



WEEKLY ECONOMIC COMMENTARY



16 Dec 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Step into Christmas

December is starting to resemble an advent calendar for economists, with important releases almost every day in the lead-up to Christmas. The key focus will be the September quarter GDP report, which is expected to be weak in its own right, but with some upward revisions to the recent history of growth. We also think that's likely to be the worst of it for this cycle; as **our new GDP tracker tool** demonstrates, the recent data flow has been turning a little more positive.

We estimate that GDP fell by 0.4% in the September quarter. That's a downgrade from our earlier forecast of -0.2%, prompted by some soft details in the final sectoral data that was published last week. That puts us below the -0.2% that the Reserve Bank assumed in its November Monetary Policy Statement.

As we detail in **our GDP preview**, there is more uncertainty than usual around this release, in terms of both the quarterly outcome itself and the broader interpretation of the data. The September quarter includes the annual benchmarking exercise, where the quarterly figures are aligned with more detailed (but less timely) annual statistics. Stats NZ has signalled that this year's exercise will result in substantial upward revisions to GDP – in the order of 2% additional growth over the last two years. The revised figures tell a more plausible story about the economy's recent performance – the

Happy holidays!

This is our last Weekly Economic Commentary of 2024, resuming in the new year on 20 January 2025. Thank you to all our readers this year and wishing you a festive and relaxing summer break.

Westpac Economics Team



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 GDP nowcasts



Key data and event outlook

Date	Event
16 Dec 24	NZ Selected price indexes, November
17 Dec 24	Half-Year Economic and Fiscal Update
18 Dec 24	FOMC Meeting (Announced 19 Dec NZT)
19 Dec 24	NZ GDP, September quarter
14 Jan 25	QSBO business survey, December quarter
16 Jan 25	NZ Selected price indexes, December
22 Jan 25	NZ CPI, December quarter
29 Jan 25	FOMC Meeting (Announced 30 Jan NZT)
5 Feb 25	Labour market statistics, December quarter
13 Feb 25	RBNZ Survey of Expectations, December quarter
14 Feb 25	NZ Selected price indexes, January

declines in per-capita GDP and labour productivity, while still large, have not been as severe as previously thought.

Stats NZ will also be making changes to how it seasonally adjusts the GDP figures. Estimating the seasonal factors correctly has been especially challenging since Covid, due to both the extreme movements during the lockdowns and the temporary loss of the (extremely seasonal) international tourism industry. Revising the seasonal factors doesn't affect the annual growth rate, but it does put our quarterly forecast under a cloud, since we can't anticipate how the growth (or weakness) in the economy will be redistributed over the year.

What we're feeling more confident about is that the September quarter will mark the end of the economy's downturn. More recent data has been improving on balance, although there is a clear tug-of-war between the strong rise in forward-looking confidence measures, and the more mixed measures of past activity.

Our GDP nowcast tool provides an efficient way of tracking how the next quarter is shaping up as new information arrives. After last week's data, the nowcast for the December quarter stands at +0.1% – a small positive, though still not matching population growth. While lower interest rates are sparking some more optimism among businesses and households, their greatest impact on the economy tends to occur 1-2 years ahead – so we think it will be the second half of next year before we see some really robust growth figures.

Last week added a few more indicators to the pile. On the mildly positive side, card spending at retail stores was flat in November, after a 0.7% rise in October. While that wasn't as strong as we were expecting, it marks a further move away from the weakness we saw in the first half of this year, where spending declined for six consecutive months in dollar terms (and even more so after inflation). Less encouraging was the manufacturing PMI, which fell slightly to 45.5 in November and has remained in contractionary territory for almost two years.

There's a lot more high-frequency data to come this week (though not all of them go into the nowcast). That will include REINZ house sales (no date confirmed), the PSI services index (Monday), selected monthly consumer prices (Monday), the current account (Wednesday) business confidence (Thursday), consumer confidence (Friday) and overseas trade (Friday). For Wednesday's GlobalDairyTrade auction, futures markets are suggesting a modest pullback in dairy prices from their recent surge.

