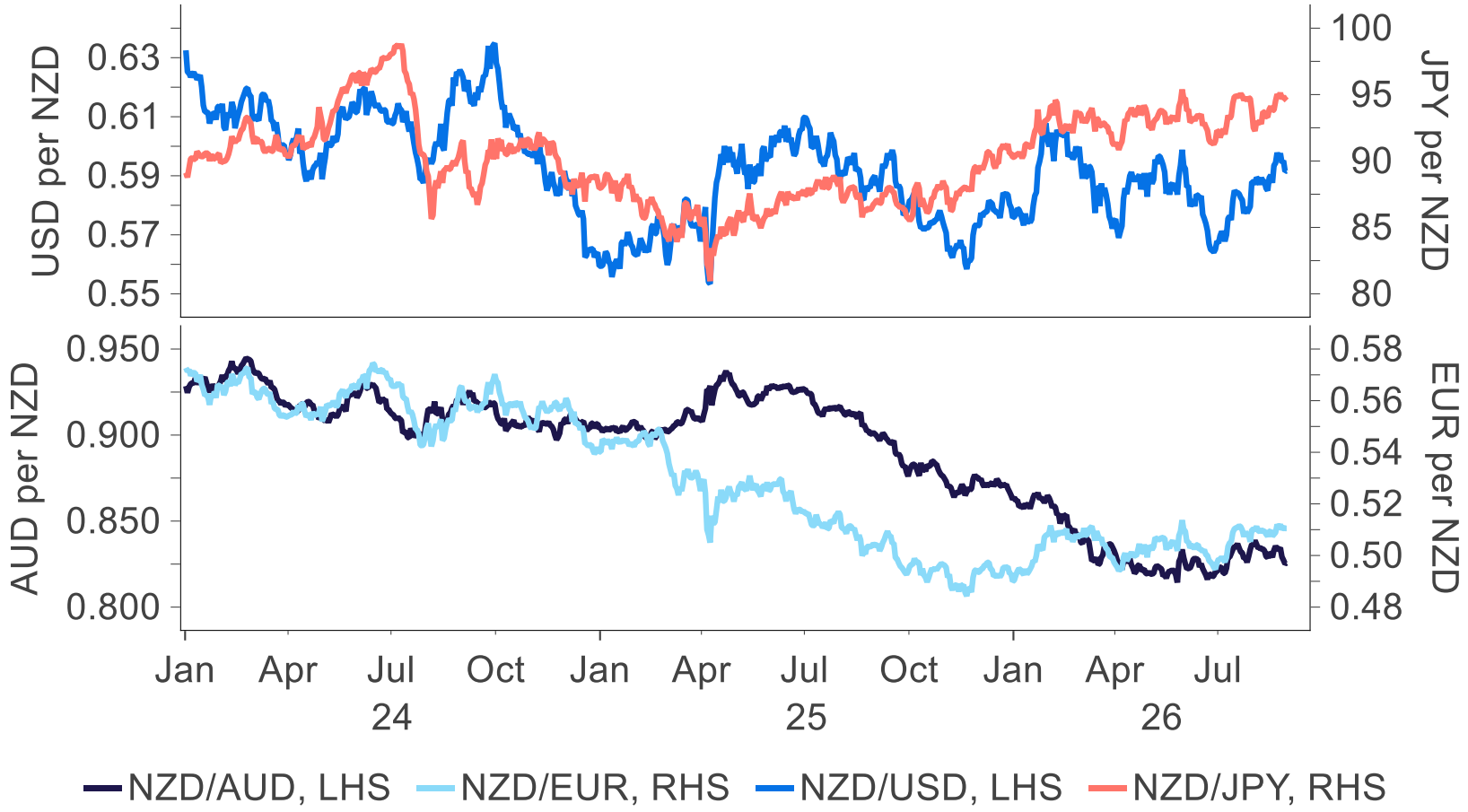


Source: Macrobond, U.S. Treasury, Bloomberg, ANZ Research



Source: RBNZ, US Treasury, SBJ, Bloomberg, Macrobond, ANZ Research

NZD: has turned higher along with RBNZ rhetoric

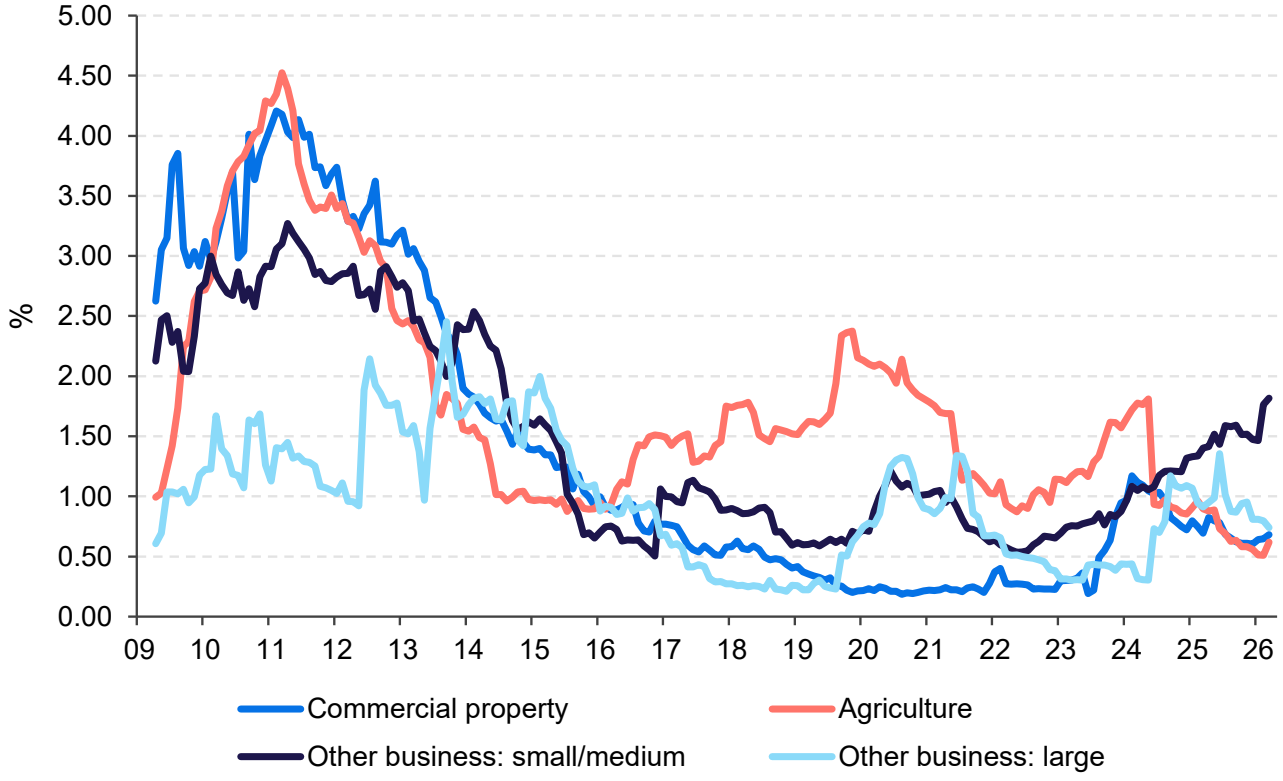


Source: Bloomberg, Macrobond, ANZ Research

Non-performing loans have been contained

A rise was to be expected

- Bad loans did rise in the recession, but not to an unusual extent, and many are now falling.
- The big increase in debt during COVID was in the public sector, not households and businesses.
- The private sector (including banks!) has pretty solid balance sheets given we're coming out of recession.
- Small businesses are more stressed than big ones.

