

ECONOMIC OVERVIEW

Back in the band!

October 2024



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A NOTE FROM KELLY

Back in the band!

Inflation has slowed significantly in the last six months such that it now looks likely to be comfortably near 2% for the first time since 2021. While domestically generated inflation remains high, the RBNZ now has more degrees of freedom to manage future challenges.

The RBNZ has rightly stepped up the pace of easing as there's no need for high interest rates when the task ahead is to stabilise rather than reduce inflation. The OCR can move closer to neutral more quickly and we expect another 50bp cut before Christmas. We expect further cuts early next year, with the OCR to fall slightly into stimulatory territory to 3.50% by May 2025. However, the pace of easing should slow in 2025 as the OCR moves closer to neutral. This will also allow time to assess the impact of the significant cuts in 2024.

The labour market is set to continue softening as past weakness in output plays through. The adjustment in wage pressures will be a key factor that helps to finally bring down stubbornly high non-tradables inflation.

It's looking more likely that the OCR will spend some time modestly below neutral levels in the year ahead. But the economy seems well placed to recover as lower interest rates and improving export incomes provide support. Stronger business and consumer sentiment and stirrings in the housing market point to better times ahead.

Significant uncertainties remain. Geopolitical tensions and the upcoming US election could significantly impact financial markets and global trade. The RBNZ is well positioned to adjust policy if required. Such is the benefit of having the OCR close to neutral levels.

New Zealand's large twin current account and fiscal deficits mean that adjustment is still needed. If those adjustments can't or won't happen, then the exchange rate will likely do the adjustment for us. But for now, we should enjoy being "Back in the band!"



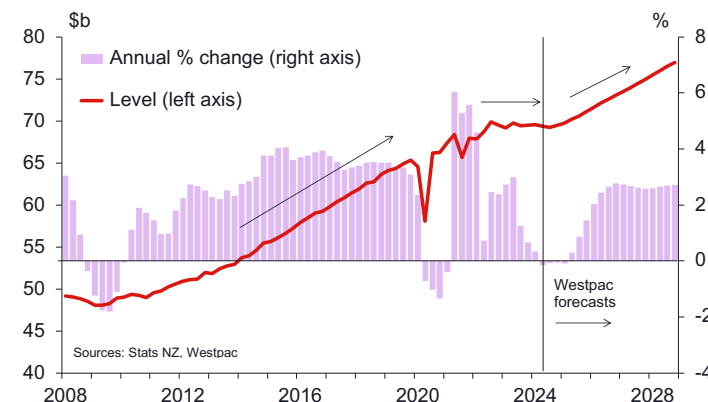
OVERVIEW

It looks like the worst is behind us.

- Financial conditions have eased significantly since our last update in August. Inflation has fallen faster than expected and is set to track close to 2% over the coming year.
- In addition, the RBNZ has cut the OCR earlier and faster than previously assumed, and there have been related falls in borrowing costs. We expect further rate cuts over the coming months, with the OCR to fall from 4.75% currently to 3.50% in the first half of 2025.
- Economic growth is expected to remain subdued in the near term. However, the easing in financial conditions is expected to support a gradual recovery in growth over 2025, with a pickup in household spending and a related firming in capital expenditure by businesses.
- We also expect the housing market to recover with prices to rise by 8% over 2025. That will help to support an eventual recovery in construction activity.
- Export earnings are expected to firm over the coming year, underpinned by improved demand and supply conditions in the primary sector, along with a continued, albeit gradual, lift in international visitor numbers.
- Unemployment is expected to rise from 4.6% currently to 5.6% in the early part of next year. However, it is expected to drop back again as growth strengthens.

“Financial conditions have eased significantly and will support a recovery in both economic growth and the housing market over 2025.”

GDP growth to return to pre-pandemic trends



Key economic forecasts

	2023	2024(f)	2025(f)	2026(f)
GDP growth (% year)	0.0	0.0	2.3	2.7
Inflation (% year end)	4.7	2.1	2.0	2.1
Unemployment rate (%)	4.0	5.3	5.5	4.6
House prices (% year end)	-0.6	-0.6	8.2	5.1
Official Cash Rate (%)	5.50	4.25	3.50	3.75

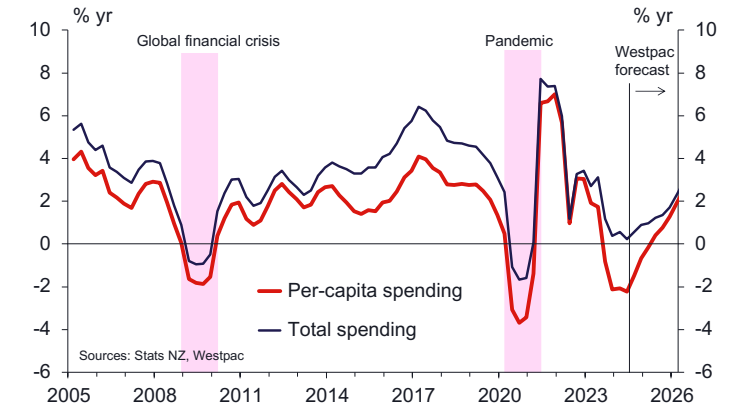
HOUSEHOLDS

The financial squeeze is easing.

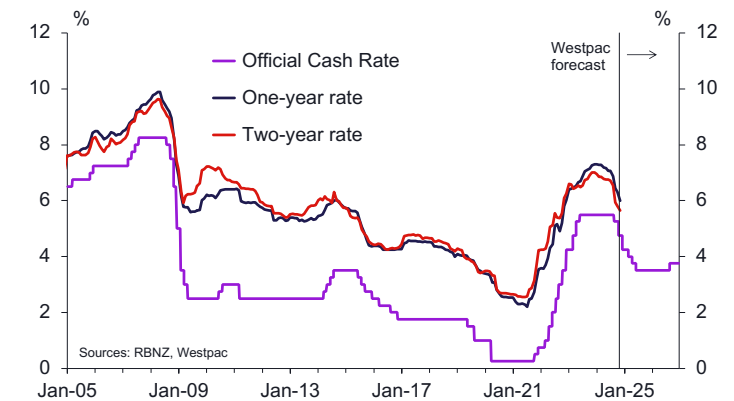
- The powerful financial headwinds that squeezed households' finances over the past few years are now easing. Inflation has slowed to around average levels. In addition, borrowers are gradually rolling off earlier high fixed mortgage rates and a large number will see their debt servicing costs fall over the coming months.
- Recent fiscal measures, like personal tax cuts, changes to the independent earner tax credit and the FamilyBoost package, are also supporting incomes modestly.
- Easier financial conditions have helped lift consumer sentiment. However, for now sentiment remains relatively weak, and spending is likely to remain subdued through the remainder of 2024 before beginning to strengthen over 2025. Per capita spending growth is likely to remain below trend for some time yet.
- New Zealand's labour market is softening, with unemployment expected to rise above 5% before the end of this year and wage growth to continue slowing in 2025. That downturn in the labour market will impact many households' finances. And for as long as households remain concerned about job security, it will likely moderate the recovery in overall spending.

“The squeeze on household finances is easing, and spending will recover gradually as interest rates become less restrictive.”

Household spending growth



Official Cash Rate and mortgage rates



HOUSING

“Lower interest rates are laying the basis for a solid recovery in the housing market.”

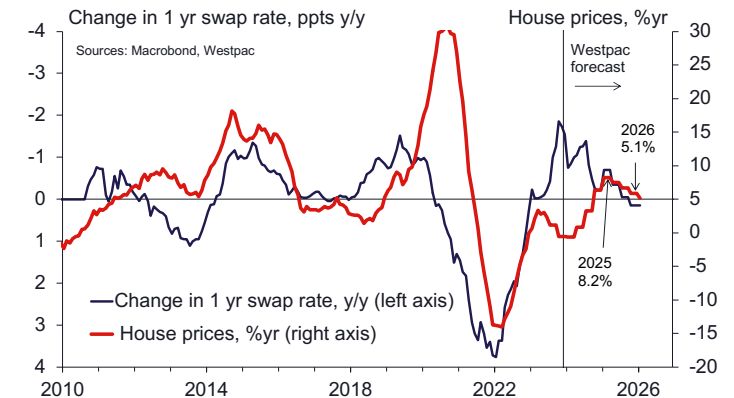
The housing market has likely troughed.

- Sentiment in the housing market has improved as the RBNZ has reduced the OCR and mortgage rates have fallen.
- For now, the momentum in house prices remains limited, with prices moving sideways in most parts of the country. The average number of days to sell is rising as properties that have been on the market for a while are now selling.
- Still high levels of listings compared to buying activity means buyers have plenty of choice and face little urgency to buy.
- Concerns about rising unemployment and the still weak economy are also constraining house prices.

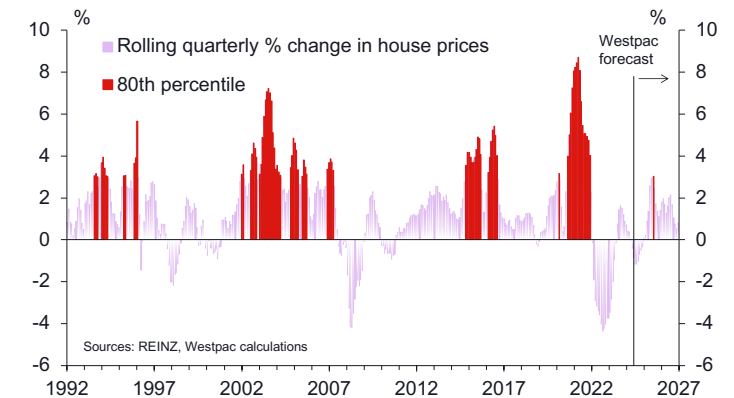
Lower interest rates are laying the basis for a solid recovery.

