



WEEKLY ECONOMIC COMMENTARY



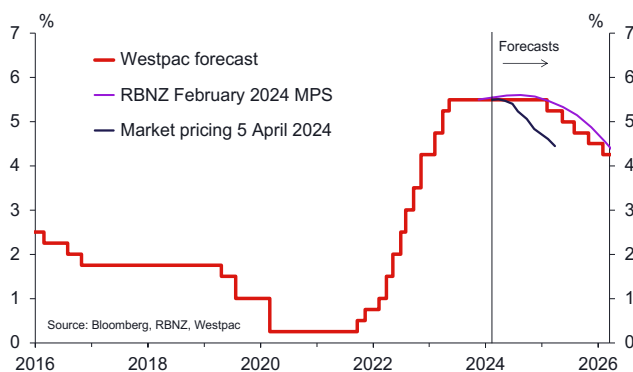
8 Apr 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

No shift in stance expected from the RBNZ

We expect the RBNZ will kick for touch at this Wednesday's Monetary Policy Review. The Official Cash Rate is likely to be left on hold at 5.50%. In addition, the forward guidance in the accompanying policy statement is likely to veer close to the tone of the RBNZ's last statement from February. That earlier statement signalled that the current level of the OCR is doing enough to restrain activity and return inflation to target, but that the OCR would likely need to remain at its current level for a sustained period.

Financial markets have taken a more aggressive view on the timing and extent of OCR cuts in recent weeks, with a rate cut fully priced for the August policy meeting. However, we doubt this week's statement will support that timing. Instead, we continue to expect that the RBNZ will leave the OCR on hold until early 2025.

Official Cash Rate forecasts

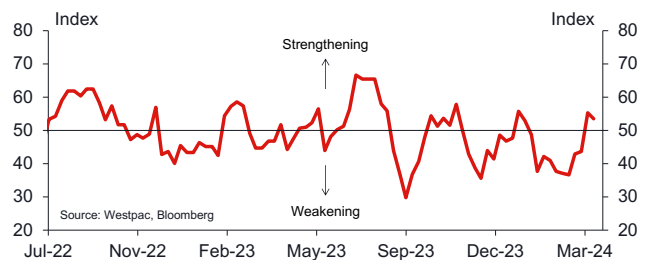


The RBNZ's last published interest rate projection (from February) showed the OCR remaining unchanged this year, with gradual reductions beginning in the first half of 2025. Economic news since that time has been relatively limited and is unlikely to have prompted major changes to that forecast. At the margin, the news that

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
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
5 Jun 24	Govt financial statements for 10 mths to April
14 Jun 24	NZ Selected price indexes, May

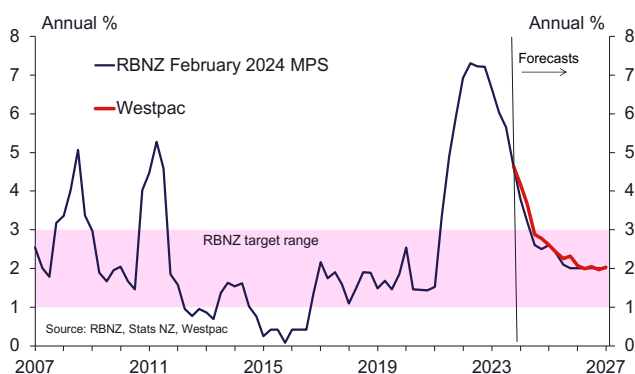
we have received may have made the RBNZ slightly more comfortable that activity is cooling. However, there is little to support the idea that interest rates can be cut much earlier than the RBNZ previously assumed. Crucially, domestic price pressures have remained 'sticky' and it's likely that inflation will be stronger than the RBNZ is expecting.

Key developments in recent weeks include:

- **Slightly weaker GDP** – GDP growth in the December quarter was slightly weaker than forecast (-0.1% q/q vs 0% forecast) and cumulative revisions mean that the economy was 0.2% smaller than the RBNZ forecast. This will likely reduce the RBNZ's estimate of the starting point output gap very modestly.
- **Weaker dairy prices** – three of the last four GDT auctions have seen weaker dairy prices and the key whole milk powder price is down almost 6% from the high's seen in February. The RBNZ will likely make some adjustment to their export price assumptions on these recent data.
- **Weaker terms of trade** – these data came in notably weaker than expected in the December quarter, although in large part that reflects timing effects that will likely unwind in coming quarters.
- The RBNZ is also likely to acknowledge more recent signs that economic conditions are cooling, such as continued sluggish retail spending and the ongoing fall in consent issuance.