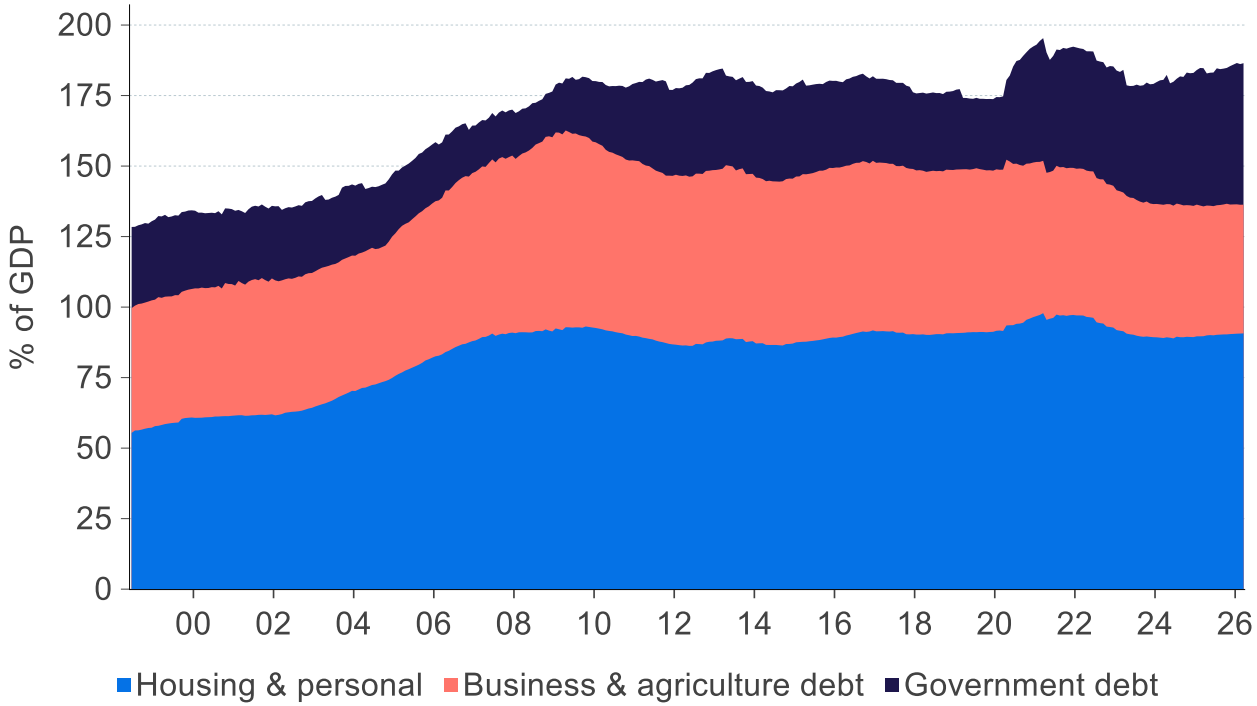


Source: RBNZ FSR

Remarkably stable

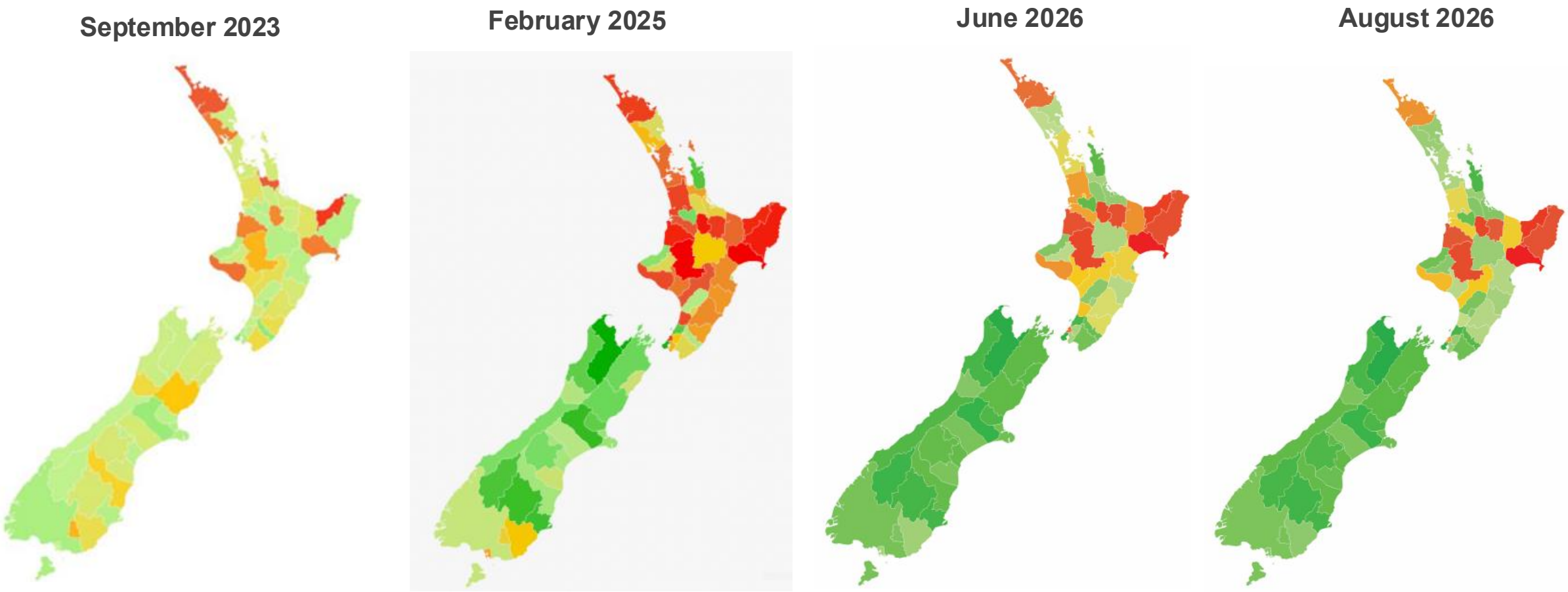
Silver linings

- Given the crazy housing boom, we've done well to come out the other side with the household debt to income ratio no worse than pre-COVID.
- Even if high nominal income growth mostly isn't 'real', it has its upsides in terms of inflating away debt.
- Corporate debt is the lowest in 20 years.
- But Government debt is still much larger than pre-COVID.



Source: RBNZ, Stats NZ, Macrobond, ANZ Research

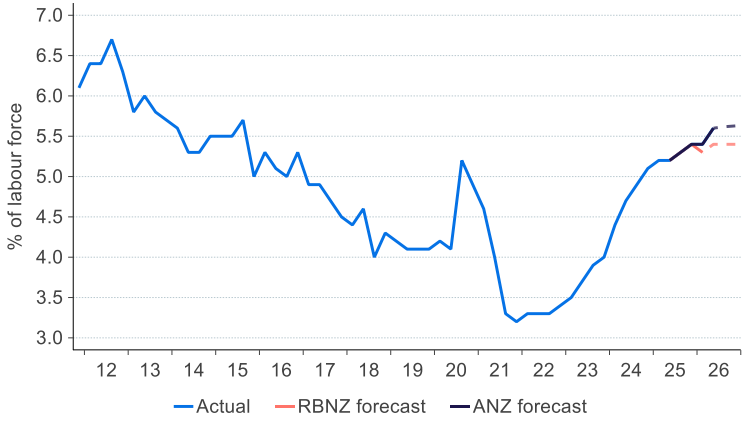
Consumer arrears improving; stark regional divergence



Source: Centrix

- The South Island is benefiting from the strength in the agriculture sector, population growth in Christchurch, and the tourism recovery. Poorer regions in the North Island have borne the brunt.

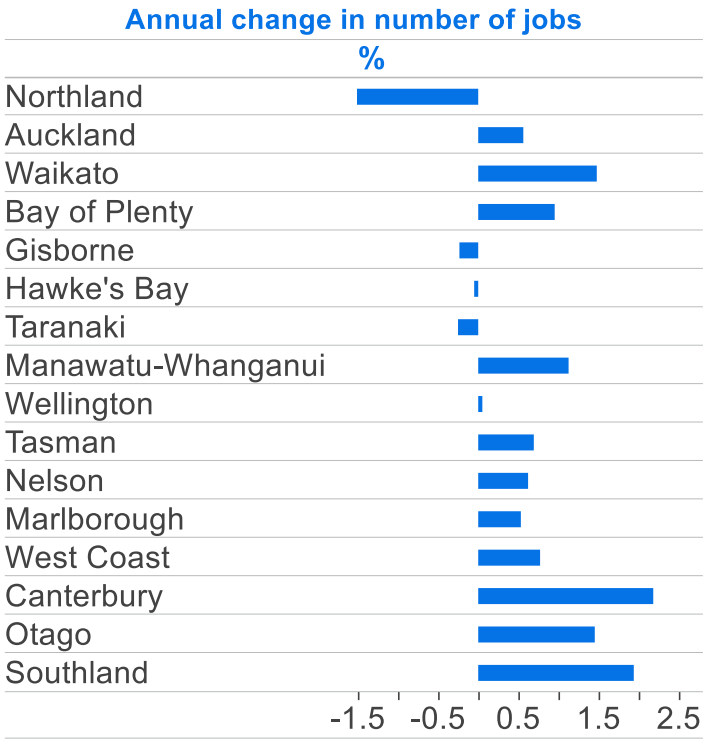
The labour market

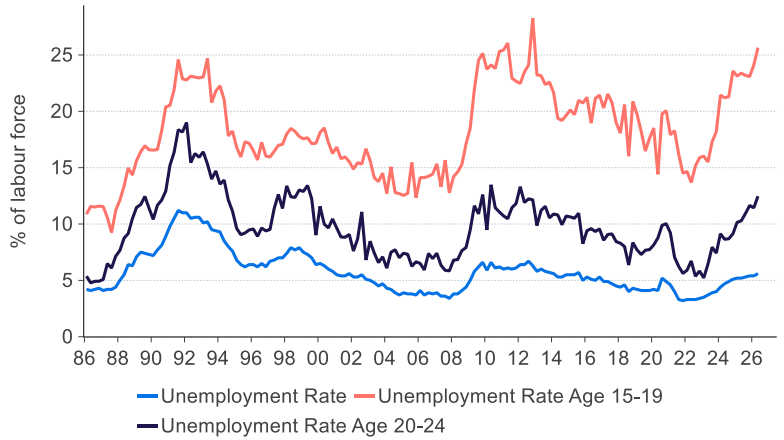


Source: RBNZ, Stats NZ, Macrobond, ANZ Research

Unemployment

We are optimistic that this marks the top for unemployment (employment grew 0.5% in Q2; higher participation caused the lift in unemployment).