- We have increased our forecasts for house price growth over 2025, with easier financial conditions to boost activity and prices.
- We expect solid but not exceptional price gains given unemployment will be at cycle highs and population growth at cycle lows in 2025 and 2026.

House price growth vs interest rates



House price momentum



MIGRATION

Net migration on track to slow to zero over 2025.

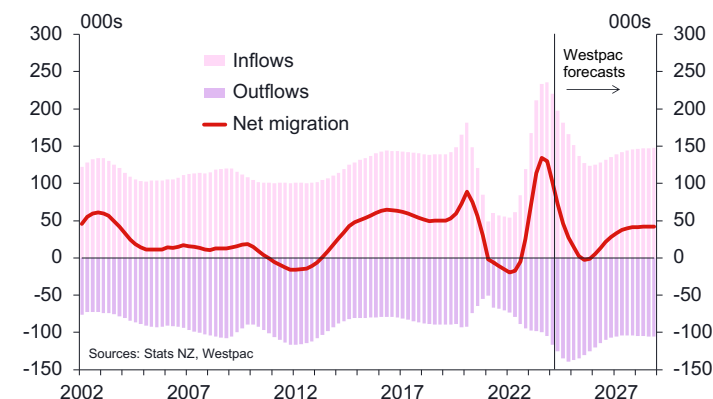
- Net migration has slowed as expected, with the monthly pace now falling below pre-Covid levels. Our view remains that the balance will fall to around zero over 2025, largely due to a further slowdown in arrivals.
- The previous surge in foreign arrivals was concentrated in sectors such as construction and hospitality. However, these inflows slowed significantly over 2024 as activity cooled and the previous labour shortage was eliminated. The mix of arrivals has tilted towards more skilled workers, where demand remains high.
- Departures of New Zealanders remain elevated, though there are early signs that they may have peaked. We expect them to stay high over the year ahead, reflecting the relative strength of the Australian labour market.
- We expect the balance to return to a net inflow of around 40,000 a year over the longer term. New Zealand remains an attractive destination for much of the world, and our economic performance will return more in line with our peers.

Risk of higher departures if job prospects remain soft.

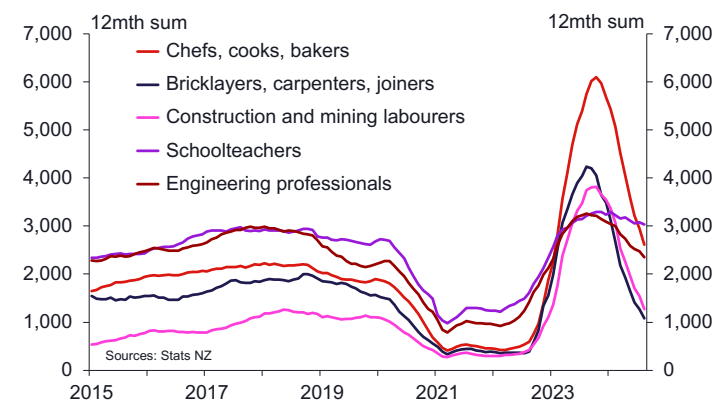
- Migrant arrivals remain highly weighted towards those on work visas, leaving them in a relatively insecure position as job opportunities wane. This could prompt a sharp rise in non-New Zealand outflows, which have not been a feature of this cycle to date.

“Migrant inflows and outflows both remain high compared to pre-Covid levels, but the balance is easing and is on track to fall to around zero next year.”

Migration flows, annual sum



Migrant arrivals by stated occupation



LABOUR MARKET

Job losses rising, unemployment to peak in mid-2025.

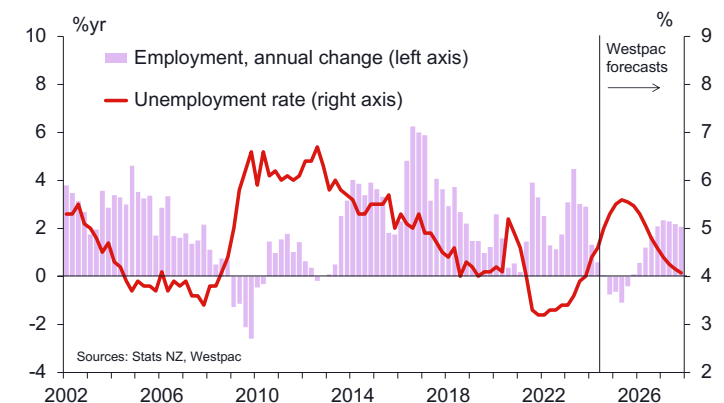
- The economy’s prolonged slowdown is now more clearly weighing on the labour market. While hiring has been subdued for some time, it’s only in recent months that we’ve seen a shift to outright job losses. Lower net migration has also reduced the rate of growth in the workforce compared to last year.
- We expect the unemployment rate to rise further, reaching a peak of 5.6% by mid-2025. With lower interest rates helping to revive economic growth by this point, the labour market is likely to respond with a lag, bringing unemployment back down towards a ‘neutral’ level of around 4-4.5 % over the long term.
- Businesses have tended to hold on to workers as demand slowed, perhaps having been caught out by labour shortages in the previous years. This creates a risk of a wave of delayed layoffs if their ability to retain these workers is put under pressure.

Wage growth to ease on softer jobs market and lower inflation.

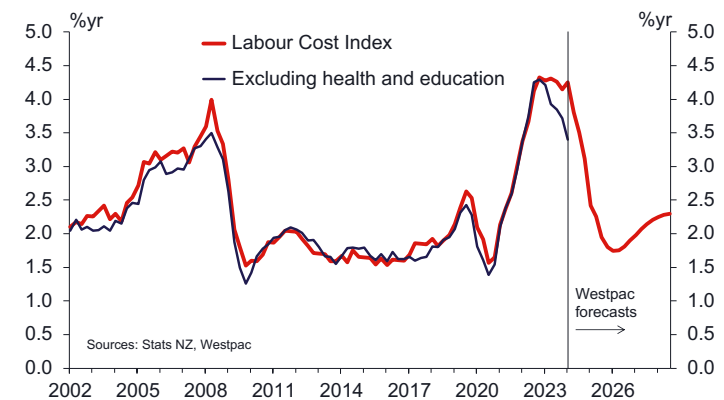
- Average wage growth has been held up to an unusual degree by phased pay agreements in health and education. Excluding these sectors, we’re now seeing an easing in wage inflation, in keeping with the growing slack in the labour market and the reducing pressure for cost-of-living increases.

“The economy’s prolonged slowdown is now catching up on the labour market, with employment expected to fall and wage inflation to moderate in the year ahead.”

Employment growth and unemployment rate



Wage growth forecasts



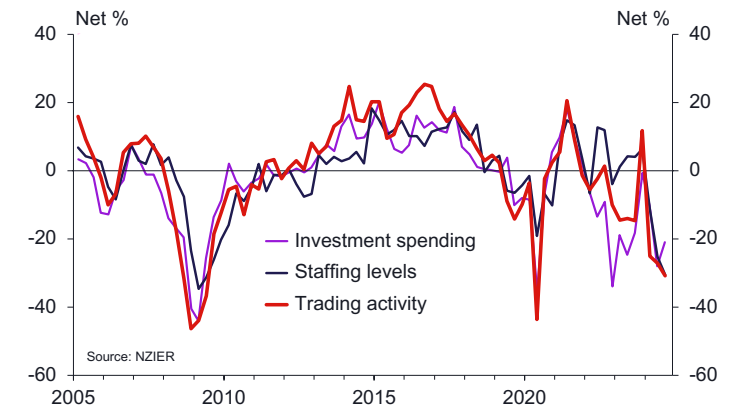
BUSINESS SECTOR

Businesses holding on, with signs the worst is behind us.

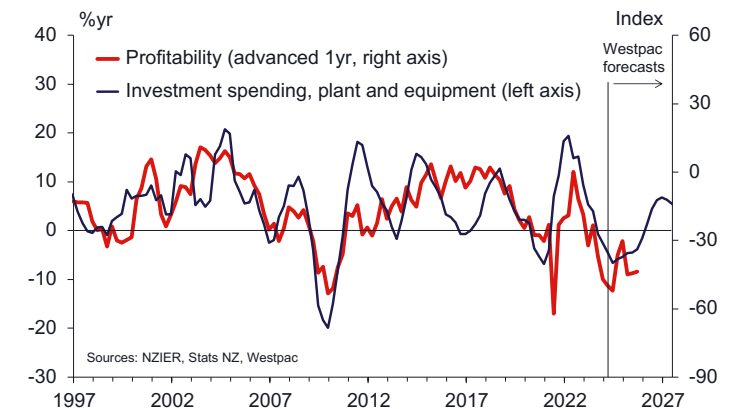
- Businesses across the country have continued to report tough trading conditions. Retail sales have been weak, and the hospitality sector is especially downbeat. The construction and manufacturing sectors are also weak.
- Many businesses have been reducing staffing levels in recent months. Similarly, businesses remain cautious about capital expenditure, with investment spending expected to remain weak over the coming months.
- But while conditions are still tough, feedback from businesses indicates that the downturn in trading activity over the past year is now levelling off.
- In addition, there has been a sizeable lift in business sentiment in recent months with many businesses telling us they're optimistic that the fall in interest rates will help to stoke demand over the year ahead.
- Although we haven't seen widespread falls in operating costs, reports of large increases and the related pressure on margins have become less prevalent (though there are clearly some ongoing pain-points, like the cost of insurance and local council rates).

