



WEEKLY ECONOMIC COMMENTARY



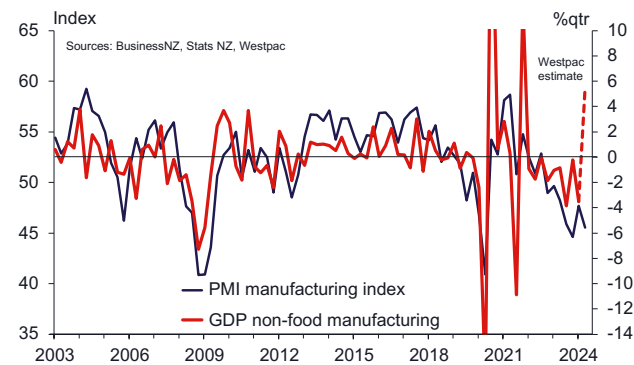
16 Sep 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Rolling maul, but not rolling over

Thursday's GDP report is likely to show a continuation of the New Zealand economy's "rolling maul" recession, where one quarter of flat or slightly negative growth has merged seamlessly into another. Following the insipid (though better than expected) 0.2% rise in GDP in the March quarter, we expect to see a 0.4% fall for the June quarter.

As we **noted in our preview last week**, this is a modest upgrade from our earlier forecast of -0.6%, and slightly stronger than the -0.5% that the Reserve Bank expected in its August *Monetary Policy Statement*. This week's final batch of indicators provided some upside surprises on balance, particularly for the manufacturing sector. Machinery and equipment manufacturing and wood processing both saw a strong lift in sales, along with a rebuilding of inventories that implies that production was even stronger again. We suspect there's some volatility going on in the quarterly survey, but nevertheless this is what goes into the GDP calculations.

Manufacturing survey for GDP was surprisingly strong

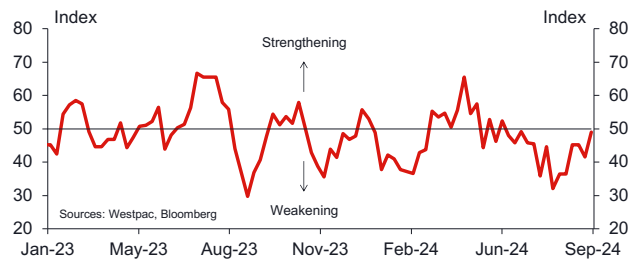


These results were especially surprising given the marked weakness in the BusinessNZ manufacturing PMI over the quarter, which fell as low as 41.4 in the June month. While

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 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)
7 Nov 24 (TBC)	Govt financial statement, 3 months to September
11 Nov 24	RBNZ Survey of Expectations, September quarter
14 Nov 24	NZ Selected price indexes, October

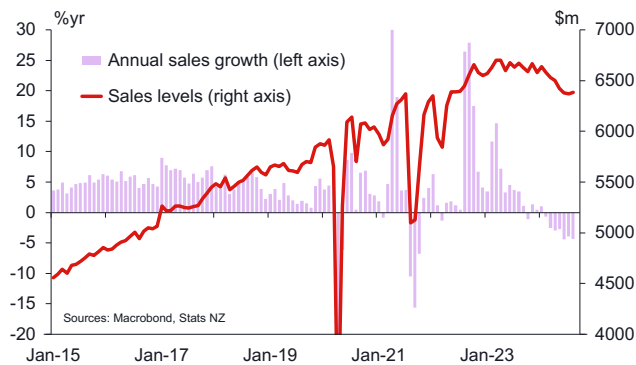
it has picked up since then – last Friday’s report saw it rise from 44.4 in July to 45.8 in August – it remains at levels more consistent with shrinking activity. Manufacturing in New Zealand has strong links with the construction sector, which is facing a prolonged downturn as the pipeline of consented activity runs down.

Aside from manufacturing, the details of the June quarter look to have been generally soft, with the majority of sectors expected to record declines. Consumer spending was weak as households continued to grapple with high interest rates and the rising cost of living, and as the recovery in overseas tourists has stalled at around 80% of pre-Covid levels.

