# ECONOMIC OVERVIEW

**Doing the hard yards.**

May 2024

# CONTENTS AND AUTHORS




**Kelly Eckhold**, Chief Economist
**T** +64 9 348 9382 | **M** +64 21 786 758
**E** kelly.eckhold@westpac.co.nz
**X** @kellyenz

**Michael Gordon**, Senior Economist
**T** +64 9 336 5670 | **M** +64 21 749 506
**E** michael.gordon@westpac.co.nz

**Satish Ranchhod**, Senior Economist
**T** +64 9 336 5668 | **M** +64 21 710 852
**E** satish.ranchhod@westpac.co.nz

**Darren Gibbs**, Senior Economist
**T** +64 9 367 3368 | **M** +64 21 794 292
**E** darren.gibbs@westpac.co.nz

**Paul Clark**, Industry Economist
**T** +64 9 336 5656 | **M** +64 21 713 704
**E** paul.clark@westpac.co.nz

# A NOTE FROM KELLY

**Doing the hard yards.**

Households and businesses will feel uncomfortable this year. Growth is not at disastrous levels but is weak, and the labour market will do a greater share of the required adjustment. The Government will also begin fiscal consolidation which will aid economic adjustment. It's going to be a long grind to fiscal balance. The global economy is still weak, but some green shoots suggest promise down the track, and plenty of risks remain from China and geopolitics.

Past interest rate increases are now having their peak effect, which means we all can look forward to better inflation outcomes this year and next.

But for now we find ourselves with inflation still too high and with the easy inflation wins behind us. Tailwinds from weaker foreign-driven prices should ease from here. But local inflation remains sticky, which means the RBNZ will keep the pressure on to reduce inflation despite weak growth. Those looking for large, front-loaded OCR cuts will be frustrated.

The inflation outlook will gradually improve, but 2% inflation will remain elusive. It's likely that the RBNZ will conclude that inflation slightly above 2% will be close enough, and we have revised our medium-term inflation view accordingly.

Policy easing is still likely in early 2025. However, sticky domestic inflation means the chance of larger OCR cuts in 2025 seems smaller than seen in February. Policy tightening can't be ruled out but looks unlikely while growth remains weak. It's more likely the RBNZ will respond to higher medium-term inflation by slowing OCR cuts in 2025 and accommodating above 2% inflation for longer.

Spring will come - but we need to do the hard yards through winter first.

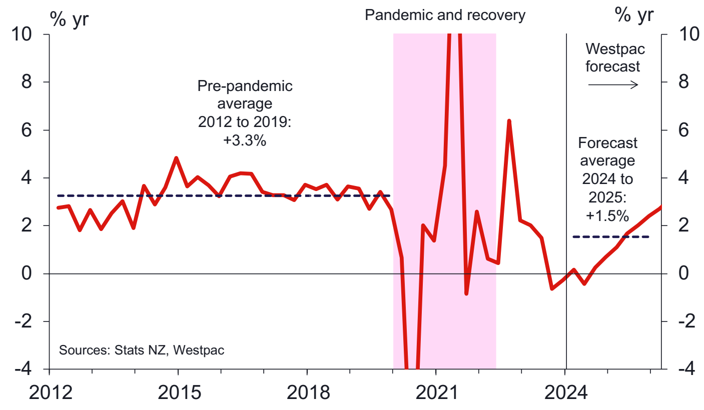
# OVERVIEW

"Economic growth is set to remain subdued over 2024. An eventual easing in borrowing costs is expected to see a recovery in growth taking hold from 2025."

**Grinding out the hard yards back to balance.**

- Economic growth stalled over the past year, and GDP is only expected to grow by 0.7% over 2024. Growth will be weak in the first half of 2024 but pick up modestly later in the year. Unemployment is expected to gradually rise to 5.4% in mid-2025.
- Growth is being restrained by tight financial conditions and sub-par demand in our key trading partners' economies. Despite weak growth inflation remains sticky.
- The ongoing recovery in tourism and strong net migration continues to put a floor on growth, although per capita growth is weak.
- The current slowdown is balancing the unsustainable growth seen in the wake of the pandemic, which had resulted in strong inflation pressures. The economy is now moving back into a position of better balance with easing capacity pressures as demand has cooled.
- Lingering domestic price pressures mean that OCR reductions are still not expected until early 2025. The eventual easing in borrowing costs is expected to see a recovery in economic growth taking hold from 2025.
- Key areas of uncertainty include the resilience of household spending, the health of the global economy, and the persistence of inflation pressures.

**GDP growth**




**Key economic forecasts**

| | 2022 | 2023 | 2024(f) | 2025(f) |
|---|---|---|---|---|
| GDP growth (% year) | 2.2 | -0.3 | 0.7 | 2.4 |
| Inflation (% year end) | 7.2 | 4.7 | 2.9 | 2.2 |
| Unemployment rate (%) | 3.4 | 4.0 | 5.2 | 5.4 |
| House prices (% year end) | -10.8 | -0.9 | 5.8 | 6.7 |
| Official Cash Rate (%) | 4.25 | 5.50 | 5.50 | 4.50 |

# HOUSEHOLDS

> "Household debt is likely to remain manageable, even with the labour market weakening."

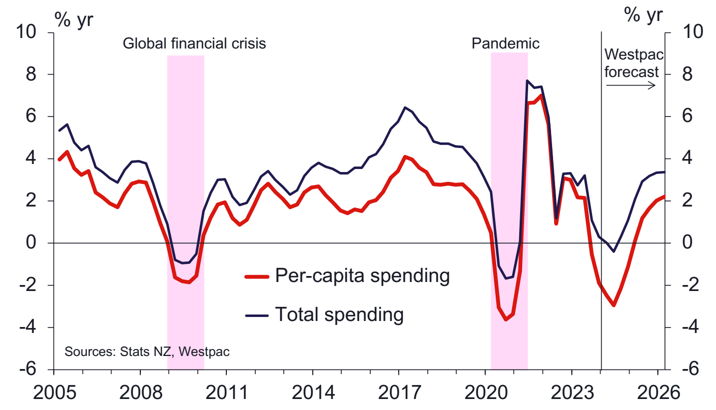
### Household spending to remain weak as financial pressures mount.

- High inflation, increases in borrowing costs and a cooling labour market will keep household spending weak in 2024. Income tax reductions will provide some offset, boosting spending in the second half of the year.
- The average mortgage rate has risen from a low of 3.2% in 2022 to around 6.0% currently. Even though we don't expect further OCR hikes, a further modest 30bp rise in the average mortgage rate is still to flow through over the next 12 months as borrowers migrate to current interest rates.
- Households' debt servicing costs likely remain manageable, even with the labour market weakening. While mortgage rates have risen from low levels, debt servicing costs relative to disposable incomes have returned to long term average and the unemployment rate is expected to settle moderately above trend levels.

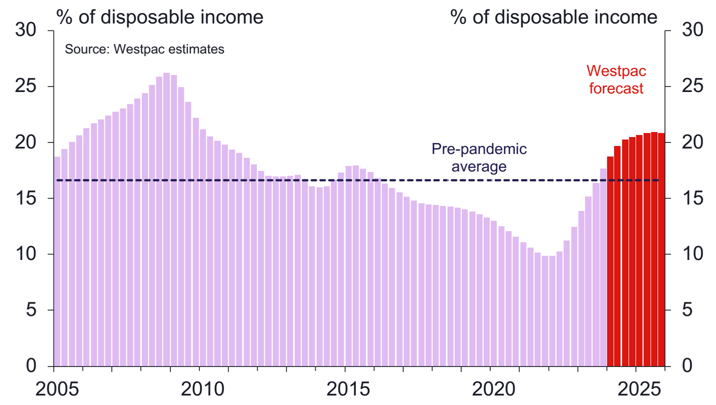
### The strength of the labour market is the key risk for household spending.