“Many businesses continue to report tough trading conditions but there is a growing sense that the worst is behind us now that interest rates are dropping.”

Changes in business conditions



Business profitability and investment spending



CONSTRUCTION

Residential building finding a base.

- Residential building is set to remain soft in the near term. However, housing development is expected to begin turning higher over 2025. Interest rates are dropping and the housing market will pick up over the year ahead. Government initiatives to encourage multi-unit developments in larger centres will also support new development to some degree.

Non-residential development remains mixed across sectors.

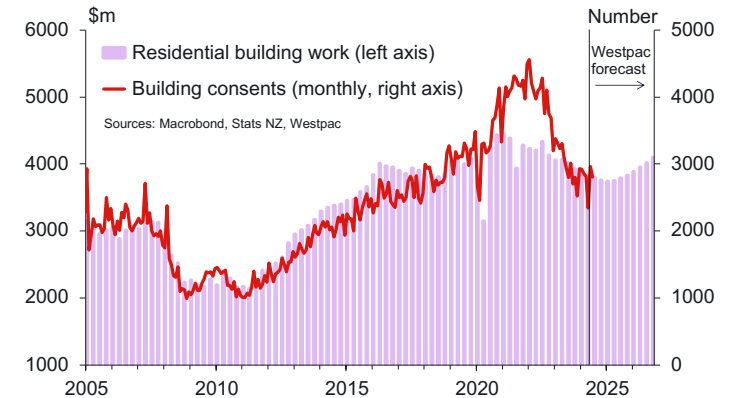
- Businesses are likely to remain cautious about developing large amounts of new commercial space for some time yet. However, trends are mixed across sectors. There is a large amount of office and industrial space in development (including refurbishments). In contrast, softness in economic conditions continues to weigh on the amount of retail and hospitality space being developed.

Infrastructure work continuing to trend higher.

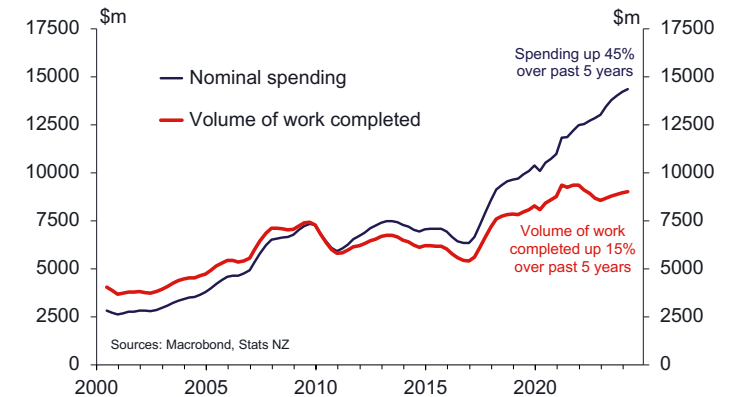
- Spending on infrastructure projects has continued to trend higher, though much of that has been due to higher costs. There is a large amount of work planned by central and local government (including maintenance work), and policy changes aimed at streamlining the planning process may help to speed up that work.

“Construction is likely to remain subdued in the near term, but lower interest rates and government policy changes will support a recovery over the year ahead.”

Residential building and dwelling consent numbers



Infrastructure work (annual)



FISCAL

No immediate need for a material lift in government borrowing.

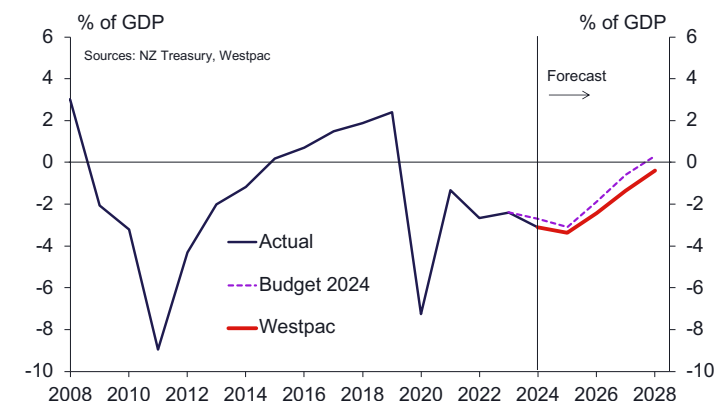
- The “core Crown” cash position in '23/24 was \$2.6bn above the Budget 2024 forecast, as tax revenue was stronger than expected and some pre-funding of the '24/25 deficit was undertaken in June. This is despite the final OBEGAL deficit of \$12.9bn being \$1.8bn larger than forecast, largely due to higher spending outside of the core Crown sector (e.g. SOEs).
- We expect a '24/25 OBEGAL deficit of 3.4% of GDP, slightly exceeding the Budget 2024 forecast. But ahead of new tax data on 7 November, the stronger opening core Crown cash position means we don't expect a material revision to this year's \$38bn borrowing programme in the 17 December HYEFU.

Achieving a surplus in '27/28 still looks like a struggle, however.

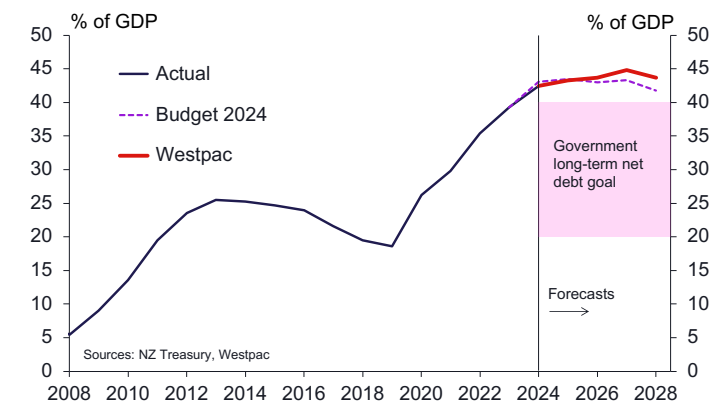
- Our economic forecasts imply slightly higher spending (in part due to higher financing costs) and slightly lower revenue in coming years compared to the Budget 2024 forecasts. As a result, we continue to forecast a small OBEGAL deficit in '27/28 – rather than the small surplus forecast in Budget 2024 – and that net core Crown debt will remain slightly above the 20-40% of GDP level targeted by the Government.
- Our forecasts imply some upward revision to borrowing in future Budgets, although the scale of revision is likely to be much smaller than in recent years.

“Expenditure restraint and a recovering economy should improve the government accounts, but achieving a surplus as soon as '27/28 will be challenging.”

Operating balance (OBEGAL), % of GDP



Net core Crown debt



GLOBAL OUTLOOK

Global monetary policy normalisation has stepped up a gear.

- With most central banks making good progress towards meeting their inflation targets, the pace of global policy normalisation has picked up in recent months.
- We expect the US Fed to ease policy by a further 50bps this year and by 100bps in 2025. The RBA, which is less advanced in its inflation battle, is expected to ease policy by 100bps next year, beginning in February.

Despite policy easing, trading partner growth remains slightly subpar.

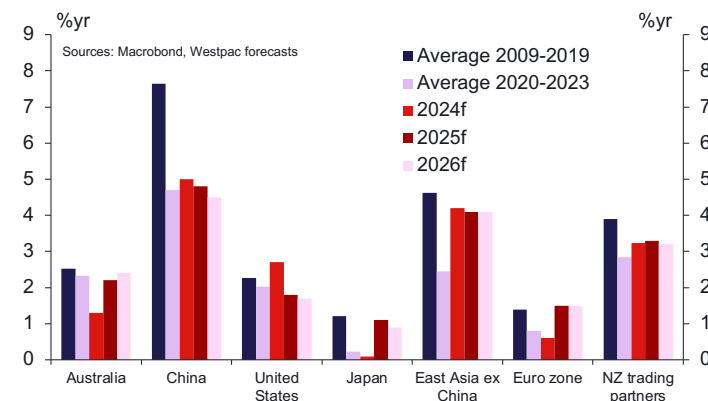
- Less restrictive monetary policy should support global growth. Even so, in the near term we expect trading partner economies to grow at a similar pace to the current year, i.e. around 3.2% to 3.3% – below the long-term average.
- Growth in China is expected to continue to gradually slow, and growth in the US is expected to slow towards its long-term trend. Fiscal policy is likely to be a constraint in those economies with pandemic-inflated debt levels.

Global risks are a key source of overall risk to our New Zealand forecasts.

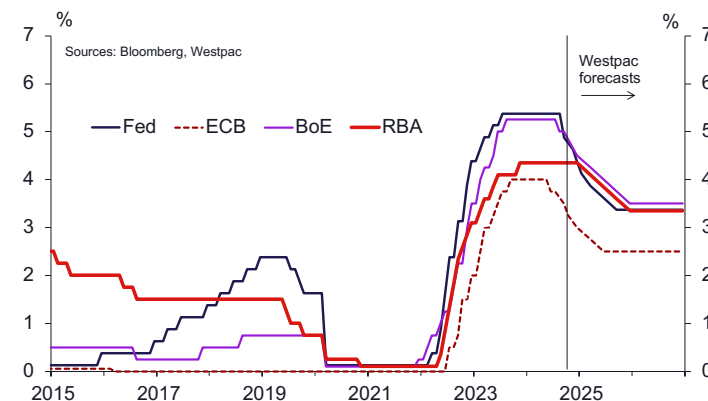
- Recent stimulus announcements have reduced (but not eliminated) downside risks in China due to local government debt and property sector worries.
- Other risks include geopolitical developments in Europe and the Middle East and two-sided risks that might flow from the upcoming US election.

