



WEEKLY ECONOMIC COMMENTARY



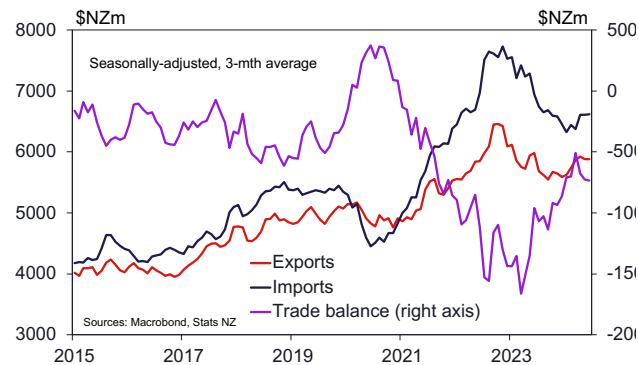
29 Jul 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Trade update

Following the excitement created over the previous fortnight by the RBNZ policy review and CPI release, last week was quiet on the local data front. Indeed, Monday's release of merchandise data for June was the only official report of any note. As usual this was largely ignored by markets, although it does provide some insight into activity in some key sectors of the New Zealand economy.

After allowing for seasonal factors, the monthly trade deficit (with imports measured including freight and insurance) narrowed by a larger than expected \$NZ650m in June. Indeed, at \$NZ334m, the deficit was the second smallest recorded over the past three years. Exports fell around 2% during the month and were little changed from a year earlier. Meanwhile, after two months of growth, imports slumped more than 11% in June and were 7% lower than a year earlier. To some extent, the decline in both exports and imports may have been exaggerated by the floating Matariki public holiday, which occurred in late June this year.

Exports, imports and trade balance

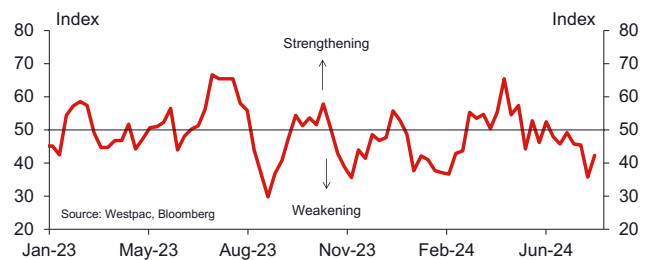


Looking at the full June quarter, export receipts were little changed from the March quarter. Considering that firmer prices for some commodities (such as dairy products) have likely lifted average prices for New Zealand's exports, this points to a decline in export volumes during the June quarter – this following two consecutive quarters of solid growth. Volume statistics provided by

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	↗
NZ economy	↘	→	↗
Inflation	↘	↘	↘
2 year swap	↘	↗	↘
10 year swap	↘	↗	→
NZD/USD	→	→	↗
NZD/AUD	↘	→	↘

Westpac New Zealand Data Pulse Index

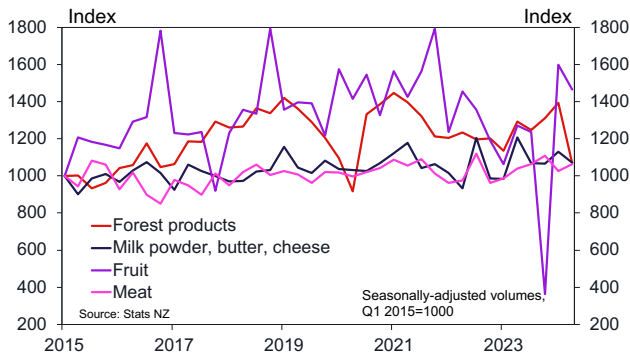


Key data and event outlook

Date	Event
31 Jul 24	FOMC Meeting (Announced 1 Aug NZT)
6 Aug 24	RBA Monetary Policy Decision & SMP
7 Aug 24	Labour market statistics, June quarter
8 Aug 24	RBNZ Survey of Expectations, June quarter
14 Aug 24	RBNZ OCR Review & Monetary Policy Statement
15 Aug 24	NZ Selected price indexes, July
12 Sep 24	NZ Selected price indexes, August
18 Sep 24	FOMC Meeting (Announced 19 Sep NZT)
19 Sep 24	NZ GDP, June quarter
24 Sep 24	RBA Monetary Policy Decision
1 Oct 24	NZIER QSBO survey, September quarter
9 Oct 24	RBNZ OCR Review
11 Oct 24	NZ Selected price indexes, September
16 Oct 24	NZ CPI, September quarter