While the June quarter is shaping up as being a particularly weak period for the economy, subsequent data has shown that this probably wasn’t the start of a deeper decline. That will take some of the pressure off the Reserve Bank, which had emphasised the downturn in high-frequency activity indicators in its decision to start cutting the OCR at last month’s review.

The remainder of the data releases last week continued the ‘soft but stabilising’ theme. Retail card spending rose by 0.2% in August, the first increase in seven months. That was a more modest increase than we had expected, given the income tax cuts that took effect at the end of July. Households are still facing a number of headwinds – while concerns about the cost of living and high mortgage rates are easing, the softening labour market means many households are still cautious about their spending.

Monthly retail card spending



House sales were about flat in seasonally adjusted terms in August, while prices continued to gradually decline. As fixed-term mortgage rates have dropped sharply in the last couple of months, we’ve seen early signs of a revival in interest among potential buyers. However, we wouldn’t have expected that to translate into more activity just yet – buyers are under no time pressure with a plentiful supply of listings, and sellers only gradually marking their asking prices down to meet the market.

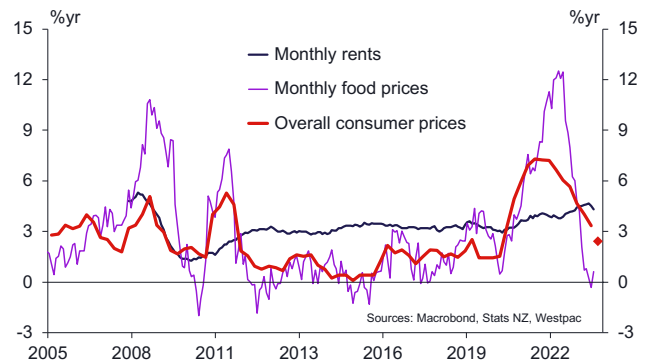
House sales and listings, seasonally adjusted



Net migration remained positive in July, though the monthly pace has now fallen below the pre-Covid average. Foreign arrivals have slowed down from the 2022-23 surge after the country reopened its borders, though they remain higher than normal. Departures of New Zealanders remain high, though there are signs that they may have now peaked. We’re forecasting annual net migration to slow to zero for the 2025 calendar year, reflecting the cooling economy and relatively fewer job opportunities in New Zealand compared to Australia.

In terms of the inflation outlook, we’ve revised down our September quarter CPI forecast from 1.1% to 0.9%, following the selected price indices for August. This release covers around 45% of the CPI, including some of the more volatile components of consumer spending. Food prices saw less of a seasonal increase than we were expecting, fuel prices fell, and there are signs that the pace of rental growth is easing (though this measure tends to evolve very slowly).

Selected consumer prices



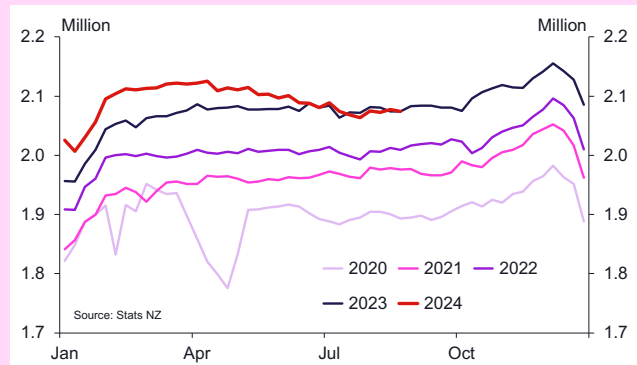
On our forecast, annual inflation would fall from 3.3% to 2.4% in the September quarter – well within the target range, but still a touch higher than the RBNZ’s forecast of 2.3%. Of more importance to the RBNZ will be the underlying trends in prices – we expect CPI excluding food and fuel to fall to a three-year low of 3.3%yr, and trimmed mean inflation is set to fall below 3%.

Michael Gordon, Senior Economist

Chart of the week.

Stats NZ publishes weekly snapshots of filled jobs which are used to construct the Monthly Employment Indicator. This data provides a very timely (perhaps noisy) indicator of the economy’s momentum (though it still comes with a lag, reflecting the delays in when employers submit their tax data). This measure highlighted a marked decline in filled jobs from April to July, against the flat trend usually seen at this time of year. Those job numbers seem to have stabilised in recent weeks, holding at about the same levels as last year. But in the context of a still-growing labour force, this is consistent with a continued rise in the unemployment rate.