We also have the Treasury's Half-Year Economic and Fiscal Update (HYEFU) on Tuesday. Since the May Budget the operating deficit has been tracking worse than forecast, mostly due to higher spending than expected. On top of this, the Treasury is likely to downgrade its near-term GDP forecasts, and perhaps even its longer-term assumptions about the economy's growth potential. We think the Government will keep its longer-term fiscal

objectives unchanged, but the projected return to surplus is likely to be pushed out another year, with a further increase in the bond programme beyond this year.

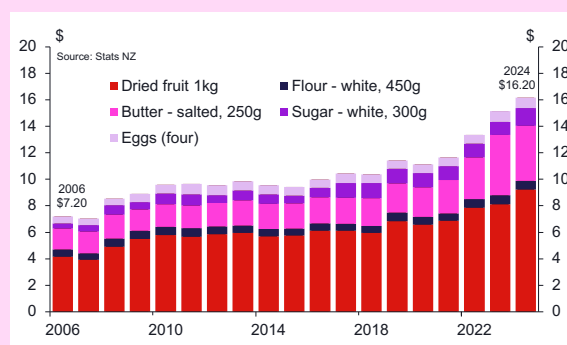
Michael Gordon, Senior Economist

Chart of the week.

The price of Christmas fruit cake ingredients has rocketed higher in recent years. In fact, it's 35% higher than it was prior to the start of the pandemic. That's mainly due to increases in the cost of dried fruit since 2019. There have also been big increases in the prices of butter, sugar and eggs.

The Westpac Economics team was split on whether they actually liked Christmas fruit cakes or not, with several noting that they prefer scorched almonds at this time of year. Our indicative mix of ingredients can be spiced up with some vanilla, brandy or (controversially) dark chocolate.

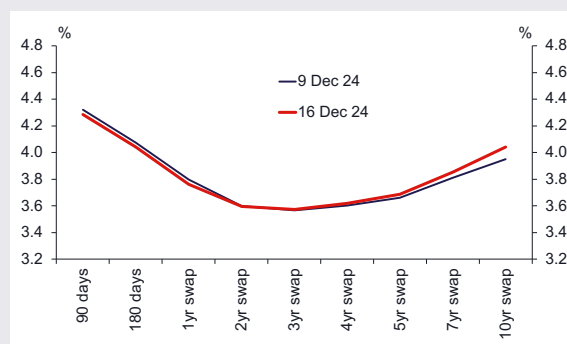
Inflation baked into the price of Christmas cake ingredients



Fixed versus floating for mortgages.

The RBNZ delivered a second 50bp cut in the OCR in November. We're forecasting another 50bp cut in February and expect the cash rate will bottom at 3.50% in mid-2025. A significant amount of OCR easing is 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.

NZ interest rates



Global wrap

North America.

US headline and core CPI were both up 0.3% in November, largely as expected. Those increases were underpinned by a lift in vehicle prices following the recent hurricanes, while the closely watched shelter price series decelerated. The Fed meets for the final time this year on Wednesday, and we expect they will deliver another 25bp cut. The guidance and accompanying projections will be closely monitored for clues about the Fed's policy stance heading into the new year. This week we'll also get updates on retail sales and industrial production on Tuesday, and personal income, spending and consumer confidence on Friday. Across in Canada the BOC delivered another 50bp cut last week. That followed recent soft activity, including a further rise in unemployment. However, Governor Macklem indicated that with a substantial easing in the policy rate in recent months, future adjustments are likely to be more gradual.

Europe.

The ECB delivered the expected 25bp rate cut in December. The accompanying statement was slightly more dovish than previous missives, and ECB President Lagarde sounded increasingly confident about the moderation in inflation. Across in the UK the BOE meets on Thursday and is expected to keep the bank rate at 4.75%. The BOE remains concerned about domestic inflation and Wednesday's CPI report will be closely watched.

Asia Pacific.

As expected, the RBA left the cash rate at 4.35% at its final meeting of the year. Although the tone of the RBA's comments signals an increased chance of an earlier start to the rate cutting cycle, we continue to expect a first cut in May. On the data front, November's labour market report was firmer than expected, with the unemployment rate falling from 4.1% to 3.9%. However, with some unusual changes in labour supply, we're interpreting the result cautiously and view it as being broadly consistent with a continued but gradual normalisation of labour market conditions following earlier strength. In China, recent data highlighted the ongoing weakness in conditions, with both exports and imports softer than expected in November, and consumer price inflation slipping to a five-month low. In response, Chinese policy makers plan to introduce additional fiscal support measures and "moderately loose" monetary settings to bolster domestic demand. In Japan, the latest Tankan survey was generally supportive of further tightening by the BOJ. While confidence in the retail and services sector eased, sentiment among manufacturers remained firm, as did the survey's pricing gauges.