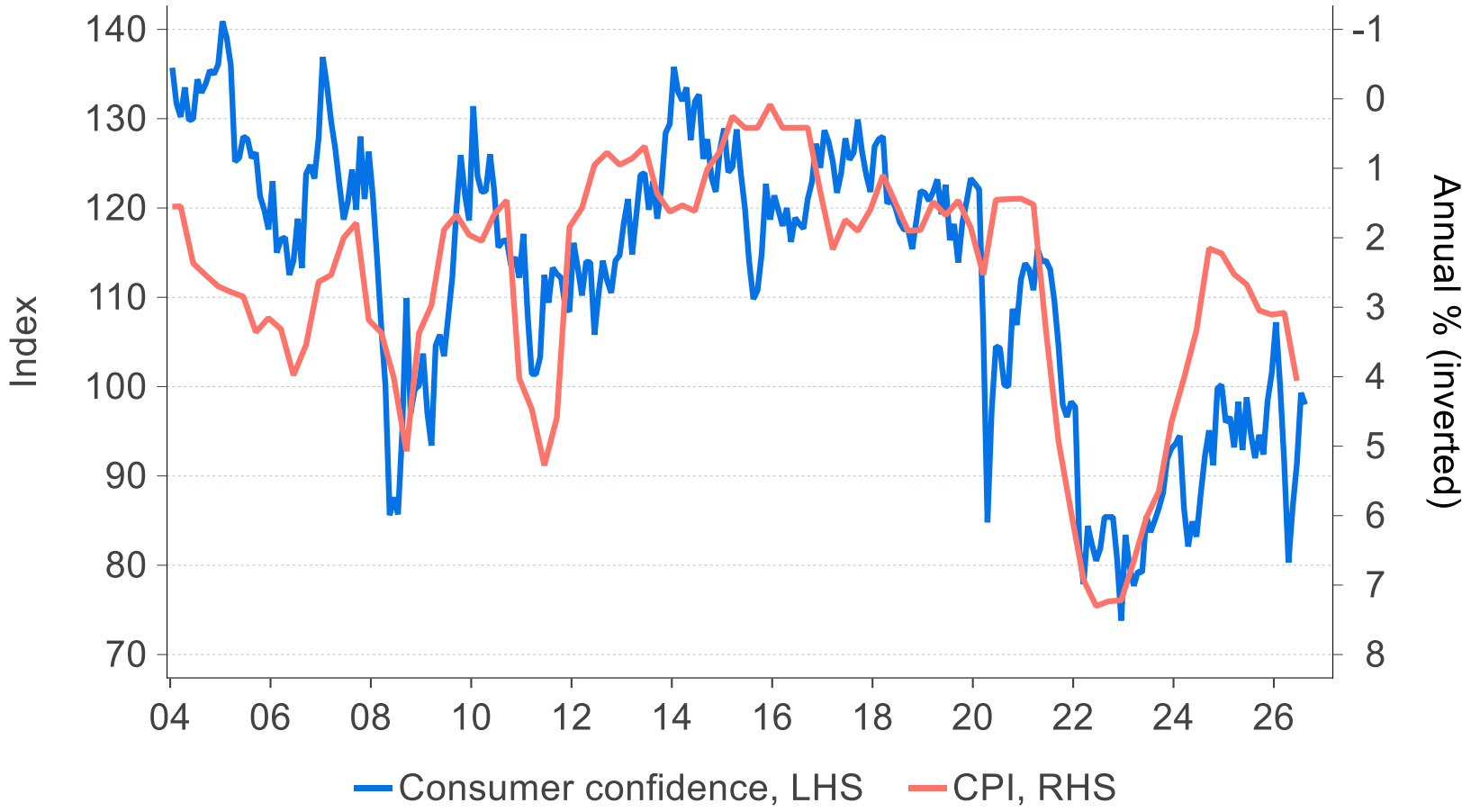


Source: Stats NZ, Macrobond, ANZ Research

Youth unemployment

Gap to headline isn't unprecedented but is getting up there.