“Global monetary policy settings are becoming more supportive, although there are still risks on the horizon.”

Growth forecasts, major trading partners



Global central bank policy rates



EXPORT VOLUMES

Export volumes likely to remain relatively subdued.

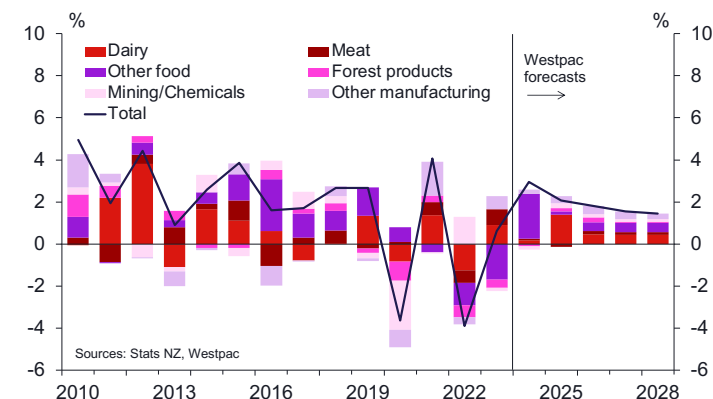
- Merchandise export volumes are on track to grow around 3% this year, largely due to a rebound in horticultural exports following last year's storms. We expect growth of around 2% in 2025, assisted by stronger dairy production.
- Looking further ahead, New Zealand's ability to significantly expand primary sector exports is constrained by limitations on land use and environmental considerations. So, while neither global demand nor the exchange rate are an impediment to growth in non-primary sector exports, we expect that overall exports will continue to grow more slowly than the overall economy.

Tourist arrivals still rising, but now only slowly.

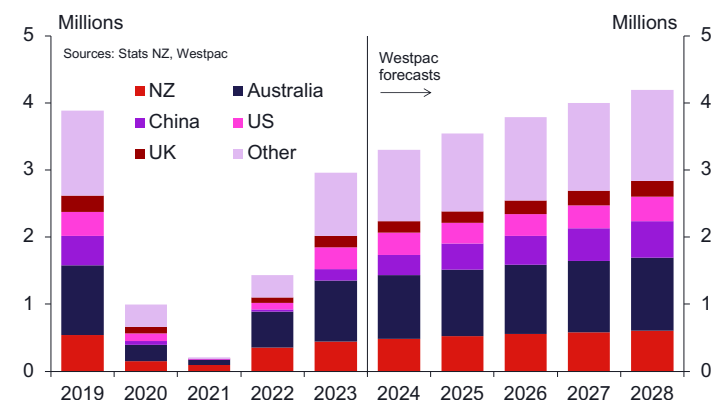
- The strong uplift in inbound visitor arrivals upon the reopening of the border has evolved into a much slower pace of growth over the past year. Arrivals in August rose just 3%/y/y and were still just 84% of that seen in August 2019.
- All major markets remain below pre-pandemic levels, with arrivals from China and Europe especially soft. By contrast, arrivals from Australia – by far the largest market – are tracking at over 90% of 2019 levels. The gains in NZ's share of global tourism in the late 2010s may prove to have been temporary.
- Easing financial pressures on global households should support long-haul travel, although the 2019 arrivals peak may not be surpassed until 2027.

“The Government has set a goal to double exports in 10 years but doing so will be challenging if recent trends are sustained.”

Goods exports – contributions to growth



Tourist arrivals by citizenship



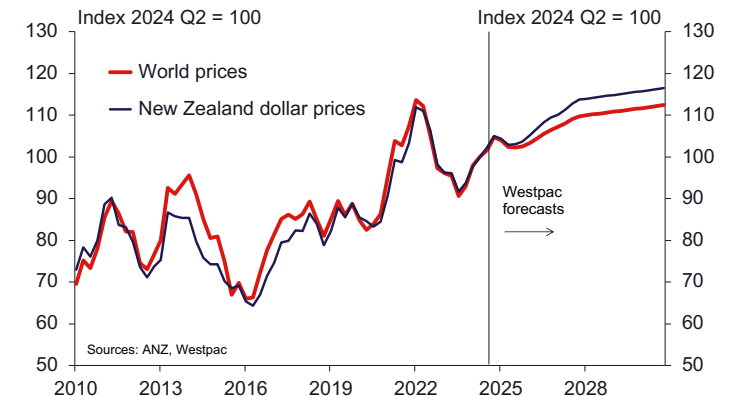
AGRICULTURE

Commodity export prices to push higher over 2024.

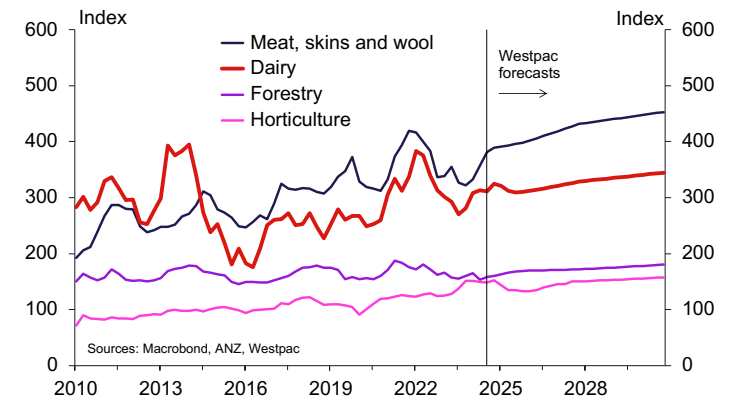
- Export prices for most agricultural commodities are expected to lift over the coming year, reflecting more favourable demand and supply fundamentals.
- Prices have risen in recent GDT auctions, and we have recently revised our forecast milk payout for the 2024/25 season higher to \$9.00/kgMS. Gains have been stronger for butter, cheese and anhydrous milkfat, while powder prices have trended sideways.
- Our forecast assumes a modest fall in dairy prices as increased NZ and US supply combined with the end of restocking by Chinese buyers plays out. China continues to experience an oversupply of milk which may weigh on prices.
- Apple and kiwifruit growers are set for better orchard gate returns, with increased production following last year's adverse weather events expected to offset an eventual drop in prices over the coming year. Average prices continue to ratchet higher because of strong demand in key export markets.
- Recently announced stimulus measures targeting property development in China are expected to lift demand for logs, and that should result in slightly higher prices over the coming year.

“Chinese demand and the effectiveness of stimulus measures will be a key swing factor for commodity prices.”

Commodity export prices



Commodity prices by category



FARMGATE PRICE OUTLOOK

Farmgate prices have been rising faster than export prices.

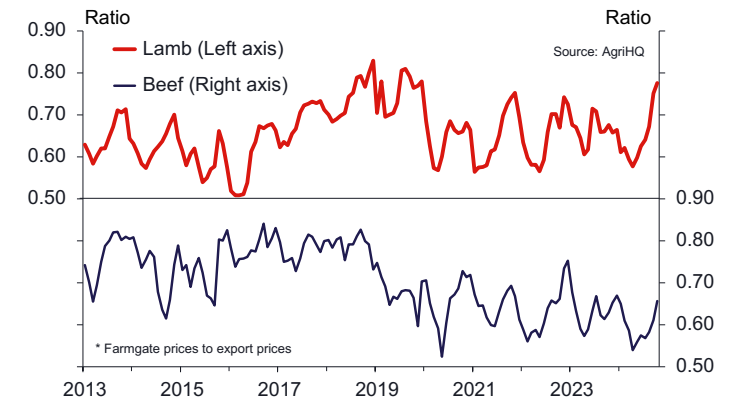
- Processing margins have been squeezed in 2024 as increases in slaughter prices for both lamb and beef have outpaced export prices.
- History suggests that these tight margins are unlikely to be maintained, with further gains in farmgate prices probably requiring even stronger growth in export prices.

Reduced global production and ongoing demand to lift meat prices.

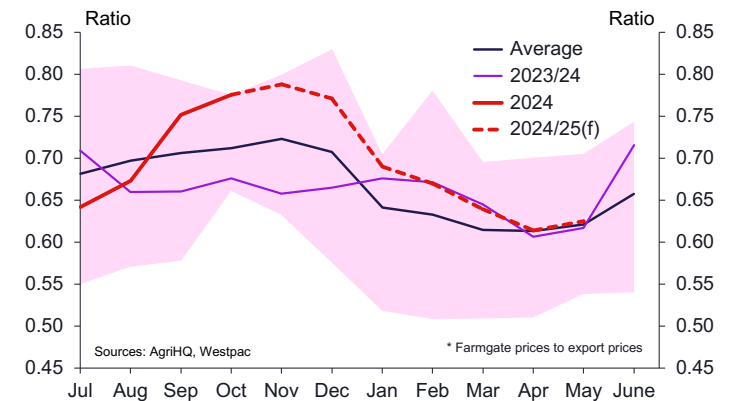
- In the short term, seasonal factors point to weaker lamb farmgate prices, especially given that they are unusually high compared to export prices for this time of year. We forecast a fall of about 20% over the next six months.
- Lamb export prices more generally are likely to reflect still-firm demand in the EU and the US and a slowdown in production in both Australia and New Zealand.
- Much like lamb, seasonal factors suggest that beef slaughter prices are likely to fall in coming months.
- Over the medium term, export prices for beef should tilt higher, with constrained production out of the US, China and the EU likely to more than offset increased volumes out of Australia and Brazil.