- Nervousness about financial pressures and the softening in the labour market could result in a more pronounced downturn in spending.
- On the upside, if New Zealand sees a more gradual cooling in the labour market (as we've seen in other countries), spending appetites could prove to be resilient.

**Household spending growth**




**Interest costs (households with mortgages)**



# HOUSING

> "House price growth is expected to pick up through the back half of the year, with prices set to rise around 6% in 2024 and 7% in 2025."

**House prices to outperform inflation due to push and pull factors.**

- Prices to rise 5.8% in 2024 and 6.7% in 2025.
- Prices are being restrained by continued high interest rates and below trend growth.
- Prices will be supported by strong population growth, rental demand and investor demand later in 2024. Westpac estimates 125,000 more houses are needed in the next five years.

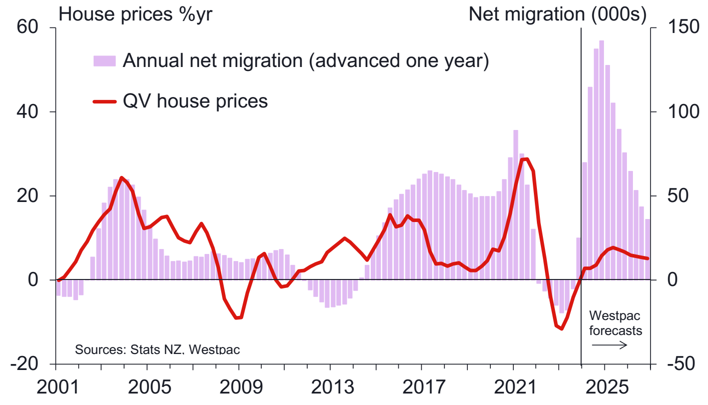
**The housing market has been flat recently.**

- House sales are weak and available listings are high reflecting a standoff between buyers and a growing seller base.
- Prices rose in line with expectations in Q1 2024.

**Risks balanced but significant.**

- Upside risks for house prices stem from population growth, rents, and the investor reaction to a more favourable tax regime.
- Downside risks may eventuate if GDP growth doesn't improve in H2 2024 or if interest rates rise due to offshore developments or stickier domestic inflation.

**House prices and net migration**




**House sales and prices**

# LABOUR MARKET

> "The evolution of wages, and business margins, will be critical in determining inflation and interest rates."

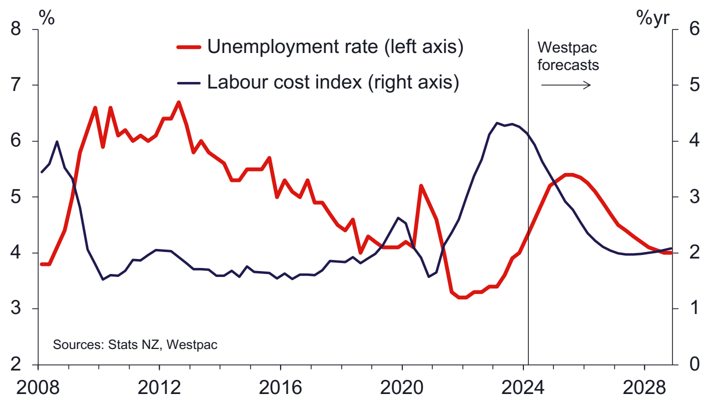
## Unemployment to rise further while job growth remains subdued.

- We expect the unemployment rate to rise further while economic growth remains sluggish, reaching a peak of 5.4% next year.
- While we expect modest growth in employment, this is in the context of still-strong population growth. Net inward migration has passed its peak but remains historically high, as aspiring migrants catch up on delayed plans.
- We expect annual net migration to slow to around 75,000 this year as our relatively softer economy (particularly against Australia) makes New Zealand a less desirable place to move.
- Wage growth will moderate in the year ahead, albeit gradually, due to increasing slack in the jobs market and reduced cost-of-living pressures.

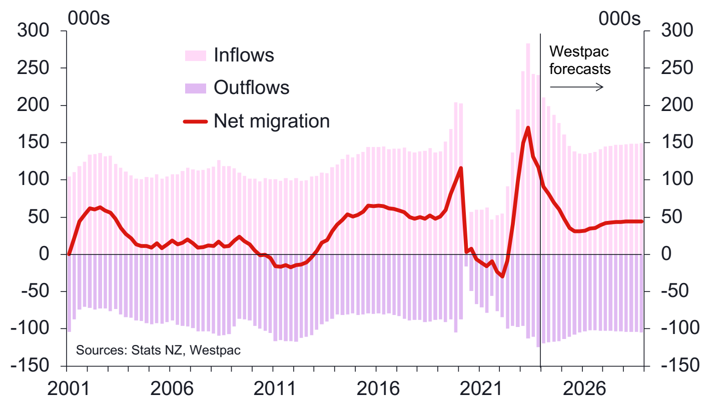
## Wage pressures are a key risk factor for domestic inflation.

- Wage growth could be slow to moderate if businesses look to hold on to workers despite the slowing economy.
- Downside risks stem from a sharper than expected downturn in hiring or a continued surge in net migration despite diminishing job prospects.

**Unemployment and wage growth**




**Migration flows, quarterly annualised**



# BUSINESS SECTOR

> "Businesses across the country have highlighted increasingly tough trading conditions, including pressures on margins."

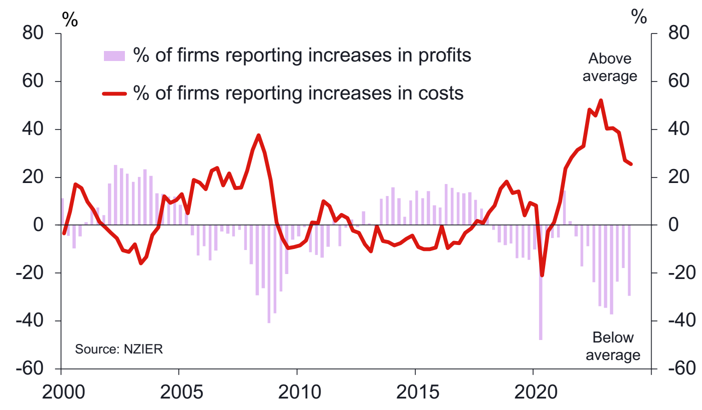
## Demand softening, margin pressure continuing.

- Businesses across the country have highlighted increasingly tough trading conditions. Most firms are reporting sluggish demand and a fall in forward orders, though service sector conditions have been more resilient.
- Businesses in all sectors have continued to report pressure on operating costs, with related pressure on margins. This will constrain capital expenditure.
- With economic growth cooling, hiring has slowed and businesses have reported a fall in staff turnover. Businesses have also reported that it's become easier to find staff and that the pressure on wages has eased.

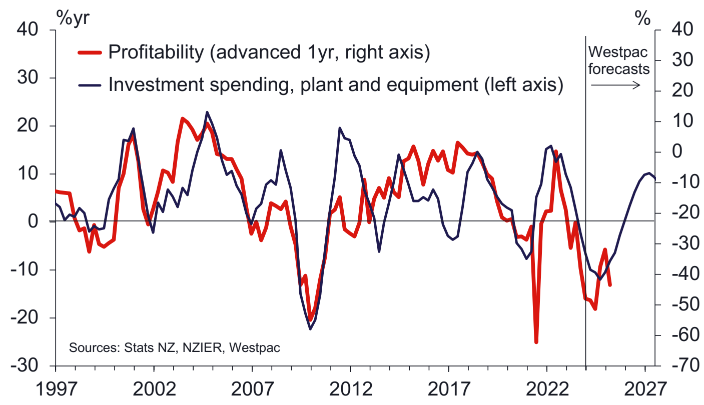
## Risks centre around the resilience of confidence and demand.

- With businesses increasingly nervous about the economic outlook, plans for capital expenditure (including maintenance and replacement spending) could be delayed or scaled back by more than assumed.
- Business may be more willing to invest if we see resilience in domestic demand, or if conditions in export markets strengthen.