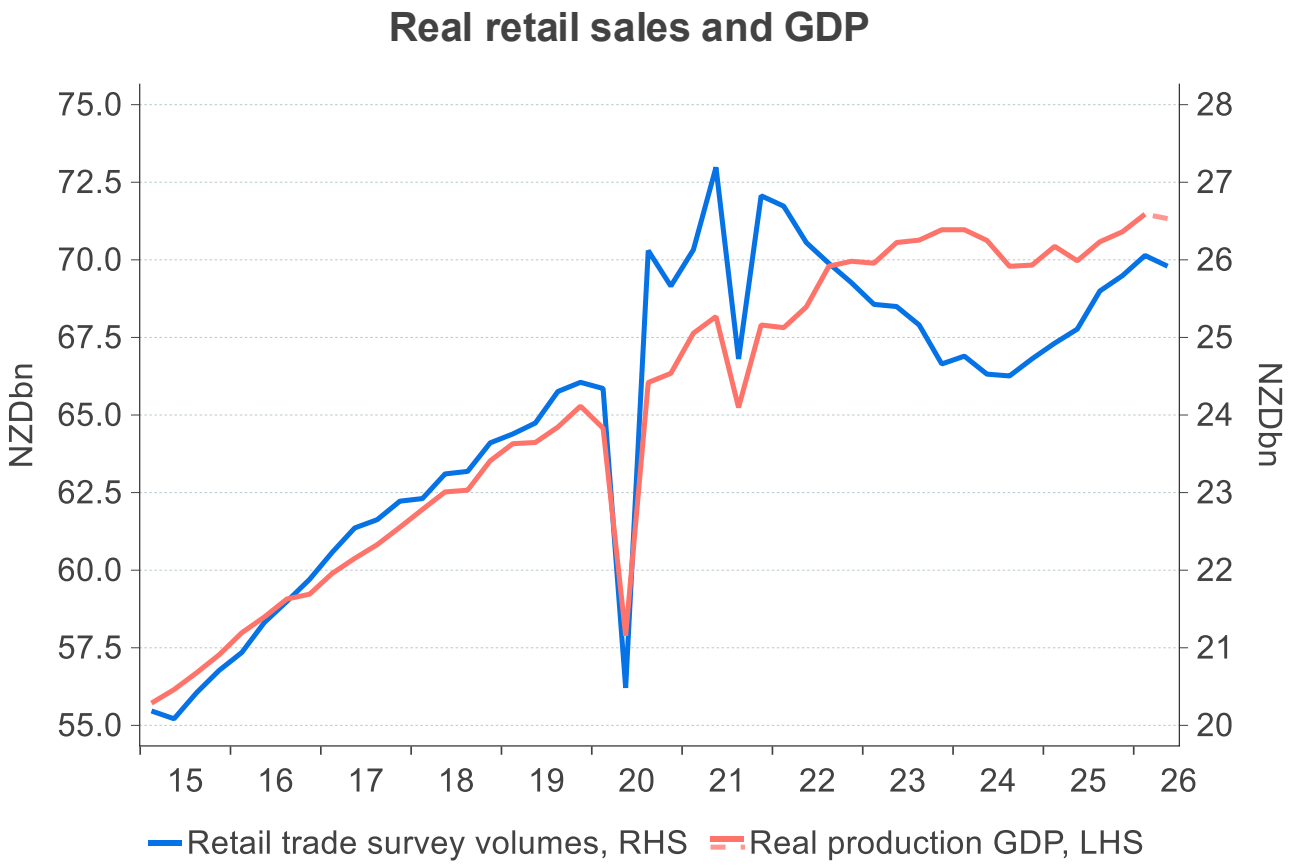
People hate inflation



Source: Stats NZ, Roy Morgan, Macrobond, ANZ Research

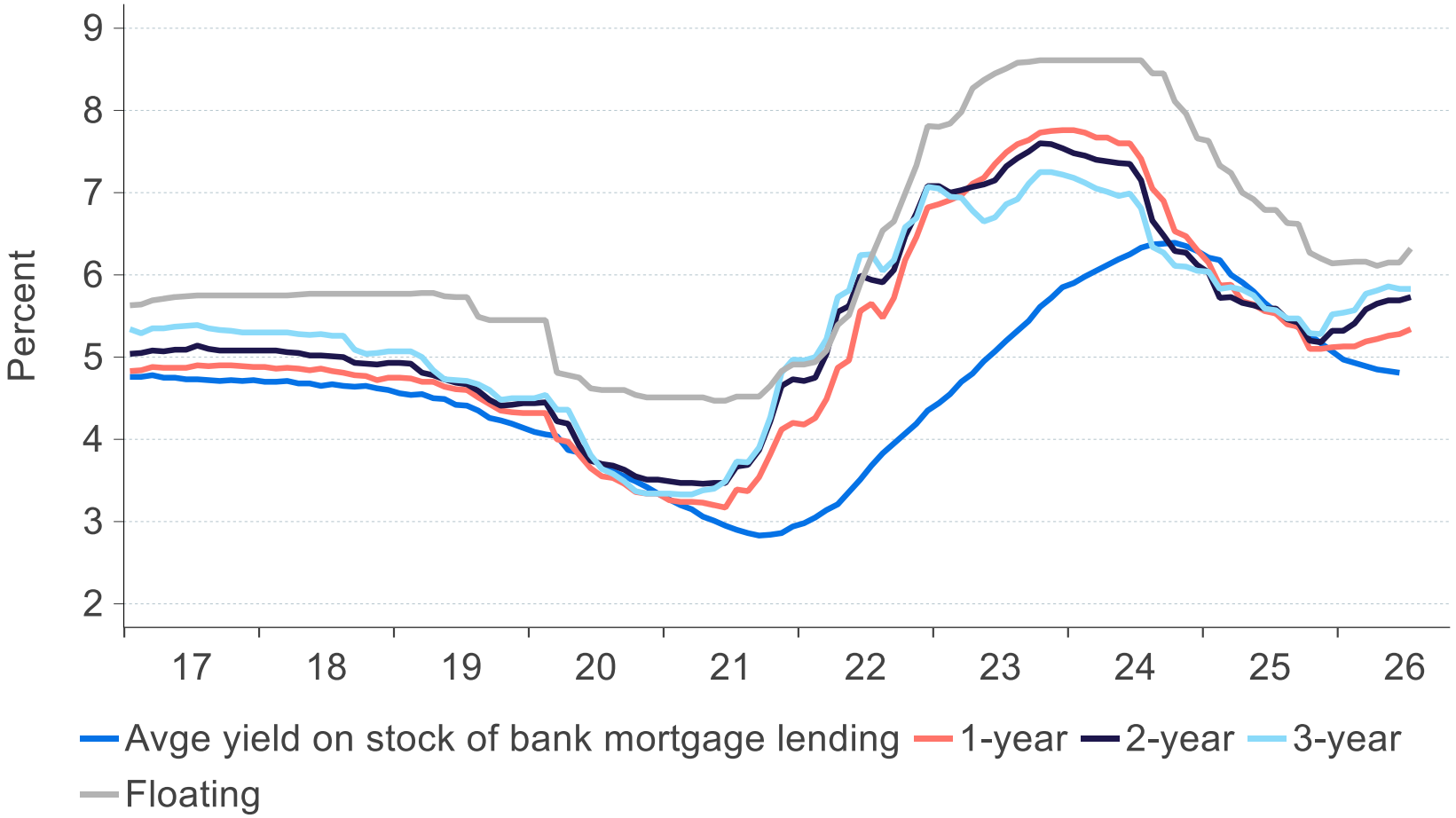
The boom/bust was brutal for the retail sector

- Retail sales are sensitive to interest rates and tend to lead the cycle.
- Retail boomed during COVID as people substituted spending from travel/going out to ‘stuff’.
- Sales slumped from 2021 to 2024 but have been rebounding since.
- But inflation in the cost of necessities is keeping pressure on discretionary spending



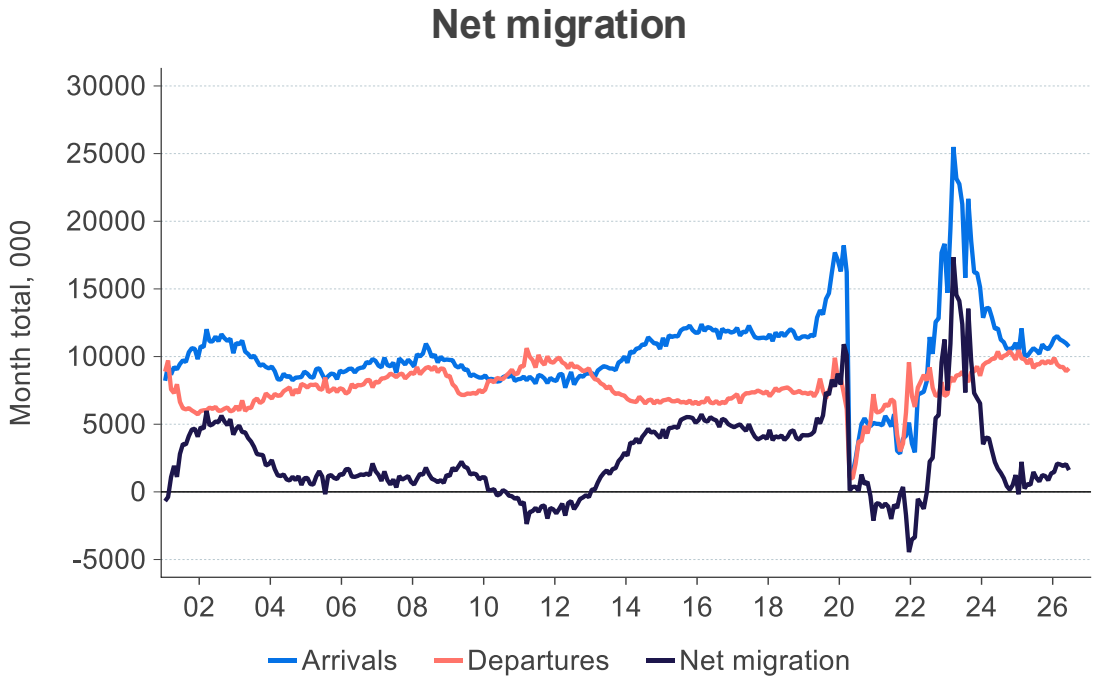
Source: Stats NZ, Macrobond, ANZ Research