Weekly filled jobs (20-day lag)

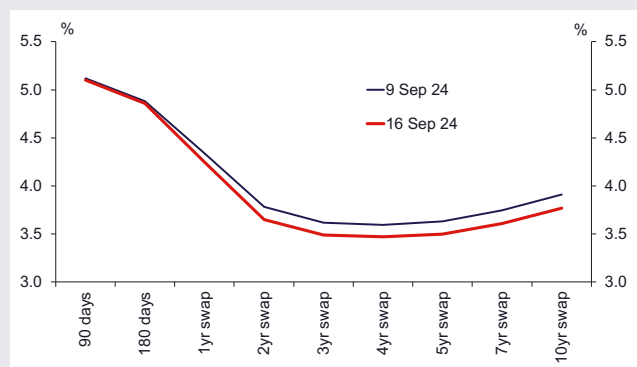


Fixed versus floating for mortgages.

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.

It was a choppy week in financial markets, with questions swirling around the pace of rate cuts from the Fed ahead of this Wednesday's FOMC meeting. Financial markets pricing for a 50bp cut was initially wound back following firmer than expected CPI and PPI prints. However, pricing crept back towards the end of last week with markets now roughly equally split on the chances of a 25bp and 50bp cut. We're forecasting a 25bp cut. Other US data over the past week were mixed, with a fall in small business optimism and a small rise in jobless claims, along with a firming in the Michigan consumer sentiment measure. In addition to Wednesday's FOMC meeting, the coming week will see updates on retail sales and industrial production, along with several updates on housing and construction.

Europe.

As expected, the ECB delivered a 25bp cut last week, along with a narrowing of the spread to the refinancing rate. The accompanying comments from ECB President Lagarde stressed that policy is not on a predetermined path and that future decisions remain data-dependent. We expect further rate reductions over the year ahead, with the deposit rate expected to fall to 2.5% late next year. Across in the UK, recent developments have been mixed. Unemployment fell to 4.1% in July. However, activity indicators were softer than expected, with falls in construction, industrial production and service sector conditions. This week we'll receive updates on inflation in both the UK and EU (Wednesday), followed by the BOE policy announcement on Thursday where no change in the bank rate is expected.

Asia-Pacific.

Chinese economic data for August pointed to continued weakness in domestic demand, with lower than expected inflation, sharper than expected slowdowns in retail sales and industrial production, and a marked downturn in imports. Those developments have added to expectations that the economy will need additional policy support. Chinese export growth has held up, but there are questions about whether this can be sustained with trade tensions continuing to simmer. Across in Australia, our Westpac-Melbourne Institute survey of consumer sentiment dipped 0.5% in September with increasing concern about the outlook for economic growth and the labour market. Similarly in the business sector, firms have reported a softening in trading conditions and forward orders. This week's calendar includes the August update on Australian labour market, along with the BOJ's next policy announcement (no change expected).

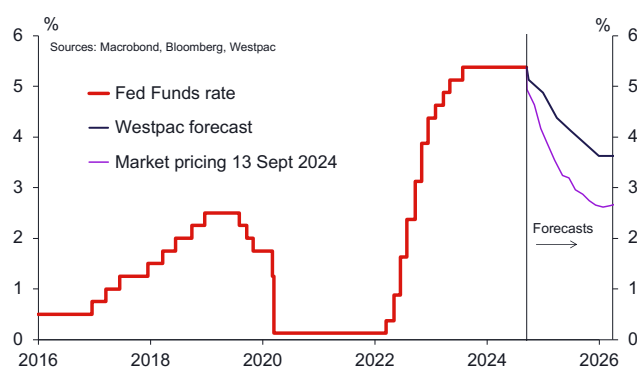
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	2.4
China	5.2	4.8	4.5	4.5
United States	2.5	2.6	1.7	1.7
Japan	1.9	0.2	1.1	0.9
East Asia ex China	3.3	4.3	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	0.9	1.3	1.4
NZ trading partners	3.3	3.2	3.2	3.2
World	3.2	3.3	3.2	3.2