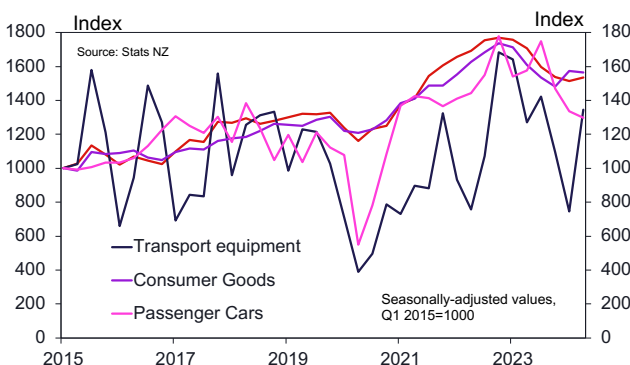
Stats NZ for some commodity exports give some insight as to what is likely to have driven this decline. Of special note was a 23% slump in the volume of logs and wood, with shipments in the June quarter at their lowest level in four years (i.e., since the Covid lockdown). This doubtless reflects continued weak demand from China, which has also weighed heavily on prices for this commodity in recent months. The tonnage of milk powder, butter and cheese exports fell 5% during the quarter, while exports of fruit fell more than 8%. Those declines were only partially offset by a 4% lift in exports of meat.

Selected export volumes



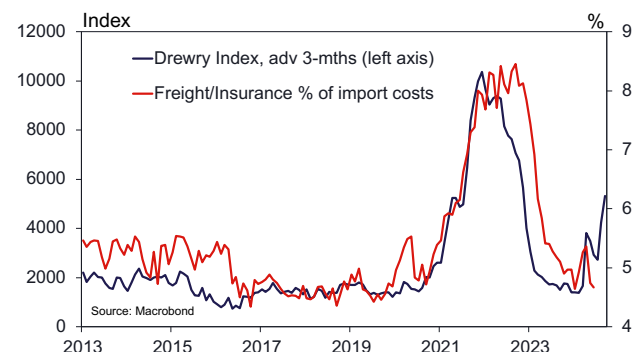
Turning to the other side of the ledger, import values increased during over 4% during the June quarter. This marked the first increase in imports since the September 2022 quarter. At face value that might suggest some optimism amongst businesses, at least when these orders were placed – probably late last year, when business confidence was somewhat firmer than it is today. But drilling down into the data casts doubt on that explanation. More than half of the increase in imports in the June quarter was driven by transport equipment, almost all of which was due to movements of aircraft – a key driver of volatility in New Zealand’s trade data given the small size of the economy. Imports of plant and machinery increased by just over 1% in the June quarter, breaking a run of five consecutive orders of decline. However, that growth appears to be more than explained by “lumpy” investment in the utility sector (particularly gas turbines), rather than any recovery in underlying business capex. Imports of consumer goods fell just under 1% in the June quarter, while imports of passenger cars fell 3%.

Selected imports



The merchandise trade data also provide some insight into how the well-publicised increases in container shipping rates are impacting the cost of New Zealand’s imports. The short answer, at least as of June, is “not at all”. As a proportion of total import costs, insurance and freight stood at just 4.7% in June – around its pre-pandemic level. However, given the lags that are normally seen between rises in global shipping costs and their impact on New Zealand, we do expect to see some impact begin to emerge over the coming quarter. The extent to which these costs are likely to be passed on by importers to the consumer is a matter of debate, given the difficult conditions presently being faced by retailers.

Shipping costs



Looking ahead, over the coming week we will receive several economic reports that will help shape expectations ahead of the next RBNZ policy review in mid-August. Today Stats NZ will release the Monthly Employment Indicator for June. In line with the recent trend, we expect that the May reading will be revised lower to show a second consecutive decline in filled jobs. And based on the partial weekly data, a large decline in filled jobs appears to have occurred in June. Following this report, we will publish our preview of the now much-awaited June quarter labour market surveys (which will be released on 7 August).