“Expect farmgate prices to pull back from current levels.”

Farmgate to export price ratio*



Lamb: forecast farmgate to export price ratio*



CURRENT ACCOUNT

New Zealand's current account deficit remains very large.

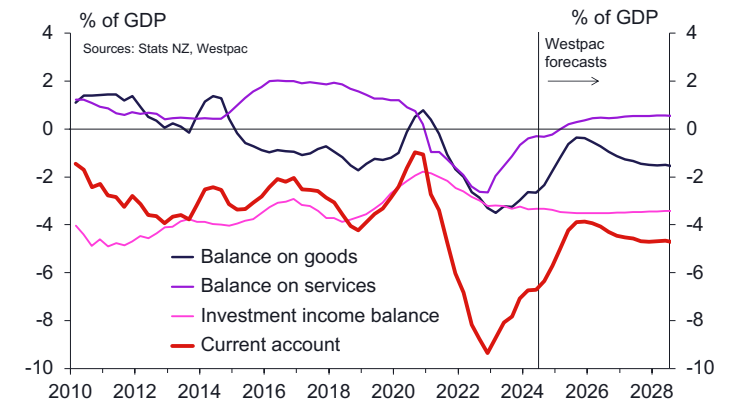
- The current account deficit was 6.7% of GDP in the year to June – wider than expected and unchanged from the March quarter. While exports of services were revised higher, so were investment income outflows.
- Over the coming year, increased goods and services exports – driven by growth in both volumes and prices – should narrow the current account deficit to a four-year low of around 4% of GDP. However, as the economic recovery gathers pace and import volumes rebound, the current account deficit is likely to begin to widen back towards 5% of GDP.
- Given the growing net external liabilities generated by accumulating deficits, the investment income deficit is likely to remain close to 3.5% of GDP.

Increased savings are required to lower the deficit sustainably.

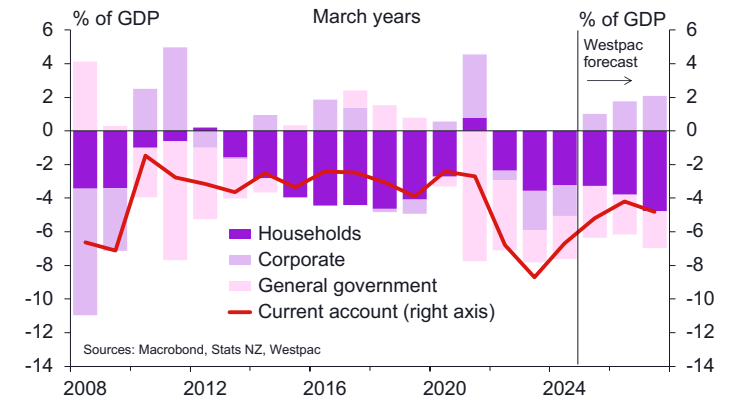
- The bulk of the current account deficit reflects combined savings by households that are inadequate to fund residential investment needs. In the wake of the pandemic, government savings have also fallen short of its investment needs, so are contributing to the current account deficit.
- A persistent fiscal deficit and a large current account deficit leaves New Zealand exposed to the possibility of a credit rating downgrade, especially if a new negative shock were to suddenly strike the economy.

“Both the household and government sectors need to lift their savings performance if the current account deficit is to cease to be a credit ratings risk.”

Current account balance



Net lending by major sector



FOREIGN EXCHANGE

The US dollar is key to the NZ dollar's overall direction.

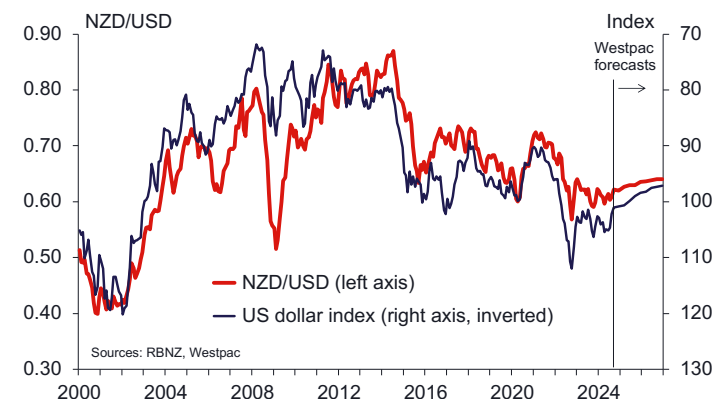
- Our base case is for a modest fall in the trade-weighted index over the year ahead, with the NZ dollar seen as an underperformer in the context of a generally weakening US dollar.
- The US dollar has already fallen in recent months as the Fed has started its easing cycle. We expect a further decline as US interest rate cuts proceed at a steady pace, lifting NZD/USD to 0.64 by the end of 2025. However, there is significant risk around this view stemming from the US presidential election and whatever policies the next administration can enact (see page 23).

NZD to underperform the most against AUD and JPY.

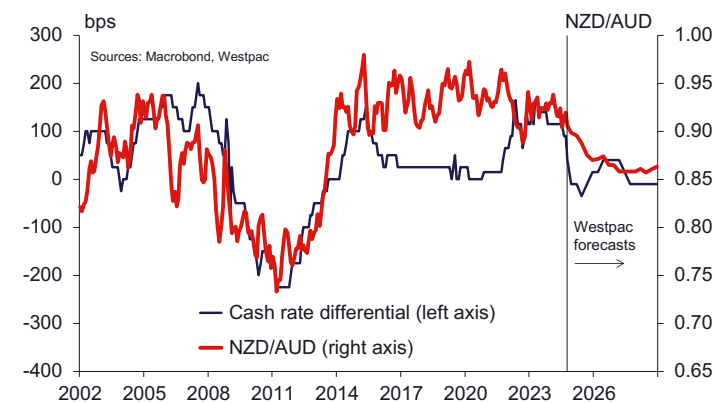
- We expect the NZ dollar to soften against the Australian dollar and the Japanese yen, while largely holding its ground against the euro and the British pound.
- The OCR is set to drop below the RBA cash rate in the year ahead. We expect this to open the door to a more substantial fall in NZD/AUD, to reflect Australia's stronger economic performance and more favourable current account position.
- We expect the yen to strengthen as Japan continues to gradually tighten monetary policy, leaving it as an outlier among the general trend towards policy easing in the major economies.

“We expect the New Zealand dollar to gain against a generally weaker US dollar, although the outcome of the US election poses a significant risk to this view.”

NZD/USD and US dollar index



NZD/AUD and relative policy rates



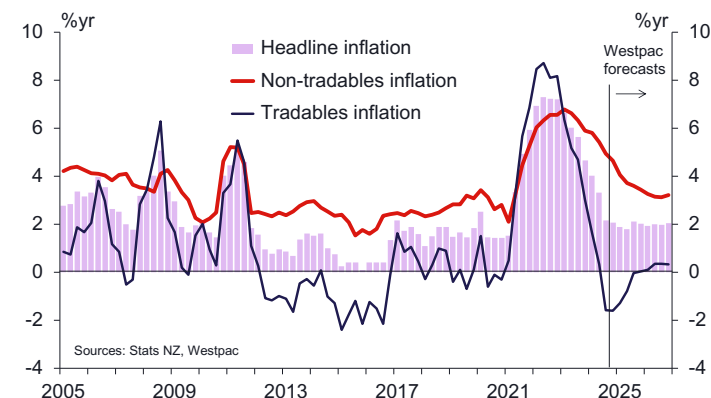
INFLATION

Back in the band, but big differences under the surface.

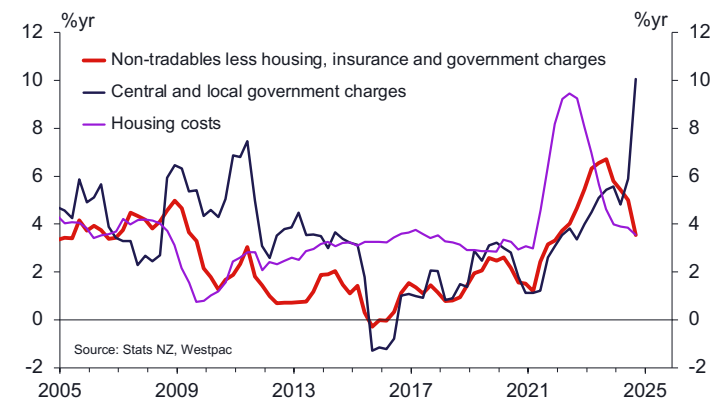
- Inflation fell to 2.2% in the year to September. That's down from 3.3% in the year to June and the first time it's been in the RBNZ's target band since 2021.
- We forecast that inflation will track close to the midpoint of the RBNZ's target band over the year ahead. However, under the surface there are some big differences in cost pressures across the economy.
- Around three-quarters of the fall in inflation over the past couple of years has been due to lower prices for imported consumer goods (i.e., tradables inflation). That's in part due to falls in global prices as international supply conditions have improved over the past couple of years. Onshore, the downward pressure on retail prices has been reinforced by weakness in discretionary spending, and perhaps competition from imports.
- Weakness in tradables prices means overall inflation is set to dip below 2% for a period. However, that dip down is expected to be modest and temporary.
- At the same time, domestic (non-tradables) inflation remains elevated. While inflation in the services sector is cooling, there continues to be large increases in some costs, like local council rates and insurance. The 'stickiness' in those prices means total non-tradables inflation is only easing gradually, which is limiting the downside risk for overall inflation.