Offsetting that downside news has been stickiness in inflation. In its February Statement, the RBNZ forecast a muted 0.4% quarterly rise in the CPI in the March quarter. However, monthly price updates since that forecast was finalised have pointed to firmness in prices for services like transport. More generally, we've seen ongoing firmness in rents, while businesses have continued to report pressure on operating costs. Putting that altogether, we're forecasting a larger 0.8% rise in consumer prices in the March quarter. We also see the risk of a more gradual easing in domestic inflation pressures over the coming year than the RBNZ has assumed, with inflation to remain above 2% through all of this year and likely most of 2025.

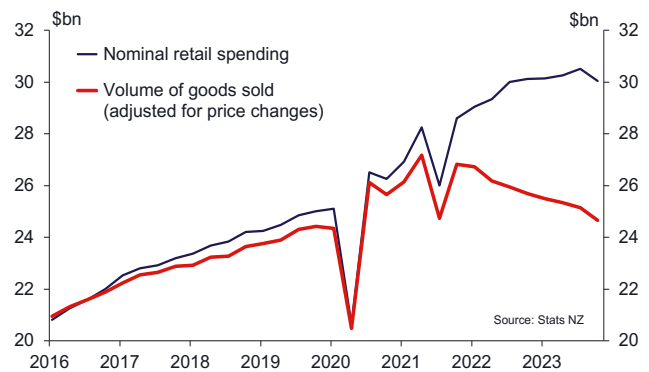
CPI inflation



Balancing those considerations, the RBNZ is likely to deliver a largely unchanged policy assessment. A more definitive view of the outlook should come in the May Statement when the Monetary Policy Committee will have more information on the Government's fiscal stance and when new information from the March quarter CPI and labour market reports (out 17 April and 1 May respectively) will be available. Both those reports will be of critical importance in determining if there is much need for the RBNZ to revise its OCR outlook.

Our own recent talks with businesses have highlighted that economic conditions remain tough across the country – especially in the retail sector. Households continue to keep the purse strings tight reflecting still high living costs and growing concern about employment and wage prospects. The construction and manufacturing sectors reported a fall in forward orders, while the agricultural sector is wrestling with weak export prices and still high operating costs.

Retail spending



However, it hasn't all been bad news. The continuing recovery in international visitor arrivals has been a welcome relief for many businesses in the hospitality sector. We're also seeing firmer conditions in parts of the horticultural sector. Business confidence has improved reflecting a sense that cost pressures should abate in the future and allow interest rates to fall.

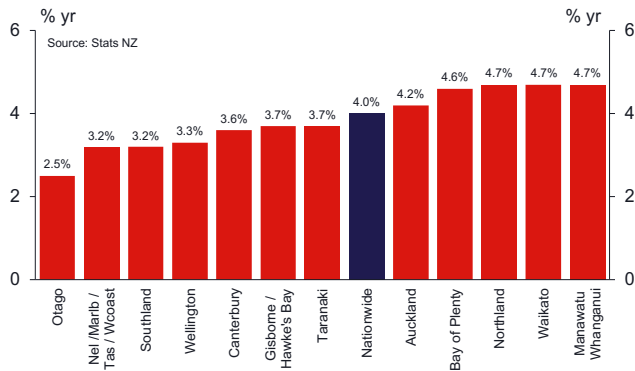
On the labour front, businesses right across the country have told us that it has become easier to find staff and that staff turnover has fallen. Businesses also note reduced wage pressures. Even so, businesses are still finding it hard to find and retain staff with more specialised skills.

Crucially, while economic activity is cooling, inflation pressures have remained sticky for now. While costs aren't rising at the same pace as they did in recent years, businesses are still reporting some sizeable increases. However, with demand weakening, it's becoming increasingly hard to pass on those increases into output prices. Consequently, profitability is weakening.

