



WEEKLY ECONOMIC COMMENTARY

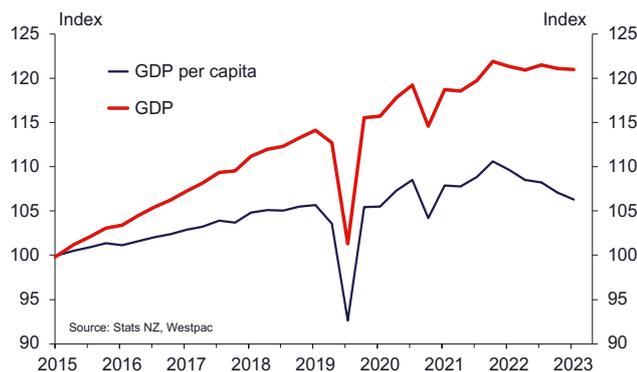


25 Mar 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Down but not out

The domestic focus for markets last week was the release of the admittedly dated national accounts for the December quarter. The preferred production-based measure of GDP revealed a further 0.1% contraction in activity during the quarter and so indicated that the economy had re-entered a shallow “technical recession” in the second half of last year. Activity was also 0.3% lower than a year earlier. This was a fractionally weaker outcome than we and the RBNZ had expected, with a small downward revision to activity in earlier quarters leaving the economy about 0.2ppts smaller than estimated. However, the detail of the report was much as expected, with services continuing to post weak growth while output contracted in the goods sector.

Real GDP level

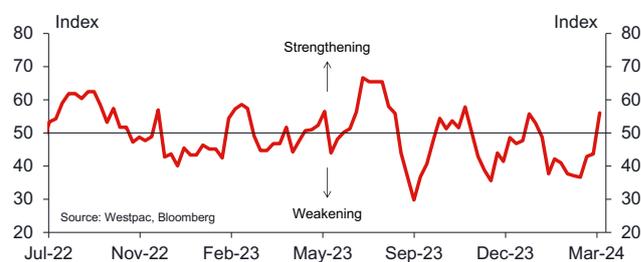


The expenditure-based measure of GDP was flat during the quarter and 0.5% lower than a year earlier. While household consumption and net exports contributed positively to growth, residential construction fell and a further sharp decline in inventories weighed heavily on activity. The income GDP measure – which now holds official status – pointed to continued growth in labour incomes but a solid decline in gross operating surplus. These outcomes are consistent with the trends being observed in tax data, with corporate and small business tax under pressure due to

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
27 Mar 24	Govt to release Budget Policy Statement
4 Apr 24	Govt financial statements for 8 mths to February
9 Apr 24	QSBO business survey, March quarter
10 Apr 24	RBNZ Monetary Policy Review
12 Apr 24	NZ Selected price indexes, March
17 Apr 24	NZ CPI, March quarter
1 May 24	NZ Labour market statistics, March quarter
1 May 24	RBNZ to release Financial Stability Report
1 May 24	FOMC Meeting (Announced 2 May NZT)
7 May 24	Govt financial statements for 9 mths to March
7 May 24	RBA Monetary Policy Decision and SMP
13 May 24	NZ Selected price indexes, April
22 May 24	RBNZ Monetary Policy Statement and OCR
30 May 24	Govt to release Budget 2024

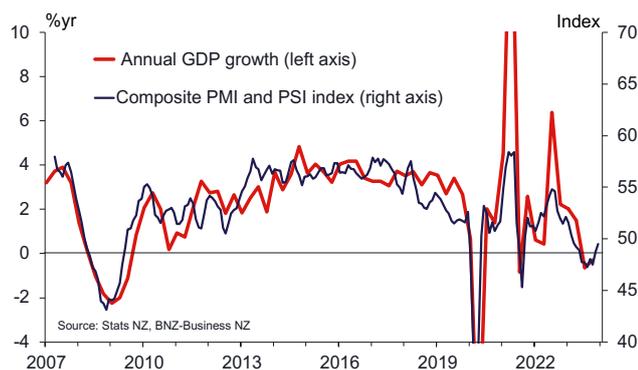
declining profitability. Annual growth in nominal GDP slowed to 3.8% from 6.1% previously.