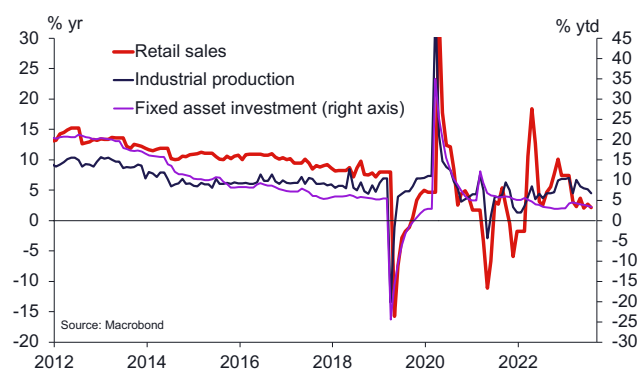
Australian & US interest rate outlook

	13 Sep	Sep-24	Dec-24	Dec-25
Australia				
Cash	4.35	4.35	4.10	3.35
90 Day BBSW	4.42	4.42	4.19	3.50
3 Year Swap	3.45	3.60	3.6	3.50
3 Year Bond	3.44	3.55	3.5	3.35
10 Year Bond	3.83	3.90	3.9	4.05
10 Year Spread to US (bps)	18	15	15	5
US				
Fed Funds	5.375	4.875	4.375	3.625
US 10 Year Bond	3.68	3.75	3.75	4.00

US Fed Funds rate



Chinese activity indicators



Financial markets wrap

Interest rates.

NZ swap rates fell last week, extending the early September decline. The main driver was the US rates market, with US yields continuing to fall ahead of the Federal Reserve’s important meeting this Thursday (NZ time). US markets are expecting the Fed to start its easing cycle, with interest focussed on whether it will be a 25bp or 50bp cut. While the majority of economists forecast a 25bp cut, the WSJ – considered by some to be a Fed “whisperer” – has predicted a 50bp move.

The event calendar this week will be important, with a number of events occurring on Thursday. The Fed decision will dominate, but following that we have NZ GDP for Q2, with a weak outturn expected by all economists (Westpac at -0.4% q/q). Then we have AU labour data for August, with Westpac forecasting a slightly stronger than consensus result.

The 2yr swap rate, currently at 3.64%, retains downward momentum but is looking stretched – the next three meetings have 125bp of rate cuts priced in (Westpac forecasts 75bp). The 3.50% level should provide a floor during the weeks ahead.

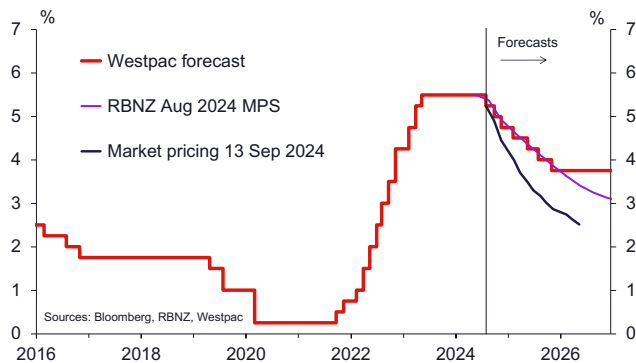
Foreign exchange.

NZD/USD in September as retraced around 40% of the August rally, falling from a multi-month peak of 0.6300 to 0.6107. If the 0.6100 area holds this week, we’d see potential for a renewed rally towards 0.6300 during the month ahead.

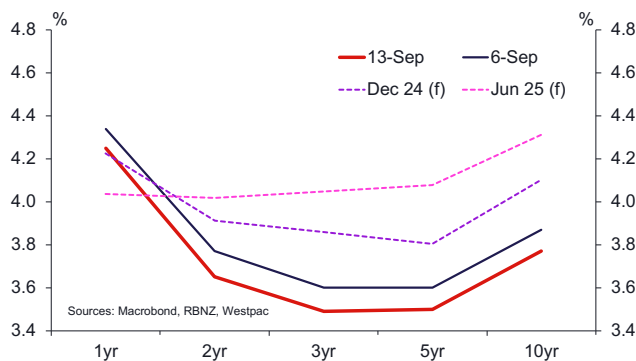
Much will depend on whether the Fed cuts by 25bp or 50bp this week. The former would likely boost the US dollar, while the latter would see it fall (and help the case for NZD/USD rising multi-week to 0.6300). A 50bp Fed cut would hurt the US dollar via the yield spread channel as well as the risk sentiment channel (risk appetite would rise on a large fall in interest rates).