It's a mixed landscape across regions. Regions like Auckland and Queenstown have been firmer, with the recovery in international tourist numbers providing

an important boost to demand. In contrast, some more agriculturally based regions such as Northland, Waikato and the top of the South Island are seeing tough conditions. The combination of dry conditions and weakness in export prices is weighing on farm earnings and spending, and that's flowing through to softer demand in regional economies more generally.

Unemployment by region



One of the big factors affecting economic conditions right now is the strength of net migration. Arrivals into the country exceeded departures by 133,000 in the year to January. That's around twice the pace we saw prior to the pandemic and it's pushed population growth to 2.8% - its highest level in decades. Those strong inflows have had a big impact on the labour market, with businesses reporting it's now much easier to find staff. The increase in the population is also adding to the demand for goods such as groceries and the demand for rental properties. Consistent with that, rents around the country are rising at a rapid pace. However, economic conditions are now cooling. And at the same time, there are mounting concerns about migrant exploitation and whether those arriving in the country have the correct skills requirements. As a result, the Government has announced a tightening of entry requirements. That includes more stringent language requirements and changes to the occupations on the 'green list' for entry. That reinforces our expectations that net migration will drop back over the coming year, though inflows are likely to remain elevated this year.

Looking to the week ahead, in addition to the RBNZ's policy update there will be a number of economic data releases. On Tuesday, the NZIER will release its Quarterly Survey of Business Opinion, looking at how the economy was tracking in the first quarter of the year. The survey is likely to highlight an easing in trading conditions. It will also be worth keeping a close eye on how the various gauges of costs and prices are evolving. That will be followed on Friday by the release of the March manufacturing PMI where a key focus will be whether the recent weakness in orders has continued. Also out on Friday will be retail spending figures for March. While we expect spending to have picked up over the month, the longer-term trend remains flat. Finally, the selected price

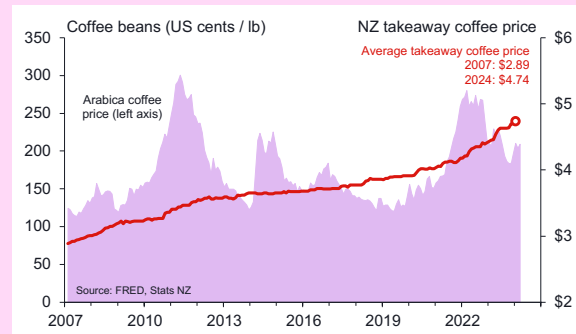
indices for March are also out on Friday. This will be the third prices update for this quarter and will be closely watched as an indicator of the full CPI report (out on 17 April).

Satish Ranchhod, Senior Economist

Chart of the week.

The average price of a takeaway coffee around the country has risen to \$4.74. That's 64% higher than it was back in 2007 (which is the earliest we have nationwide data). As a comparison, consumer prices more generally rose by just over 50% over the same period. But what's happened to the cost of coffee ingredients? Over this period, the global price of Arabica coffee beans has risen around 67%, while milk prices are up around 50%. Of course, a major contributor to the cost of takeaway coffee - and a key determinant of coffee quality - is the cost of staff. Since 2007, the minimum wage and the average level of wages in the hospitality sector have effectively doubled. If on the other hand you wanted to make your own coffee, the price of instant coffee has risen by 45% (sorry, Westpac Economics can't adjust for the quality of your coffee making skills).

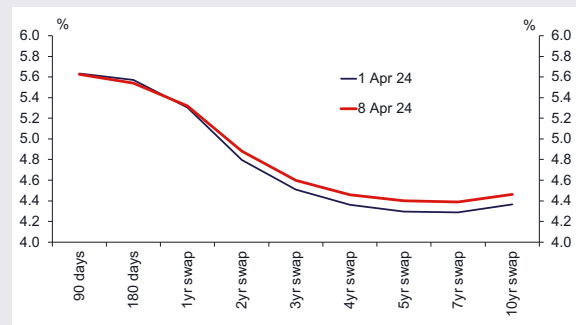
Extra shot: Coffee prices continue to climb



Fixed versus floating for mortgages.