On balance, the national accounts might suggest slightly less need to keep monetary policy tight for an extended period. That said, there is also a lot of water still to go under the bridge before the May Monetary Policy Statement (MPS), including the next QSBO business survey (early April), the March quarter CPI (mid-April) and the March quarter labour market surveys (early May). There's also the crucial first Budget for the new coalition Government in late May – while that will be unveiled after the MPS, the RBNZ will no doubt be briefed on the key details.

Ahead of the national accounts, Statistics New Zealand also released balance of payments figures for the December quarter. These were largely as expected, with the calendar year current account deficit declining to 6.9% of GDP from 8.8% of GDP in 2022. Almost all that improvement owes to the reopening of the foreign border, with the deficit on the services balance narrowing by about two-thirds over the past year. That improvement was only partly offset by a weaker income balance due to the impact of higher interest rates on the cost of funding New Zealand's net international liabilities – the latter growing to almost 52% of GDP in the December quarter. We expect improvement in both the goods and services balance to drive a further narrowing of the current account deficit this year.

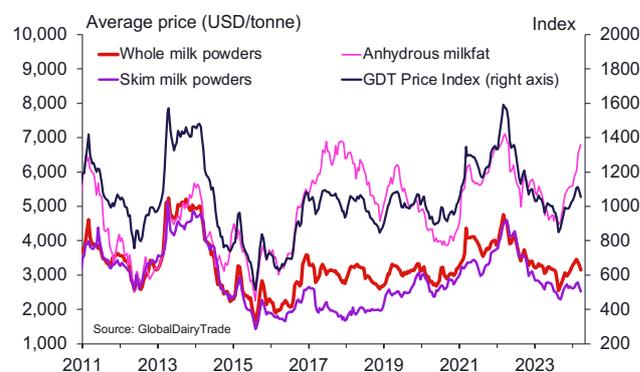
Turning to last week's more contemporary news, the Westpac McDermott Miller Consumer Confidence Index rose 4.3pts to 93.2 in the March quarter. While still low – and signalling net pessimism on balance – that's the highest confidence has been in more than two years. The largest contributor to the improvement was a less downbeat assessment of consumers' present financial situation, which might reflect the impact of declining inflation. Meanwhile, the Business NZ Performance of Services Index also painted a more positive picture, rising 0.8pts to 53.0 in February – the best reading in 11 months. Of note, the new orders index increased an especially encouraging 3.7pts to 56.0. At current levels, the Business NZ indexes are pointing to at least a modest lift in economic activity over coming months.

Real GDP vs composite activity indicator



The news from the external sector was a little disappointing, however. While we had expected some decline in dairy prices at last week's GDT auction, the 2.8% decline in the overall index was larger than expected. Moreover, the 4.2% decline in the key whole milk powder price was about double expectations and means that prices have now declined by almost 9% over the past three auctions. In the detail, we noted lower than usual purchases from China and the Middle East, which doubtless weighed on prices. Despite the recent decline in prices, dairy giant Fonterra last week retained its forecast farmgate payout at a midpoint of \$7.80kg/ms for this season. However, if recent weakness is sustained, this will begin to weigh on prospects for a lift in the payout next season.

GlobalDairyTrade auction prices



Looking ahead, this week's local economic diary is relatively quiet. The ANZ will release the latest instalments of its business and consumer confidence surveys while we will also receive tax-based filled jobs data for February. Also of note, on Wednesday the Government will publish its first Budget Policy Statement (BPS), which will set out its priorities; high-level fiscal goals; the operating spending and capital allowances it will work within in Budget 2024; and an update on the economic outlook.

As we noted in our preview, the BPS won't contain an updated fiscal outlook. However, we expect the Government to confirm it will work within operating spending allowances no larger than set out in the Half-Year Economic and Fiscal Update (HYEFU). Baseline spending savings should be no smaller than those detailed in December's "mini-Budget". We suspect internal Treasury projections presently suggest that an operating surplus will not be achieved until 2027/28 – a year later than forecast in the HYEFU. The weaker near-term growth (and thus revenue) outlook will be the key driver. We continue to expect that personal tax cuts will be implemented in some form in Budget 2024.

