



WEEKLY ECONOMIC COMMENTARY



9 Sep 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Better times ahead for the dairy sector

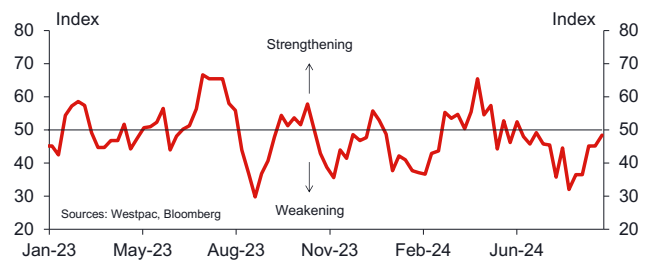
Last week was a quiet one for data and events in New Zealand, leaving financial markets mostly focused on key developments offshore – especially those in the US, where some weaker than expected manufacturing and labour market indicators caused some angst ahead of the release of the August employment report. As it turns out, some of that angst was justified as non-farm payrolls printed below market expectations, especially after considering some sizeable downward revisions to job growth over the past couple of months. This outcome leaves the Federal Reserve well on track to kick off its easing cycle at next week’s FOMC meeting, with the main uncertainty being the size of the first cut (Westpac expects a 25bp easing, while the market is pricing around a 30% chance of a larger 50bps cut).

On the local data front, the Overseas Trade Indexes revealed a 2%q/q lift in the merchandise terms of trade in the June quarter, albeit leaving the index down 1.7%y/y. Export prices rose just over 5%q/q, led by higher prices for dairy products, meat and aluminium. Import prices rose 3%q/q – more than we had expected – thanks in part to a near 10%q/q lift in prices for non-fuel crude materials. Export volumes fell 4.3%q/q, not least due to double-digit declines in dairy and forestry exports, while import volumes grew 3.2%q/q. This means that net goods exports will make a large negative contribution to what we expect to be a very weak GDP outcome in the June quarter (this is likely to be partially offset by a positive contribution from inventory building).

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	→	↘	↘

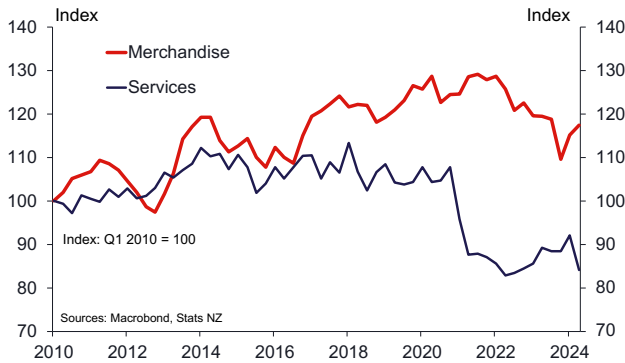
Westpac New Zealand Data Pulse Index



Key data and event outlook

Date	Event
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
10 Oct 24	Govt to release 2023-24 Financial Statements
11 Oct 24	NZ Selected price indexes, September
16 Oct 24	NZ CPI, September quarter
5 Nov 24	RBA Monetary Policy Decision
6 Nov 24	Labour market statistics, September quarter
7 Nov 24	FOMC Meeting (Announced 8 Nov NZT)
11 Nov 24	RBNZ Survey of Expectations, September quarter
14 Nov 24	NZ Selected price indexes, October

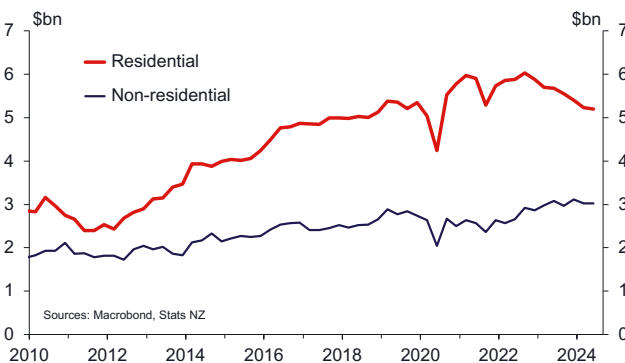
NZ terms of trade



The other notable feature of the trade report was a significant revision to estimates of exports of services. In particular, the surprising slump that was previously reported for the March 2024 quarter has been revised away, with exports now almost 16% higher than estimated originally. All else equal, this means that the current account deficit in the year to March 2024 is likely to be revised to 6.5% of GDP from 6.8% of GDP previously – still very high, but a welcome revision, nonetheless. This revision will only have a small impact on GDP, however, as the upward revision to exports of services will be balanced by a downward revision to household consumption spending (the latter previously overstated because of the underestimation of tourist spending).

