



# WEEKLY ECONOMIC COMMENTARY

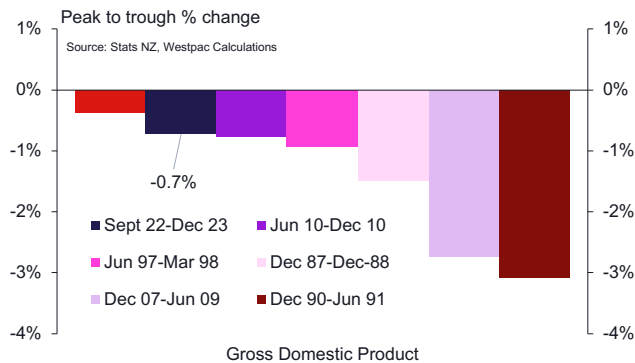


17 Jun 2024 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## Bumping along the bottom

Data last week confirmed that the New Zealand economy continues to move mildly in reverse. This is a continuation of the trend we have seen since mid-2022. Real GDP has gone backwards by around 0.7% since its peak in Q3 2022 – a slow grind backwards at a time when population growth has been significant. The pull-back in GDP has been neither unexpected nor unwanted from the perspective of the Reserve Bank. But it is nonetheless jarring for businesses and households not used to such prolonged periods of stagnant economic activity.

### Peak to trough % change in GDP in previous NZ recessions



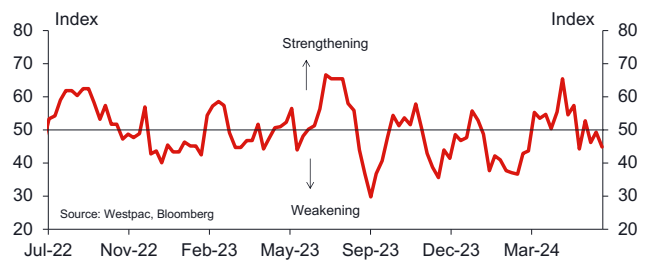
Signs of stagnation were widespread in data released over the past week. May was another tough month for retailers, with **card spending down by 1.1%**. That was the fourth straight month of decline, and points to further belt-tightening by consumers after a year of already-flat spending over 2023. Spending on groceries is still holding up (+0.1% in May), but it's a much softer picture in discretionary categories. Spending on durable goods fell 1% in May and is down 8% on a year earlier. There was also further weakness in hospitality and clothing.

The **latest migration figures for New Zealand** reinforce that the pace of net inflows has passed its peak, though it remains high compared to history. The annual balance slowed to 98,464 people in the year to April, dropping

### 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

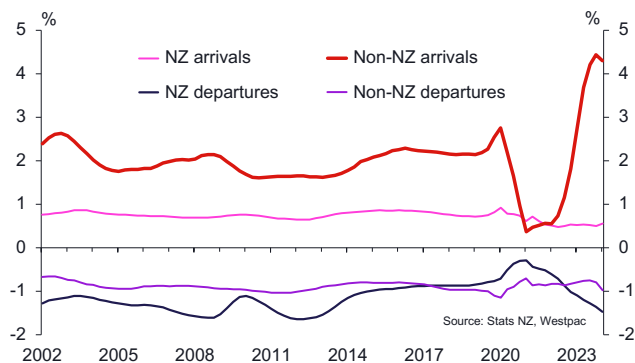


### Key data and event outlook

Date	Event
18 Jun 24	RBA Monetary Policy Decision
19 Jun 24	RBNZ's Conway to speak (9am NZT)
20 Jun 24	NZ GDP, March quarter
2 Jul 24	NZIER QSBO survey, June quarter
4 Jul 24	Govt financial statements for 11 mths to May
10 Jul 24	RBNZ OCR Review
11 Jul 24	NZ Selected price indexes, June
17 Jul 24	NZ CPI, June quarter
31 Jul 24	FOMC Meeting (Announced 1 Aug NZT)
6 Aug 24	RBA Monetary Policy Decision
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

below the 100k mark for the first time in almost a year. There were further downward revisions to the recent history, with last year's cyclical peak being marked down from 139,075 to 137,736. The slowdown in net inflows is very consistent with the view that the labour market is cooling and hence there are far fewer opportunities for work compared to the very overheated market of a year ago.