At present, we think it's reasonable to think that a \$7-10bn increase in the four-year government borrowing programme could be announced in Budget 2024. This BPS is likely to announce a top up to the Multi-Year Capital

Allowance which, combined with a weaker outlook for the operating balance, implies a greater borrowing need than forecast in the HYEPU. We think that the Government will most likely retain its predecessor's long-term goal of achieving an average operating surplus in the range of 0-2% of GDP and the objective of keeping net debt below 30% of GDP. However, the Government could choose to differentiate itself from its predecessor by lowering the ceiling slightly given it is unlikely to be binding (net debt currently sits at less than 21% of GDP).

Darren Gibbs, Senior Economist

Chart of the week.

New Zealand's labour productivity has been receding rapidly over the last two years, reversing a sharp rise during the post-lockdown period. That initial rise largely reflected a change in the mix of jobs. A large share of the job losses during the border closure were in relatively low-productivity sectors like hospitality and tourism; the loss of these jobs dragged up the average output per worker. As the border was reopened and these sectors recovered, average output per worker has fallen back to around pre-Covid levels. That, however, exposes a more worrying trend: nationwide labour productivity has basically been flat since 2012.

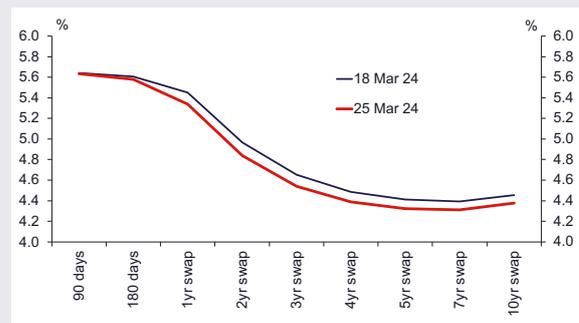
Labour productivity: GDP per hour worked



Fixed versus floating for mortgages.

The RBNZ left the OCR on hold in February. While further OCR hikes don't look likely, easings are still some way off. Borrowers favouring certainty, at current fixed rates we see value in fixing for as long as two years.

NZ interest rates



Global wrap

North America.

The FOMC kept the funds rate on hold at its March meeting and delivered a largely unchanged statement. Fed Chair Powell noted that if the economy evolves broadly as expected, it would be appropriate to begin easing rates later this year. However, he went on to note “We are prepared to maintain the current target range for the federal funds rate for longer if appropriate.” The FOMC’s forecast dot plot continued to show three rate cuts this year, but the number of committee members expecting three or more cuts slipped from 11 to 10. In addition, the updated dot plot signalled three cuts in 2025 – one fewer than the December projections implied. This week’s updates on personal income and spending, along with the PCE deflator will be important gauges for the Fed’s stance going forward.

Asia-Pacific.

The RBA left its cash rate unchanged at 4.35% at its March meeting and the tone of the accompanying commentary was more dovish than previous missives. The Board noted that they are ‘not ruling anything in or out’ – a softening of previous comments that further rate hikes can’t be ruled out. The Board also dropped its previous comment that it ‘will do what is necessary,’ indicating that the Board no longer thinks further action is needed. In China, February’s activity updates pointed towards a patchy recovery. Fixed asset investment spending accelerating to 4.2%. However, that was underpinned by a 7.3% increase in public expenditure, with private spending only up 0.4%. Retail spending growth was softer than expected, slowing to 5.5% (vs 7.4% in the year to December). Overall, the sluggishness in private spending highlights the need for continued policy stimulus to achieve the government’s growth targets.

Other regions.