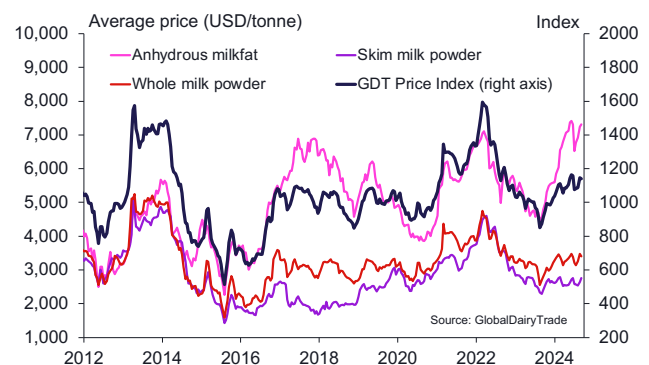
News last week from the construction sector was not as weak as we had expected, with Stats NZ reporting that the volume of building work done fell just 0.2%q/q in the June quarter. Activity was 6.1% lower than a year earlier and is now 9% below its 2022 peak. As in recent quarters, a 0.7%q/q decline in residential construction played the most significant role in driving output lower, whereas non-residential construction fell by just 0.1%q/q (steeper declines are likely in coming quarters given recent trends in consents). It is worth noting that these figures are provisional and that large revisions are possible when annual benchmarks are incorporated in the September quarter (the construction sector was a source of large downwards revisions to GDP last year, likely due to the cancellation or delay of consented projects).

Real building work put in place

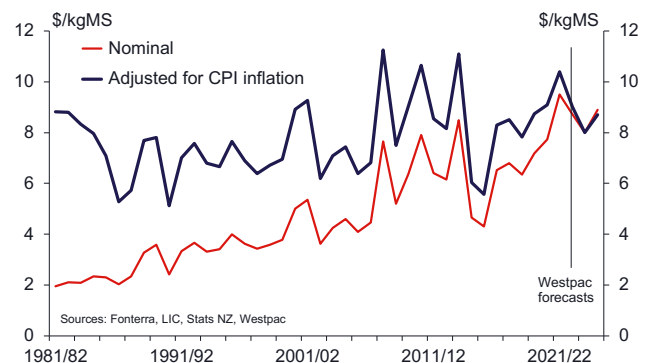


In other news, the GDT index fell 0.4% at last week's dairy auction, with whole milk powder falling 2.5%. While this outcome was softer than indicated by the futures market, most of the strong gains from the previous auction were maintained. As a result, we took the opportunity to update our farmgate milk price forecast for the 2024/25 season. We now anticipate a milk price of \$8.70/kg, up 30c from our opening forecast and 90c higher than our current estimate for last season (Fonterra will publish its final accounts for 2023/24 on 25 September). Our forecast compares favourably with Fonterra's recently upgraded midpoint forecast of \$8.50/kg. However, we caution that it is still early in the season and a wide range of possible outcomes remains feasible depending on how prices track in coming months.

GlobalDairyTrade auction prices



Milk payout (including dividends)



Declines in mortgage interest rates over the past month or so mean that there are signs that the housing market now has a little more spring in its step. Last week Auckland's largest realtor, Barfoot and Thompson, reported a modest lift in house sales in August, albeit with the median sales price about 3% lower than a year earlier. Meanwhile, the latest NZHL survey reported that real estate agents are noticing an upturn in attendance at open homes, especially by potential first homeowners. According to the survey, buyers are no longer being put off by the potential for higher mortgage interest rates but do continue to harbour concerns about their job security. However, the latest weekly data – based on tax filings through to mid-August – suggests that the number

of filled jobs has steadied in recent weeks following a steep decline through the June quarter. We will continue to monitor this data closely over coming weeks to see whether this more encouraging trend is sustained.