### Operating costs and margins




### Business profitability and investment



# CONSTRUCTION

> "A downturn in home building is now in train and will continue until the housing market picks up."

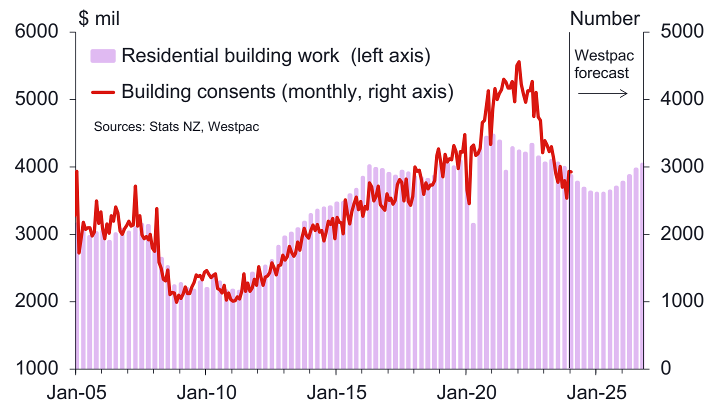
**Tougher financial conditions weighing on new development.**

- Sluggish house sales and limited price growth are discouraging new development, with housing consent numbers down 25% over the past year. The existing pipeline of projects is moderating the extent of the downturn for now.
- Commercial construction is turning down in response to slowing economic growth. Weak household spending will continue to weigh on the amount and type of retail space being developed, and that could also affect the storage sector. Resilience in the services sector is supporting spending on office space.
- Infrastructure spending has risen 60% since 2017. However, much of that rise was related to cost increases, with the actual amount of work being completed rising by only 20%. A large amount of work is planned over the coming years.

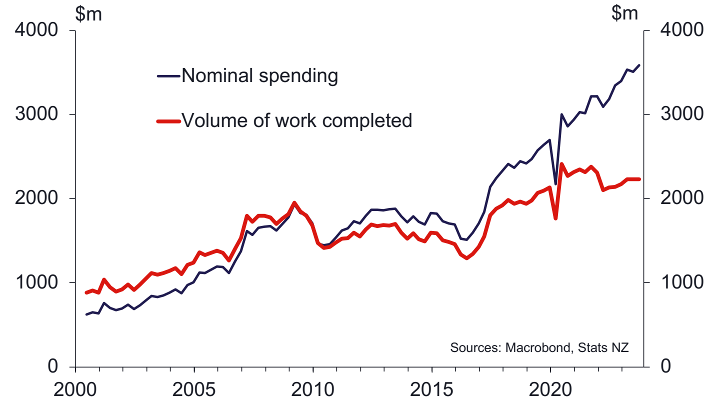
**Population growth, housing market trends and cost increases are key risks.**

- Residential construction levels will depend on housing market trends, which could be weaker than forecast. However, if changes to investor taxation rules and strong population growth spur a resurgence in house prices, new home building is likely to follow.
- Rapid population growth could result in increased demand for infrastructure spending over the coming years. However, cost pressures – and efforts to limit further increases – could be a handbrake on the pace of work.

**Residential building and consent numbers**




**Infrastructure**



# FISCAL

> "The fiscal outlook is challenging with a prolonged tight fiscal stance required to return the books to surplus at a time when rapid population growth is lifting the demand for services."

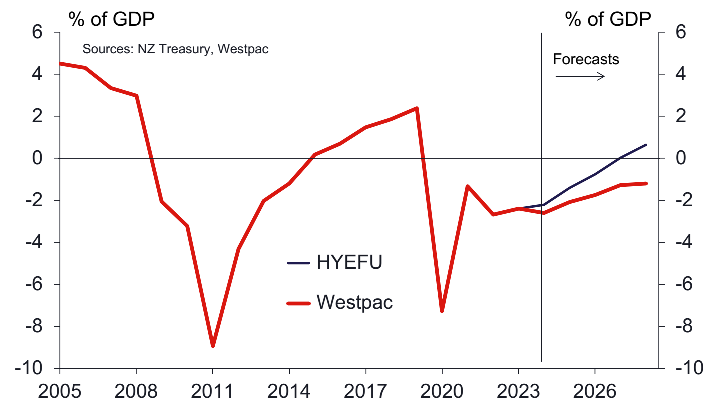
### Slow fiscal consolidation to begin.

- The Government is expected to cut expenditure and implement tax cuts largely as foreshadowed. Tax cuts might be scaled back given fiscal pressures.
- We expect that mounting spending pressures due to population growth will see spending increase from 2026 causing total spending to rise more quickly than forecast in the Half Year Economic and Fiscal Update (HYEFU).
- Additionally, we forecast the nominal tax base to be significantly lower than in the HYEFU. Hence, we forecast that OBEGAL will remain in deficit throughout the forecast horizon, ending the period at just over 1% of GDP.

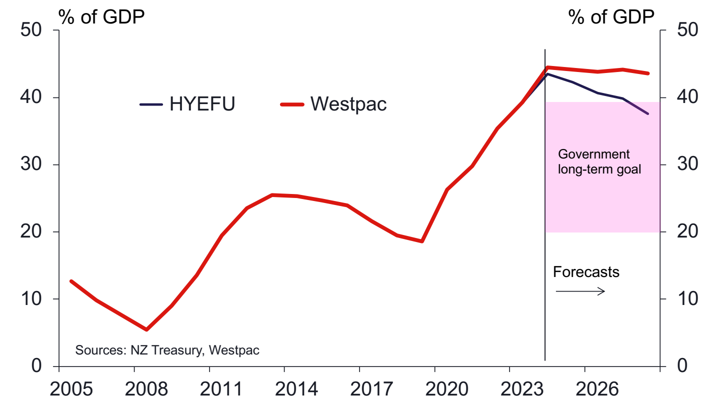
### Achievement of Government debt target will require tighter policy.

- Our forecasts imply a much larger borrowing programme than depicted in the HYEFU – perhaps around $25bn higher over the next four years. Budget 2024 will likely be more optimistic than Westpac's forecasts.
- Averting this outcome will require the Government to run a tighter policy than we have assumed – either through lower spending or new revenue initiatives. Budget 2024 will likely assume tighter spending control than we have assumed.
- Our forecasts imply that in the near term, net core Crown debt will not enter the 20-40% of GDP range that the Government has set as a long-term goal.

**OBEGAL**




**Net core Crown debt**



# GLOBAL OUTLOOK

> "Sub-par growth and weakening inflation is bringing policy rate cuts closer for some economies."

## Trading partner growth to remain steady at a slightly subpar pace.

- In aggregate, New Zealand's trading partner economies are forecast to grow by around 3.4% over 2024 – similar to 2023 and a little below long-run averages.
- Weaker-than-trend growth in most advanced economies will be largely offset by solid growth elsewhere, including in South-East Asia. Growth in China's economy is expected to slow, with consumer demand constrained by weak confidence (amidst falling asset prices) and unfavourable demographics.

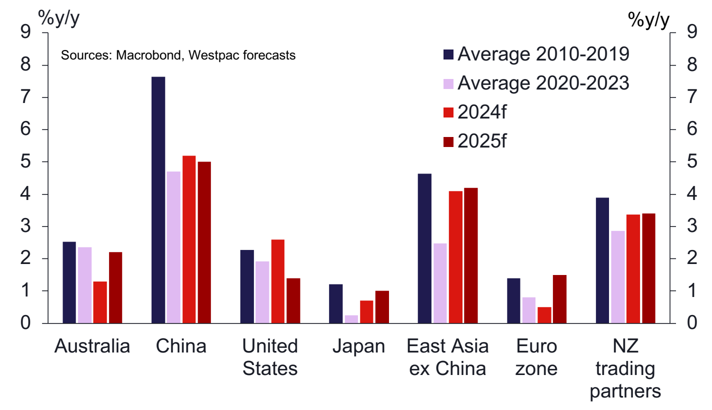
## Monetary policy easing is drawing closer in some jurisdictions.