NZD/AUD is starting to retrace the 3c rise to 0.9270 seen in August and early September. This week’s NZ and AU events argue for further weakness, with AU labour data expected to be firmer than consensus and NZ GDP likely to be weak. We see potential for the 0.9000 area to be tested during the month ahead.

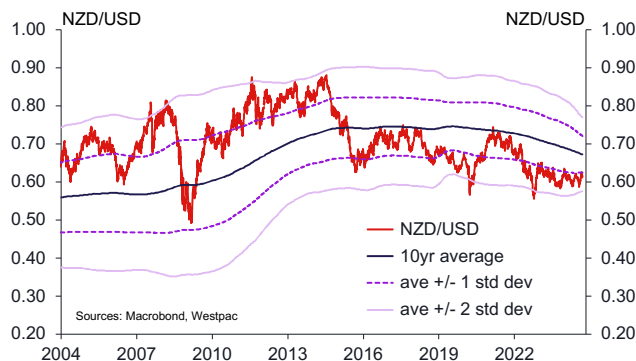
Official Cash Rate forecasts



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	0.920	0.897-0.928	0.873-0.992	0.930	0.91
EUR	0.557	0.542-0.573	0.517-0.637	0.581	0.55
GBP	0.470	0.456-0.483	0.456-0.535	0.503	0.47
JPY	86.8	86.1-98.6	61.3-98.6	80.4	91.5

The week ahead

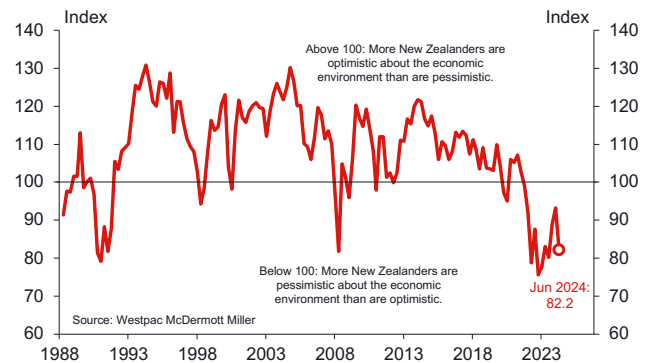
Q3 Westpac-McDermott Miller Consumer Confidence.

Sep 18, Last: 82.2

The Westpac-McDermott Miller Consumer Confidence Index fell 11 points in June, taking it back to historically low levels. That drop reflected the impact of high interest rates and increases in living costs on households' budgets, as well as nervousness about where the economy is headed over the coming year.

Since June, we've seen inflation cooling and the earlier than expected start of the RBNZ's easing cycle. Stimulus measures like tax cuts are also now being rolled out to households. However, economic growth has remained weak and the labour market has continued to soften.

Consumer Confidence Index



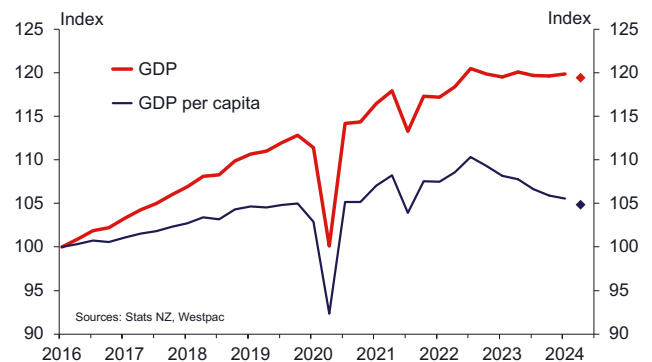
Q2 GDP.

Sep 19, Last: +0.2%, Westpac f/c: -0.4%

We expect a 0.4% fall in June quarter GDP, continuing the "rolling maul" recession of the last two years. Spending in retail and tourism-related sectors has remained soft, and timing issues around tax payments are likely to be a negative for Q2 growth.