“While imported prices have fallen sharply, ‘stickiness’ in some domestic costs is limiting the fall in overall inflation.”

Inflation components



Non-tradable components



MONETARY POLICY

Inflation close to 2% allows the RBNZ to normalise rates.

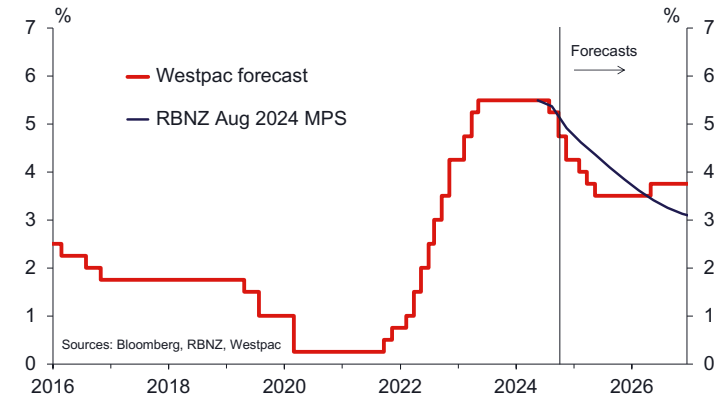
- Headline inflation is now forecast to settle around 2%, considerably reducing the risks to inflation expectations.
- Still-high domestically generated inflation requires restrictive conditions for a while longer to ensure no resurgence occurs.
- The OCR has been reduced by a large amount since May 2024.
- But there's no need for real interest rates to remain high, hence the RBNZ can safely ease 50bps at the November Monetary Policy Statement meeting.

A short period of below-neutral interest rates is in the offing.

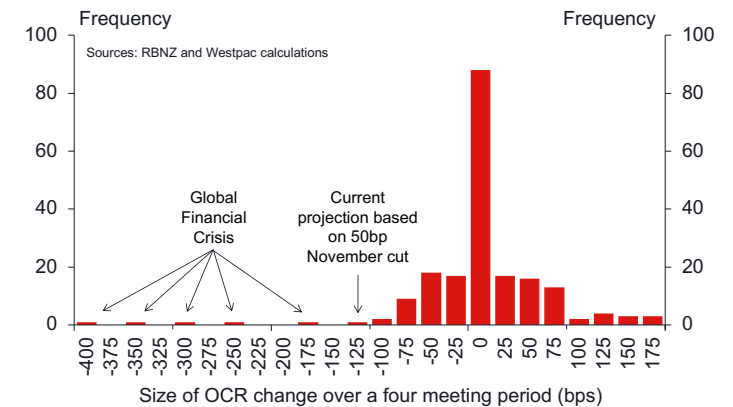
- The current weakness in economic activity implies further downward pressure on inflation for some time to come.
- This implies much better-balanced inflation risks – especially if tradables inflation remains low.
- The OCR will likely spend a short period below neutral levels in mid 2025-26 to balance inflation risks before returning to neutral.
- We see the OCR bottoming at 3.5% from mid-2025 and returning to neutral in mid-2026.

“Now that inflation is around 2%, the RBNZ’s focus will be on keeping it there.”

Official Cash Rate forecasts



Frequency of OCR changes over four meetings



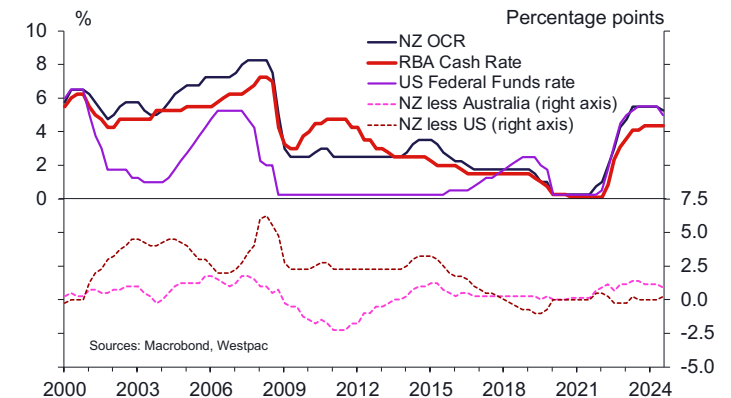
THE “NEUTRAL” OFFICIAL CASH RATE

The OCR is set to remain higher than seen post-GFC.

- The neutral OCR is the level at which the OCR is neither stimulatory or restrictive. It is unobservable and variable over time, and so subject to uncertainty. We will learn about its current level by seeing how the economy responds to cuts to the OCR.
- We expect global interest rates to remain higher than seen over the 2015-20 period. Westpac’s global interest rate forecasts are for US and Australian policy interest rates to remain above 3% in coming years. The OCR needs to maintain a premium over alternative markets to support the NZD.
- We assume New Zealand’s neutral OCR is around 75bp over US rates and 25bp over Australian rates. As a result, we assume the neutral OCR is 3.75%. Hence, we expect short-term interest rates to cycle around a higher average than seen from 2009-2022.
- The response of the economy to the tightening cycle suggests policy, while tight and impacting households, may not have been as tight as in past cycles. The fall in GDP since 2022 isn’t large compared to past recessions.
- The slow fall in non-tradables inflation also suggests that recent slower growth also partly reflects weaker potential growth, as opposed to simply very tight policy settings.

“We think the OCR will remain higher than levels seen post GFC and cycle around 3.75%.”

Central bank policy rates and differentials to New Zealand



Long-term trend in real NZ short rates vs recession periods



INFLATION RISKS

Upside risks to the inflation outlook include:

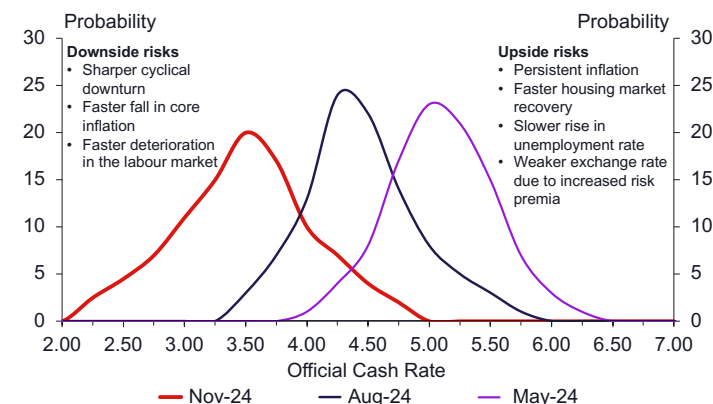
- A stronger cyclical upswing in the housing market, especially if accompanied by a larger lift in prices, that leads to a bigger pick-up in consumer spending.
- Global policy easing that triggers a stronger recovery in the global economy and key export commodity prices, boosting domestic incomes and spending.
- A weaker trajectory for the exchange rate, reflecting NZ's large current account and fiscal deficits, weak growth, relatively low interest rates, or changes in geopolitical risks or US tariff policies that strengthen the US dollar.

Downside risks to the inflation outlook include:

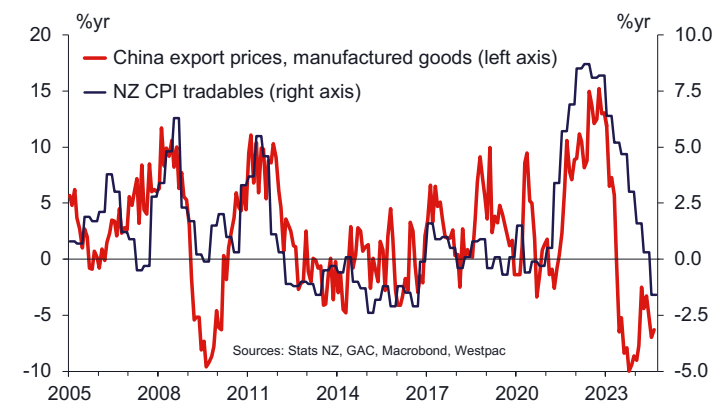
- Sustained weakness in the price of traded goods, perhaps due to ongoing producer price deflation and excess capacity in China.
- A geopolitical event that dampens global growth, trade and key export commodity prices, leading to weaker domestic confidence and spending.
- A delayed recovery in the labour market despite a lift in activity, as firms focus on boosting productivity and potential labour-saving AI technology.
- A weak response of the economy to lower interest rates – perhaps due to the neutral interest rate proving to be closer to 2% than 4%.

“The inflation outlook is subject to two-sided risks, including uncertainty about exactly how the economy will respond to forecast monetary policy easing.”

Risk distribution for the OCR in 12 months' time



Chinese export prices and NZ tradables prices



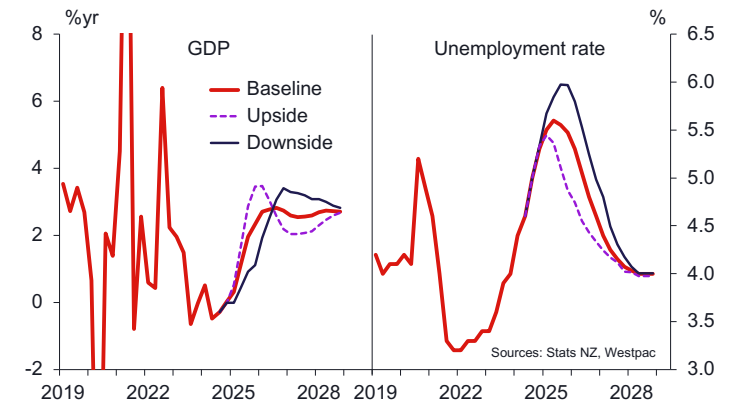
ALTERNATE SCENARIOS

Forecasts of the evolution of the economy and the OCR are uncertain.