The Bank of Japan delivered its first interest rate hike in 17 years, raising the target range for its policy rate from -0.1% to a range of 0 to 0.1%. Even so, the BOJ noted that it expected financial conditions would remain accommodative. The BoJ statement noted that the 2% inflation target was coming into sight towards the end of the projection period, and that wages were likely to continue pushing higher over the coming year. Over in the UK, the Bank of England left the Bank Rate unchanged in an 8-1 decision (the two MPC members who previously voted for advocated a hike have shifted to an on-hold stance). While the overall risks to inflation were seen as balanced, the MPC still saw some ongoing upside risks to wage and services inflation.

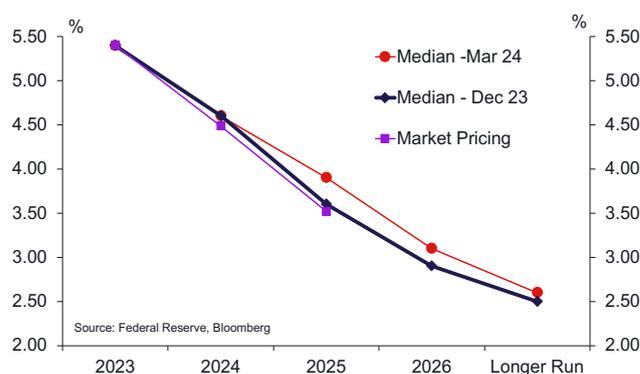
Trading partner real GDP (calendar years)

	Annual average % change			
	2022	2023	2024	2025
Australia	3.8	2.1	1.3	2.2
China	3.0	5.2	5.2	5.0
United States	2.1	2.5	2.6	1.4
Japan	1.0	2.0	0.7	1.0
East Asia ex China	4.5	3.4	4.1	4.2
India	7.2	7.7	6.5	6.4
Euro Zone	3.3	0.4	0.5	1.5
United Kingdom	4.1	0.4	0.5	1.3
NZ trading partners	3.3	3.4	3.4	3.4
World	3.5	3.3	3.3	3.1

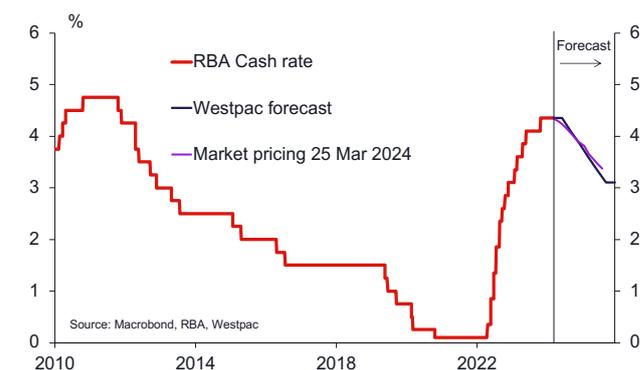
Australian & US interest rate outlook

	22-Mar	Jun-24	Dec-24	Dec-25
Australia				
Cash	4.35	4.35	3.85	3.10
90 Day BBSW	4.33	4.37	3.92	3.30
3 Year Swap	3.86	3.95	3.75	3.50
3 Year Bond	3.68	3.75	3.55	3.30
10 Year Bond	4.05	4.05	3.85	4.00
10 Year Spread to US (bps)	-20	5	5	0
US				
Fed Funds	5.375	5.125	4.375	3.375
US 10 Year Bond	4.25	4.00	3.80	4.00

FOMC interest rate expectations



RBA cash rate



Financial markets wrap

Interest rates.

NZ swap rates fell sharply in response to the weak NZ GDP data last week. The 2yr fell to 4.73%, where it had arguably overshot, and is due for a period of consolidation between 4.80% and 5.00%.

There is plenty of easing priced in already now markets have a full cut priced in for August and also at the following three meetings (in contrast, our economists forecast the first cut in February 2025). That suggests any further yield declines over the next few months are likely to be slow and vulnerable to surprises in the opposite direction (the next major NZ events will be the RBNZ OCR review on 10 April and CPI data on 17 April).

Foreign exchange.

The six-week-old 0.6040-0.6220 range in NZD/USD broke down last week, technically signalling further weakness to around 0.5900 during the week ahead. That level, if seen, should be attractive to exporters hedging.