Our forecast is slightly above the Reserve Bank's estimate of -0.5%. Monthly activity data was particularly weak at the end of the June quarter, a point that the RBNZ noted in its decision to start cutting the OCR in August. But more recent releases show that this weakness didn't carry through into the next quarter.

Real GDP

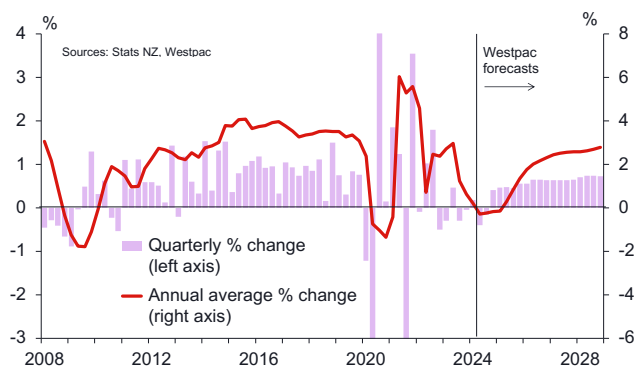


Economic and financial forecasts

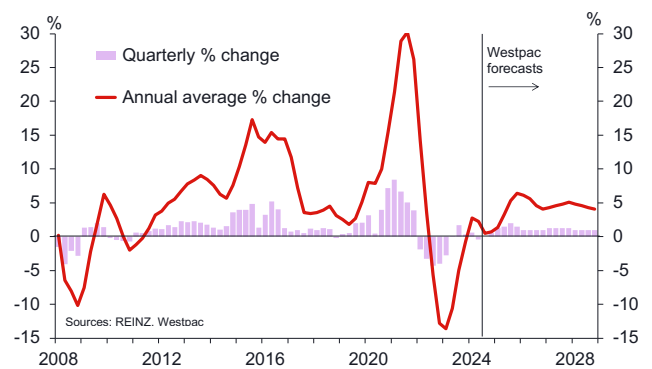
Economic indicators	Quarterly % change				Annual % change			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
GDP (production)	0.2	-0.4	-0.2	0.4	0.6	-0.2	1.3	2.3
Consumer price index	0.6	0.4	0.9	0.3	4.7	2.2	2.2	2.1
Employment change	-0.3	0.4	-0.4	-0.2	2.9	-0.4	-0.1	1.5
Unemployment rate	4.4	4.6	5.0	5.3	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	-6.4	-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	0.4	-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	71.0	71.2	70.8	71.2	70.6	69.4
NZD/USD	0.61	0.61	0.62	0.62	0.60	0.62	0.64	0.64
NZD/AUD	0.93	0.92	0.92	0.91	0.93	0.91	0.88	0.88
NZD/EUR	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
NZD/GBP	0.48	0.48	0.47	0.47	0.49	0.47	0.48	0.47