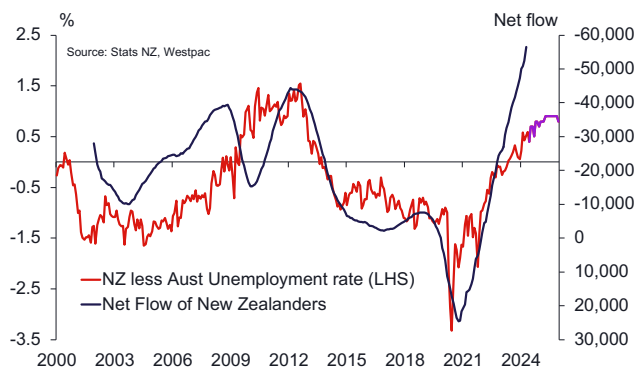
#### Annual migration flows as a % of the NZ population



The theme of ongoing weakening in the labour market was also reflected in SEEK job ads data which took another leg down in May (-4.8%). Advertising volumes are falling across the country but seem especially weak in Wellington (around 46% of their peak levels in 2022) and Auckland (around 52% of the 2022 peak) while the labour market in the productive heartland of the South Island is holding up a bit better. The numbers of applicants per listing remains very high indicating strong competition for jobs from those currently unemployed.

The weaker New Zealand labour market is also reflected in the further increase in the flow of New Zealanders moving offshore. This reached a new 25 year high in April as over 56,000 New Zealanders left for better opportunities. Most of this lift in departures is cyclical as, rather unusually, the unemployment rate here is tracking higher than that in Australia. Although there is still an element of post-Covid catch-up in the data also. We don't see this cycle turning around any time soon given our forecasts of a rising unemployment rate in New Zealand that will outpace Australian trends in the year ahead.

#### Net flows of New Zealanders vs NZ-Australia unemployment



Last week we also saw some seasonal moderation in inbound tourism numbers in April. There was a fair degree of easter-related volatility in the monthly numbers, but a key underlying theme was one of moderation in visitor arrivals from the US (airlines are looking to reduce capacity on the US-NZ routes now) and still soft demand from other source markets such as Japan (where the fresh 17 year high in the NZD/JPY will be a significant deterrent), Korea and Europe. The still weak global growth environment is limiting the ability for tourism to push towards and through pre-Covid levels.

This week's economic news has begun with a similarly subdued tone. Nationwide home sales fell 5% in May (a fall likely slightly overstated by the provisional data). And while sales were 6.8% higher than a year earlier, turnover remains low, especially considering the growth in the housing stock over time. The median days to sell edged down to 42 days – a pace that confirms a lack of urgency to transact compared to normal times. And so perhaps unsurprisingly, house prices fell 0.3% in May after adjusting for seasonal effects, causing annual growth to slow to 2.3% from 2.9% previously. Prices fell for a third consecutive month in the high-priced Auckland market. Recent soft readings suggest that the impact of relatively high mortgage rates is presently outweighing the impact of rapid population growth. As a result, over the coming week we will review our near-term forecasts for house prices.

This weakness in the economy, while unwelcome to most households and businesses, is seen by the RBNZ as a necessary evil to bring still high and sticky inflation to heel.

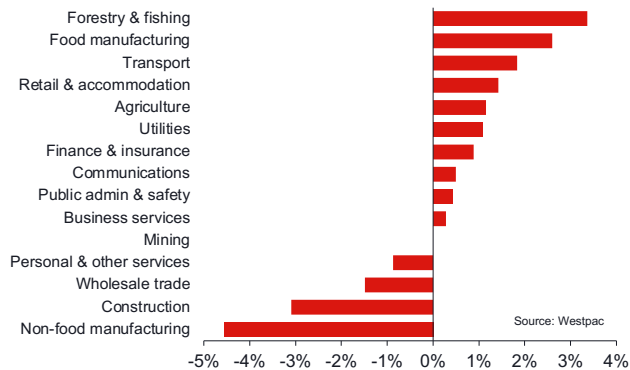
Perhaps some (thin!) straws in the wind this week came from the release of Stats NZ's **Selected Price Indices** which showed some easing in monthly inflation. Particularly interesting was declines in prices for some non-tradable inflation components such as ready-to-eat food, domestic airfares, and domestic accommodation. We reduced our forecast for June quarter inflation from 0.8% to 0.6% which brings Westpac's forecast in line with the RBNZ's *Monetary Policy Statement* view.

Two key events in the week ahead are worth watching: March quarter GDP is released 10:45 AM Thursday and RBNZ Chief Economist Paul Conway is hosting a webinar at 9:00 AM Wednesday morning.

Westpac sees **Q1 GDP falling by -0.2%** - the 5th decline in the last 6 quarters. Annual growth should improve(!) slightly to -0.2%. We're expecting most sectors to do better (or less bad) than they did in the December quarter, but with some pronounced weakness in a few areas driving the overall result. The key areas of weakness are in non-food manufacturing, construction, and wholesale trade – sectors that are especially interest-sensitive and leveraged to the domestic consumption and investment cycle. Our forecast is noticeably weaker

than the RBNZ's forecast of +0.2%q/q which all else equal should help reduce some of those concerns that it could be at late as August 2025 before policy restriction might begin to be removed.