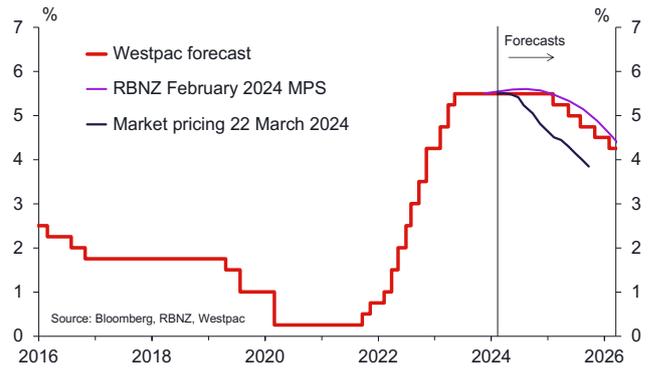
The US dollar is at a one-month high, even though the Federal Reserve's FOMC meeting last week disappointed markets expecting a reduction in the three rate cuts projected for this year. That, and weak NZ GDP data (-0.1%q/q actual vs +0.1%q/q consensus), have combined to depress NZD/USD.

There's little major event risk for markets this week, either in NZ or the US, markets likely to reflect further on the past week's major central bank decisions and what they imply for the relative strengths of the G10 currencies.

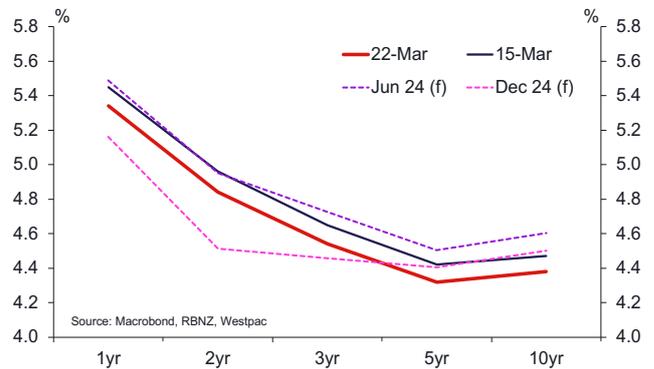
Multi-month, there is potential for a rebound to 0.6300, if our respective forecasts for the Fed and RBNZ prove correct (easing to start in June 2024 and February 2025, respectively).

NZD/AUD has been influenced mostly by NZ-AU yield spreads since the dovish RBNZ MPS surprise in February and has reached our 0.9200 target. Some consolidation here can be expected.

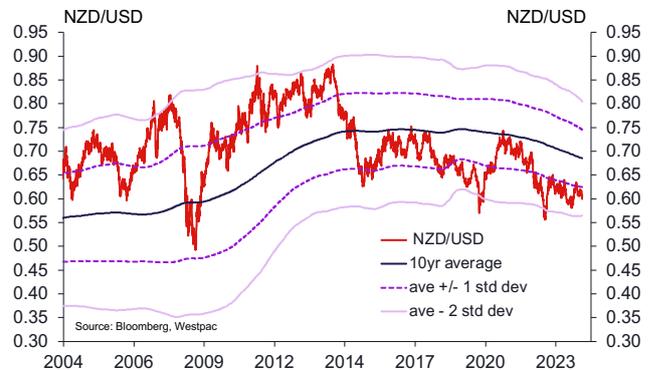
Official Cash Rate forecasts



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	0.599	0.599-0.635	0.555-0.743	0.650	0.64
AUD	0.919	0.919-0.944	0.873-0.992	0.933	0.91
EUR	0.556	0.556-0.572	0.517-0.637	0.584	0.56
GBP	0.478	0.475-0.497	0.464-0.544	0.507	0.50
JPY	91.0	88.7-93.1	61.3-93.1	78.4	88.3