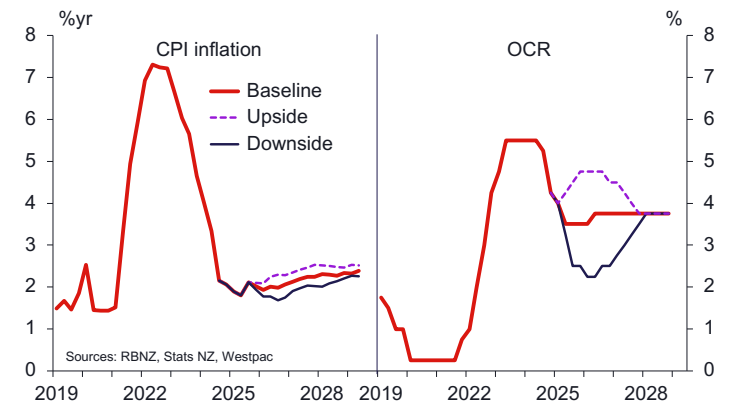
- Our forecasts are our best judgement of how the economy will perform. However, different outcomes are likely if the economy reacts differently to the conditions we assume or if shocks occur.
- Two possible alternative scenarios are shown here to illustrate the uncertainty. The upside scenario assumes a stronger demand response to the OCR cuts we are forecasting, whereas the downside scenario assumes a weaker response.
- The upside scenario sees quarterly GDP growth rates quickly rise towards 1% and the unemployment rate peaking earlier and falling back below 5% by the end of 2025. This would lead to more non-tradable inflation than expected, a period of tighter monetary policy and a higher exchange rate.
- The downside scenario sees quarterly GDP growth rates remain below trend throughout 2025, causing the unemployment rate to rise to a higher peak of around 6% next year. Non-tradable inflation would be weaker than in our baseline scenario and a period of lower interest rates would be required to reverse a more negative output gap. The exchange rate would likely be weaker for a period, temporarily adding to tradables inflation.
- The range of outcomes for the OCR is significant, implying the OCR could peak near 5% or fall towards 2% in the next couple of years.

“Uncertainties about how the economy will respond to easier financial conditions imply a potentially wide range of possibilities for the future OCR.”

GDP and unemployment rate



CPI inflation and OCR



US ELECTION IMPLICATIONS FOR NEW ZEALAND

The US election is a tight race and could generate a change in policy.

- A Harris/Democrat administration is likely to generate more continuity in US economic policy. Fiscal expansion would continue, but domestic policy priorities would shift towards increased taxation and greater social spending.
- A Trump/Republican administration represents greater uncertainty. Fiscal policy could be more expansionary, and increased tariffs could add to US inflation. US interest rates may rise as a result.
- Foreign and trade policy differences are large. A Trump win looks more likely to increase pressure on the West's relationship with China. There would also be greater uncertainty about how the US will respond to developments in the Middle East and Russia's war with Ukraine.

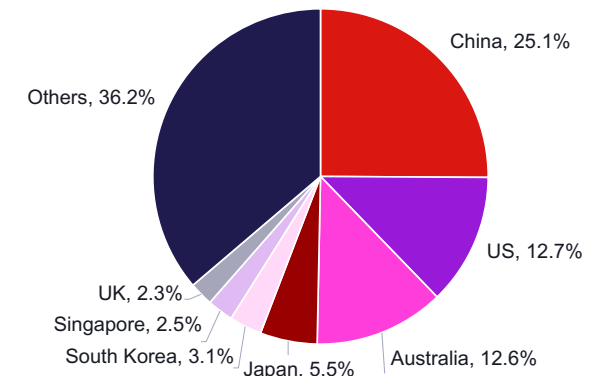
Implications for conditions in New Zealand.

- In the short term, financial market volatility could be significant as questions around the ultimate winner persist. The NZD could weaken as a result.
- In the medium term, a Trump presidency looks more likely to boost the USD, US inflation and interest rates, and could weaken the NZD.
- The trade environment could become more difficult with increased tariffs and tensions with China and the Middle East. New Zealand is very exposed to these policies, with important income and exchange rate implications.

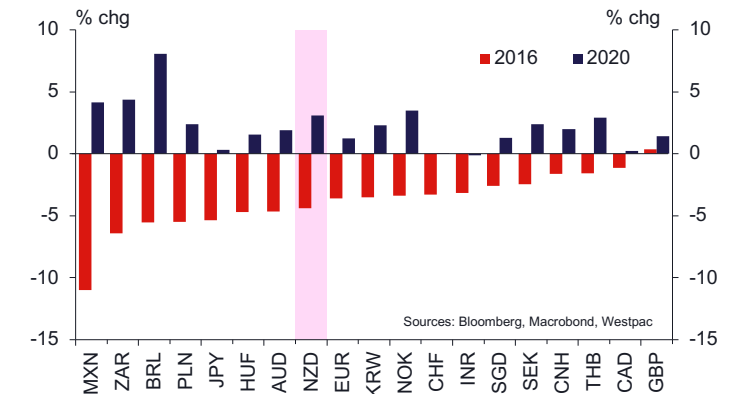
“The outcome of the US election could be disruptive for global trade and financial markets, and that could flow through to conditions in New Zealand.”