- Stickier inflation means the Fed and RBA are expected to ease policy slightly later than forecast previously (September and November respectively). Mid-year policy easing is still expected in the euro area, the UK and Canada. By contrast, a slow tightening cycle has begun in Japan.

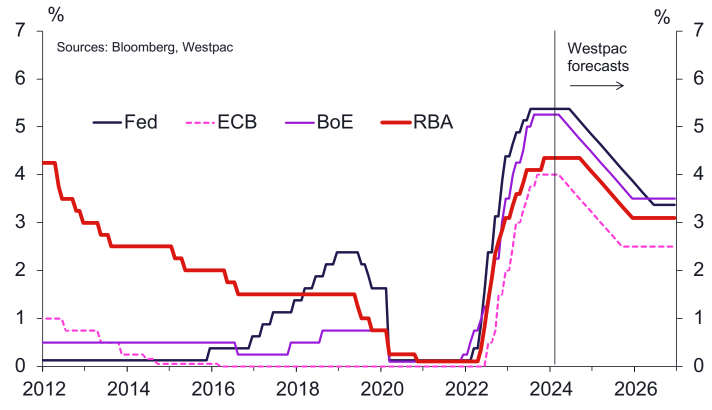
## Risks to the global outlook are two-sided.

- Stickier services inflation could delay policy easing and present downside risks to growth. If inflation risks subside, a stronger upswing in global demand can't be ruled out. Ongoing geopolitical tensions (such as the conflicts in the Middle East and Ukraine), as well as elections in major economies such as the US present significant risks to inflation, trade and growth.

**Trading partner growth**




**Global central bank policy rates**



# EXPORT VOLUMES

> "Export volumes remain constrained by sub-par demand and environmental considerations."

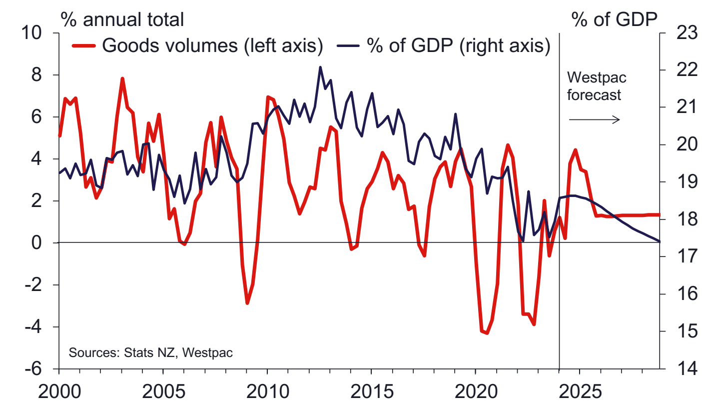
**Growth in merchandise exports is likely to remain subdued.**

- Merchandise export volumes have picked up of late. Exports of dairy, meat and forest products have increased over the past year, while horticultural exports are beginning to rebound following last year's storms.
- Looking ahead, New Zealand's ability to expand agricultural exports is constrained by limitations on land-use and environmental considerations. So while we expect merchandise exports to grow over the period, it seems likely that they will continue to trend down as a proportion of GDP.

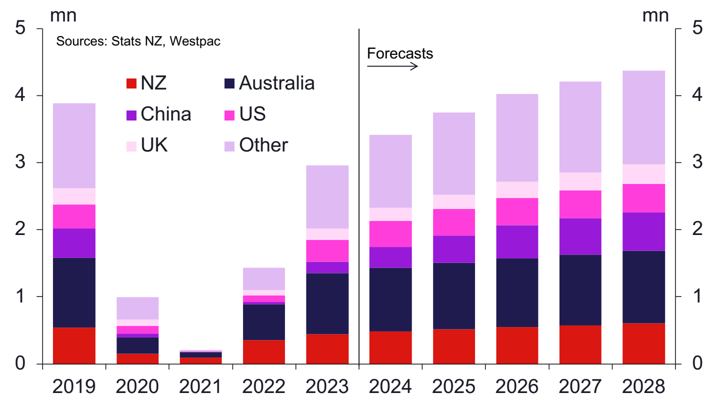
**Tourism rebound slowing but recovery continues.**

- Over the past year inbound visitor arrivals have continued their post-pandemic recovery, rising to around 80% of 2019 levels.
- The pace of recovery has slowed over the past six months, with arrivals from China (around 50%) and much of Europe (around 70%) remaining well below pre-pandemic levels. A rebound in arrivals from the US has been a bright spot.
- Looking ahead, we expect the recovery to continue with the pre-pandemic peak in visitor arrivals to be surpassed in 2026. An easing of financial pressures on households in key visitor markets will be a key driver of that trend, while we remain optimistic about the growth potential from the Chinese market.

**Export volumes**




**Short term visitors by citizenship**



# AGRICULTURE

> "Primary sector earnings are set to modestly improve this year, supported by a rise in global prices, and a recovery in local production."

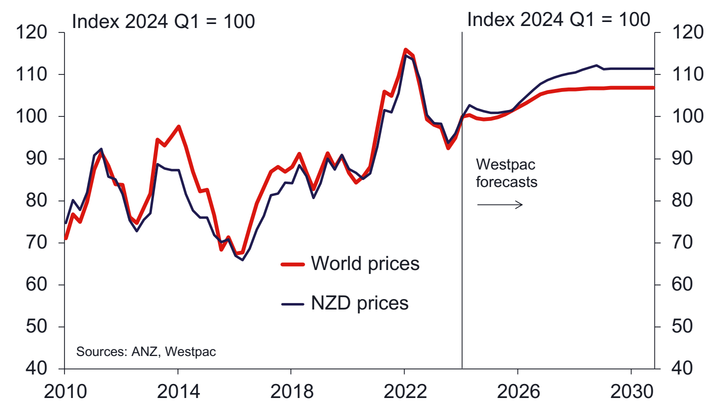
## Farmers to see a small improvement in operating conditions.

- Earnings in New Zealand's agricultural sector are expected to modestly improve this year, supported by a recovery in global commodity prices and increased production in weather impacted sectors. Operating cost inflation has moderated but interest rates remain a significant constraint on profits.

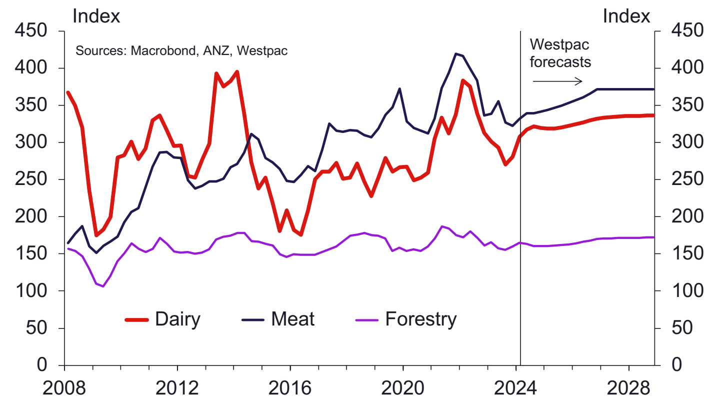
## Chinese demand remains a constraining factor for prices.

- Dairy prices will rise modestly reflecting still constrained global (particularly European) supply and somewhat improved demand in key export markets. We have pencilled in a milk payout of $8.40kg/ms for 2024/25.
- Beef prices are set to tilt higher because of strong demand out of the US. Weak consumption in China though will continue to cap price increases, with major exporters looking to redirect some product out of that market.
- Record levels of lamb production out of Australia and still tepid demand from China should keep a lid on lamb prices over the coming year.
- Orchardists should benefit with a big harvest and increased volumes for export set to offset lower prices, particularly for kiwifruit and apples.
- Log prices to move sideways due to a lack of demand from the moribund Chinese housing sector. Curtailed supply from New Zealand should provide a price floor.