Mortgage relief: no longer a tailwind

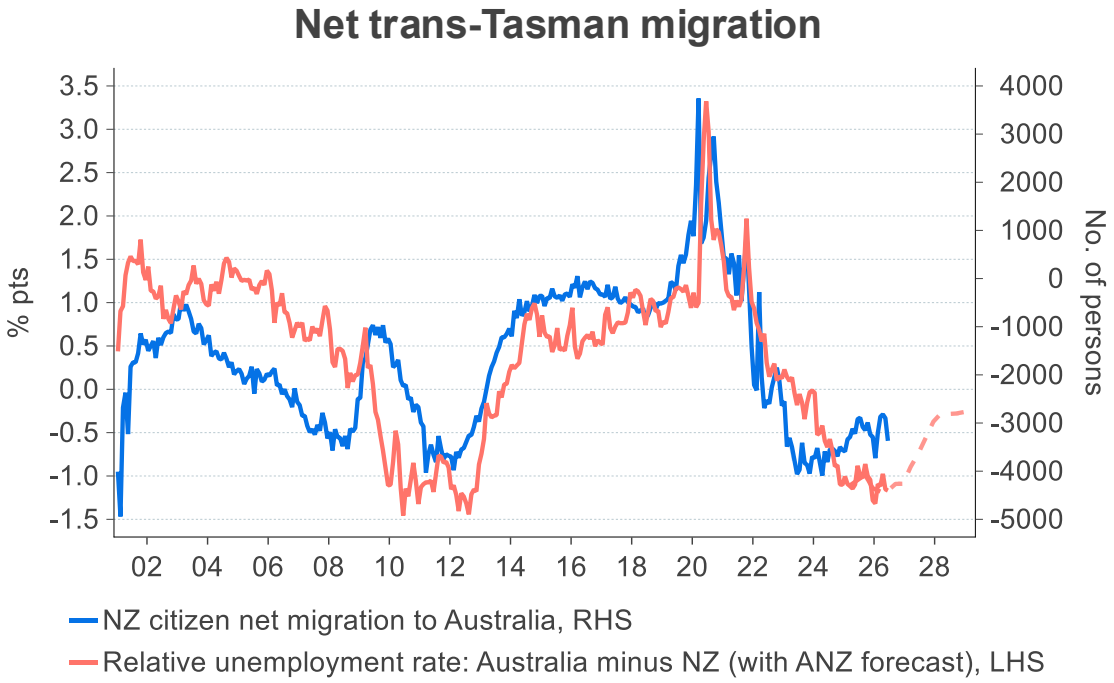


Source: RBNZ, Macrobond, ANZ Research

Net migration



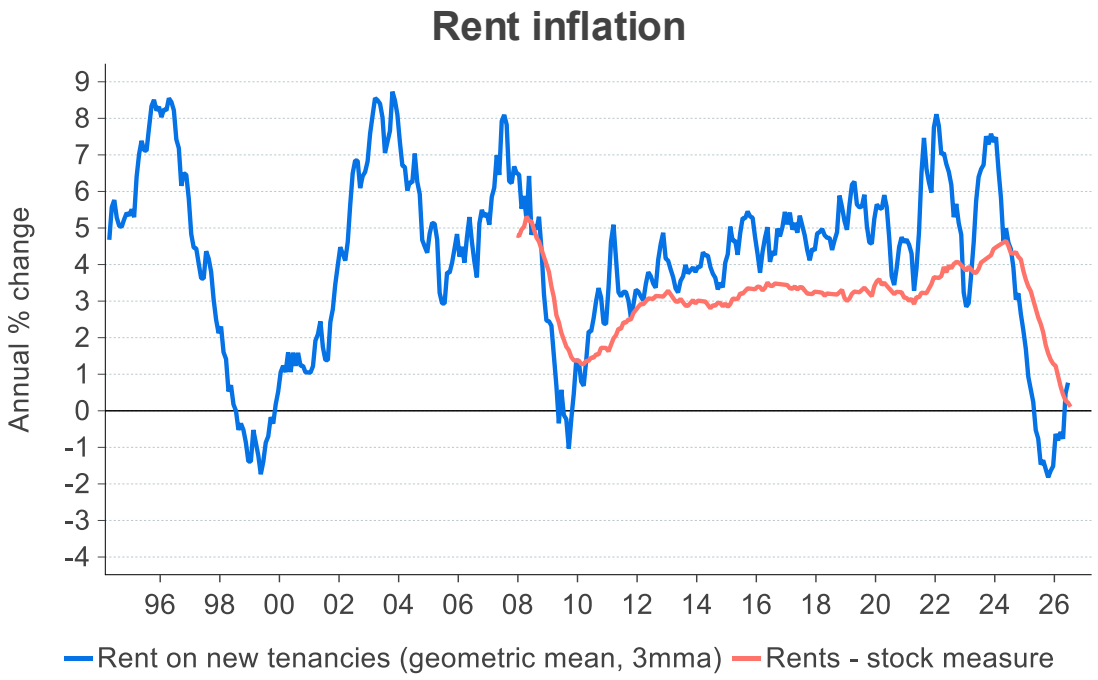
Source: Stats NZ, Macrobond, ANZ Research



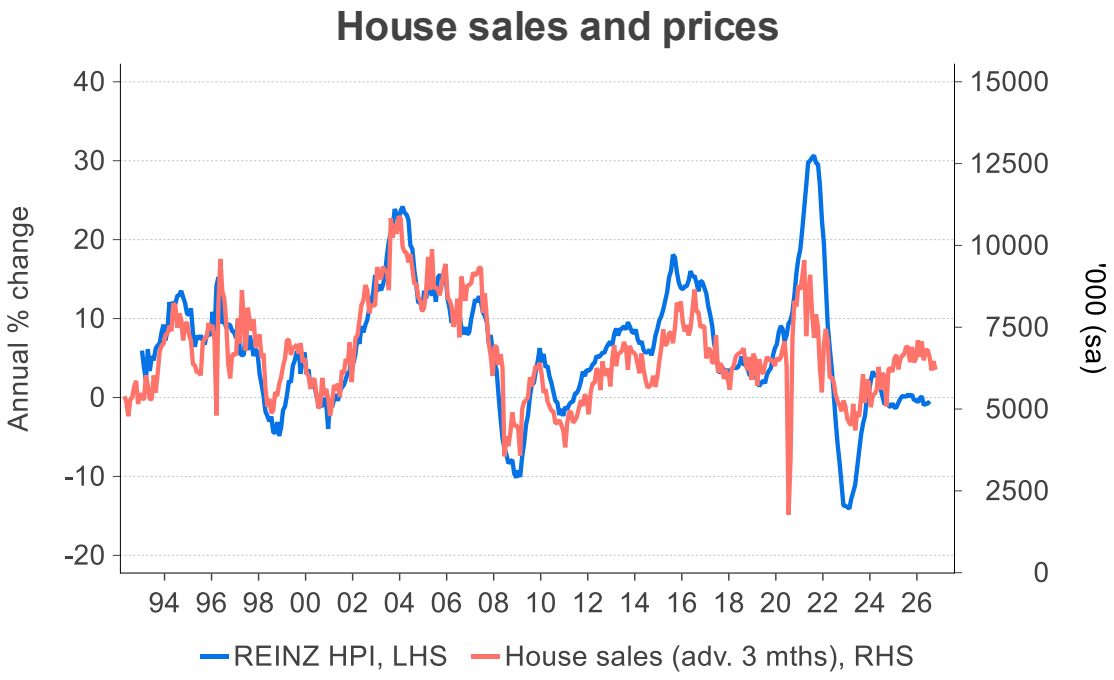
Source: ABS, Stats NZ, Macrobond, ANZ Research

- Net migration boosts labour supply but also economic demand (most notably for housing). It dropped sharply as arrivals eased and departures lifted, and has remained subdued.
- High departures mean pockets of skill shortages persist. The relative state of the two labour markets explains the high net emigration to Australia currently, though it's easing.

Housing market: rents no longer falling, sales stalled



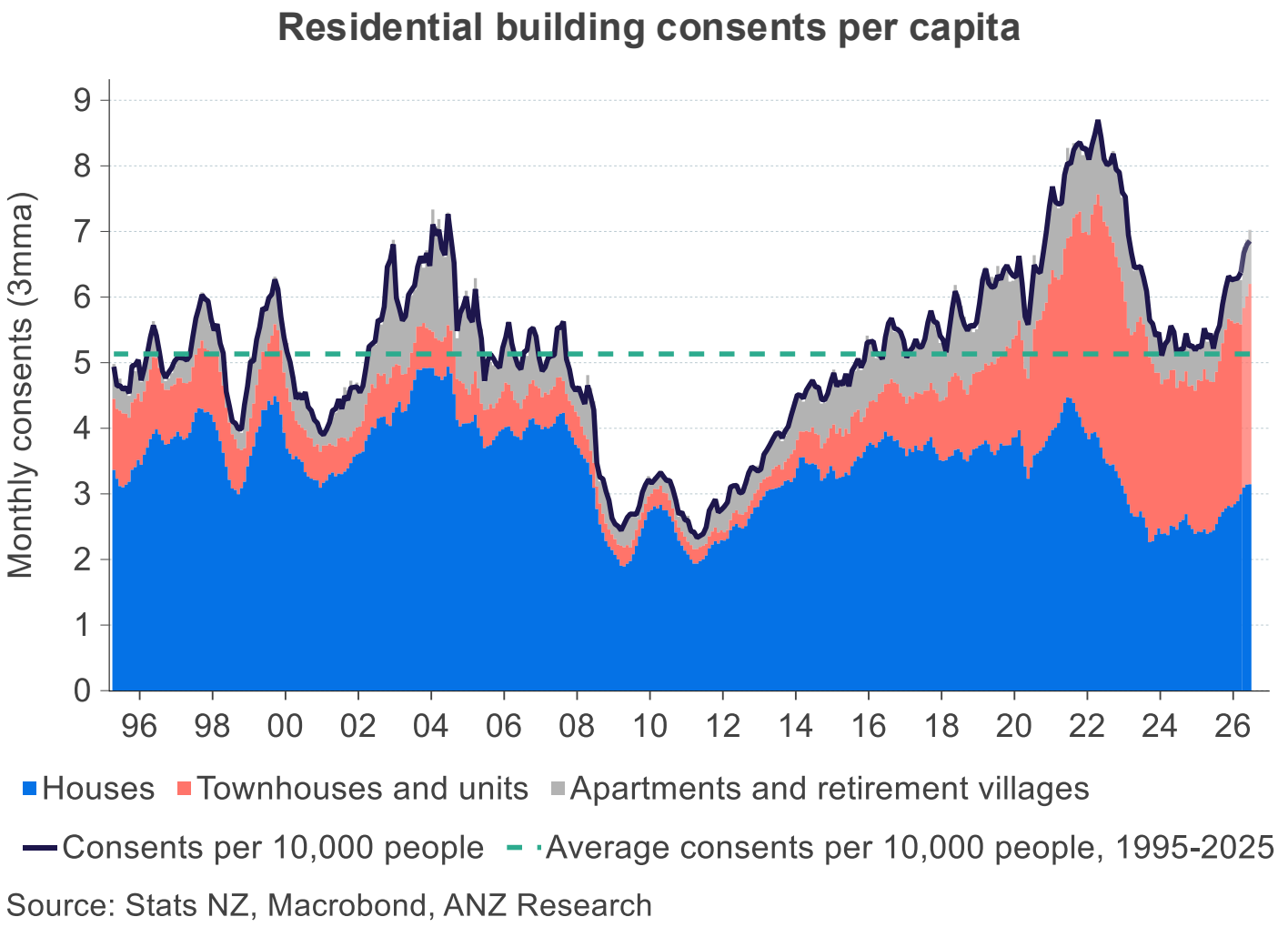
Source: NZ Tenancy Service, Stats NZ, Macrobond, ANZ Research