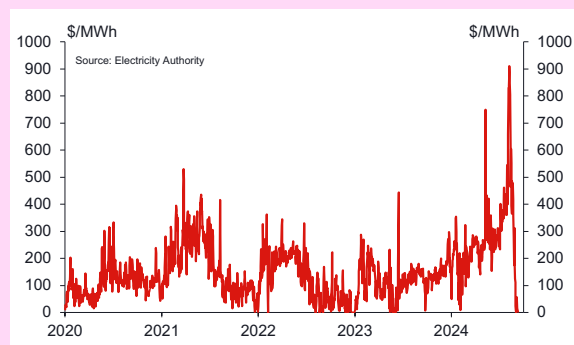
Looking at this week’s local calendar, most interest will probably centre on Thursday’s release of the Electronic Card Transactions report and the Selected Price Indexes, both for August. After six consecutive months of decline, the former should show that recent personal tax cuts are beginning to lift retail spending out of the doldrums. Meanwhile, the latter will help us refine our forecast for the Q3 CPI, in large part because it will provide information about some of the most volatile tradable components (such as food prices and international airfares). We will also be interested to see whether dwelling rentals – a large non-tradable component of the CPI – have maintained the softer growth trend seen in recent months. Tomorrow will bring further activity indicators for the June quarter, helping us to finalise our GDP estimate ahead of the release of the National Accounts on 19 September. This week we will also receive an update on migrant and international visitor arrivals for July, the BusinessNZ manufacturing PMI for August and perhaps updated home sales data from REINZ.

Darren Gibbs, Senior Economist

Chart of the week.

Fortunes in the wholesale electricity market have changed dramatically in the last few weeks. Prices reached as high as \$900/MWh in early August, putting intense pressure on businesses who buy their power on the spot market. But since then, efforts to provide more capacity for generation, and rainfall across the country helping to refill the hydro lakes, have seen spot electricity prices plunge – trading at virtually zero at some times of the day. Whether these conditions last will depend on the extent of rainfall in the months ahead, with hydro lake levels still below-average for this time of the year.

Daily wholesale electricity prices

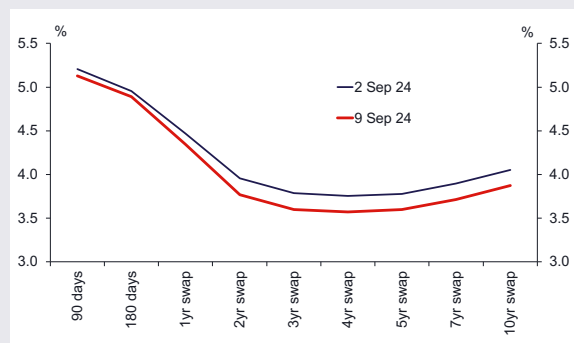


Fixed versus floating for mortgages.

Softer economic conditions have prompted the RBNZ to begin reducing the OCR. We expect further 25bp cuts at the October and November reviews, with easing continuing at a more gradual pace through 2025. However, market interest rates have factored in a much faster and deeper easing cycle than we are expecting.

With a significant amount of OCR easing already factored into longer-term mortgage rates, this suggests that it’s now more attractive to fix for longer periods than it has been for a while – perhaps even for terms as long as two to three years. Mortgage rates for shorter terms of up to a year are substantially higher now but are likely to fall in the coming months towards current longer term fixed rates and might allow participation in a deeper easing cycle than markets expect.

NZ interest rates



Global wrap

North America.

The August employment report had something for everyone, again leaving the market in two minds about the size of Fed rate cuts. Nonfarm payrolls rose 142k, on the softer side of expectations, and previous months were revised down by 86k. In contrast, the household survey saw the unemployment rate dip lower again to 4.2%, and average hourly earnings saw a solid 0.4% rise for the month. Fed officials Williams and Waller – likely the last speakers ahead of the 18 September FOMC meeting – both backed the start of a series of rate cuts. Further north, the Bank of Canada delivered a third 25bp cut this week, along with clear guidance that more easing will follow assuming current trends persist. While GDP growth surprised in Q2, the quarter is assessed to have ended on a weak note.