**Commodity prices – World and NZD denominated**




**Commodity prices by category**



# TERMS OF TRADE AND CURRENT ACCOUNT

> "As the economy moves back into better balance, the external deficit should narrow."

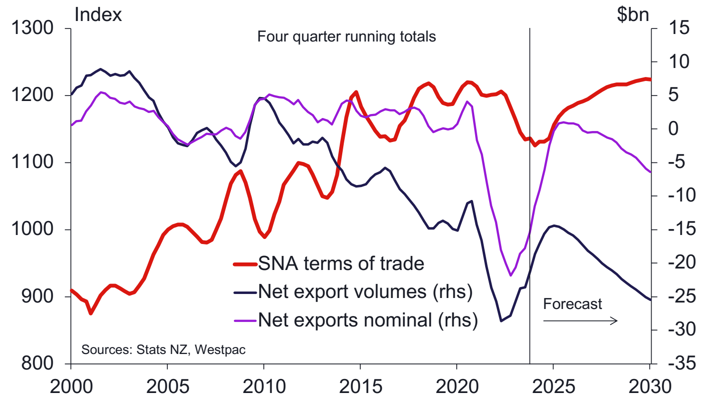
**The goods and services balance should narrow in the near term.**

- The overall current account deficit narrowed to 6.9% of GDP in 2023, from a peak of 8.8% in 2022.
- Looking ahead, the balance on goods and services should improve considerably over the coming year or so.
- A pickup in exports at a time of subdued demand for imports will reduce the goods deficit in the near term, while the services balance will move back into surplus as it benefits from the ongoing recovery in foreign visitor arrivals.
- In addition, we expect a lift in the terms of trade. However, an uptrend in the terms of trade tends to be accompanied by a trend deterioration in net export volumes, as increased incomes boost real demand for imports.

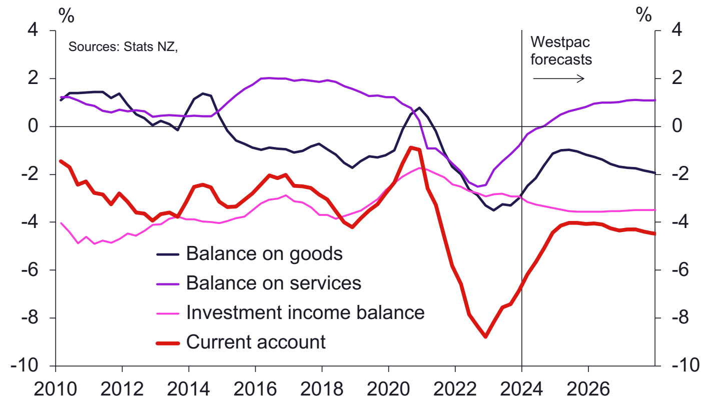
**Current account to narrow but remain wider than pre-pandemic level.**

- With interest rates expected to hold above pre-pandemic levels, the primary income (i.e. investment) deficit will likely continue to widen somewhat.
- Even so, the overall current account deficit is expected to narrow to a low point of around 4% of GDP next year, before gradually widening as the economy begins to strengthen and demand for imports recovers.

**Terms of trade and net exports**




**Current account balance, % of GDP**



# INFLATION

> "We think the RBNZ will be content with 'almost 2%' inflation."

**Further falls in headline inflation will mainly be related to a gradual easing in non-tradables inflation.**

- Tradables inflation has largely normalised and is forecast to remain slightly below long-term averages. Non-tradables inflation is falling more slowly and will need to do much of the work to bring inflation closer to 2%.

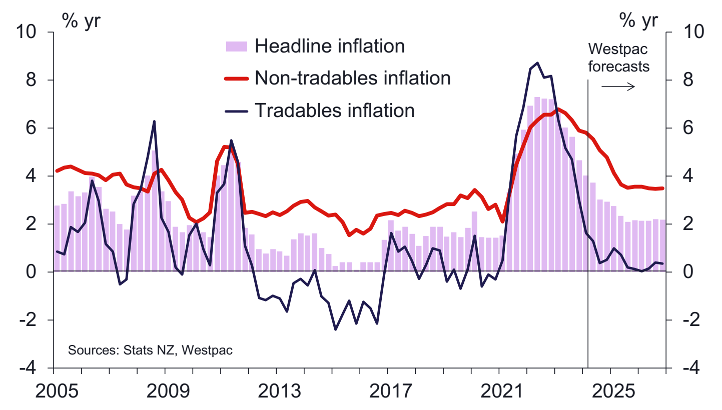
**We have revised up our forecasts for non-tradables inflation.**

- Pricing intentions and costs indicators look consistent with a slow decline in non-tradables inflation. A pattern of correlated surprises point to a stickier disinflation process than seen post the Global Financial Crisis.
- We expect non-tradables inflation to settle slightly above long-term average, and hence overall inflation won't settle at 2%. Inflation expectations will reflect this.
- We think the RBNZ will be content with an 'almost 2%' CPI outcome.

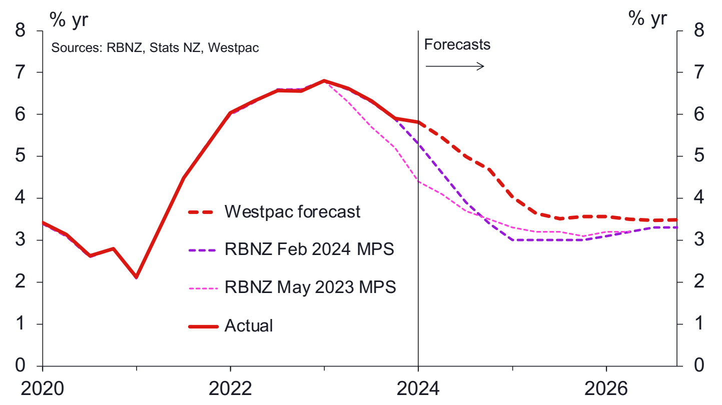
**Risks significant but balanced.**

- Upside risks include a faster than expected recovery in demand and the possibility that price pressures are stickier than assumed. Downside risks include the possibility that tradables inflation weakens below long-term averages (e.g. weaker oil prices, Chinese deflation or an earlier NZD recovery) or if the domestic economy underperforms expectations.

**Inflation**




**RBNZ and Westpac non-tradable inflation forecasts**



# MONETARY POLICY

> "Monetary policy will force New Zealand to do the hard yards in 2024 but provide modest easing in 2025."

**Monetary policy will force New Zealand to do the hard yards in 2024 but provide modest easing in 2025.**

- The OCR will remain unchanged this year even though the economy is weak.
- We see the OCR remaining at 5.5% until February 2025 when it should be clear that inflation will settle below 2.5%.

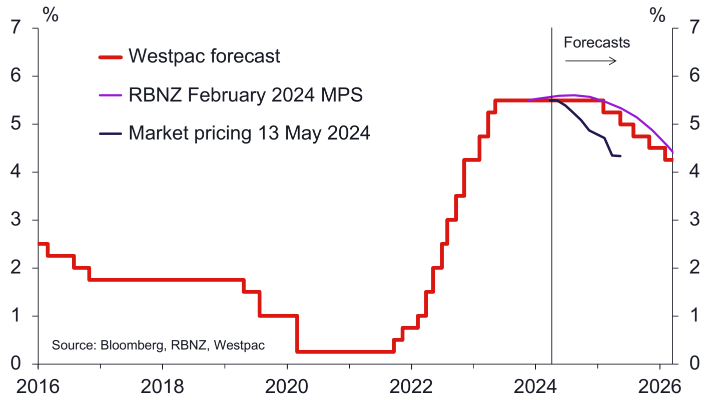
**We have revised up our terminal OCR to 3.75%.**

- US interest rates are assumed to remain higher for longer given recent inflation and growth trends.
- New Zealand interest rates will correspondingly need to settle higher to ensure the NZD is not unduly weakened. The RBNZ is assumed to respond to slowly falling domestic inflation by partially accommodating it. The additional inflation premium will be built into interest rates.