Source: REINZ, RBNZ, Macrobond, ANZ Research

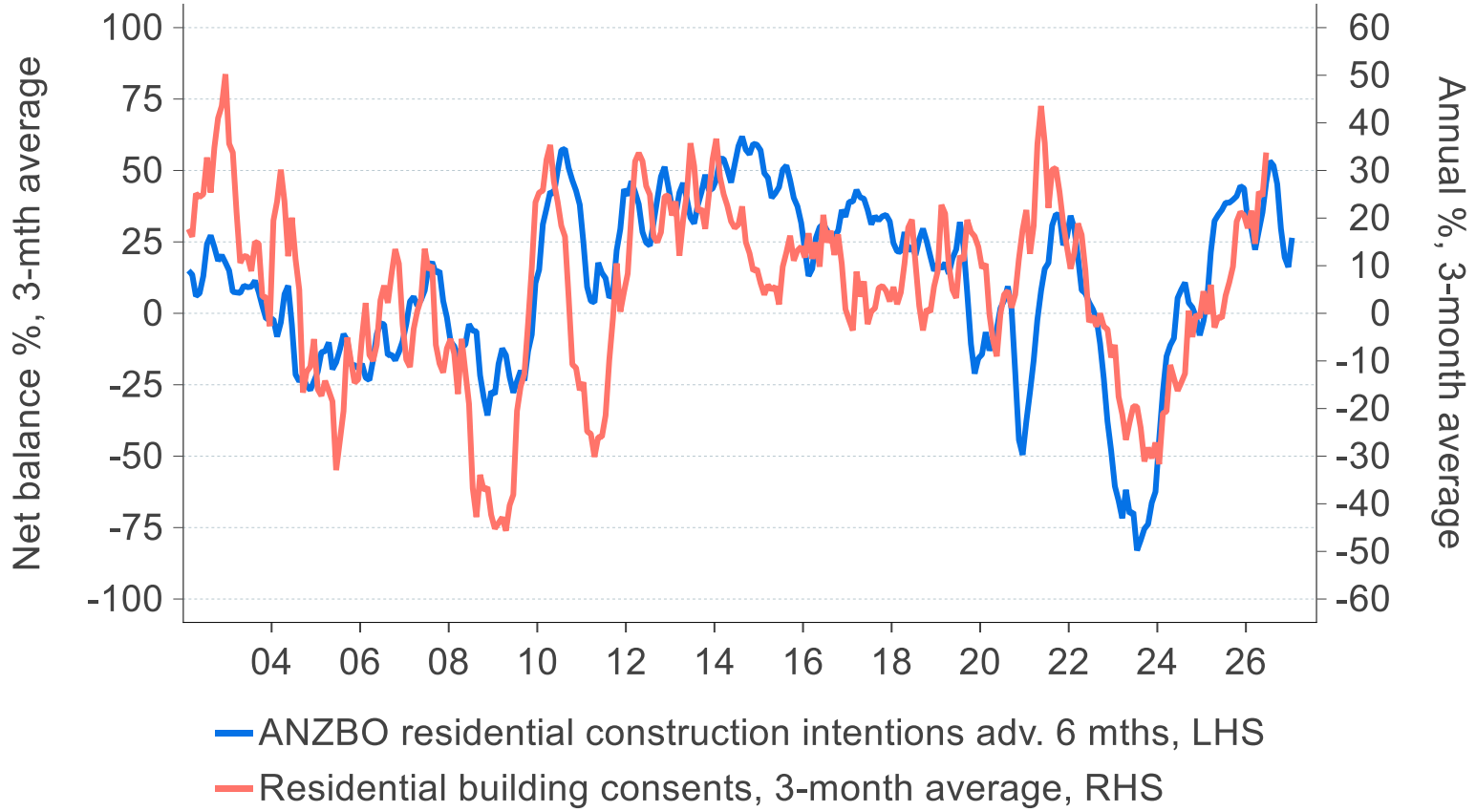
- New rents actually fell for a period.
- House sales are modest; house prices are flat.
- We are forecasting house prices to fall 2% this year.

New housing supply held up remarkably well in the recession



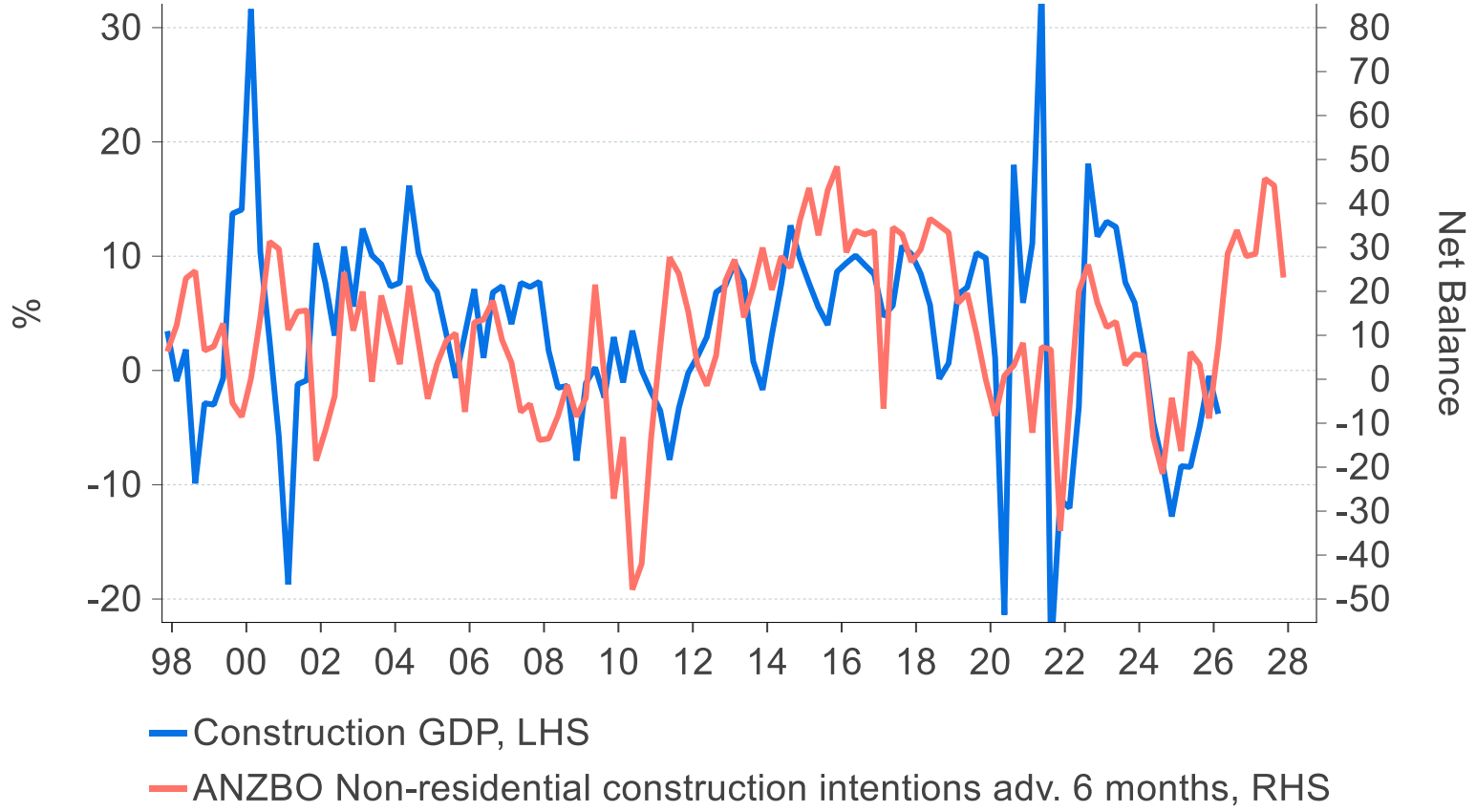
Source: Stats NZ, Macrobond, ANZ Research