### March quarter GDP forecast by sector



**Conway's webinar** will come ahead of the GDP data but seems timely as it will discuss findings from recent RBNZ research into the sources of recent inflation and the likely key drivers of the expected future decline in inflation. We don't expect any significant deviation from the RBNZ's hawkish tone regarding the stickiness of domestic inflation that was adopted in the May *Monetary Policy Statement*.

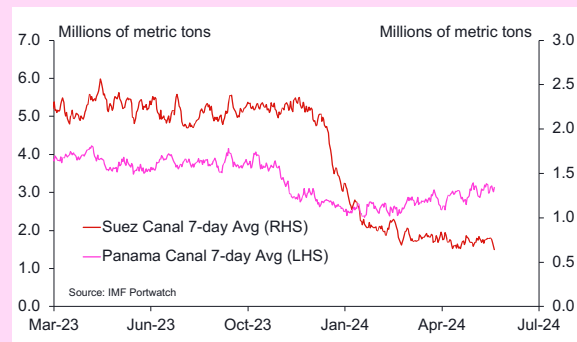
**Kelly Eckhold**, Chief Economist

### Chart of the week.

The combination of geopolitical stresses in the middle east combined with climatic impacts on the water level in the Panama Canal has led to significant restrictions on global shipping logistics and increases in freight shipping costs. The Drewry World Container Index is up by around 240% from the lows reached in late 2023 and has continued to rise in recent weeks.

Good news for the future is coming in the gradual return of the Panama Canal to peak efficiency as water levels return closer to normal levels as the season turns. Our chart of the week shows this gradual improvement in shipping volumes. Transit volumes in the Suez Canal remain depressed (indeed the Houthis severely damaged another ship just in the last few days). Hence while the return of the Panama Canal to peak efficiency should help improve shipping logistics, the absence of the much larger volume Suez Canal will continue to pressure costs for the foreseeable future.

### Freight transit volumes: Suez and Panama canals

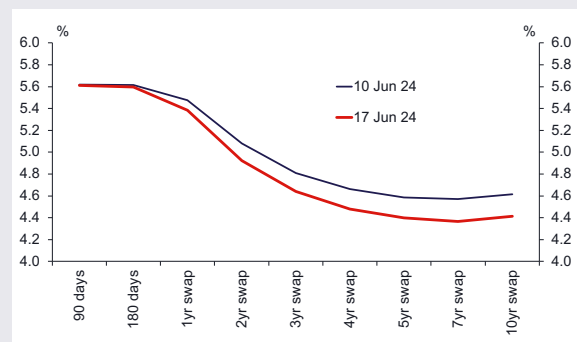


### Fixed versus floating for mortgages.

The RBNZ left the OCR on hold in May and signalled that rate cuts are still some way off. Westpac is not forecasting OCR reductions until early 2025.

For borrowers favouring certainty, at current fixed rates we see value in fixing for as long as two years.

### NZ interest rates



# Global wrap

## US.

The key events in the US last week were the May inflation reports and the June FOMC meeting. The former provided more encouraging news, with the core CPI rising a less than expected 0.2% during the month (rounded up). This caused annual inflation to decline to 3.4% – the slowest pace since April 2021. Importantly, the PPI also undershot expectations in May, raising the prospect that the core PCE deflator – the Fed’s preferred inflation metric – will also prove subdued when it is released later this month. However, coming after higher-than-expected inflation readings earlier this year, last week’s updated Fed forecasts now suggest just one 25bp policy rate cut before the end of this year, down from the three 25bp cuts projected in March. We continue to forecast a softened CPI and that the Fed will cut rates in both September and December this year. This week the focus will be on the real economy, with Tuesday’s retail sales and IP reports of particular interest.

## Asia-Pacific.

Australia saw solid employment growth of 39.7k in May with the unemployment rate edging lower from 4.1% to 4.0%. However, hours worked fell 0.5% over the month, leaving them up just 0.6% from a year ago. Turning to the business sector, the easing in business conditions over the past two years continued through May, with the latest NAB survey recording an eighth consecutive fall in forward orders. Despite cooling demand, the survey’s cost and price gauges pushed higher. This week, the focus will be Tuesday’s policy decision from the RBA, with rates expected to be left on hold. Restrictive policy is continuing to bring demand more in to line with supply. However, the RBA will still be wary of the upside risks for inflation that saw a hike considered in May. In China, the CPI rose by 0.3% in the year to May (slightly below expectations) while producer prices fell 1.4%/yr.