The RBNZ left the OCR on hold in February and we expect they will maintain a similar stance at this week's policy meeting. While further OCR hikes don't look likely in the current cycle, easings are still some way off. For 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 focus in the US last week was on Friday's employment report, which indicated that non-farm payrolls grew a larger than expected 303k in March, lowering the unemployment rate to 3.8%. This followed comments from Fed speakers – including Chair Powell – that already indicated no great rush to begin easing monetary policy. In other news, in contrast to a firmer than expected manufacturing report early in the week, the ISM's non-manufacturing index declined to a 4-month low of 51.4 in March. Even so, the economy appears to have expanded at a solid pace in Q1. This week the focus in the US turns back to inflation, with Wednesday's March CPI report of significance following upward surprises over the past two months. While higher gasoline prices may boost the headline measure, markets expect annual core inflation to nudge down 0.2ppts to 3.6%. The March PPI report will follow on Thursday while the inflation expectations measures from the April University of Michigan consumer survey will attract attention on Friday. The minutes from last month's FOMC meeting will also be released this week.

Europe.

The prospects for a mid-year easing by the ECB were boosted last week by the flash CPI report for March, which revealed a further 0.2ppts decline in annual core HICP inflation to 2.9%. Meanwhile, the services PMI improved to 51.5 in March, causing the composite PMI to improve to 50.3 – the first expansionary reading since May last year. The economic picture continued to stabilise in the UK, with the composite PMI printing at a final 52.8 in March – close to its February reading. Most interest this week will centre on Thursday's ECB meeting, which will likely lay the final groundwork for policy easing at the June meeting. In the UK the focus will be on Friday's dump of key activity data, including the GDP estimate for February.

Asia-Pacific.

The minutes from last month's RBA Board meeting confirmed a fully neutral stance, with no discussion of a rate hike. Board members considered the balance of risks had become a little more even, with data not indicating a materialisation of upside risks to inflation and growth in output slowing as expected. The local dataflow included a further decline in job ads in March and confirmation of a modest increase in retail sales in February. Updates on consumer and business confidence will take centre stage this week. In China the focus this week will be on inflation on Thursday, and trade data on Friday. News on money and credit growth during March should also emerge late in the week. Today's Economy Watchers survey is the main release of note in Japan.

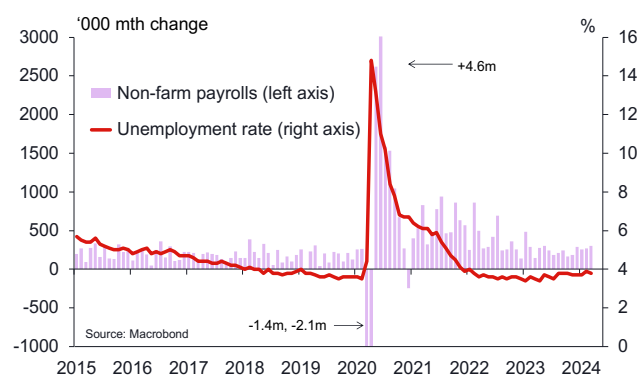
Trading partner real GDP (calendar years)

	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

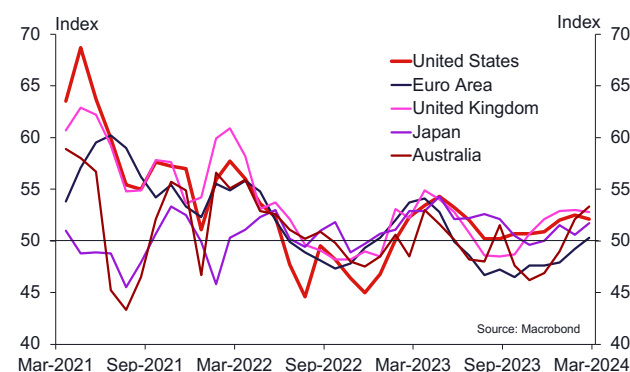
Australian & US interest rate outlook

	5-Apr	Jun-24	Dec-24	Dec-25
Australia				
Cash	4.35	4.35	3.85	3.10
90 Day BBSW	4.34	4.37	3.92	3.30
3 Year Swap	3.88	3.95	3.75	3.50
3 Year Bond	3.68	3.75	3.55	3.30
10 Year Bond	4.12	4.05	3.85	4.00
10 Year Spread to US (bps)	-2	5	5	0
US				
Fed Funds	5.375	5.125	4.375	3.375
US 10 Year Bond	4.31	4.00	3.80	4.00

US non-farm payrolls and unemployment rate



S&P Global composite PMI readings



Financial markets wrap

Interest rates.