The week ahead

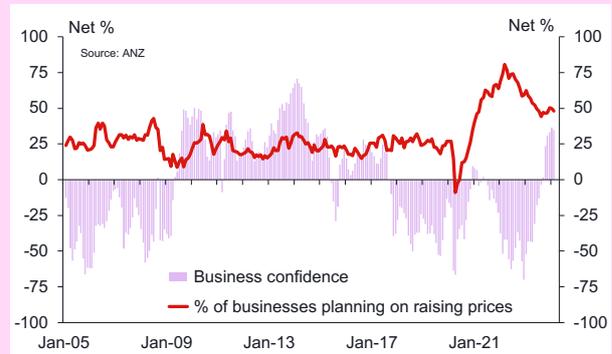
NZ Mar ANZBO business confidence

Mar 27, Last: 34.7

Business confidence remained at firm levels in February. However, while sentiment has been on the rise, reported trading activity over the past year has remained soft. We'll be watching the March survey to see if that divergence has continued, and if there is a related firming in hiring or investment intentions. Our own discussions with businesses have highlighted increasingly tough trading conditions.

A key focus will be the survey's various price and inflation gauges. Recent months have seen a pickup in the number of businesses who are planning to raise their prices, with a sharp rise in the retail sector. That's adding to concerns that inflation will remain 'sticky'.

Business confidence



NZ Feb monthly employment indicator

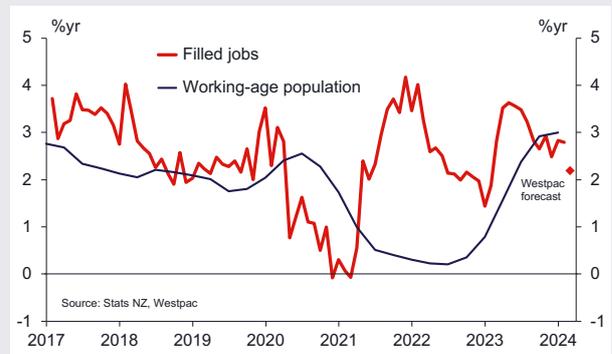
Mar 28, Last: +0.6%. Westpac f/c: 0.0%

The monthly employment indicator is drawn from income tax data, making it a comprehensive record of the number of people in work. While there are conceptual differences, it generally does a good job of predicting the more widely followed quarterly household survey measure of employment.

The 0.6% rise in jobs in January was stronger than expected. However, it may have been a product of shifting seasonal patterns in hiring, resulting in weaker Decembers and stronger Januaries. The broader picture is that jobs growth remains positive but has now fallen behind the pace of population growth, which continues to be boosted by record net inward migration.

We expect a flat result for February. The weekly data snapshots have been soft so far, but these have tended to understate the monthly result.