## Europe.

Recent economic news out of the UK has been soft. GDP was flat in April with gains in the services sector offset by declines in industrial production and construction. Similarly, unemployment rose to 4.4% in April as employment fell 139k following a string of declines since the start of 2024. The BoE’s meeting this week will provide guidance on their assessment of incoming data and the likely timeline to a first cut. Across in the eurozone, European parliamentary election saw far right parties make large gains. The result prompted French President Macron to call a snap election in an attempt to secure a centrist majority in what looks likely to be a close contest.

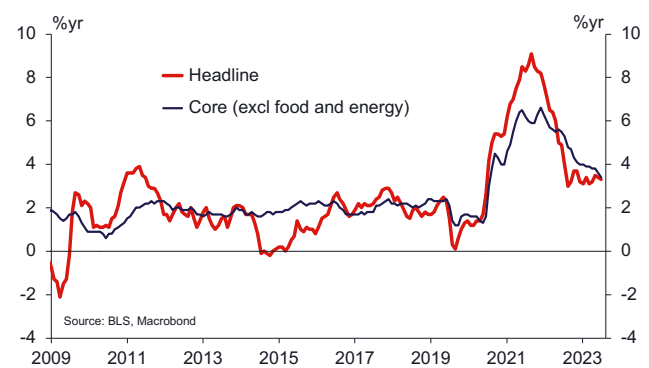
Trading partner real GDP (calendar years)

	Annual average % change			
	2022	2023	2024	2025
Australia	3.8	2.1	1.6	2.3
China	3.0	5.2	5.2	5.0
United States	1.9	2.5	2.5	1.5
Japan	1.0	1.9	0.5	1.0
East Asia ex China	4.5	3.3	4.2	4.2
India	7.0	7.8	6.9	6.7
Euro Zone	3.4	0.4	0.6	1.5
United Kingdom	4.3	0.1	0.5	1.3
NZ trading partners	3.2	3.4	3.4	3.4
World	3.5	3.2	3.2	3.0

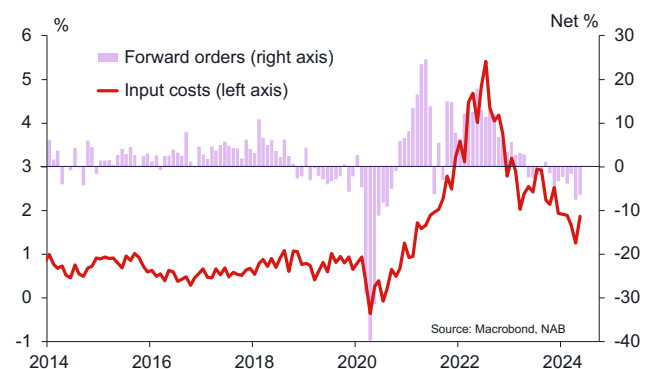
Australian & US interest rate outlook

	14 Jun	Jun-24	Dec-24	Dec-25
<b>Australia</b>				
Cash	4.35	4.35	4.10	3.10
90 Day BBSW	4.37	4.37	4.17	3.30
3 Year Swap	3.99	4.20	4.00	3.50
3 Year Bond	3.83	4.00	3.80	3.30
10 Year Bond	4.15	4.35	4.25	4.00
10 Year Spread to US (bps)	-11	-15	-5	0
<b>US</b>				
Fed Funds	5.375	5.375	4.875	3.875
US 10 Year Bond	4.26	4.50	4.30	4.00

US CPI inflation



Australian business conditions



# Financial markets wrap

## Interest rates.

NZ swap rates have fallen in June. Markets have adopted (again) a receiving bias, encouraged by data developments offshore and in NZ, as well as cutting cycles already underway in a number of countries (Europe, Canada, Sweden, Switzerland).

This week's key events will be the NZ March quarter GDP data on Thursday, which we expect to be soft (-0.2%q/q), and the RBA decision (Tuesday). Also influential could be central bank decisions in the UK, Switzerland and Norway.

The NZ 2yr swap rate is currently at 4.92% and could break below 4.90% towards 4.80% during the week ahead. Further downside could prove difficult, though, unless the NZ GDP data is extremely weak. That is because market pricing is already stretched, at a 50% chance of a cut in October, and over 100% for November. We expect the first cut to be in February 2025.