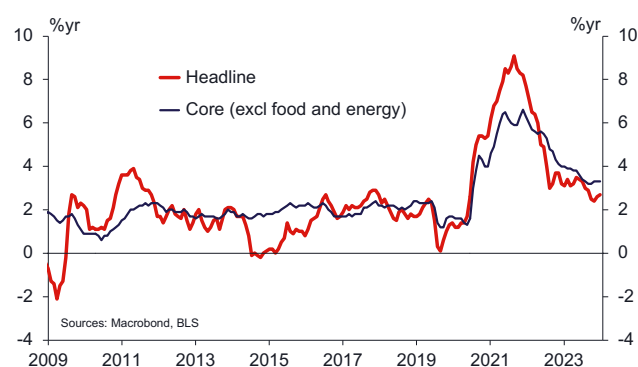
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	2.4
China	5.2	5.0	4.8	4.5
United States	2.9	2.7	2.4	2.0
Japan	1.9	-0.1	1.2	1.0
East Asia ex China	3.3	4.3	4.1	4.1
India	7.8	6.8	6.8	6.5
Euro Zone	0.4	0.8	1.3	1.5
United Kingdom	0.1	1.0	1.4	1.5
NZ trading partners	3.3	3.3	3.4	3.3
World	3.2	3.3	3.3	3.3

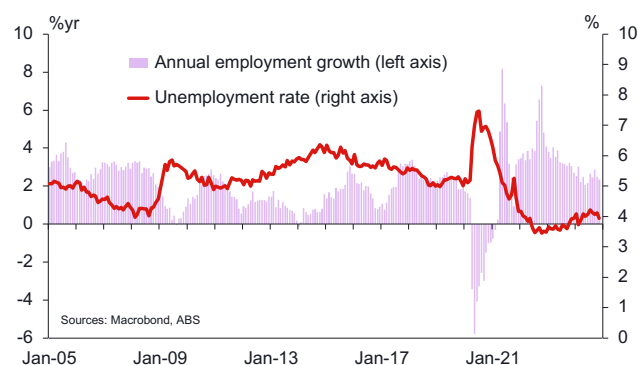
Australian & US interest rate outlook

	13 Dec	Mar-25	Dec-25	Dec-26
Australia				
Cash	4.35	4.35	3.35	3.35
90 Day BBSW	4.45	4.43	3.50	3.55
3 Year Swap	3.84	3.75	3.80	4.00
3 Year Bond	3.88	3.70	3.70	3.80
10 Year Bond	4.32	4.35	4.55	3.85
10 Year Spread to US (bps)	0	5	5	5
US				
Fed Funds	4.625	4.125	3.375	3.875
US 10 Year Bond	4.33	4.30	4.50	4.80

US CPI inflation



Australian labour market



Financial markets wrap

Interest rates.

The NZ swap curve steepened last week, with shorter-term tenors slightly lower in yield and long-term tenors slightly higher. The front of the curve reflects an increased degree of conviction that the Fed will cut its policy rate by 25bps this week (now 95% priced by the market). Meanwhile, local markets have fully priced the whole RBNZ easing cycle, implying it will end later next year with an OCR at around 3.10%. The RBNZ has explicitly signalled a likely 50bp cut for February, which markets have priced as a 75% chance, suggesting the potential for very short maturities (0 to 1yr) to fall further. By contrast, the back of the NZ curve has been dragged modestly higher by a rise in US Treasury yields, with markets expecting that inflation risks associated with the incoming Trump administration will cause the Fed to project fewer easings in 2025. This increased the likelihood that 2yr and 5yr swap rates will likely remain above their cycle lows of 3.50%.