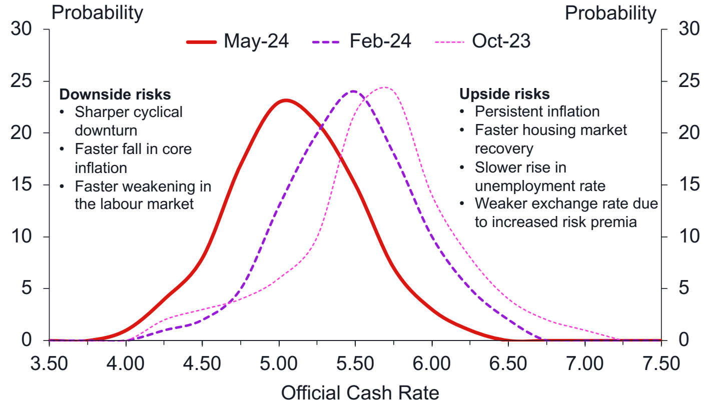
**Risks are evenly balanced.**

- Further tightening or delayed easing is feasible if inflation stalls around 3% or if demand picks up sooner/more strongly.
- Easing could be brought forward to November 2024 if inflation and the labour market cool adequately.

**Official Cash Rate forecasts**




**Risk distribution for the OCR in May 2025**



# FOREIGN EXCHANGE

> "A resilient US dollar and weak New Zealand economic growth implies a flat NZD/USD performance in 2024."

### The US dollar to remain resilient in the near term.

- The ongoing strength of the labour market and recent higher than expected inflation outcomes have delayed the Fed's policy easing cycle.
- The repricing of the outlook for the Fed has provided broad support to the US dollar, which now seems likely to remain in place until later this year.

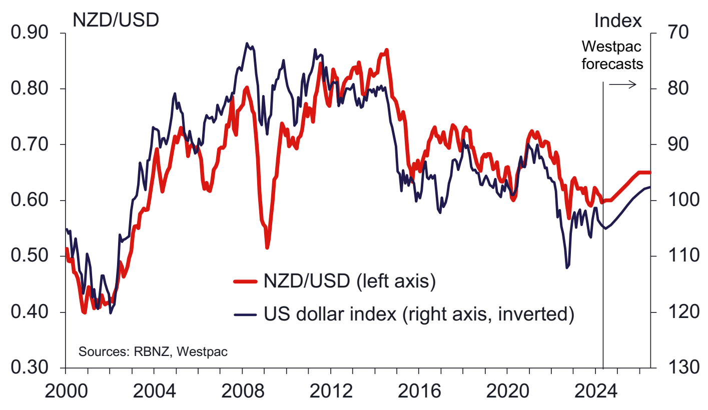
### NZD/USD to begin strengthening later this year.

- The NZD/USD will likely continue to trade tightly with the US dollar.
- We expect the US dollar will begin to soften once the Fed begins easing policy, likely in September. This suggests that NZD/USD will appreciate over 2025 from levels that are at the lower end of the range seen over the past two decades.

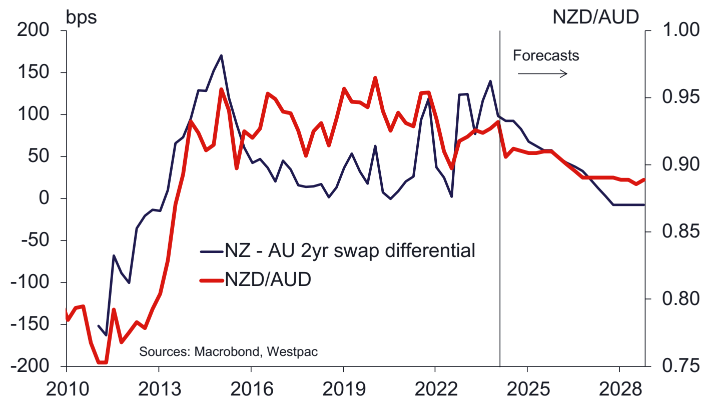
### NZ dollar will likely underperform against AUD and JPY.

- We see scope for the NZ dollar to underperform on some of the crosses, including against the AUD and especially the JPY.
- New Zealand's large twin deficits – fiscal and current account – provide a negative point of difference, while the yen is likely to appreciate from historically weak levels as monetary policy in Japan gradually normalises.

**NZD/USD and US dollar index**




**NZD/AUD and 2-yr swap differential**



# CARBON PRICES

> "Demand for NZUs remains weak as hedgers continue to lack certainty on the policy framework."

**NZU prices continue to be volatile.**

- The first auction of 2024 was partially cleared at a price of $64.
- This result was a significant improvement on the declined auctions of 2023.

**Confidence in the NZU market remains fragile.**

- Demand for NZUs remains weak as hedgers continue to lack certainty on the policy framework that the new government will apply to the Emissions Trading Scheme.
- Additionally, the market lacks clarity on how the Government plans to meet New Zealand's emissions targets and the role that the ETS and carbon prices will play in that effort.
- A significant surplus of NZUs exists (169 million NZUs) that is adding uncertainty around the future NZU price path.
- The Climate Change Commission has recommended reducing NZU auction volumes by around 20 million units over 2025-28. The market is awaiting the Government's decisions on these recommendations. This decision is due by 30 September.
- Market participants indicate a need for multi-year policy certainty before confidence can be fully restored to the NZU market.

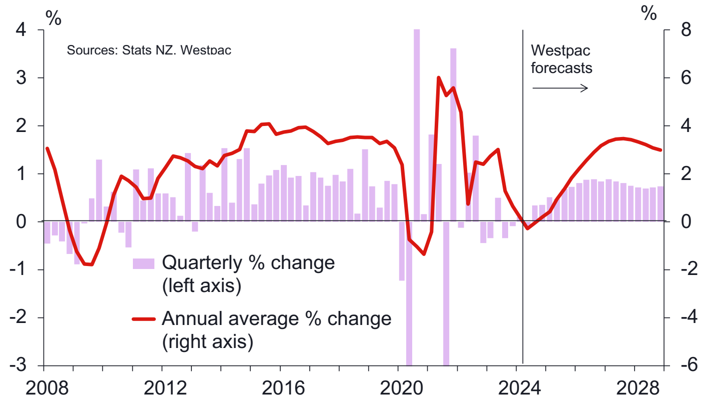
**Westpac New Zealand carbon unit price (NZU mid)**


**Notes:**

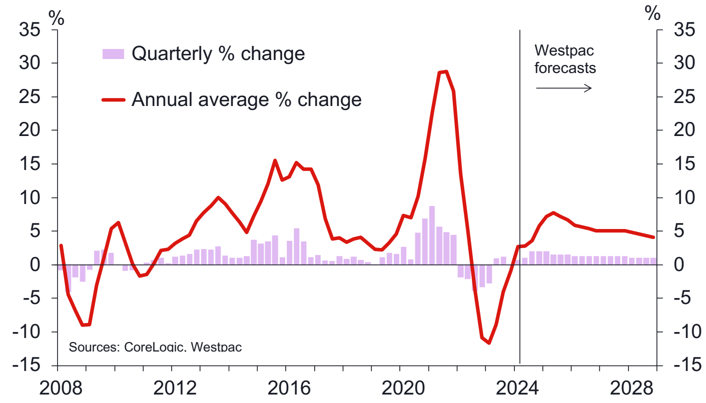
1. NZUs trade at high of $88.50
2. Government announces NZU limit and price control settings, does not accept CCC recommendations.
3. 22 March - Government announces review of ETS.
4. 19 June - Government releases consultation on ETS Review.
5. 13th July - High Court orders Government to reconsider ETS auction settings.
6. 25th July - Government changes ETS auction price controls and unit volumes more in line with CCC recommendations.
7. 5th Dec ETS auction declined, ETS review cancelled.