## Foreign exchange.

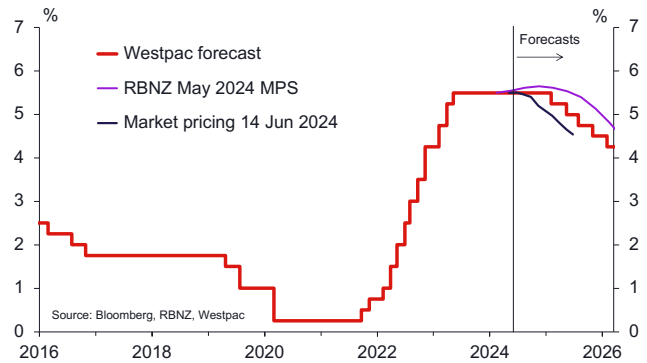
Last week, NZD/USD initially extended the rally which started in mid-April to 0.6222 – a total gain of 3.7 cents – before reversing on Thursday due to deteriorating global risk sentiment. In June it has been locked inside a 0.6100-0.6220 range, which is likely to persist during the week ahead, although downside risks are building.

Last week's risk averse mood, which was caused by concerns the French elections could be won by a large spending and anti-EU party, could spill over to this week (the elections start end-June). Additional NZD-bearish news could come from the NZ March quarter GDP data, which we expect to be soft (-0.2%q/q).

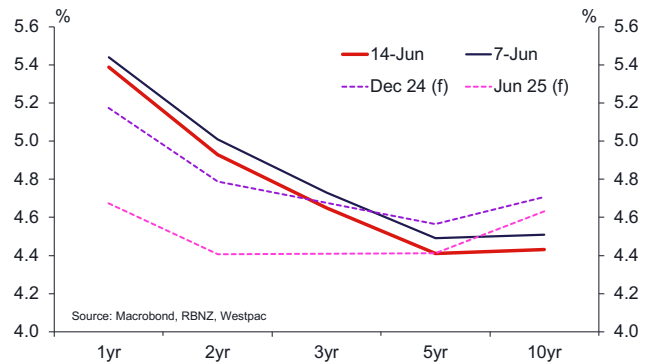
Our multi-month forecast remains modestly bullish, targeting 0.6300 in Q3. However, that is conditional on our forecasts for the Fed and RBNZ (easing to start in September 2024 and February 2025, respectively). We see the main risk to this outlook being a delay in the Fed's easing cycle, in which case NZD/USD would sit closer to 0.6100.

NZD/AUD spent much of last week in the high 0.92s. We wouldn't rule out further gains, but much will depend on the market's response to this week's RBA meeting. An on-hold decision is almost assured, and economic developments have been broadly as the RBA had expected, but the commentary will be closely watched for any shift from May's tone of data monitoring with vigilance.

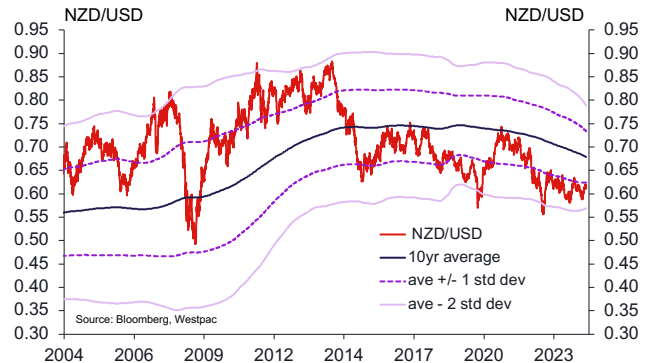
Official Cash Rate forecasts



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	0.614	0.586-0.620	0.555-0.743	0.648	0.61
AUD	0.928	0.907-0.930	0.873-0.992	0.931	0.91
EUR	0.574	0.552-0.573	0.517-0.637	0.582	0.55
GBP	0.480	0.471-0.484	0.464-0.544	0.506	0.48
JPY	96.4	90.2-96.8	61.3-96.8	79.3	93.9

# The week ahead

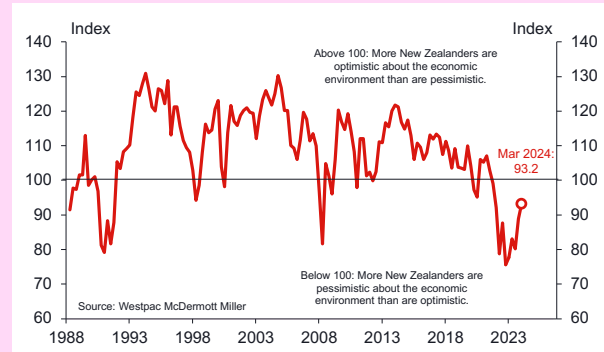
## NZ Q2 Westpac McDermott Miller Consumer Confidence

Jun 18, Last: 93.2

The Westpac McDermott Miller Consumer Confidence Index rose 4.3 points to 93.2 in March. Underlying that lift in sentiment, households reported that some of their concerns about financial pressures were starting to ease.