NZ swap rates have rebounded further following strong US jobs data. The 2yr has potential to rise further to 5.0% this week, although there's a minefield of major event risk. US CPI inflation data will probably be the most important event for markets, with the RBNZ OCR review (a minor meeting), ECB and Bank of Canada decisions also likely to be scrutinised, even if all three are expected to remain on hold.

The RBNZ is widely expected to remain on hold and deliver similar messages to the February MPS. There have been few major economic developments since that meeting and none resulting in a major surprise for the RBNZ. Looking further ahead, watch out for NZ Q1 CPI data on 17 April, which we expect will be higher than the RBNZ has forecast and could ruffle the markets.

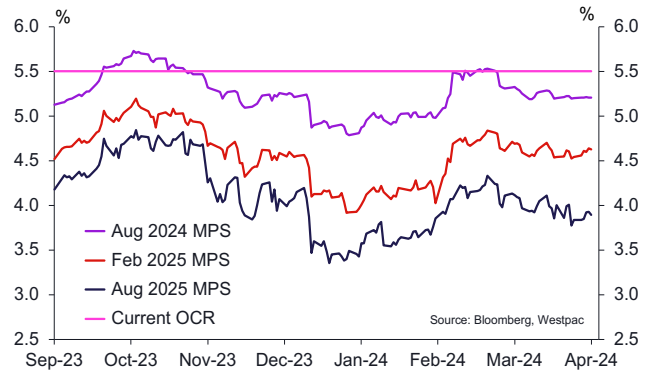
OCR pricing remains exuberant, pricing a 40-50% chance of a cut in July and three cuts by year end (we forecast no cut until February 2025). There is ample scope for volatility during the next few months given this pre-easing on-hold period will be the longest in OCR history.

Foreign exchange.

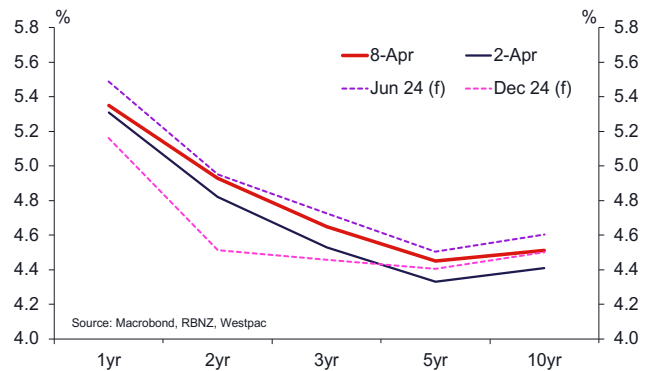
Somewhat surprisingly, the NZD/USD bounced a cent last week, having fallen three cents over the previous month. The pair is currently consolidating in the low 0.60s, awaiting the outcome of key events this week (US CPI, RBNZ, ECB, BoC). We wouldn't rule out a revisit of the low 0.59s during the next week or two, which would likely attract exporter hedging interest. Multi-month, our forecast of a rebound to 0.6300 is largely based on our forecasts for the Fed and RBNZ (easing to start in June 2024 and February 2025, respectively).

NZD/AUD continues to show tentative signs of forming a base in the 0.91s. NZ-AU yields spreads are a major determinant of the cross, and they have similarly started to form a base, albeit tentative.