ANZBO residential construction intentions and dwelling consents



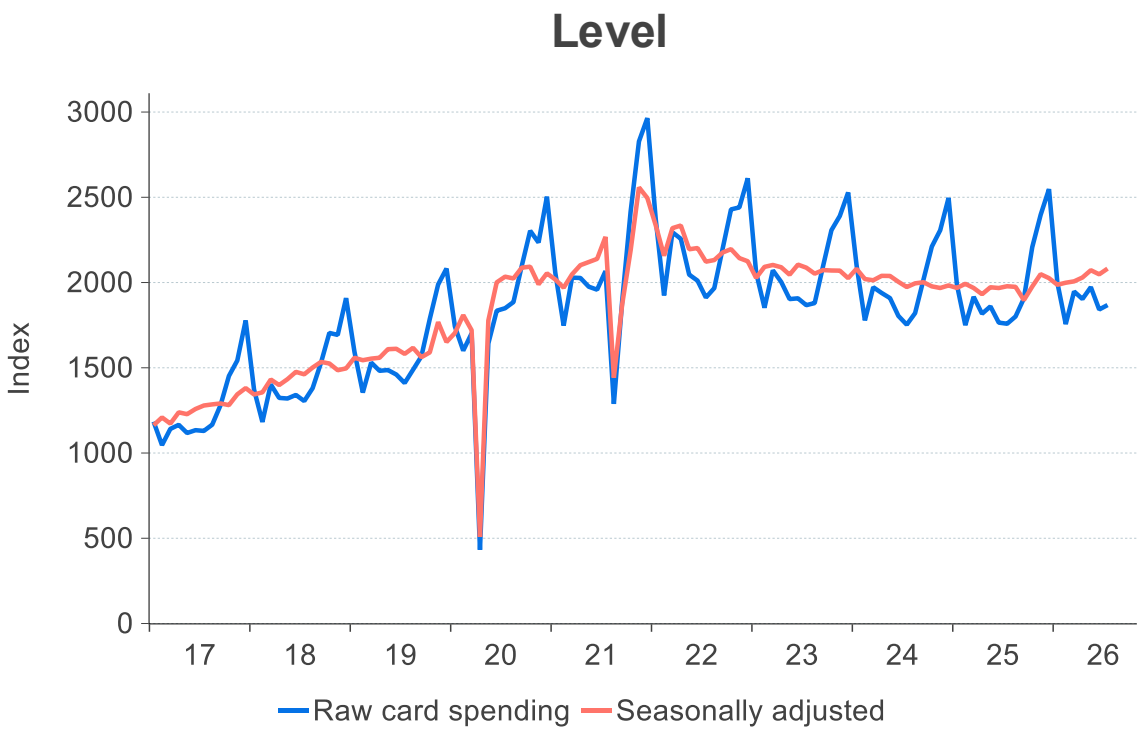
Source: ANZ, Stats NZ, Bloomberg, Macrobond, ANZ Research