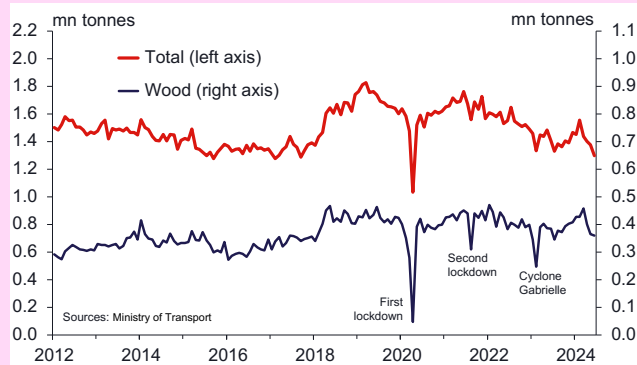
The other key report to watch will be the ANZ Business Outlook survey for July, released on Wednesday. This survey was one of many indicators pointing to very weak activity through the June quarter, and so it will be interesting to see whether this tone has moderated in the July survey (last week the ANZ reported an easing in consumer pessimism during July, which might reflect early reaction to the RBNZ’s dovish pivot on 10 July). Also of interest will be the various inflation indicators in the survey. Following a period in which they moved sideways, the pricing intentions measure has taken a marked step lower over the past couple of months to levels that are now not far above historical average levels. And expectations regarding future wage growth have moderated sharply over the past year, with year-ahead wage growth now forecast at just 2.6% - down from a peak of 6% two years ago.

Darren Gibbs, Senior Economist

Chart of the week.

The volume of goods carried by rail fell to fresh lows in June, continuing a structural downturn in rail use over the past few years. Much of the recent action has been in wood products, with exports picking up strongly in late 2023 and early 2024 despite a growing glut of logs on Chinese wharves. This eventually resulted in a sharp drop in log export prices in April, which in turn has prompted harvesters to curtail their activities and wait for the export market to rebalance. While both forestry and rail transport make only small contributions to GDP, these shifts add to the broader pattern that the better than expected 0.2% rise in the March quarter is likely to be followed by a substantially weaker result for the June quarter.

Rail volumes, seasonally adjusted

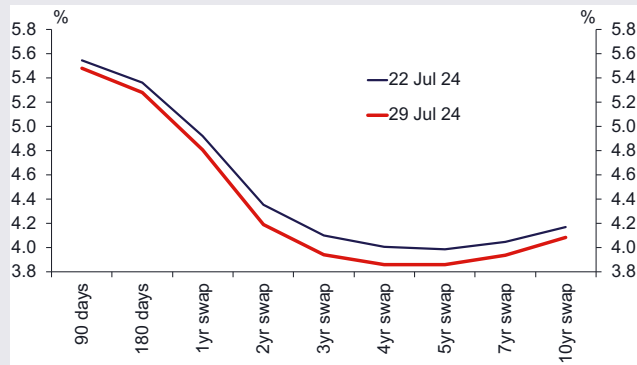


Fixed versus floating for mortgages.

With inflation cooling and softness in economic conditions, expectations for OCR reductions from the RBNZ have been pulled forward, and fixed mortgage rates have been dropping back. We're forecasting the first OCR reduction in November of this year, to be followed by a series of cuts in 2024.

For borrowers who favour certainty, fixing for as long as two years could be attractive at current rates. However, for borrowers with more flexibility, fixing for a shorter term could be advantageous with the potential for downward pressure on mortgage rates over the coming months.

NZ interest rates



Global wrap

North America.

US June quarter GDP rose an annualised 2.8% (vs. +2.0% expected). The result was underpinned by firm gains in private consumption, government spending and investment spending, as well as a rise in inventories. Other recent US activity data have generally been on the soft side: durables orders fell sharply in June (though ex-transport orders remained firm), both new and existing home sales fell by more than expected, and some business surveys also posted declines. On the inflation front, the PCE deflator rose 0.1% in June, with core prices up 0.2% (both as expected). That saw the annual inflation rate slipping to 2.5%, helping to allay concerns about the pick-up seen earlier in the year. The FOMC meets this week. While we don't expect any change in the Funds rate in this week, we expect the committee will signal a high probability of a September cut. With that in mind, Friday's July non-farm payrolls will be closely watched. Across in Canada, the BOC delivered a second 25bp cut. Governor Macklem struck a balanced tone, noting the BOC now needed to balance the risks that inflation comes in above expectations against the possibility of greater than expected weakness in inflation and activity.

Europe.

ECB speakers, including Vice President Guindos, have hinted at another rate cut at the September policy meeting, noting that inflation and wage pressures are easing. However, they also noted that policy is not on a predefined path and that decisions will be dependent on data. We're forecasting another cut at the September meeting. This week we'll get updates on June quarter GDP and July inflation figures for the eurozone. The BOE's policy decision is out on Thursday. We're forecasting a 25bp cut, but it is a close call.