Monthly filled jobs growth

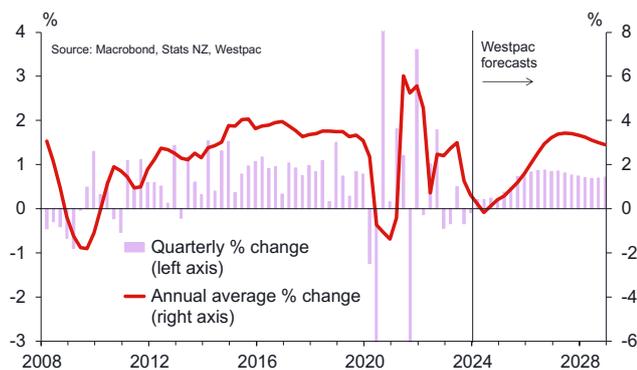


Economic and financial forecasts

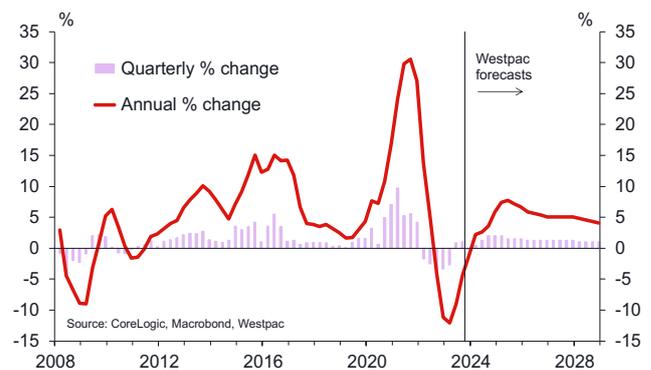
Economic indicators	Quarterly % change				Annual % change			
	Sep-23	Dec-23	Mar-24	Jun-24	2022	2023	2024	2025
GDP (production)	-0.3	-0.1	0.2	0.2	2.4	0.6	0.4	1.6
Consumer price index	1.8	0.5	0.8	0.6	7.2	4.7	2.8	2.3
Employment change	-0.1	0.4	0.0	0.2	1.7	2.4	0.3	1.0
Unemployment rate	3.9	4.0	4.3	4.6	3.4	4.0	5.1	5.2
Labour cost index (all sectors)	1.1	1.0	0.8	0.8	4.1	4.3	3.4	2.5
Current account balance (% of GDP)	-7.4	-6.9	-6.3	-6.0	-8.8	-6.9	-4.9	-3.9
Terms of trade	-0.6	-7.8	6.4	2.7	-4.1	-10.6	12.0	3.4
House price index	1.0	-0.2	0.5	1.3	-11.2	-1.1	5.9	6.7

Financial forecasts	End of quarter				End of year			
	Sep-23	Dec-23	Mar-24	Jun-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	5.66	5.65	5.60	5.60	4.26	5.65	5.50	4.50
2 year swap	5.53	5.28	5.10	4.95	5.10	5.28	4.50	4.00
5 year swap	4.90	4.84	4.60	4.50	4.67	4.84	4.40	4.10
10 year bond	4.87	5.09	4.85	4.70	4.31	5.09	4.60	4.25
TWI	70.6	70.8	72.2	72.3	70.8	70.8	71.7	70.0
NZD/USD	0.61	0.60	0.62	0.63	0.60	0.60	0.64	0.65
NZD/AUD	0.92	0.93	0.94	0.93	0.92	0.93	0.91	0.89
NZD/EUR	0.56	0.56	0.57	0.57	0.59	0.56	0.56	0.56
NZD/GBP	0.48	0.49	0.49	0.50	0.51	0.49	0.50	0.50