Our latest survey was in the field during the early part of June. Recent months have seen inflation continuing to cool. However, both inflation and interest rates remain elevated. We've also seen continued softness in economic growth and the labour market. The survey period also follows the release of the coalition Government's first budget.

## Consumer Confidence



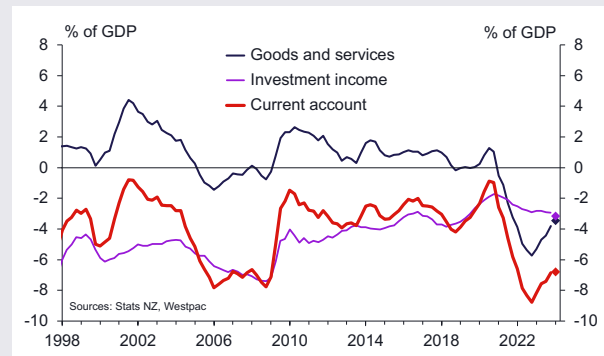
## NZ Q1 current account balance

Jun 19, Last 6.9% of GDP (year to December), WBC f/c 6.8% of GDP (year to March)

A severely overheated economy and the closed borders combined to drive the current account deficit to almost 9% of GDP in 2022. Since then, with domestic demand slowing under the weight of tight financial conditions, and tourist and foreign student inflows resuming, the deficit has begun to narrow.

Indicators suggest that little additional progress has been made over the March quarter, however. While the merchandise trade deficit has narrowed, exports of services have proven surprisingly weak. Meanwhile, the primary income balance is likely to have deteriorated as accumulating deficits are financed at higher interest rates. As a result, we expect the annual current account deficit to have narrowed by just 0.1ppt to 6.8% of GDP in the March quarter.

## Annual current account balance



## NZ Q1 GDP

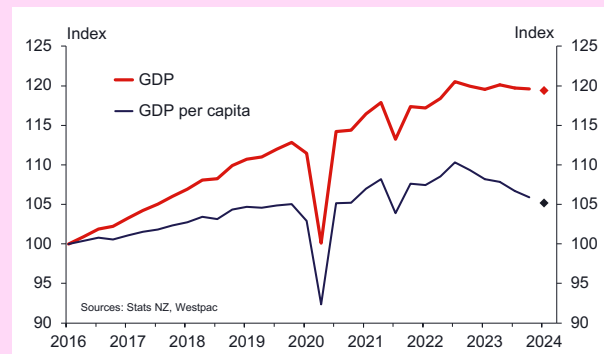
Jun 20, Last: -0.1%, Westpac f/c: -0.2%, Mkt f/c: +0.1%

We expect a 0.2% fall in GDP for the March 2024 quarter. Our estimates suggest that the weakness was concentrated in the manufacturing and construction sectors in particular.

On our forecast, this would mark the fifth decline in the last six quarters, despite strong population growth in that time. Even so, it's likely that the economy is only just moving into 'cool' territory given how overheated it had become in previous years.

Our forecast is below the Reserve Bank's estimate of a 0.2% rise. A weaker result would support an earlier start to OCR cuts – at least, relative to the mid-to-late 2025 timing that the RBNZ was signalling in its May policy statement.