Asia-Pacific.

Australian GDP grew by 0.2% in the June quarter, in line with market forecasts. The themes of recent quarters were again on display, with consumer spending remaining weak in particular. Elevated inflation, interest rates and an historically-high tax take are increasingly putting household savings in a precarious position; on our estimates, around half of the pandemic savings ‘buffer’ has now been drawn down. Housing construction and business investment were also soft.

The Australian situation has perhaps been more notable for the war of words between current and former officials about the RBA’s continued tight stance on monetary policy, and the extent to which state and federal government spending is contributing to inflation pressures. Public sector demand continued to provide strong support to GDP growth in Q2, with its share of the economy rising to a record high of 27.3% and further gains likely in the year ahead.

Europe.

Eurozone June quarter GDP was revised down slightly to +0.2%, with the underlying components painting a notably softer tone. Household consumption fell -0.1% and business investment fell a stark -2.2%. The ECB is universally expected to deliver a second 25bp rate cut on Thursday night.

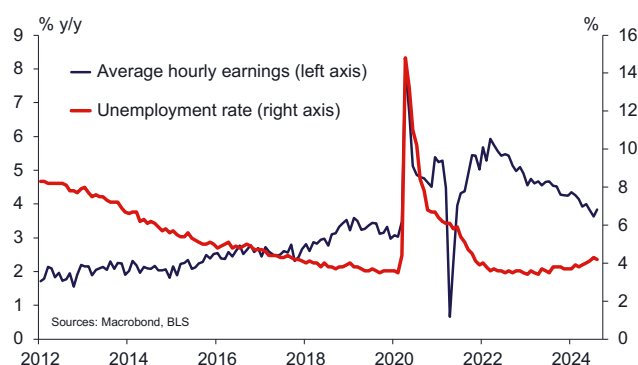
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	3.1
China	5.2	5.0	4.9	4.7
United States	2.5	2.5	1.7	1.7
Japan	1.9	0.3	1.1	0.9
East Asia ex China	3.3	4.2	4.2	4.1
India	7.8	7.0	6.8	6.5
Euro Zone	0.4	0.6	1.5	1.3
United Kingdom	0.1	0.6	1.3	1.4
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

	6 Sep	Sep-24	Dec-24	Dec-25
Australia				
Cash	4.35	4.35	4.35	3.35
90 Day BBSW	4.36	4.42	4.42	3.50
3 Year Swap	3.55	3.75	3.70	3.50
3 Year Bond	3.51	3.70	3.65	3.35
10 Year Bond	3.89	4.00	3.90	4.05
10 Year Spread to US (bps)	18	15	15	5
US				
Fed Funds	5.375	5.125	4.625	3.375
US 10 Year Bond	3.71	3.85	3.75	4.00

US average hourly earnings and unemployment rate



Australian GDP growth



Financial markets wrap

Interest rates.

NZ wholesale interest rates fell last week with the 2yr swap rate closing at 3.77%, down from 3.94% a week earlier. With little in the way of local news, swap rates were driven by a decline in US interest rates as investors reacted to disappointing manufacturing and labour market data. Subsequently, US nonfarm payrolls has fallen short of expectations, causing a marked bull steepening of the Treasury curve. As a result, this morning the NZ 2-year swap rate has opened 2bps lower at 3.75% - back to its post- RBNZ low-point. Driven by these offshore moves, the market is now pricing 34bps of policy easing at the RBNZ's October review and 43bps of easing at the November MPS. In total, the market prices a further 245bps of easing, taking the OCR to a terminal rate of around 2.8%. With so much of the easing cycle already priced in – indeed more than we expect will ultimately be delivered – it will require fresh negative news surprises in NZ or abroad for longer-tenor swap rates to fall.