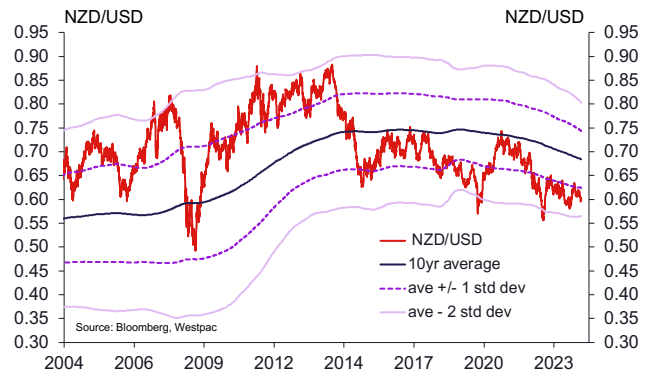
Market pricing for OCR at selected review dates



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	0.602	0.595-0.625	0.555-0.743	0.650	0.64
AUD	0.915	0.915-0.944	0.873-0.992	0.932	0.91
EUR	0.555	0.553-0.572	0.517-0.637	0.584	0.56
GBP	0.477	0.474-0.492	0.464-0.544	0.507	0.50
JPY	91.2	89.3-93.1	61.3-93.1	78.5	88.3

The week ahead

NZ Q1 NZIER Survey of Business Opinion

Apr 9, General business confidence, Last: -10.2

The NZIER's December quarter update showed a strong lift in business sentiment compared to earlier in the year. This result followed the change of government after the October election – though this particular survey has not shown a strong political bias in the past.

At the same time, businesses noted that the strong inflation pressures that had buffeted the economy were starting to ease. Fewer firms reported increases in their costs and selling prices. That said, pricing intentions remained above what would be consistent with the Reserve Bank's 2% inflation target.

For the March quarter survey, both activity and price indicators will be key areas to watch. Our latest round of business talks showed that conditions remain challenging. Cost pressures remain a concern, but with weakening demand, firms are finding it harder to maintain their margins.

NZIER Quarterly Survey of Business Opinion



RBNZ April Monetary Policy Review

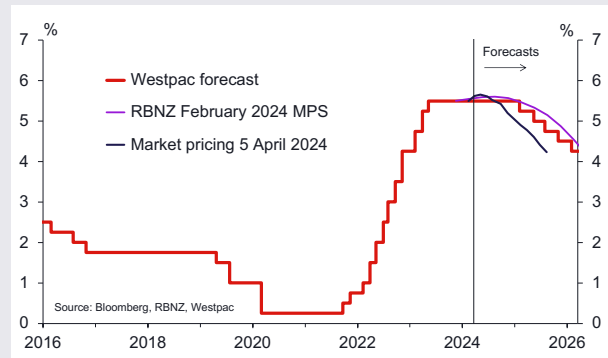
Apr 10, Last: 5.50%, Westpac f/c: 5.50%, Mkt f/c: 5.50%

The Reserve Bank is widely expected to leave the OCR at 5.50% at its April policy review.

There has been limited information on the economy since the February Monetary Policy Statement. GDP growth was slightly weaker than expected, but the impact is marginal compared to past forecast misses. Meanwhile, the inflation outlook still looks challenging in the near term, with the March quarter CPI likely to come in higher than the RBNZ's forecast.

We think the RBNZ will remain comfortable with the forward outlook that it communicated in February. Market pricing for an OCR easing as early as August is unlikely to find support.

Official Cash Rate forecasts



NZ Mar retail card spending

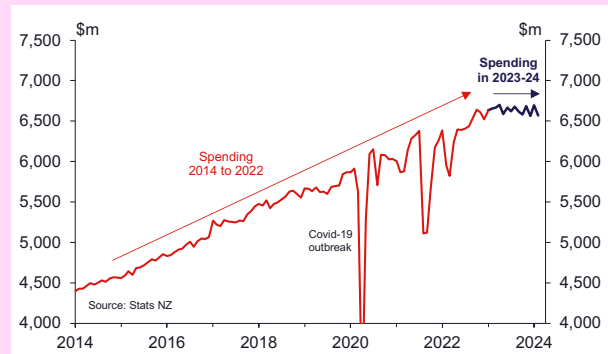
Apr 12, Last: -1.8%, Westpac f/c: +0.8%

Retail spending levels fell 1.8% in February. The fall in spending was widespread.

We're forecasting a 0.8% rise in March. That's mainly related to increases in hospitality spending (which is in part due to the continued rise in international visitor numbers), along with modest increases in grocery spending.