## Real GDP level

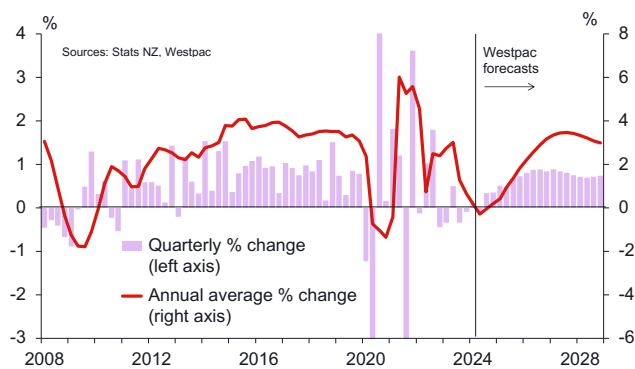


# Economic and financial forecasts

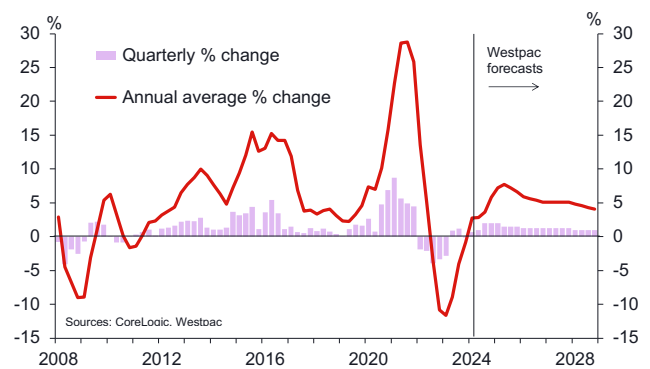
Economic indicators	Quarterly % change				Annual % change			
	Dec-23	Mar-24	Jun-24	Sep-24	2022	2023	2024	2025
GDP (production)	-0.1	-0.2	-0.1	0.3	2.4	0.6	-0.2	1.7
Consumer price index	0.5	0.6	0.6	1.1	7.2	4.7	2.8	2.2
Employment change	0.4	-0.2	0.2	0.1	1.7	2.7	0.1	0.9
Unemployment rate	4.0	4.3	4.6	4.9	3.4	4.0	5.2	5.4
Labour cost index (all sectors)	1.0	0.9	0.9	0.8	4.1	4.3	3.4	2.5
Current account balance (% of GDP)	-6.9	-6.8	-6.7	-6.5	-8.8	-6.9	-6.3	-4.1
Terms of trade	-7.8	4.6	1.9	1.3	-4.2	-10.6	8.1	0.8
House price index	-0.1	0.7	1.0	2.0	-10.8	-0.9	5.8	6.7

Financial forecasts	End of quarter				End of year			
	Dec-23	Mar-24	Jun-24	Sep-24	2022	2023	2024	2025
OCR	5.50	5.50	5.50	5.50	4.25	5.50	5.50	4.50
90 day bank bill	5.65	5.66	5.60	5.60	4.27	5.65	5.50	4.50
2 year swap	5.28	4.91	5.10	5.00	5.10	5.28	4.80	4.15
5 year swap	4.85	4.40	4.75	4.65	4.67	4.85	4.55	4.30
10 year bond	5.09	4.69	5.00	4.90	4.31	5.09	4.80	4.50
TWI	70.8	71.6	70.3	70.5	70.8	70.8	70.8	72.0
NZD/USD	0.60	0.61	0.60	0.60	0.60	0.60	0.61	0.65
NZD/AUD	0.93	0.93	0.91	0.91	0.92	0.93	0.91	0.91
NZD/EUR	0.56	0.56	0.55	0.55	0.59	0.56	0.55	0.57
NZD/GBP	0.49	0.48	0.47	0.47	0.51	0.49	0.48	0.49