ANZBO non-residential construction intentions & construction GDP

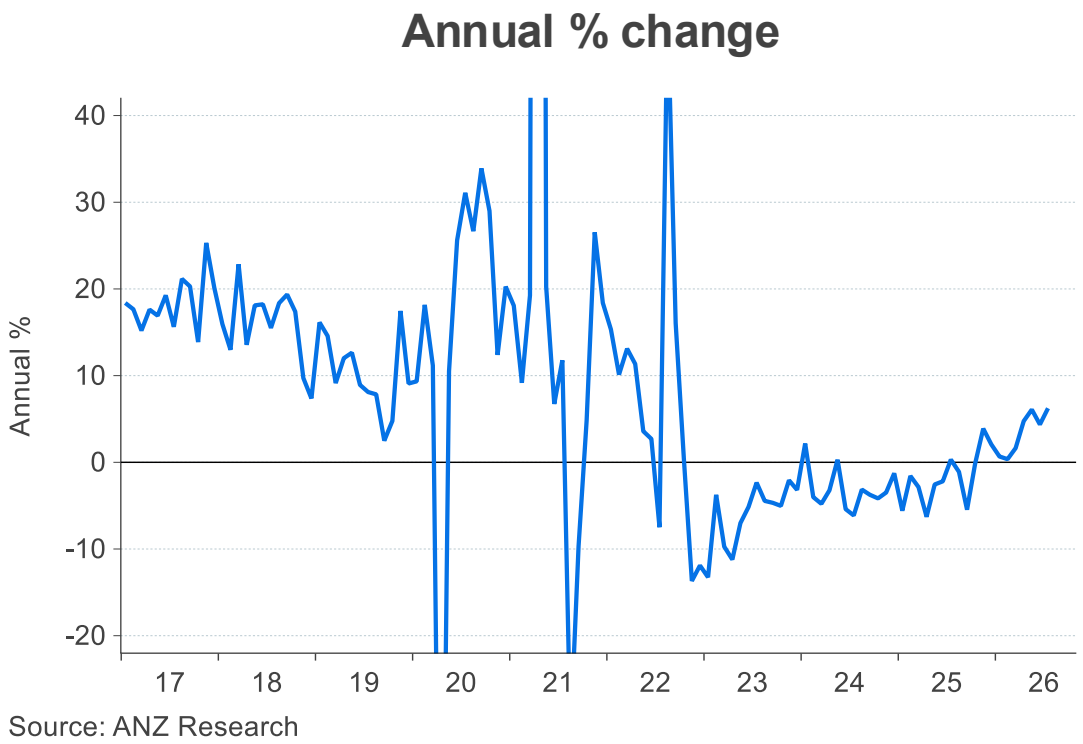


Source: Stats NZ, ANZ, Macrobond

Hardware & construction materials card spending



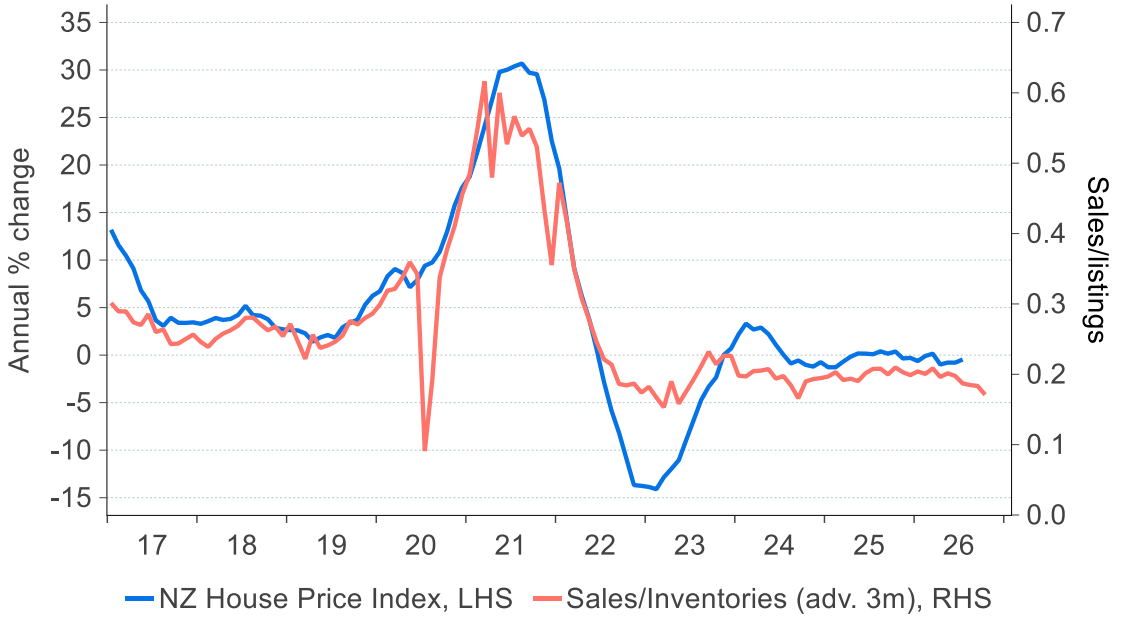
Source: ANZ Research



Source: ANZ Research

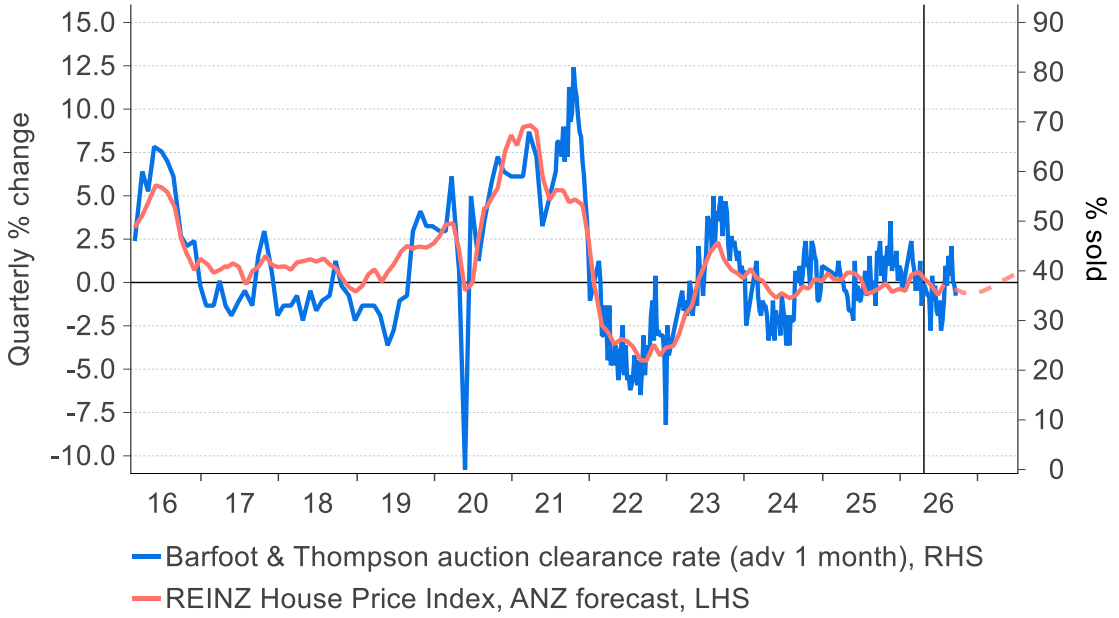
Housing price forecast

Sales/listings ratio suggests mild downward pressure on house prices



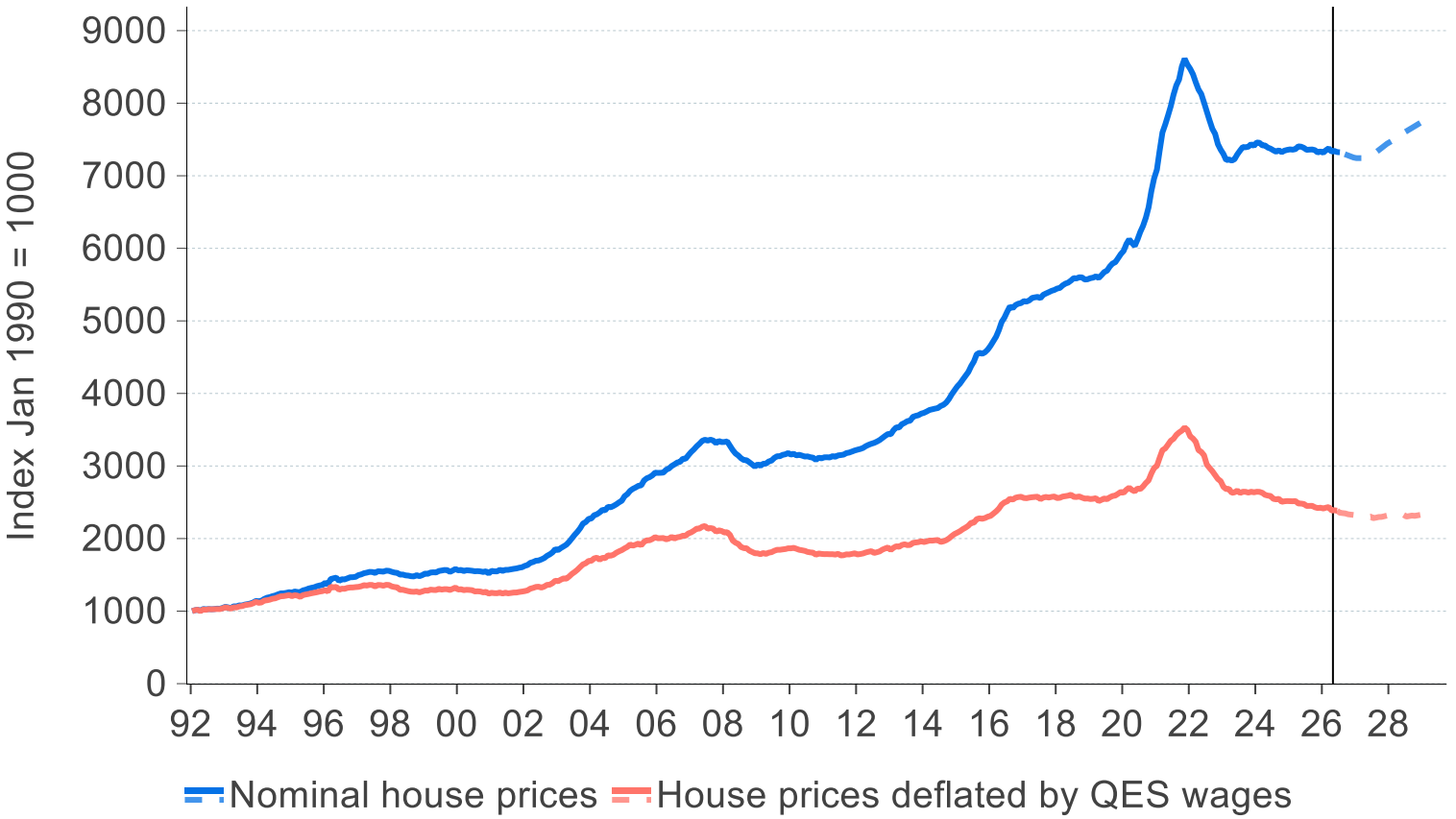
Source: REINZ, realestate.co.nz, Macrobond, ANZ Research

Auction clearance rate



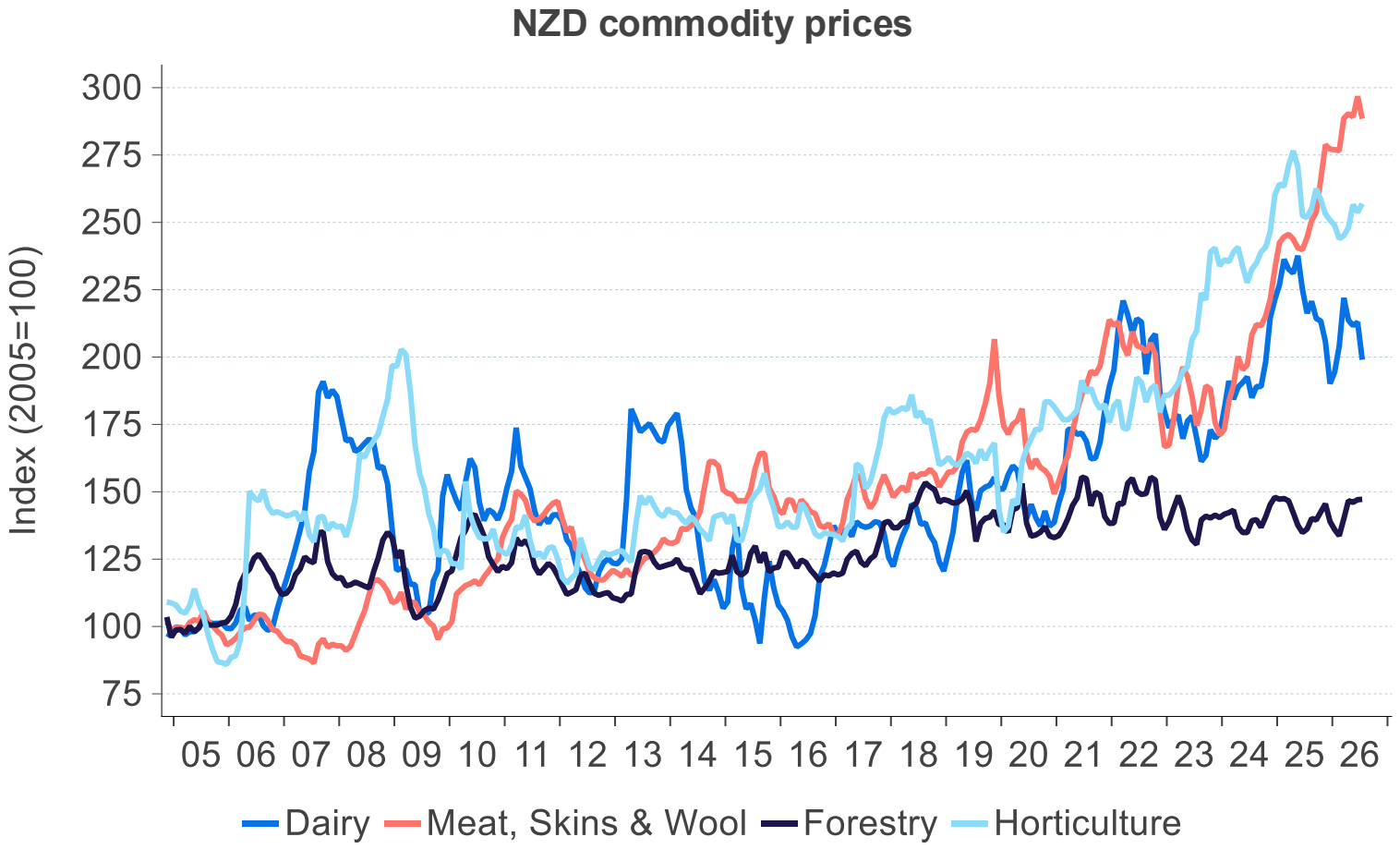
Source: REINZ, Barfoot & Thompson, interest.co.nz, Macrobond, ANZ Research

Nominal and real house prices: take the win



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Agri: Happy days – for most – though El Niño is coming



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