Local data will have more say in driving swap rates this week, with the focus likely to be on Thursday's retail spending and consumer price reports. However, Wednesday's US CPI report could still prove most decisive, with the outcome likely to have a bearing on both the size of the Fed's first rate cut and what the Fed's updated "dot plot" signals for subsequent meetings. Thursday's ECB's policy meeting (25bp rate cut expected) is also of note this week.

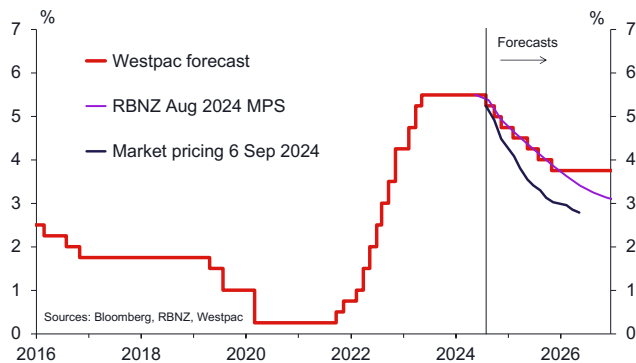
Foreign exchange.

Risk appetites were dented early last week by some disappointing data in China and the US, causing the NZD/USD to a trade down to a low of 0.6170. From there the Kiwi rebounded to its previous breakout level of 0.6220, only to reverse course again on Friday as the disappointing non-farm payrolls resulted helped trigger a further bout of risk aversion.

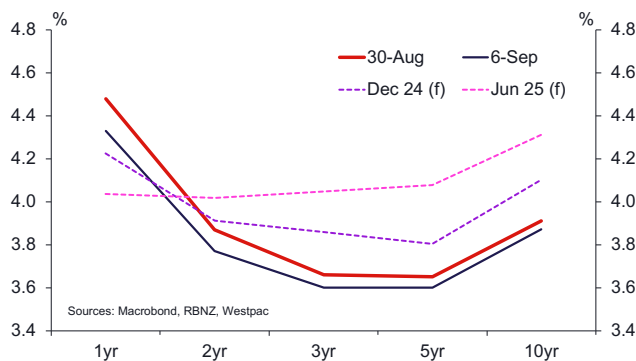
This week's local diary includes key retail spending and inflation indicators. The former should be NZD supportive, painting the economy in a less dire light as recent tax cuts and interest rate reductions boost disposable incomes. The US dollar's fortunes will hinge in part on the outcome of Wednesday's US CPI report. Data out of China will also be awaited with some trepidation, albeit the key domestic indicators are not due until Saturday.

While Australia's soft 0.2%q/q Q2 GDP print was in line with market expectations, NZD slightly outperformed the AUD last week – the latter perhaps suffering more from China-related growth concerns. However, multi-month we remain bearish NZD/AUD, targeting 0.8900, given the contrasting stances of the RBA and RBNZ, and contrasting fiscal and current accounts.

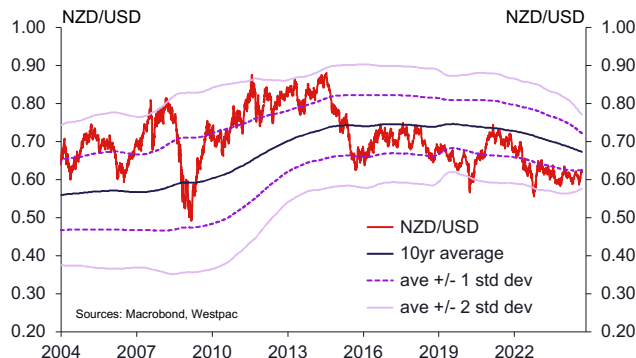
Official Cash Rate forecasts



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	0.617	0.586-0.628	0.555-0.743	0.645	0.61
AUD	0.926	0.897-0.929	0.873-0.992	0.930	0.91
EUR	0.557	0.542-0.573	0.517-0.637	0.581	0.55
GBP	0.471	0.456-0.484	0.456-0.535	0.503	0.47
JPY	87.9	86.1-98.6	61.3-98.6	80.4	91.5