Asia-Pacific.

Following soft growth in the second quarter, the PBOC cut some lending rates last week. Those changes also follow the conclusion of China's policy plenum where President Xi outlined plans to boost advanced industries and reduce regulation, as well as measures aimed at improving living standards. The announcements come at a time when China's economic momentum is flagging and at the same time as the country faces mounting trade tensions with the US and European economies. Looking to the week ahead, there's a busy data calendar in Australia, including updates on June quarter inflation and retail sales (both on Wednesday). In China, the Caixin Manufacturing PMI is out on Thursday. Lastly, the BOJ is expected to keep the policy rate unchanged on Wednesday, but there will be a focus on the bond programme.

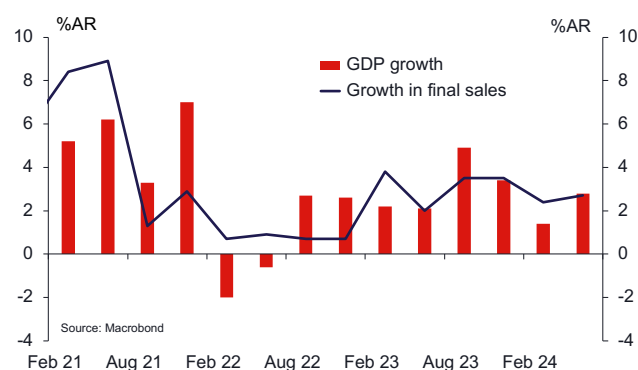
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	3.1
China	5.2	5.0	4.9	4.8
United States	2.5	2.5	1.5	1.6
Japan	1.9	0.4	1.0	0.9
East Asia ex China	3.3	4.2	4.2	4.1
India	7.8	6.9	6.7	6.5
Euro Zone	0.4	0.6	1.5	1.3
United Kingdom	0.1	0.6	1.3	1.3
NZ trading partners	3.4	3.3	3.4	3.4
World	3.2	3.3	3.3	3.2

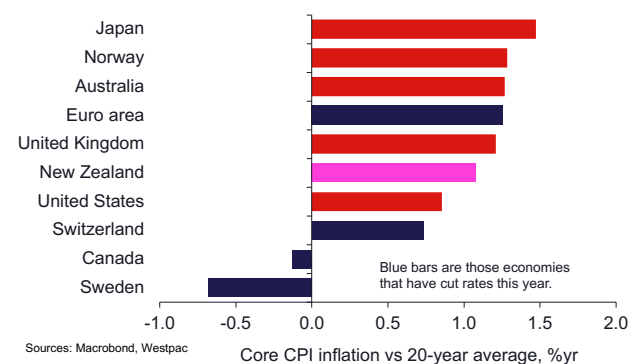
Australian & US interest rate outlook

	26-Jul-24	Sep-24	Dec-24	Dec-25
Australia				
Cash	4.35	4.35	4.10	3.10
90 Day BBSW	4.48	4.42	4.19	3.30
3 Year Swap	4.05	4.10	4.00	3.50
3 Year Bond	3.99	3.90	3.80	3.30
10 Year Bond	4.30	4.30	4.25	4.00
10 Year Spread to US (bps)	6	-10	-5	0
US				
Fed Funds	5.375	5.125	4.875	3.875
US 10 Year Bond	4.24	4.40	4.30	4.00

US GDP growth



Global core inflation vs long-run average



Financial markets wrap

Interest rates.

NZ swap rates fell further last week, continuing to respond to the RBNZ's dovish signal at its MPR three weeks ago, as well as weaker economic data momentum. The moderate fall in offshore bond yields was also influential.

Markets now price a 65% chance of a rate cut at the 14 August MPS (from 50% a week ago). October remains fully priced and there are three cuts priced by November. We forecast the first cut to be in November but acknowledge some chance of August or October, especially if the data flow remains as weak as seen in recent months.

The 2yr swap has fallen 100bp since early June, to 4.19% - the lowest level since September 2022. Given that performance, and the likelihood that most of the forthcoming easing cycle is already priced in, any further downside moves ahead of the labour data on 7 August are likely to be much slower than they have been recently.