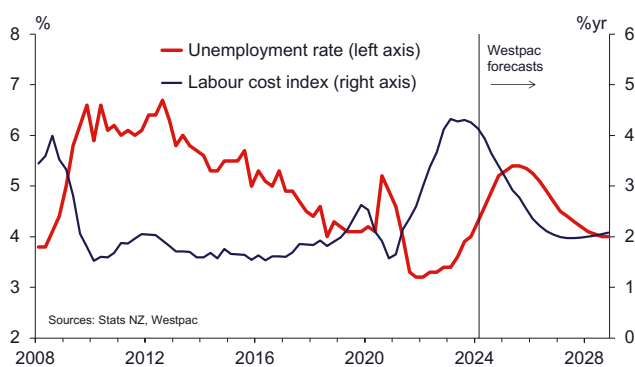
GDP growth



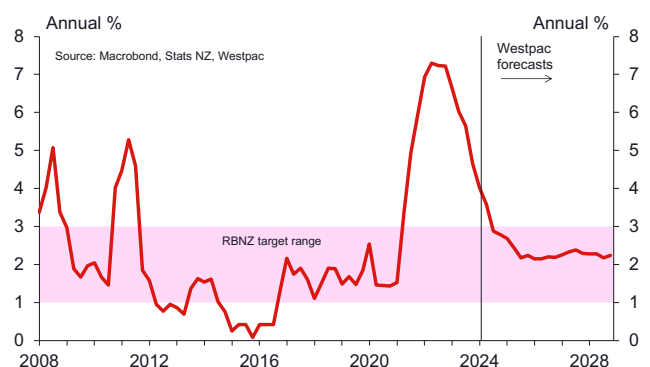
House prices



Unemployment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 17</b>					
<b>NZ</b>	REINZ House Sales %yr	25.3%	-	-	Turnover and price growth remains low...
	REINZ House Prices %yr	2.8%	-	-	... with high borrowing costs keeping buyers on the sideline.
	May BusinessNZ PSI	47.1	-	-	Followed the manufacturing survey lower in Mar/Apr.
<b>Aus</b>	May ANZ-Indeed Job Ads %mth	2.8%	-	-	Broadly unchanged at an elevated level so far this year.
<b>Jpn</b>	Apr Core Machinery Orders %mth	2.9%	-3.1%	-	Uncertain outlook is a headwind for capacity expansion.
<b>Chn</b>	May Retail Sales ytd %yr	3.8%	3.9%	-	Lingering uncertainty over labour market and wealth...
	May Industrial Production ytd %yr	6.3%	6.3%	-	... leaving growth in the hands of robust industrial...
	May Fixed Asset Investment ytd %yr	4.2%	4.2%	-	... expansion targeting developing export markets.
<b>US</b>	Jun Fed Empire State Index	-15.6	-13.0	-	To remain weak and volatile.
	Fedspeak	-	-	-	Harker.
<b>Tue 18</b>					
<b>NZ</b>	Q2 Westpac Consumer Confidence	93.2	-	-	Households continue to grapple with financial headwinds.
<b>Aus</b>	RBA Policy Decision	4.35%	4.35%	4.35%	No change but RBA to remain 'vigilant' on inflation.
<b>Eur</b>	Jun ZEW Survey of Expectations	47.0	-	-	Markets are gaining confidence in Europe's recovery.
	May CPI %yr	2.6%	-	-	Final estimate to provide more colour on components.
<b>US</b>	May Retail Sales %mth	0.0%	0.3%	0.4%	Growth to decelerate to or below trend this year.
	May Industrial Production %mth	0.0%	0.4%	-	Production levels have held broadly flat for a year now.
	Apr Business Inventories %mth	-0.1%	0.3%	-	Run-down centred on wholesale inventories.
	Fedspeak	-	-	-	Barkin, Logan, Kugler, Musalem, Goolsbee.
<b>Wed 19</b>					
<b>NZ</b>	GlobalDairyTrade Auction	1.7%	-	-	Futures prices down since last auction.
	RBNZ Chief Economist Conway	-	-	-	Webinar on inflation drivers, text will be published.
	Q1 Current Account Balance (% of GDP)	-6.9%	-6.8%	-6.8%	Weak services exports & debt finance costs limit narrowing
<b>UK</b>	May CPI %yr	2.3%	-	-	Lingering wage pressures keeps focus on services inflation.
<b>US</b>	Juneteenth	-	-	-	Public holiday; markets closed.
	Jun NAHB Housing Market Index	45	45	-	Homebuilder sentiment has a long recovery ahead.
<b>Thu 20</b>					
<b>NZ</b>	Q1 GDP %qtr	-0.1%	0.1%	-0.2%	Expecting 5th decline in the last 6 quarters.
<b>Eur</b>	Jun Consumer Confidence	-14.3	-	-	Confidence recovery slow given measured pace of rate cuts.
<b>UK</b>	BoE Policy Decision	5.25%	5.25%	5.25%	More assurance on services disinflation needed before cut.
<b>US</b>	May Housing Starts %mth	5.7%	1.1%	-	Borrowing costs remain a headwind for builders...
	May Building Permits %mth	-3.0%	1.4%	-	... front-end risks around the pipeline linger.
	Jun Philly Fed Index	4.5	4.5	-	Subdued but volatile conditions across the regions.
	Initial Jobless Claims	242k	-	-	Likely to remain relatively low.
	Fedspeak	-	-	-	Barkin.
<b>Fri 21</b>					
<b>Jpn</b>	May CPI %yr	2.5%	2.9%	-	Closely inspecting for signs of a virtuous wage-price cycle.
	Jun Jibun Bank Manufacturing PMI	50.4	-	-	Manufacturing conditions are beginning to stabilise.
	Jun Jibun Bank Services PMI	53.8	-	-	Price gauges are constructive on the inflation outlook.
<b>Eur</b>	Jun HCOB Manufacturing PMI	47.3	-	-	Manufacturers remain circumspect on the outlook...
	Jun HCOB Services PMI	53.2	-	-	... as the services sector props up broader activity.
<b>UK</b>	Jun S&P Global Manufacturing PMI	51.2	-	-	Manufacturing is slowly reviving after prolonged weakness.
	Jun S&P Global Services PMI	52.9	-	-	Decent results for the services sector stands in...
	May Retail Sales %mth	-2.3%	-	-	... contrast to the persistent declines in retail sales...
	Jun GfK Consumer Sentiment	-17	-	-	... suggesting HH's have to be selective with spending.
<b>US</b>	Jun S&P Global Manufacturing PMI	51.3	51.0	-	Business surveys are offering a range of signals on US...
	Jun S&P Global Services PMI	54.8	53.4	-	... growth, from soft to outright weak.
	May Leading Index %mth	-0.6%	-0.3%	-	Data speaks to risks around the outlook.
	May Existing Home Sales %mth	-1.9%	-1.0%	-	Lack of inventory suppressing sales activity.



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