# THE ECONOMY IN EIGHT CHARTS

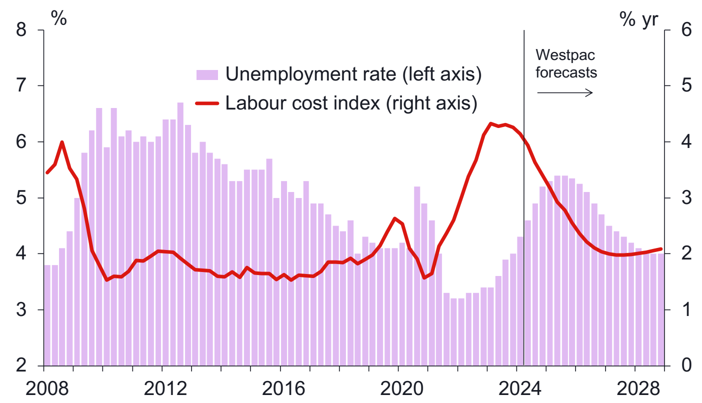
## GDP growth



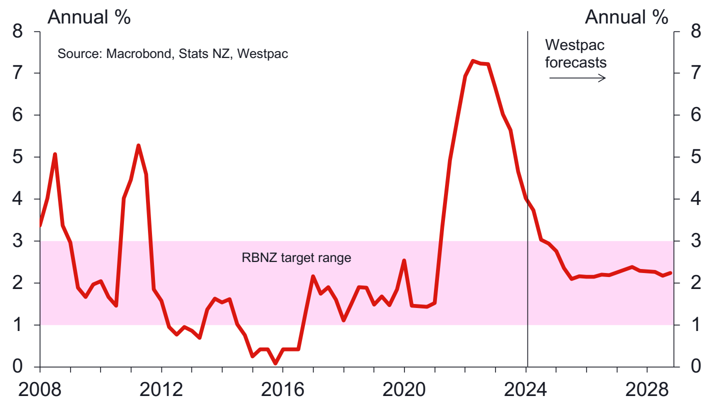

## House prices




## Employment and wage growth

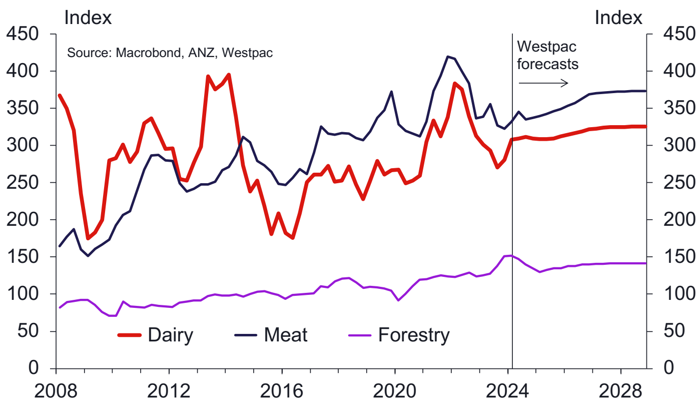



## Consumer price inflation

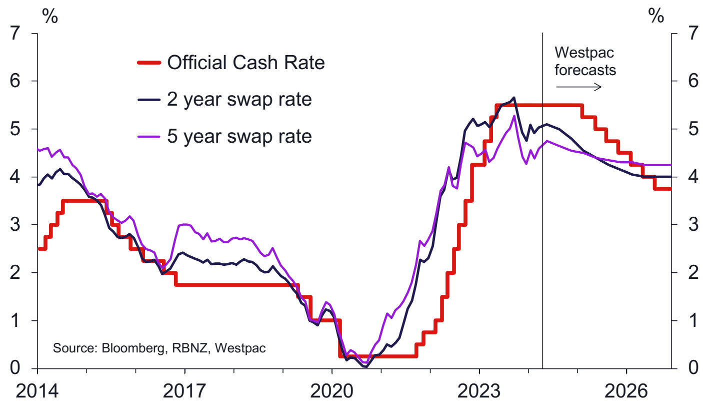


# THE ECONOMY IN EIGHT CHARTS CONT.

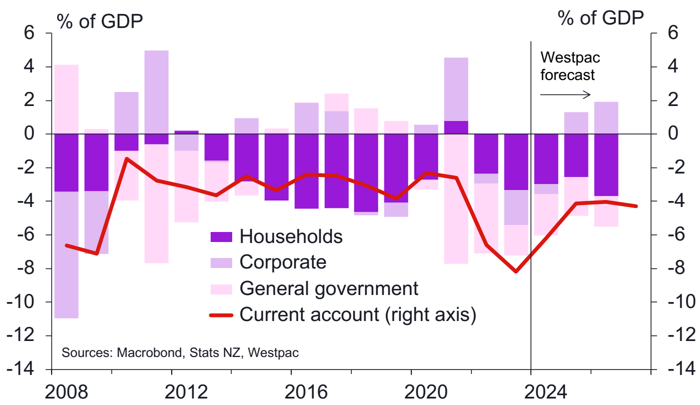
New Zealand commodity prices – world terms



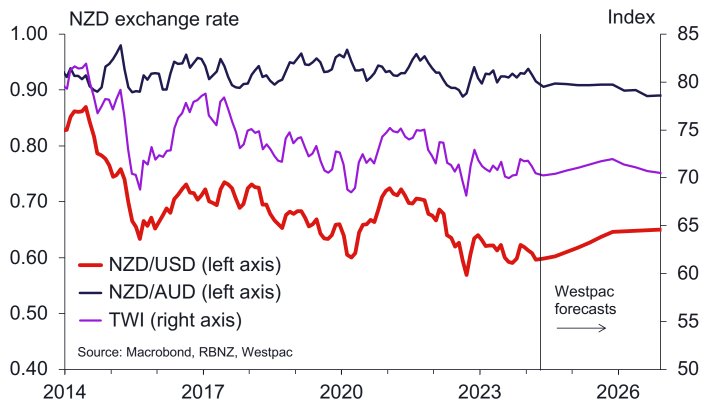

Official Cash Rate, 2 year and 5 year swap rates




Net lending by major sector and current account




Exchange rates



# ECONOMIC AND FINANCIAL FORECASTS

## New Zealand forecasts

| Economic indicators | Quarterly % change | | | | Annual % change | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | 2022 | 2023 | 2024 | 2025 |
| GDP | -0.1 | 0.1 | -0.1 | 0.3 | 2.2 | -0.3 | 0.7 | 2.4 |
| GDP (annual average) | - | - | - | - | 2.4 | 0.6 | 0.2 | 1.8 |
| Consumer price index | 0.5 | 0.6 | 0.8 | 1.1 | 7.2 | 4.7 | 2.9 | 2.2 |
| Employment change | 0.4 | -0.2 | 0.2 | 0.1 | 1.7 | 2.7 | 0.1 | 0.9 |
| Unemployment rate | 4.0 | 4.3 | 4.6 | 4.9 | 3.4 | 4.0 | 5.2 | 5.4 |
| Labour cost index (all sectors) | 1.0 | 0.9 | 0.9 | 0.8 | 4.1 | 4.3 | 3.4 | 2.5 |
| Current account balance (% of GDP) | -6.9 | -6.2 | -5.7 | -5.1 | -8.8 | -6.9 | -4.4 | -4.1 |
| Terms of trade | -7.8 | 4.6 | 1.9 | 1.3 | -4.2 | -10.6 | 8.1 | 0.8 |
| House price index | -0.1 | 0.7 | 1.0 | 2.0 | -10.8 | -0.9 | 5.8 | 6.7 |
| **Financial forecasts** | **End of quarter** | | | | **End of year** | | | |
| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | 2022 | 2023 | 2024 | 2025 |
| 90 day bank bill | 5.65 | 5.67 | 5.60 | 5.60 | 4.26 | 5.65 | 5.50 | 4.50 |
| 2 year swap | 5.28 | 4.92 | 5.10 | 5.00 | 5.10 | 5.28 | 4.80 | 4.15 |
| 5 year swap | 4.84 | 4.40 | 4.75 | 4.65 | 4.67 | 4.84 | 4.55 | 4.30 |
| 10 year bond | 5.09 | 4.69 | 5.00 | 4.90 | 4.31 | 5.09 | 4.80 | 4.50 |
| TWI | 70.8 | 71.6 | 70.3 | 70.4 | 70.8 | 70.8 | 70.8 | 72.0 |
| NZD/USD | 0.60 | 0.61 | 0.60 | 0.60 | 0.60 | 0.60 | 0.61 | 0.65 |
| NZD/AUD | 0.93 | 0.93 | 0.91 | 0.91 | 0.92 | 0.93 | 0.91 | 0.91 |
| NZD/EUR | 0.56 | 0.56 | 0.55 | 0.55 | 0.59 | 0.56 | 0.55 | 0.57 |
| NZD/GBP | 0.49 | 0.48 | 0.47 | 0.47 | 0.51 | 0.49 | 0.48 | 0.49 |