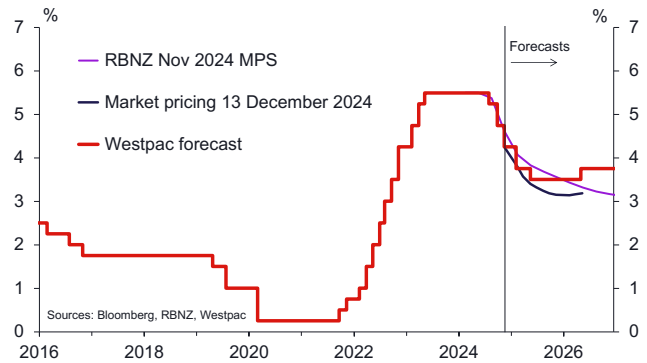
There are two key domestic event risks for rates markets this week: Tuesday's HYEPU (Westpac expects NZDM to raise its forecast bond issuance for '27/28 by around \$6bn) and Thursday's Q3 GDP report (Westpac estimates that the economy contracted 0.4%q/q). The key offshore event will be the FOMC meeting (Thursday AM NZT). Presuming that a rate cut is delivered, most interest will centre on the forward guidance provided by the revised Summary of Projections (SEP). Markets are now pricing just 50bps of easing in 2025 – less than the 100bps of easing implied by the September SEP.

Foreign exchange.

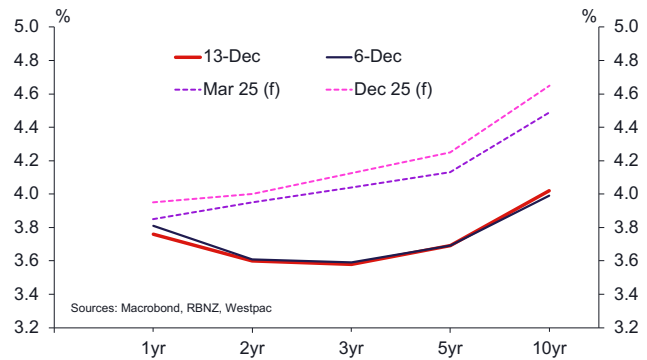
The NZD/USD began last week on a more positive note, nudging up from its post-payrolls low after China's Politburo said it would pursue a more expansionary monetary and fiscal stance next year. However, it was dragged lower by the RBA's dovish pivot – which opened the possibility of a February rate cut – and as the US dollar maintained its firmer trend. The NZ dollar begins this week at 0.5760 – just below its previous major support at around 0.5775 – and so potentially signalling a move to around 0.5500. The upcoming Fed meeting and NZ Q3 GDP report – both on Thursday morning – could prove decisive for the near-term direction of NZD/USD.

NZD/AUD moved lower last week with a dovish tilt from the RBA countered by stronger than expected labour market data, causing the market to pare back pricing for a policy easing as soon as February. We continue to expect the cross to test 0.89 during the next few months. That said, there is much uncertainty regarding the Trump administration's trade policy, which depending on the detail could have different impacts on the NZD and the AUD.

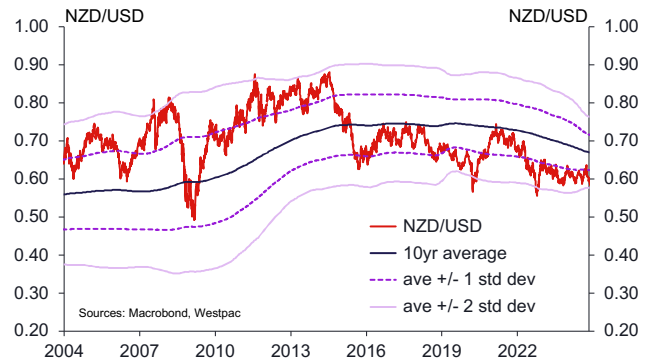
Official Cash Rate forecasts



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	0.576	0.576-0.636	0.555-0.743	0.644	0.58
AUD	0.905	0.895-0.920	0.873-0.992	0.928	0.91
EUR	0.549	0.548-0.569	0.517-0.637	0.580	0.55
GBP	0.457	0.453-0.475	0.453-0.535	0.501	0.45
JPY	88.5	86.5-92.1	61.3-98.6	81.5	88.5