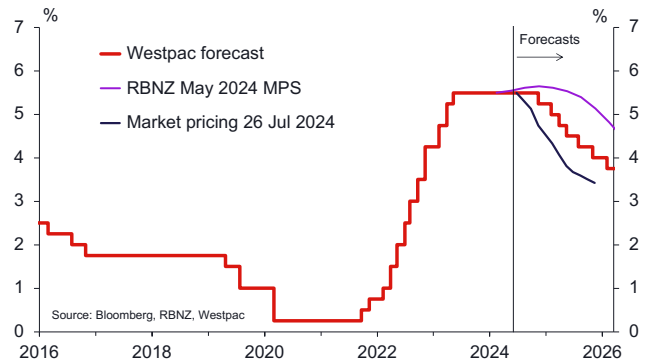
Foreign exchange.

NZD/USD retains near-term downward momentum, targeting the 0.5800-0.5850 area this week. Most G10 currencies fell against the US dollar last week, particularly the risk-sensitive ones such as the NZD, AUD, NOK and SEK, with notable exceptions being the defensive JPY and CHF. That indicates global sentiment has become more risk-averse, influenced by uncertainty regarding the impact of the US elections and China growth concerns, among other factors.

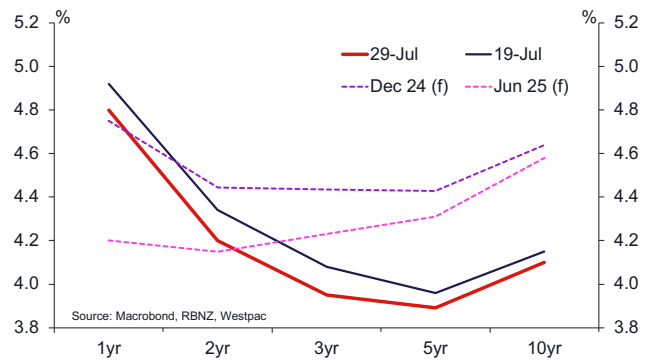
This week there's plenty of major event risk from offshore: decisions from the Fed, BoE and BoJ, as well as US payrolls and AU CPI data. The Fed statement will likely set the tone for the US dollar for the month ahead.

NZD/AUD continues to consolidate its June-July decline and remains stuck between 0.8975 and 0.9050. The contrast between the hawkish RBA and the newly dovish RBNZ is priced in, so fresh surprises are needed for a breakout. AU CPI this week will be important. Multi-month, we favour a lower cross given NZ-AU yield spreads have narrowed to around zero and Australia's superior current account and fiscal accounts.

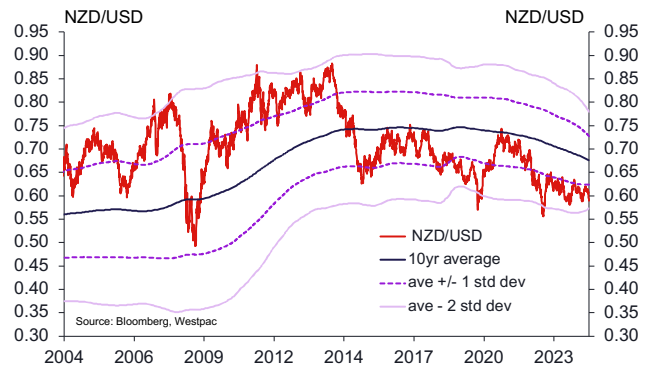
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-24
USD	0.589	0.588-0.620	0.555-0.743	0.646	0.61
AUD	0.899	0.898-0.929	0.873-0.992	0.930	0.91
EUR	0.543	0.542-0.573	0.517-0.637	0.582	0.55
GBP	0.458	0.458-0.484	0.458-0.544	0.504	0.48
JPY	90.6	90.5-98.6	61.3-98.6	79.9	96.4

The week ahead

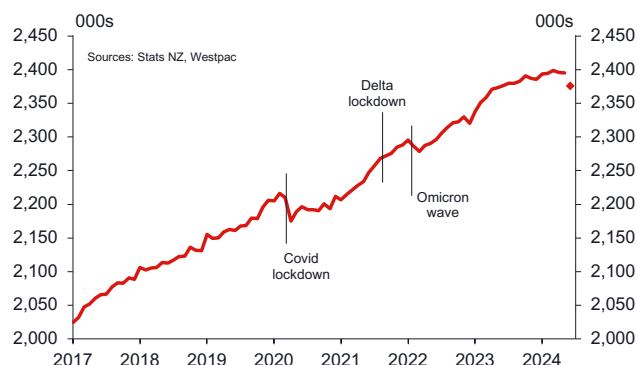
NZ Jun monthly employment indicator

Jul 29, Last: 0%, Westpac f/c: -0.8%

The labour market has been steadily softening over the last year. Surveys show that businesses are no longer struggling to find workers, and job vacancies have fallen substantially below pre-Covid levels.