More important than the month-to-month swings, the longer-term trend in spending is flat. That's despite strong population growth and continued price increases. The softness in spending highlights the squeeze on households' spending power from high inflation and interest rates. We're also likely seeing some households putting their cards back in their wallets due to nervousness about the economic outlook and the softening in the jobs market.

Retail spending growth has ground to a halt



The week ahead

NZ Mar monthly selected price indices

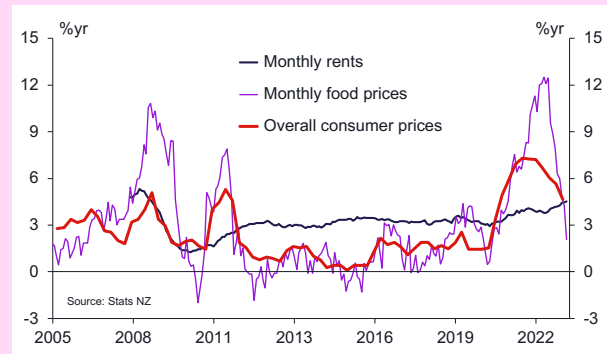
Apr 12

Stats NZ's suite of monthly price data covers around 45% of the CPI. As this is the third update for this quarter, this release will be closely watched as an indicator of the full CPI report (out on 17 April).

In terms of big components, we're expecting a 0.7% rise in fuel prices in March and a muted 0.3% rise in food prices. On the domestic front, we expect another firm 0.4% rise in rents.

We'll also be keeping a close eye on some of the more volatile non-core components like airfares. While those prices aren't the main focus for the RBNZ, they drive much of the quarter-to-quarter swings in the CPI. We expect some easing in those prices after last month's firm outturns. Even so, we expect the monthly price updates will continue to signal upside risk to the RBNZ's last published forecast for March quarter inflation.

Consumer prices

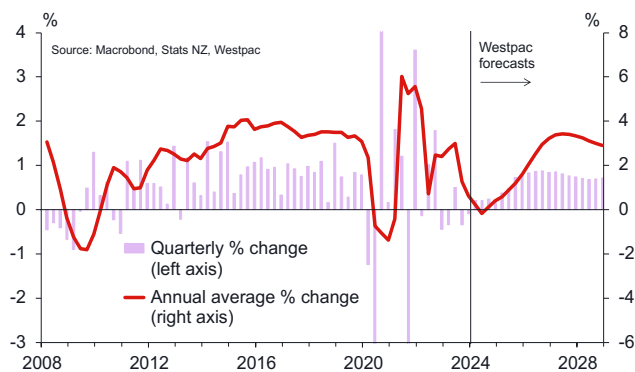


Economic and financial forecasts

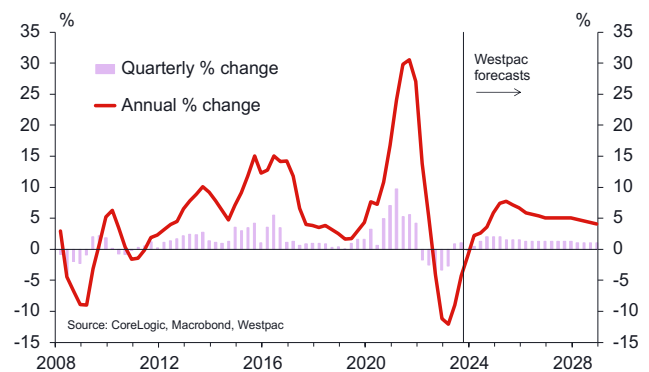
Economic indicators	Quarterly % change				Annual % change			
	Dec-23	Mar-24	Jun-24	Sep-24	2022	2023	2024	2025
GDP (production)	-0.1	0.2	0.2	0.2	2.4	0.6	0.4	1.6
Consumer price index	0.5	0.8	0.6	1.0	7.2	4.7	2.8	2.3
Employment change	0.4	0.1	0.1	0.0	1.7	2.4	0.3	1.0
Unemployment rate	4.0	4.3	4.6	4.9	3.4	4.0	5.1	5.2
Labour cost index (all sectors)	1.0	0.8	0.8	0.9	4.1	4.3	3.4	2.5
Current account balance (% of GDP)	-6.9	-6.3	-6.0	-5.5	-8.8	-6.9	-4.9	-3.9
Terms of trade	-7.8	6.4	2.7	1.5	-4.2	-10.6	12.0	3.4
House price index	-0.2	0.5	1.3	2.0	-11.2	-1.1	5.9	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	5.67	5.60	5.60	4.26	5.65	5.50	4.50
2 year swap	5.28	4.92	4.95	4.75	5.10	5.28	4.50	4.00
5 year swap	4.84	4.40	4.50	4.45	4.67	4.84	4.40	4.10
10 year bond	5.09	4.69	4.70	4.65	4.31	5.09	4.60	4.25
TWI	70.8	71.6	72.4	72.1	70.8	70.8	71.7	70.1
NZD/USD	0.60	0.61	0.63	0.64	0.60	0.60	0.64	0.65
NZD/AUD	0.93	0.93	0.93	0.92	0.92	0.93	0.91	0.89
NZD/EUR	0.56	0.56	0.57	0.56	0.59	0.56	0.56	0.56
NZD/GBP	0.49	0.48	0.50	0.50	0.51	0.49	0.50	0.50