The week ahead

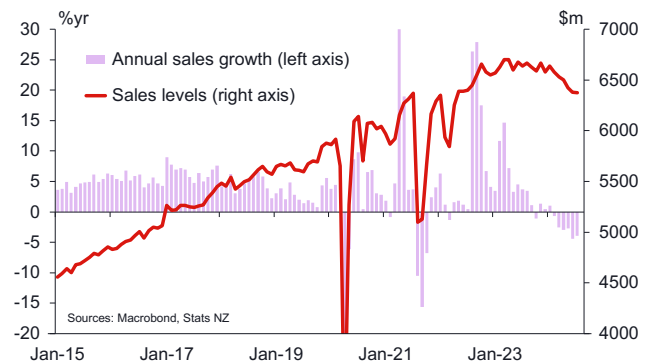
Aug retail card spending

Sep 12, Last: -0.1%, Westpac f/c: +0.7%

Total retail spending fell 0.1% in July, its sixth consecutive month of decline. While spending on essentials like fuel and groceries has held up, the pressure on household finances has seen spending in discretionary areas dropping back.

We're forecasting a 0.7% rise in spending in August. That's due to tax cuts and other support measures targeted at low-to-middle income families. That's likely to boost spending in areas like groceries and (potentially) hospitality.

Monthly retail spending

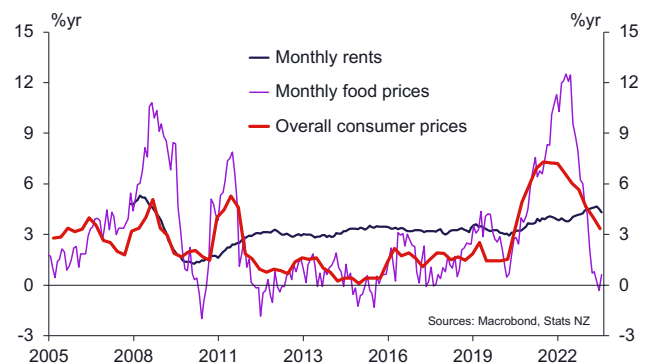


Aug selected price indices

Sep 12

Stats NZ's monthly price data covers around 45% of the CPI. There are two key areas to watch in the August update. First is whether the cooling in discretionary spending areas (like holiday/travel costs) has continued. While those prices are not typically a focus for monetary policy, weakness in such areas has been a significant drag on overall inflation over the past year. Second is the high-frequency indicators of domestic prices, like rents and takeaway foods. With a downturn in domestic activity, we have seen some softness in these areas. If that continues in August, it would reinforce expectations that medium-term inflation is trending back to 2%.

Selected consumer prices

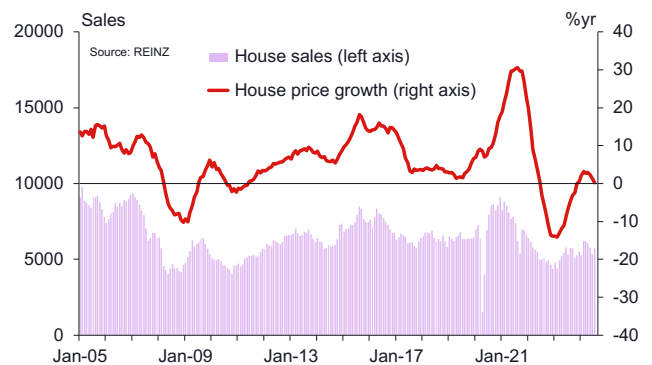


Aug REINZ house sales and prices

Sep 13, Sales last: 14.5%/yr, Prices last: 0.2%/yr

The New Zealand housing market has lost momentum in recent months, after a flurry of activity early in the year. With mortgage rates now falling as the RBNZ begins its easing cycle, there are signs of renewed interest among potential buyers – though we don't expect that to translate into a lift in sales as soon as in August. Any boost to prices is more likely to be a 2025 story, given the existing logjam of unsold homes on the market.