# ECONOMIC AND FINANCIAL FORECASTS CONT.

## New Zealand forecasts

| Fiscal indicators | June years | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
| **Total government revenue ($bn)** | 129.3 | 141.6 | 153.0 | 165.4 | 169.9 | 177.7 | 187.1 |
| **- % of GDP** | 37.7 | 38.9 | 38.7 | 40.0 | 39.5 | 39.7 | 39.6 |
| **Total government spending ($bn)** | 133.7 | 151.0 | 161.8 | 175.8 | 178.7 | 185.4 | 193.1 |
| **- % of GDP** | 39.0 | 41.5 | 40.9 | 42.6 | 42.1 | 41.9 | 41.0 |
| **Operating balance excl. gains and losses ($bn)** | -4.6 | -9.7 | -9.4 | -10.9 | -9.2 | -8.1 | -6.4 |
| **- % of GDP** | -1.3 | -2.7 | -2.4 | -2.6 | -2.1 | -1.8 | -1.4 |
| **Net core Crown debt ($bn)** | 102.1 | 128.9 | 155.3 | 184.3 | 191.8 | 199.8 | 213.6 |
| **- % of GDP** | 29.8 | 35.4 | 39.3 | 44.6 | 44.6 | 44.6 | 45.2 |

## International economic forecasts

| Real GDP (calendar years) | Annual average % change | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** | **2024f** | **2025f** |
| **Australia** | -2.1 | 5.6 | 3.8 | 2.1 | 1.3 | 2.2 |
| **China** | 2.2 | 8.4 | 3.0 | 5.2 | 5.2 | 5.0 |
| **United States** | -2.8 | 5.9 | 2.1 | 2.5 | 2.5 | 1.5 |
| **Japan** | -4.2 | 2.2 | 1.0 | 2.0 | 0.7 | 1.0 |
| **East Asia ex China** | -2.3 | 4.3 | 4.5 | 3.4 | 4.1 | 4.2 |
| **India** | -5.8 | 9.1 | 7.2 | 7.7 | 6.5 | 6.7 |
| **Euro zone** | -6.1 | 5.6 | 3.3 | 0.4 | 0.5 | 1.5 |
| **United Kingdom** | -11.0 | 7.6 | 4.1 | 0.4 | 0.5 | 1.3 |
| **NZ trading partners** | **-1.5** | **6.3** | **3.3** | **3.4** | **3.4** | **3.4** |
| **World** | **-2.8** | **6.3** | **3.5** | **3.3** | **3.3** | **3.1** |

# ECONOMIC AND FINANCIAL FORECASTS CONT.

Interest rates and exchange rates

| | CPI | Interest rates | | | | Exchange rates | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Annual % | OCR | 90-day bill | 2 year swap | 5 year swap | USD Index | NZ TWI | NZD/USD | NZD/AUD | NZD/GBP | NZD/EUR | NZD/CNY | NZD/JPY |
| **Mar-24** | 4.0 | 5.50 | 5.67 | 4.92 | 4.40 | 103.0 | 71.6 | 0.61 | 0.93 | 0.48 | 0.56 | 4.41 | 90.9 |
| **Jun-24** | 3.7 | 5.50 | 5.60 | 5.10 | 4.75 | 105.1 | 70.3 | 0.60 | 0.91 | 0.47 | 0.55 | 4.31 | 93.3 |
| **Sep-24** | 3.0 | 5.50 | 5.60 | 5.00 | 4.65 | 104.4 | 70.4 | 0.60 | 0.91 | 0.47 | 0.55 | 4.30 | 93.3 |
| **Dec-24** | 2.9 | 5.50 | 5.50 | 4.80 | 4.55 | 103.3 | 70.8 | 0.61 | 0.91 | 0.48 | 0.55 | 4.33 | 93.9 |
| **Mar-25** | 2.8 | 5.25 | 5.25 | 4.55 | 4.50 | 102.1 | 71.0 | 0.62 | 0.91 | 0.48 | 0.56 | 4.36 | 92.7 |
| **Jun-25** | 2.3 | 5.00 | 4.95 | 4.40 | 4.40 | 100.9 | 71.4 | 0.63 | 0.91 | 0.48 | 0.56 | 4.39 | 91.5 |
| **Sep-25** | 2.1 | 4.75 | 4.75 | 4.25 | 4.35 | 99.7 | 71.7 | 0.64 | 0.91 | 0.49 | 0.56 | 4.40 | 91.1 |
| **Dec-25** | 2.2 | 4.50 | 4.50 | 4.15 | 4.30 | 98.7 | 72.0 | 0.65 | 0.91 | 0.49 | 0.57 | 4.39 | 90.4 |
| **Mar-26** | 2.2 | 4.25 | 4.25 | 4.05 | 4.30 | 97.9 | 71.4 | 0.65 | 0.90 | 0.49 | 0.57 | 4.33 | 89.3 |
| **Jun-26** | 2.1 | 4.00 | 3.95 | 4.00 | 4.25 | 97.6 | 71.1 | 0.65 | 0.90 | 0.49 | 0.57 | 4.28 | 88.1 |
| **Sep-26** | 2.2 | 3.75 | 3.85 | 4.00 | 4.25 | 96.7 | 70.7 | 0.65 | 0.89 | 0.50 | 0.56 | 4.25 | 87.0 |
| **Dec-26** | 2.2 | 3.75 | 3.85 | 4.00 | 4.25 | 96.5 | 70.5 | 0.65 | 0.89 | 0.50 | 0.57 | 4.23 | 85.8 |

# CONTACT

**Westpac Economics Team**
**westpac.co.nz/economics**
economics@westpac.co.nz

**Kelly Eckhold**, Chief Economist
+64 9 348 9382 | +64 21 786 758
kelly.eckhold@westpac.co.nz

**Satish Ranchhod**, Senior Economist
+64 9 336 5668 | +64 21 710 852
satish.ranchhod@westpac.co.nz

**Darren Gibbs**, Senior Economist
+64 9 367 3368 | +64 21 794 292
darren.gibbs@westpac.co.nz

**Michael Gordon**, Senior Economist
+64 9 336 5670 | +64 21 749 506
michael.gordon@westpac.co.nz

**Paul Clark**, Industry Economist
+64 9 336 5656 | +64 21 713 704
paul.clark@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

# DISCLAIMER

## Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

## Disclaimer.

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

## Country disclosures.

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the

Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

## Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

(i) Chinese Wall/Cell arrangements;

(ii) physical separation of various Business/Support Units;

(iii) and well defined wall/cell crossing procedures;

(iv) a "need to know" policy;

(v) documented and well defined procedures for dealing with conflicts of interest;

(vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**U.S:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

Westpac Banking Corporation.