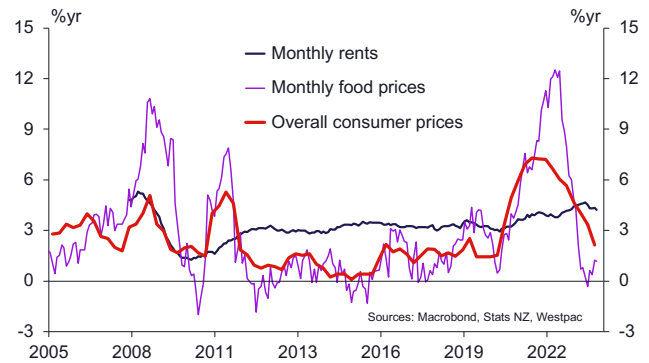
The week ahead

Nov selected price indices

Dec 16

Stats NZ's monthly price data covers around 45% of the CPI. Many of the prices that are covered are volatile and not typically the focus of monetary policy. However, we'll be watching for signs that price pressures in discretionary spending areas (like hospitality) are continuing to ease. It will also be worth watching what happens to rents (which are one of the largest components of domestic inflation). We're picking a 0.3% rise in rents in line with recent trends. However, we're increasingly hearing comments that pressures on this front are easing. We're also expecting a 0.2% fall in food prices related to the seasonal fall in fresh produce prices.

Selected consumer prices

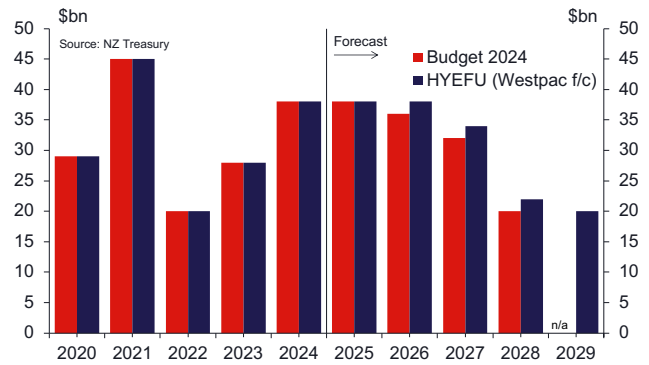


Half-Year Economic and Fiscal Update

Dec 17

Data for the first four months of the 2024/25 fiscal year reveal an operating deficit that is tracking above the Budget 2024 forecast. Meanwhile, the Treasury have indicated that it is likely to revise down its estimates of near-term growth prospects and its medium-term productivity assumption, which would lower tax revenue over the forecast period. As a result, we expect the Treasury to forecast that the operating balance will remain in deficit until 2028/29 – a year later than forecast in Budget 2024 – and that NZDM will announce a cumulative \$6bn of additional NZGB issuance over the four years to 2027/28.

Bond programme

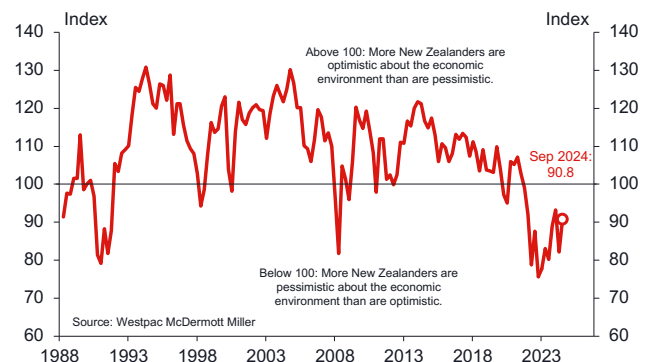


Q4 Westpac-McDermott Miller Consumer Confidence Index

Dec 18, Last: 90.8

Our latest consumer confidence survey was in the field December 1 to 11. In the last survey in September consumer confidence rose 9 points to 90.8. Households continued to report pressure on their finances. However, the powerful financial headwinds that have buffeted households in recent years have been easing, and that boosted optimism about the economy's trajectory over the year ahead.