REINZ house prices and sales

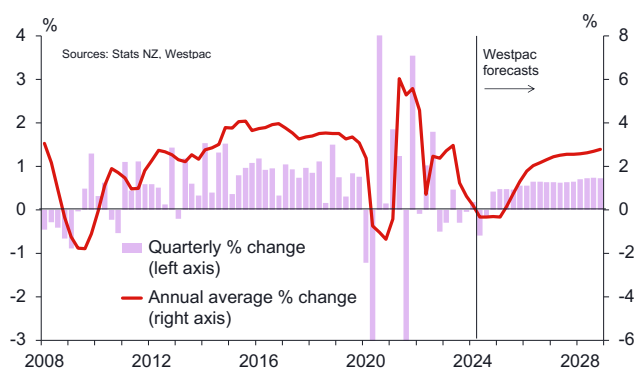


Economic and financial forecasts

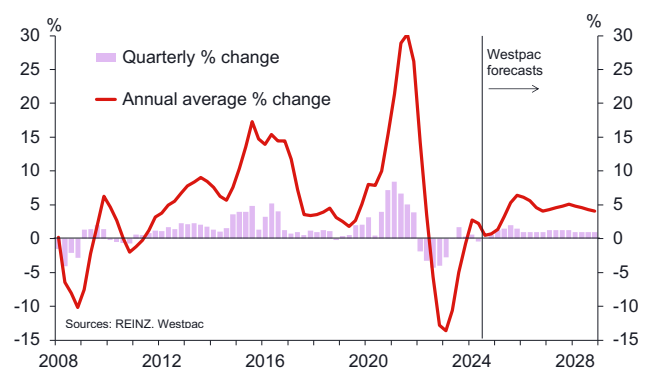
Economic indicators	Quarterly % change				Annual % change			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
GDP (production)	0.2	-0.6	-0.2	0.4	0.6	-0.3	1.3	2.3
Consumer price index	0.6	0.4	1.1	0.4	4.7	2.5	2.2	2.1
Employment change	-0.3	0.4	-0.4	-0.2	2.9	-0.4	-0.1	1.5
Unemployment rate	4.4	4.6	5.0	5.3	4.0	5.3	5.6	4.9
Labour cost index (all sectors)	0.9	1.2	0.7	0.7	4.3	3.5	2.3	1.9
Current account balance (% of GDP)	-6.8	-6.5	-6.0	-5.3	-6.9	-5.3	-4.0	-4.2
Terms of trade	5.1	3.2	1.7	-0.5	-10.7	9.8	2.4	1.8
House price index	0.6	-0.4	0.0	0.5	0.6	0.5	6.4	4.1

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	5.25	4.75	5.50	4.75	3.75	3.75
90 day bank bill	5.66	5.63	5.05	4.75	5.65	4.75	3.85	3.85
2 year swap	4.91	5.01	3.80	3.90	5.28	3.90	4.00	4.00
5 year swap	4.40	4.53	3.65	3.80	4.85	3.80	4.25	4.25
10 year bond	4.69	4.74	4.20	4.20	5.09	4.20	4.40	4.35
TWI	71.6	71.4	70.4	70.8	70.8	70.8	70.6	69.9
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	0.56	0.56
NZD/GBP	0.48	0.48	0.47	0.47	0.49	0.47	0.48	0.48