The monthly employment indicator is drawn from income tax records, making it a comprehensive measure of the number of people in work. Weekly snapshots provided by Stats NZ have shown a marked deterioration in recent weeks. We've pencilled in an initial print of -0.8% for June, which could be revised down further in the months ahead.

NZ monthly filled jobs



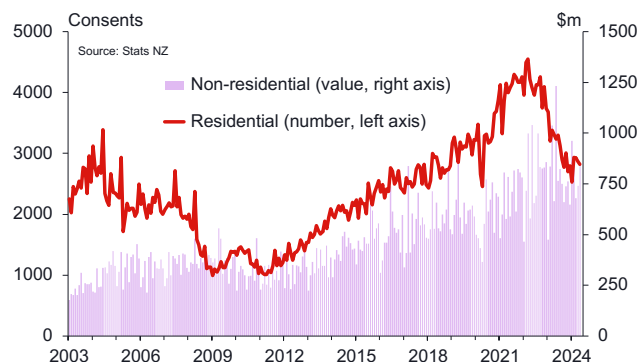
NZ Jun building consents

Jul 31, Last: -1.7%, Westpac f/c: -1%

While dwelling consent issuance has fallen sharply over the past year, the downturn looks like it is finding a base. For the past few months, consent issuance has been running a little over 2,800 per month. We expect to see a modest drop in May, but for the flattening trend to continue.

Although dwelling consent issuance may be finding a floor, any material pickup is still a long way off. Developers are likely to remain cautious about bringing projects to market until the housing market begins to recover.

Building consents



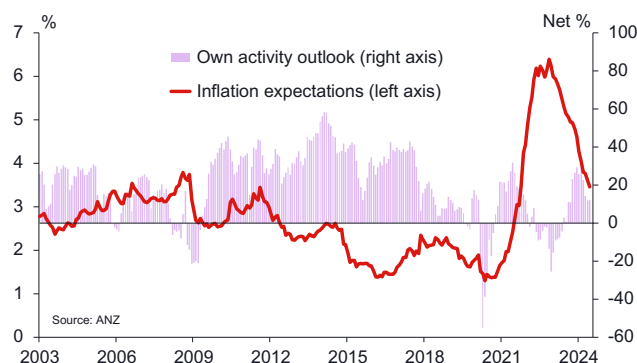
NZ Jul ANZ business confidence

Jul 31, Last: 6.1

The June business outlook survey continued the themes of recent months. Activity indicators have softened again after an initial post-election lift in confidence, while the inflation gauges remain elevated but are heading in the right direction.

We expect the July survey to show that businesses remain under pressure. The RBNZ's softer tone in its July policy review could help to bolster confidence, though this may not show up fully until the August survey.