Consumer Confidence Index



The week ahead

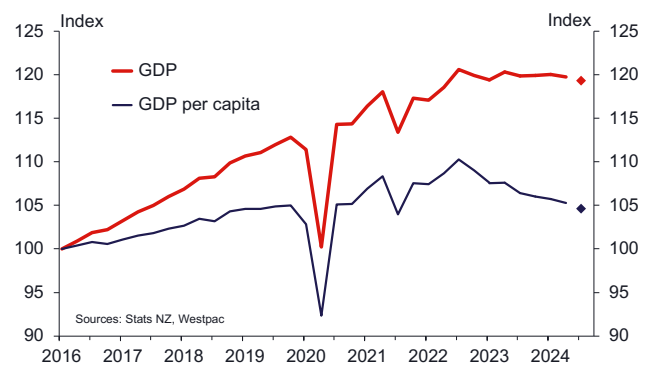
Q3 GDP

Dec 19, Last: -0.2%, Westpac f/c: -0.4%, Mkt f/c: -0.4%

We expect a 0.4% fall in GDP for the September quarter. Our forecast reflects general softness across a range of sectors, along with an unwinding of some stronger than expected outturns in the previous quarter.

The release will include substantial revisions to the recent history, which means a greater degree of uncertainty than usual around both the quarterly and annual growth rates.

Real GDP



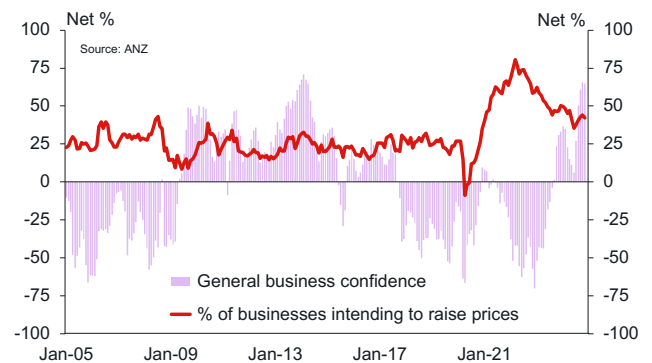
Dec ANZ business confidence

Dec 19, Last: 64.9

Business confidence has surged in recent months, after the rapid turnaround in the RBNZ's stance from warning about the possibility of hikes to delivering substantial rate cuts. The December survey follows a further 50bp OCR cut in November.

Firms' growing confidence about the year ahead is now also being accompanied by signs of a gradual improvement in current conditions. Inflation expectations have eased significantly, although firms' own pricing intentions remain above their historic average.