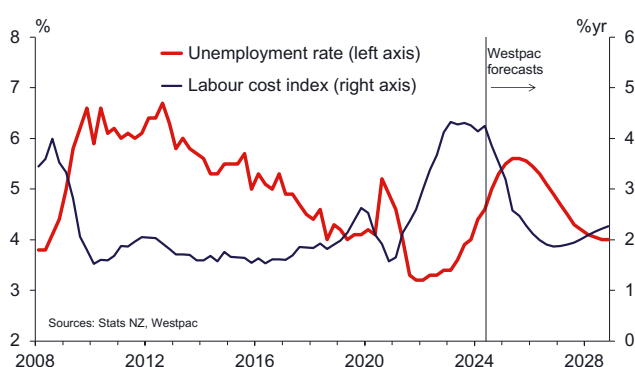
GDP growth



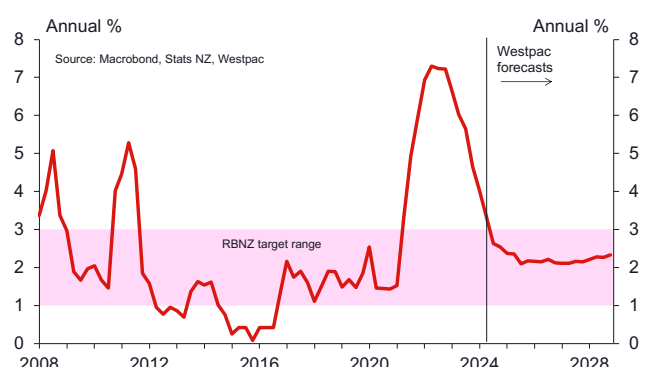
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 09					
Jpn	Q2 GDP, %qtr	0.8	0.8	-	Final estimate.
	Jul Current Account Balance, ¥bn	1533.5	2496	-	Investment income not as supportive of Yen as it used to be.
Chn	Aug CPI, %yr	0.5	0.8	-	Soft consumer demand and excess capacity...
	Aug PPI, %yr	-0.8	-1.5	-	... suppressing inflation pressures.
	Aug M2 Money Supply, %yr	6.3	6.2	-	Weak credit demand warrants additional policy support...
	Aug New Loans, ytd	13523	14600	-	... note data is due 915 September.
Eur	Sep Sentix Investor Confidence, index	-13.9	-11.0	-	Uncertainty over politics introducing volatility.
US	Jul Consumer Credit, \$bn	8.9	11.2	-	Rates and labour market uncertainty are headwinds.
Tue 10					
Aus	Sep WBC-MI Consumer Sentiment, index	85	-	-	Consumer blues continue.
	Aug NAB Business Conditions, index	6	-	-	Volatility around employment sub-index of late.
Chn	Aug Trade Balance, US\$bn	84.7	81.5	-	Benefitting from robust demand across Asia.
UK	Jul ILO Unemployment Rate, %	4.2	-	-	Conditions tight, but gradually moving into balance...
	Jul Average Weekly Earnings, %yr	4.5	-	-	... seeing wages growth move off its peak.
US	Aug NFIB Small Business Optimism, index	93.7	93.6	-	Still well below average, pointing to lingering uncertainty.
Wed 11					
NZ	Jul Net Migration, number	2710	-	-	Now running below average, after record highs last year.
Aus	RBA Assist' Governor (Economics)	-	-	-	Hunter speaking at the Barrenjoey Economic Forum.
UK	Jul Monthly GDP, %	0	-	-	Public demand and services consumption resilient.
US	Aug CPI, %mth	0.2	0.2	0.2	Another benign read anticipated.
Thu 12					
NZ	Aug Retail Card Spending, %mth	-0.1	-	0.7	Expected boost from tax cuts and other support measures.
	Aug Food Price Index, %mth	0.4	-	0.4	Seasonal lift in fresh produce prices.
	Aug Rent Price Index, %mth	0.2	-	0.3	Pressures starting to ease.
Aus	Sep MI Inflation Expectations, %yr	4.5	-	-	Provides a general view on risks.
Eur	Sep ECB Policy Decision (Deposit), %	3.75	3.5	3.5	Authorities growing confident in inflation's trajectory.
US	Aug PPI, %mth	0.1	0.2	-	Broadly consistent with at-target goods inflation.
	Initial Jobless Claims	227	-	-	To remain at a low level, for now.
Fri 13					
NZ	Aug Manufacturing PMI, index	44	-	-	Up in July, but manufacturers remain under pressure.
	Aug REINZ House Sales, %yr	14.5	-	-	Lower mortgage rates may help to revive buyer interest...
	Aug REINZ House Price Index, %yr	0.2	-	-	...though the impact on prices likely to be muted at first.
Eur	Jul Industrial Production, %mth	-0.1	-0.3	-	Stuck in the slow lane as global demand weakens.
US	Aug Import Price Index, %mth	0.1	-0.3	-	Shipping costs a potential risk.
	Sep Uni. Of Michigan Sentiment, index	-	-	-	Rate cuts to support as labour market remains robust..

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