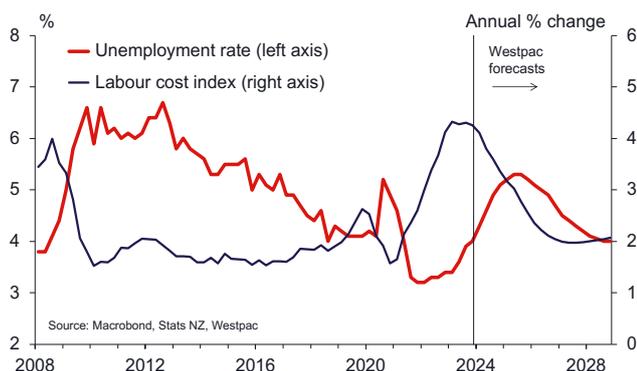
GDP growth



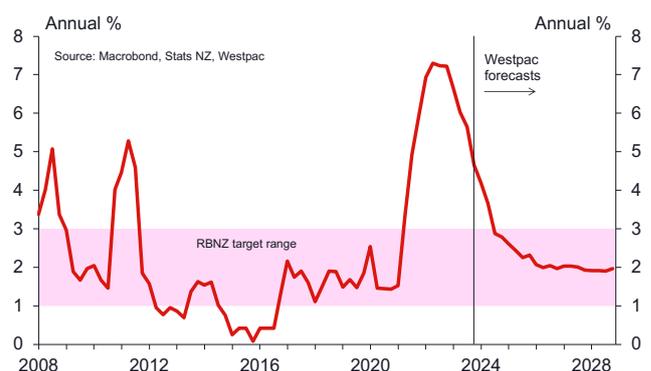
House prices



Employment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 25					
Aus	Q1 ACCI–Westpac business survey	51.2	–	–	Conditions broadly approaching a stalling speed.
US	Feb Chicago Fed activity index	–0.30	–0.34	–	Below-capacity activity to continue.
	Mar Dallas Fed index	–11.3	–13.0	–	Higher input costs but output pricing power waning.
	Feb new home sales	1.5%	2.1%	–	Sales constrained by low inventory.
	Fedspeak	–	–	–	Bostic, Cook.
Tue 26					
NZ	Q1 Westpac–MM employment conf	99.7	–	–	Slightly stronger in Q4 but job availability remained weak.
Aus	Mar Westpac–MI Consumer Sentiment	86.0	–	–	Gloomy but starting to see some light at the end of the tunnel?
	RBA Head of Payments Policy	–	–	–	Fireside chat at AFR Banking Summit.
US	Feb durable goods orders	–6.2%	1.4%	–	Some bounce-back expected, transport to weigh.
	Mar Richmond Fed index	–5	–	–	Manufacturing conditions remain weak.
	Mar consumer confidence index	106.7	107.0	–	Consumers resilient despite cost of living pressures.
	Jan S&P/CS home price index	0.21%	0.20%	–	Price growth aided by low supply.
Wed 27					
NZ	Mar ANZ business confidence	34.7	–	–	Sentiment firm, trading activity softer, price pressures persist.
	Budget Policy Statement	–	–	–	New govt to state fiscal rules, Budget spending allowances.
Aus	Aus Feb Westpac–MI Leading Index	–0.25%	–	–	Should show some improvement.
	Feb Monthly CPI Indicator %yr	3.4%	3.6%	3.8%	Quarterly household services surveys to boost the Feb print.
Chn	Feb industrial profits ytd %yr	–2.3%	–	–	Revenue constrained.
Eur	Mar economic confidence	95.4	–	–	Tight financial conditions a burden.
Thu 28					
NZ	Mar ANZ consumer confidence	94.5	–	–	Still low, but pushing higher as financial heads ease.
	Feb employment indicator	0.6%	–	0.0%	Surprising strength in Jan, not expected to be maintained.
Aus	Feb retail sales	1.1%	0.4%	0.7%	A Taylor Swift boost? Coming off a very choppy Nov–Jan.
	Feb private sector credit	0.4%	0.4%	0.4%	Growth tracking sideways, elevated rates, economic slowdown.
	Q1 job vacancies	–0.7%	–	–	Larger decline likely after a very slight fall in Q4.
	Mar MI inflation expectations	4.5%	–	–	Provides a general view on risks.
UK	Q4 GDP	–0.3%	–	–	Final estimate.
US	Q4 GDP annualised	3.2%	3.2%	–	Final estimate.
	Mar Chicago PMI	44.0	46.0	–	New orders on shaky ground creating a...
	Mar Kansas City Fed index	–4	–	–	... uncertain outlook for the manufacturing sector.
	Feb pending home sales	–4.9%	–	–	New construction soft; pipeline limited.
	Initial jobless claims	210k	–	–	To remain low.
	Mar Uni. of Michigan sentiment	76.5	76.6	–	Final estimate.
	Fedspeak	–	–	–	Waller.
Fri 29					
NZ	Good Friday	–	–	–	Public holiday; markets closed.
Jpn	Mar Tokyo CPI %yr	2.5%	2.5%	–	Unwind of energy subsidies floating prices higher.
	Feb jobless rate	2.4%	2.4%	–	To remain low as supply remains constrained.
	Feb industrial production	–6.7%	1.3%	–	Weak machinery orders feed through to poor production.
US	Feb personal income	1.0%	0.4%	0.3%	Slow real wage growth to suppress consumer spending...
	Feb personal spending	0.2%	0.5%	0.4%	... over coming year.
	Feb PCE deflator	0.3%	0.4%	0.4%	Expected to mirror CPI outcome.
	Feb wholesale inventories	–0.3%	–	–	Uncertain demand outlook to limit inventories.
	FOMC Chair Powell	–	–	–	Taking part in a moderated discussion.
Sun 31					
Chn	Mar NBS manufacturing PMI	49.1	–	–	Full impact of stimulus yet to be felt...
	Mar NBS non–manufacturing PMI	51.4	–	–	... employment sub–index remains weak.

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