Business confidence and pricing intentions

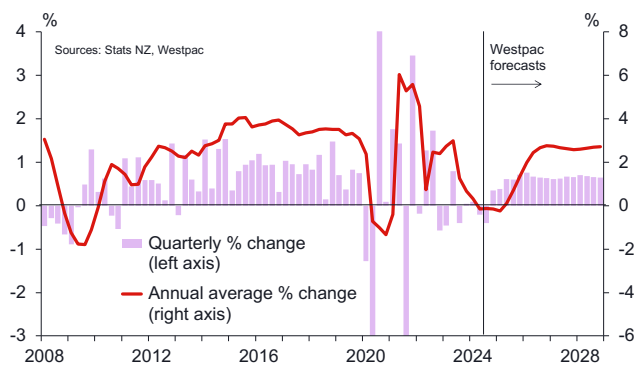


Economic and financial forecasts

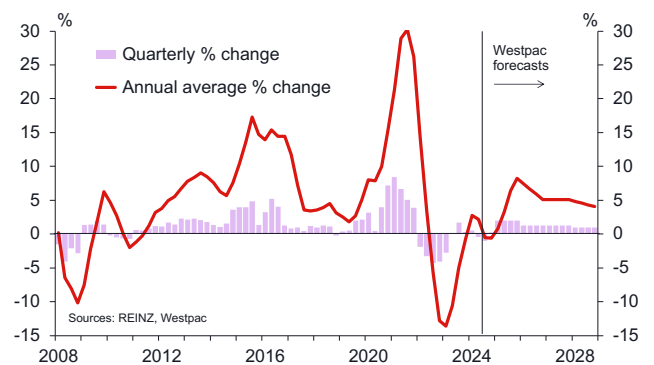
Economic indicators	Quarterly % change				Annual % change			
	Jun-24	Sep-24	Dec-24	Mar-25	2023	2024	2025	2026
GDP (production)	-0.2	-0.4	0.3	0.4	0.7	-0.1	1.4	2.8
Consumer price index	0.4	0.6	0.4	0.5	4.7	2.1	2.0	2.1
Employment change	0.2	-0.5	-0.3	-0.1	2.8	-1.0	0.2	2.1
Unemployment rate	4.6	4.8	5.1	5.3	4.0	5.1	5.4	4.6
Labour cost index (all sectors)	1.2	0.6	0.7	0.5	4.3	3.5	2.0	1.8
Current account balance (% of GDP)	-6.7	-6.5	-6.0	-5.2	-7.1	-6.0	-3.9	-4.5
Terms of trade	2.1	2.5	7.2	3.8	-10.7	18.0	2.8	-2.5
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
OCR	5.50	5.25	4.25	3.75	5.50	4.25	3.50	3.75
90 day bank bill	5.63	5.31	4.15	3.75	5.65	4.15	3.60	3.85
2 year swap	5.01	4.06	3.75	3.80	5.28	3.75	3.95	4.00
5 year swap	4.53	3.81	3.85	3.90	4.85	3.85	4.15	4.25
10 year bond	4.74	4.31	4.55	4.50	5.09	4.55	4.70	4.85
TWI	71.4	70.9	68.8	68.1	70.8	68.8	65.7	66.6
NZD/USD	0.61	0.61	0.58	0.58	0.60	0.58	0.57	0.60
NZD/AUD	0.92	0.91	0.91	0.89	0.93	0.91	0.86	0.86
NZD/EUR	0.56	0.56	0.55	0.54	0.56	0.55	0.52	0.54
NZD/GBP	0.48	0.47	0.45	0.45	0.49	0.45	0.44	0.45