Business confidence

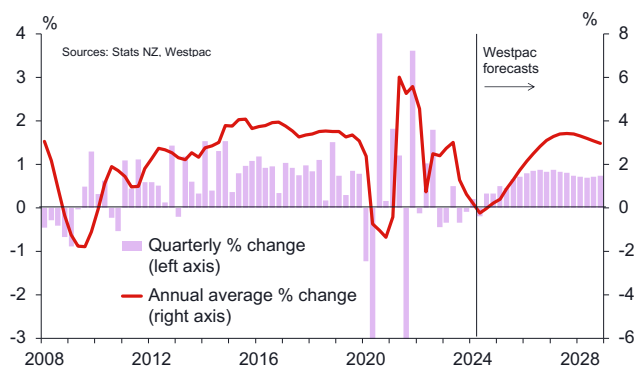


Economic and financial forecasts

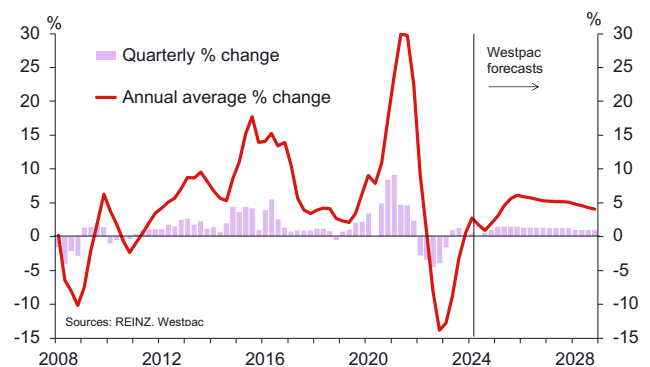
Economic indicators	Quarterly % change				Annual % change			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
GDP (production)	0.2	-0.2	0.3	0.3	0.6	0.2	1.7	3.2
Consumer price index	0.6	0.4	1.1	0.4	4.7	2.5	2.1	2.2
Employment change	-0.2	0.2	0.1	0.1	2.7	0.1	0.9	1.8
Unemployment rate	4.3	4.6	4.9	5.2	4.0	5.2	5.4	4.7
Labour cost index (all sectors)	0.9	0.9	0.8	0.8	4.3	3.4	2.5	2.0
Current account balance (% of GDP)	-6.8	-6.4	-5.9	-5.3	-6.9	-5.3	-4.6	-4.3
Terms of trade	5.1	4.0	2.2	0.6	-10.7	12.3	0.7	2.3
House price index	0.5	0.0	0.5	1.0	0.6	2.0	6.1	5.1

Financial forecasts	End of quarter				End of year			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
OCR	5.50	5.50	5.50	5.25	5.50	5.25	4.00	3.75
90 day bank bill	5.66	5.63	5.50	5.25	5.65	5.25	4.00	3.85
2 year swap	4.91	5.01	4.30	4.20	5.28	4.20	3.90	4.00
5 year swap	4.40	4.53	3.95	3.90	4.85	3.90	4.00	4.25
10 year bond	4.69	4.74	4.40	4.35	5.09	4.35	4.30	4.35
TWI	71.6	71.4	70.8	71.1	70.8	71.1	70.6	69.8
NZD/USD	0.61	0.61	0.60	0.61	0.60	0.61	0.63	0.64
NZD/AUD	0.93	0.92	0.91	0.91	0.93	0.91	0.89	0.88
NZD/EUR	0.56	0.56	0.55	0.55	0.56	0.55	0.55	0.56
NZD/GBP	0.48	0.48	0.47	0.48	0.49	0.48	0.48	0.49