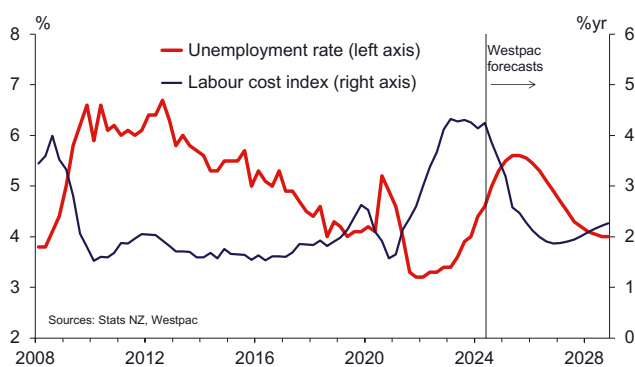
GDP growth



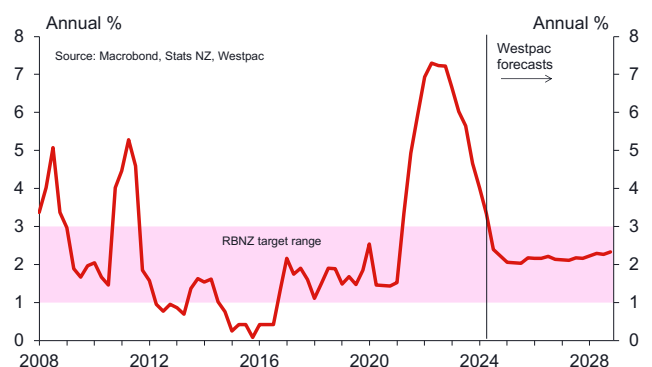
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 16					
NZ	Aug BusinessNZ PSI, index	44.6	-	-	Tax and interest rate cuts to lift PSI from very weak levels.
Eur	Jul Trade Balance, €bn	17.5	-	-	Weak export demand will add pressure to the surplus.
US	Sep Fed Empire State, index	-4.7	-4.0	-	Manufacturing conditions remain cloudy.
Tue 17					
Eur	Sep Zew Survey Of Expectations, index	17.9	-	-	Rate cuts reviving sentiment slowly but surely.
US	Aug Retail Sales, %mth	1	-0.2	-	Consumer demand expected to slow.
	Aug Industrial Production, %mth	-0.6	0.1	-	Slowdown in manufacturing expected to weaken IP.
	Jul Business Inventories, %mth	0.3	0.4	-	On track for a slight gain.
	Sep NAHB Housing Market, index	39	40	-	Low inventory continues to dissuade buyers.
Wed 18					
Aus	Aug Westpac-MI Leading Index, %ann'd	0.06	-	-	Picture still looks to be one of stabilisation.
	RBA Assist' Governor (Fin Syst)	-	-	-	Jones speaking at Intersekt Festival, 9:20am AEST.
NZ	Sep GlobalDairyTrade Auction, %chg	-0.4	-	-	Futures prices have picked up again since last auction.
	Q3 Westpac-MM Consumer Confidence, index	82.2	-	-	Economic activity cool, but headwinds easing too.
	Q2 Current Account Balance, % GDP	-6.8	-6.5	-6.4	Revisions to Q1 to contribute to a narrower deficit.
Jpn	Jul Core Machinery Orders, %mth	2.1	0.7	-	Demand for cars could revive orders.
Eur	Aug CPI, %yr	2.2	2.2	-	Final estimate will provide colour on components.
UK	Aug CPI, %yr	2.2	2.2	-	Declines in energy will net off against gains in services.
US	Aug Housing Starts, %mth	-6.8	5.8	-	High borrowing costs dissuade builders from starting...
	Aug Building Permits, %mth	-3.3	1	-	... new projects. Rate cuts should add confidence ahead.
	FOMC Policy Decision	5.375	5.125	5.125	25bp rate cut expected.
Thu 19					
Aus	Aug Employment Change, 000s	58.2	25	35	Employment growth consistently surprising to upside...
	Aug Unemployment Rate, %	4.2	4.2	4.1	... in addition to labour supply.
	Q3 ACCI-Westpac Business Survey, index	54.1	-	-	Conditions improved in June, but challenges remain.
NZ	Q2 GDP, %qtr	0.2	-0.3	-0.4	Ongoing softness in household spending.
UK	Sep BoE Policy Decision, %	5	5	5	Focus will be on the Bank's bond portfolio.
US	Sep Philly Fed, index	-7.0	2.9	-	Employment is weak consistent with other measures.
	Initial Jobless Claims	230	-	-	To remain low level for now.
	Aug Leading Index, %mth	-0.6	-0.3	-	Continues to fall but does not signal a recession.
	Aug Existing Home Sales, %mth	1.3	-1.3	-	Inventory is constraining sales.
Fri 20					
Jpn	Aug CPI, %yr	2.8	3	-	Evidence of demand-driven inflation remains absent...
	Sep BoJ Policy Meeting, %	0.25	0.25	0.25	... precluding further rate hikes until evidence emerges.
Eur	Sep Consumer Confidence, index	-13.5	-13.4	-	Real wage increases show lift confidence in time.
UK	Sep Gfk Consumer Sentiment, index	-13	-	-	Pessimism amongst consumers is fading.
	Aug Retail Sales, %mth	0.5	-	-	Slight uplift expected with spending focused on services.

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