Share of total merchandise exports, year ended Sep 2024

Sources: Stats NZ, Westpac

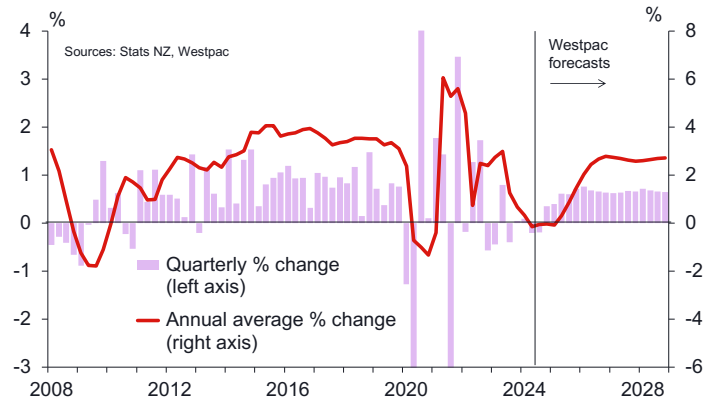


Change in exchange rates vs the USD 2 weeks post election

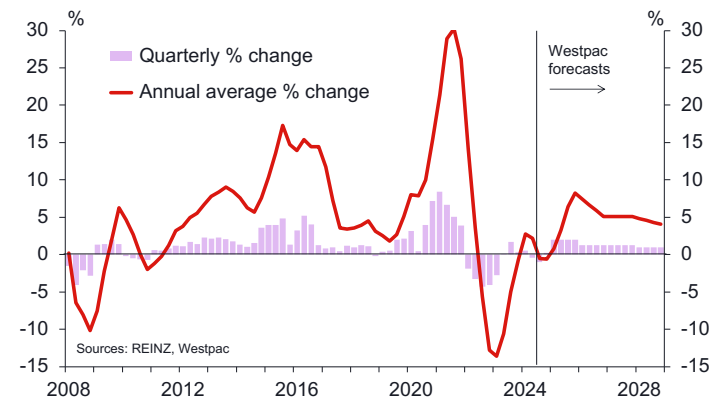


THE ECONOMY IN EIGHT CHARTS

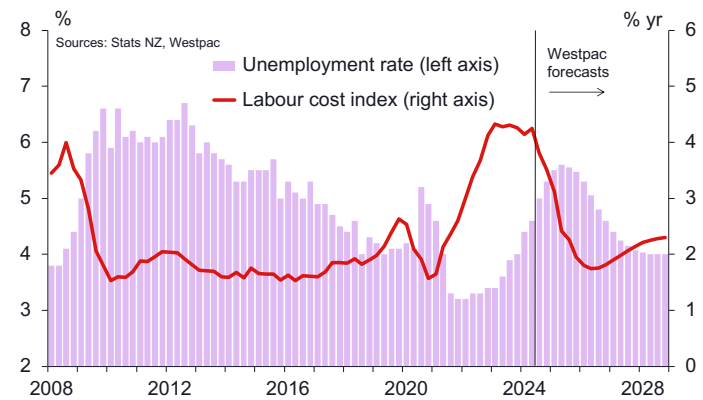
GDP growth



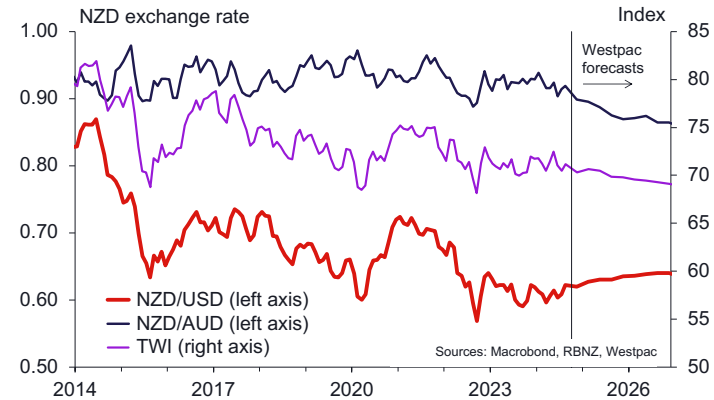
House prices



Employment and wage growth

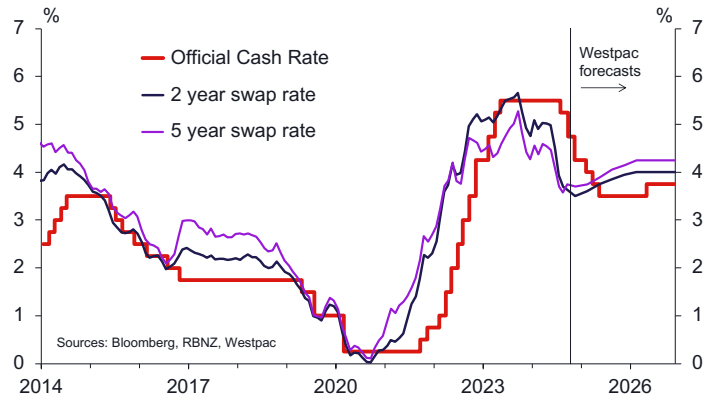


Exchange rates

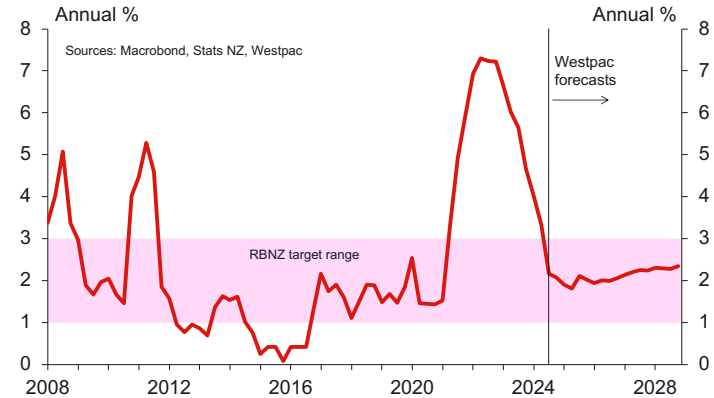


THE ECONOMY IN EIGHT CHARTS CONT.

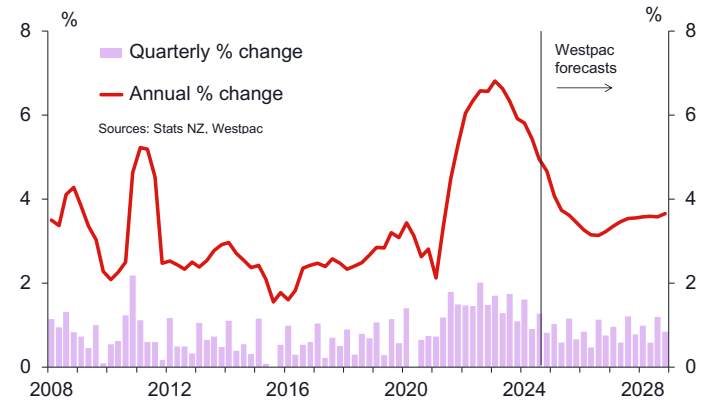
Official Cash Rate, 2-year and 5-year swap rates



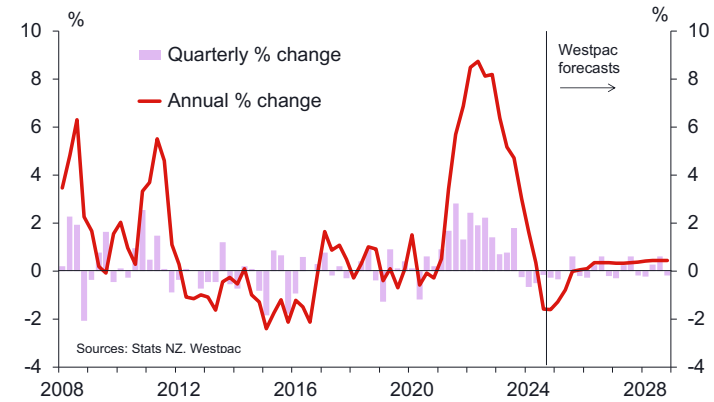
Consumer price inflation



Non-tradable inflation



Tradable inflation



ECONOMIC AND FINANCIAL FORECASTS

New Zealand forecasts

Economic indicators	Quarterly % change				Annual % change			
	Jun-24	Sep-24	Dec-24	Mar-25	2023	2024	2025	2026
GDP	-0.2	-0.2	0.3	0.4	0.0	0.0	2.3	2.7
GDP (annual average)	-	-	-	-	0.7	0.0	1.5	2.8
Consumer price index	0.4	0.6	0.4	0.5	4.7	2.1	2.0	2.1
Employment change	0.4	-0.6	-0.3	-0.2	2.9	-0.7	0.1	2.1
Unemployment rate	4.6	5.0	5.3	5.5	4.0	5.3	5.5	4.6
Labour cost index (all sectors)	1.2	0.7	0.7	0.5	4.3	3.5	2.0	1.8
Current account balance (% of GDP)	-6.7	-6.3	-5.7	-5.0	-7.1	-5.7	-3.9	-4.5
Terms of trade	2.0	2.0	4.9	1.4	-10.7	14.8	0.8	1.1
House price index	-0.4	-1.0	0.2	2.0	-0.6	-0.6	8.2	5.1
Financial forecasts	End of quarter				End of year			
	Jun-24	Sep-24	Dec-24	Mar-25	2023	2024	2025	2026
90 day bank bill	5.63	5.31	4.25	3.80	5.65	4.25	3.60	3.85
2 year swap	5.01	4.06	3.50	3.60	5.28	3.50	3.95	4.00
5 year swap	4.53	3.81	3.70	3.75	4.85	3.70	4.15	4.25
10 year bond	4.74	4.31	4.20	4.20	5.09	4.20	4.40	4.35
TWI	71.4	70.9	70.3	70.7	70.8	70.3	69.8	69.1
NZD/USD	0.61	0.61	0.62	0.63	0.60	0.62	0.64	0.64
NZD/AUD	0.92	0.91	0.90	0.90	0.93	0.90	0.87	0.86
NZD/EUR	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
NZD/GBP	0.48	0.47	0.47	0.47	0.49	0.47	0.47	0.47

ECONOMIC AND FINANCIAL FORECASTS CONT.

New Zealand forecasts

Fiscal indicators	June years						
	2022	2023	2024	2025	2026	2027	2028
Total government revenue (\$bn)	142	153	167	168	176	185	195
- % of GDP	38.9	38.7	40.5	39.1	39.1	39.2	39.2
Total government spending (\$bn)	151	162	180	182	186	191	197
- % of GDP	41.5	41.0	43.6	42.2	41.3	40.1	39.0
Operating balance excl. gains and losses (\$bn)	-9.7	-9.4	-12.9	-14.5	-11.1	-6.5	-1.8
- % of GDP	-2.7	-2.4	-3.1	-3.4	-2.5	-1.4	-0.4
Net core Crown debt (\$bn)	129	155	175	186	197	212	218
- % of GDP	35.4	39.3	42.5	43.3	43.8	44.9	43.7

International economic forecasts

Real GDP (calendar years)	Annual average % change					
	2021	2022	2023	2024f	2025f	2026f
Australia	5.5	3.9	2.0	1.3	2.2	2.4
China	8.4	3.0	5.2	5.0	4.8	4.5
United States	5.8	1.9	2.9	2.7	1.8	1.7
Japan	2.6	1.0	1.9	0.1	1.1	0.9
East Asia ex China	4.3	4.5	3.3	4.2	4.1	4.1
India	9.7	7.0	7.8	7.0	6.8	6.5
Euro zone	5.9	3.4	0.4	0.6	1.5	1.5
United Kingdom	8.7	4.3	0.1	1.0	1.3	1.4
NZ trading partners	6.3	3.3	3.3	3.2	3.3	3.2
World	6.5	3.5	3.2	3.3	3.3	3.2

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
Sep-24	2.2	5.25	5.31	4.06	3.81	102.7	70.9	0.61	0.91	0.47	0.56	4.38	91.3
Dec-24	2.1	4.25	4.25	3.50	3.70	100.9	70.3	0.62	0.90	0.47	0.56	4.34	88.0
Mar-25	1.9	4.00	3.80	3.60	3.75	100.7	70.7	0.63	0.90	0.47	0.56	4.36	88.4
Jun-25	1.8	3.50	3.60	3.75	3.90	99.9	70.5	0.63	0.89	0.47	0.56	4.35	88.2
Sep-25	2.1	3.50	3.60	3.85	4.05	99.0	69.8	0.63	0.88	0.47	0.56	4.28	87.6
Dec-25	2.0	3.50	3.60	3.95	4.15	98.4	69.8	0.64	0.87	0.47	0.56	4.25	87.6
Mar-26	1.9	3.50	3.70	4.00	4.25	98.2	69.6	0.64	0.87	0.47	0.56	4.23	87.1
Jun-26	2.0	3.75	3.85	4.00	4.25	97.5	69.5	0.64	0.87	0.47	0.55	4.21	86.8
Sep-26	2.0	3.75	3.85	4.00	4.25	97.3	69.3	0.64	0.86	0.47	0.56	4.19	86.4
Dec-26	2.1	3.75	3.85	4.00	4.25	97.1	69.1	0.64	0.86	0.47	0.56	4.16	85.8
Mar-27	2.1	3.75	3.85	4.00	4.25	97.2	68.9	0.64	0.86	0.47	0.55	4.10	83.8
Jun-27	2.2	3.75	3.85	4.00	4.25	97.0	68.6	0.64	0.86	0.47	0.55	4.06	82.6

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