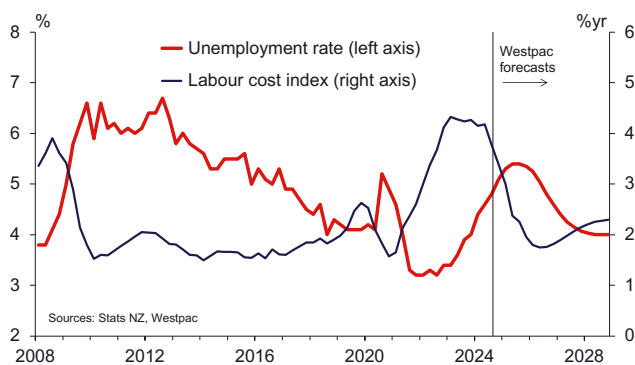
GDP growth



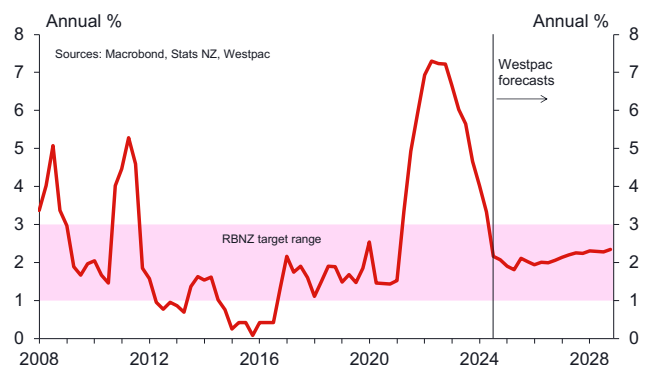
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 16					
NZ	Nov BusinessNZ PSI, index	46	-	-	Recent trading conditions have remained soft.
	Nov Food Price Index, %mth	-0.9	-	-0.2	Seasonal fall in fresh produce prices.
	Nov Housing Rents (Stock), %mth	0.2	-	0.3	Signs that pressures are easing.
Jpn	Oct Core Machinery Orders, %mth	-0.7	1	-	Set to bounce back after three consecutive months of decline.
Chn	Nov Fixed Asset Investment, %yr ytd	3.4	3.5	-	November data to show stimulus delivered in Q3...
	Nov Retail Sales, %yr ytd	3.5	3.6	-	... has failed to deliver a sustained uplift in activity...
	Nov Industrial Production, %yr ytd	5.8	5.7	-	... with services and manufacturing sectors holding flat at best.
US	Dec Fed Empire State, index	31.2	5.8	-	Pull-back expected on the back of 43.1 point surge last month.
	Dec S&P Global Manufacturing PMI, index	49.7	-	-	Manufacturing activity is failing to sustainably lift...
	Dec S&P Global Services PMI, index	56.1	-	-	... contrary to other economies, services firmly in expansion.
Tue 17					
NZ	Half-Year Economic and Fiscal Update	-	-	-	Surplus delayed, increase in bond issuance.
Aus	Dec Westpac-MI Consumer Sentiment, index	94.6	-	-	Consumers are growing more confident in the outlook.
	Q4 ACCI-Westpac Business Survey, index	56	-	-	Manufacturers found some 'pockets' of demand over mid-year.
Eur	Oct Trade Balance, €bn	13.6	-	-	Trade surplus at-risk of further narrowing.
UK	Oct ILO Average Weekly Earnings, %yr	4.8	-	-	Pressures easing as slack builds in the labour market.
US	Nov Retail Sales, %mth	0.4	0.5	0.4	Higher vehicles sales and online bargains to support spending.
	Nov Industrial Production, %mth	-0.3	0.2	-	Due for a modest lift; warm weather supports utilities output.
	Dec NAHB Housing Market, index	46	46	-	Sentiment reached seven month high following elections.
Wed 18					
NZ	Q4 Westpac-MM Consumer Conf., index	90.8	-	-	Rose last quarter as financial pressures eased.
	Q3 Current Account Balance, % of GDP	-6.7	-6.5	-6.5	Still very wide, but should narrow over the next year.
Aus	Nov Westpac-MI Leading Index, %ann'd	0.26	-	-	October was the first clear 'above-trend' print in about a year.
UK	Nov CPI, %mth	0.6	-	-	Headline inflation likely to stay above the BoE's target in 2025.
US	Nov Housing Starts, %mth	-3.1	2.5	-	A bounce back expected...
	Nov Building Permits, %mth	-0.6	1	-	... after weaker than anticipated results in October.
	FOMC Policy Decision	4.625	4.375	4.375	Markets see a further 75bps of cuts in 2025, we see 100bps.
Thu 19					
NZ	Q3 GDP, %qtr	-0.2	-0.4	-0.4	Soft, but revisions will have an uncertain effect.
	Dec ANZ Business Confidence, index	64.9	-	-	Signs emerging that current conditions are firming.
Jpn	Dec BoJ Policy Decision, %	0.25	0.25	-	Further attempts to normalise policy unlikely in 2024.
UK	Dec BoE Policy Decision, %	4.75	4.75	-	Set to hold; BoE Governor signalling four rate cuts in 2025.
US	Q3 GDP, %ann'd	2.8	2.8	-	Final estimate.
	Dec Philly Fed, index	-5.5	2.2	-	Measures overall activity in the US economy.
	Initial Jobless Claims	242	-	-	Remains near all-time lows.
	Nov Leading Index, %mth	-0.4	-0.1	-	Forecasts business cycle turning points.
	Dec Kansas City Fed, index	-2	-	-	Has failed to lift out of negative territory over all of 2024.
Fri 20					
NZ	Dec ANZ Consumer Confidence, index	99.8	-	-	Strong rise in Nov as inflation, interest rates fell.
	Nov Trade Balance, \$mn	-1544	-	-910	Trade deficit to narrow as exports see seasonal lift.
Aus	Nov Private Sector Credit, %mth	0.6	0.5	0.5	Maintaining a stable growth trend.
Jpn	Nov CPI, %yr	2.3	2.9	-	A firm Tokyo CPI result hints a strong lift for national prices.
UK	Nov Retail Sales, %mth	-0.7	-	-	Timing of Black Friday to cause some seasonal shifts.
US	Nov Personal Income, %mth	0.6	0.4	0.4	Higher hourly wages and longer workweeks to lift income...
	Nov Personal Spending, %mth	0.4	0.5	0.4	... while holiday shopping and discounts support spending.
	Nov PCE deflator, %mth	0.2	0.2	0.2	Disinflation on track for 2%yr, but tariffs and supply risks.

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