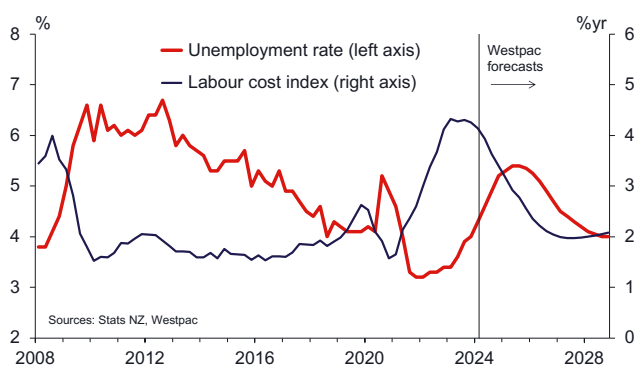
GDP growth



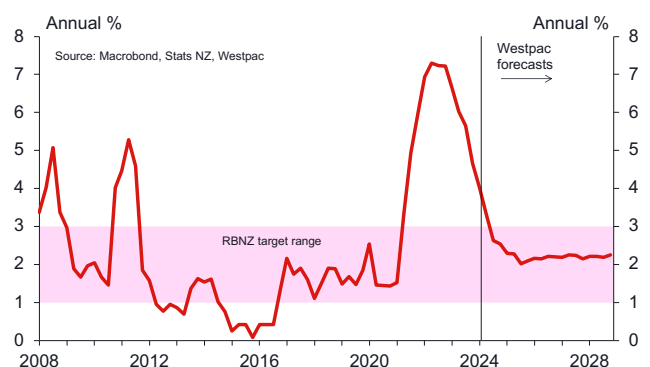
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 29					
NZ	Jun Monthly Employment Indicator, %mth	0.0	-	-0.8	Marked softening in recent weekly snapshots.
US	Jul Dallas Fed Index, pts	-15.1	-14.2	-	Manufacturing is soft across the regions.
Tue 30					
Aus	Jun Dwelling Approvals, %mth	5.5	-2.8	-2.0	Still at low levels. Some of May rise looks to be temporary.
Jpn	Jun Jobless Rate, %	2.6	2.6	-	Labour market tightness adding pressure to services prices.
Eur	Q2 GDP, %qtr	0.3	0.2	0.2	Growth recovery to ensue at a gradual pace.
US	Jun JOLTS Job Openings, 000's	8140	-	-	Labour demand and supply are moving into balance...
	Jul CB Consumer Confidence, pts	100.4	99.7	-	... employment outcomes remain critical to confidence.
Wed 31					
NZ	Jun Building Consents, %mth	-1.7	-	-1.0	Issuance is flattening off after sharp falls over the past year.
	Jul ANZ Business Confidence, pts	6.1	-	-	Confidence weak but may benefit from rate cut hopes.
Aus	Jun Monthly CPI Indicator, %yr	4.0	3.8	3.5	Base effects see a 0.3%mth increase, pace moderating.
	Q2 CPI, %qtr	1.0	1.0	1.0	Housing (electricity) & health boosting the quarter...
	Q2 CPI, %yr	3.6	3.8	3.8	... but there is downside risk to electricity due to rebates.
	Q2 Trimmed Mean CPI, %qtr	1.0	1.0	0.9	Core inflation is expected to be flat at 4% with...
	Q2 Trimmed Mean CPI, %yr	4.0	4.0	4.0	... uncertainty around services prices surveyed in June.
	Jun Retail Sales, %mth	0.6	0.2	0.2	A softer monthly result. Nominal retail sales tracking...
	Q2 Real Retail Sales, %qtr	-0.4	-0.2	0.3	... a 0.4% gain for Q2; prices about flat, volumes +0.3%.
	Jun Private Sector Credit, %mth	0.4	0.4	0.4	Credit continues to expand at a modest pace.
Jpn	Jun Industrial Production, %mth	3.6	-4.6	-	Automobile prod'n recovering after temporary disruptions.
	Jul BoJ Policy Decision (Upper), %	0.1	0.1	0.1	Tapering schedule of bond-buying program of interest.
Chn	Jul Manufacturing PMI, pts	49.5	49.3	-	Hovering around long-run average levels for industry...
	Jul Non-Manufacturing PMI, pts	50.5	50.2	-	... sustained momentum in services still absent.
Eur	Jul CPI, %yr	2.5	2.4	-	All eyes on services as policy treads a cautious path.
US	Q2 Employment Cost Index, %qtr	1.2	1.0	1.0	Momentum to soften as labour market slack builds.
	Jul FOMC Policy Decision, %	5.375	5.375	5.375	Communications to signal a September rate cut.
Thu 01					
NZ	Jul CoreLogic Home Value Index, %mth	-	-	-	Launch of new, higher-quality price measure for NZ.
Aus	Jul CoreLogic Home Value Index, %mth	0.7	-	0.5	More gains overall but Syd subdued, Melb prices slipping.
	Jun Goods Trade Balance, \$bn	5.8	5.0	5.2	Surplus is narrowing on a multi-month uptrend in imports.
Chn	Jul Caixin Manufacturing PMI, pts	51.8	51.4	-	Level remains consistent with growth objectives.
Eur	Jun Unemployment Rate, %	6.4	6.4	6.4	Holding firm at a historical low.
UK	Aug BoE Policy Decision, %	5.25	-	5.00	Rate cut a 50/50 proposition.
US	Jul ISM Manufacturing, pts	48.5	49	-	Subdued demand weighing on production.
	Jun Construction Spending, %mth	-0.1	0.2	-	Elevated costs and uncertainty hinder capacity expansion.
	46569 Initial Jobless Claims, 000's	235	-	-	To remain near its lows, for now.
Int'l	Jun S&P Global Manufacturing PMI, pts	-	-	-	Final estimate for Japan, Eurozone, UK and US.
Fri 02					
Aus	Q2 PPI, %qtr	0.9	-	-	Can falling oil prices outweigh rising shipping costs?
	Jun Housing Finance, %mth	-1.7	Flat	0.5	Consolidating on recent gains...
	Jun Owner Occupier Finance, %mth	-2.0	-	Flat	... turnover vols and construction lending softer...
	Jun Investor Finance, %mth	-1.3	-	1.5	... but prices still rising, investor lending outperforming.
US	Jul Non-Farm Payrolls Change, 000's	206	175	170	Balance returning to labour market...
	Jul Unemployment Rate, %	4.1	4.1	4.1	... seeing the unemployment rate gradually tick higher...
	Jul Average Hourly Earnings, %mth	0.3	0.3	0.3	... and wages growth soften.

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