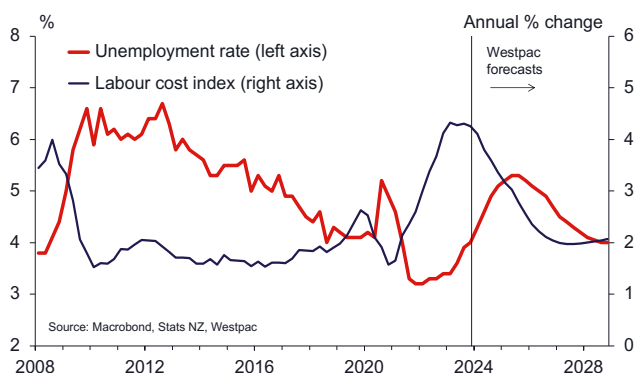
GDP growth



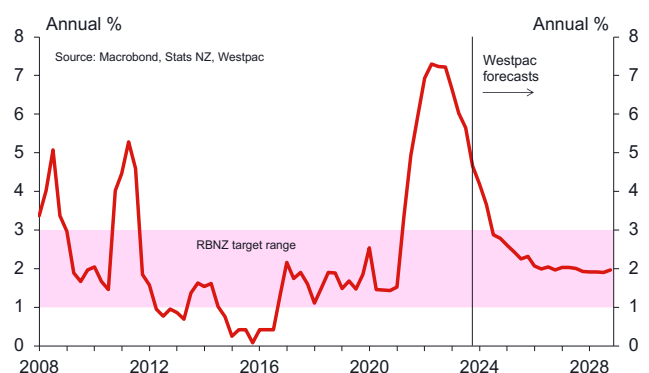
House prices



Employment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 08					
Aus	Feb housing finance	-3.9%	2.0%	3.0%	Turnover in established markets quickened in early 2024...
	Feb owner occupier finance	-4.6%	-	2.5%	... after Nov rate rise saw a weak finish to 2023...
	Feb investor finance	-2.6%	-	3.5%	... soft construction suggesting investors a bit firmer.
Jpn	Feb current account balance ¥bn	438.2	305.0	-	Surplus strength of H2 2023 unlikely to be sustained.
Eur	Apr Sentix investor confidence	-10.5	-	-	Investors enticed by prospects for rate cuts mid-year.
Tue 09					
NZ	Q1 QSBO survey of business opinion	-10.2	-	-	Activity has cooled, cost pressures persist.
Aus	Apr Westpac-MI Consumer Sentiment	84.4	-	-	Still at very weak levels despite some tentative improvement.
	Mar NAB business survey	10	-	-	Conditions slowed markedly. Confidence soft & fragile at 0.
Chn	Mar new loans, CNYbn	4914.3	3675.0	-	Due between Apr 9-15. Credit demand subdued...
	Mar M2 money supply, %yr	8.7%	8.7%	-	... as consumers remain circumspect on the outlook.
Eur	ECB Bank Lending Survey	-	-	-	Update on financial conditions and loan demand.
US	Mar NFIB small business optimism	89.4	-	-	Employment gauge broadly neutral versus history.
	Fedspeak	-	-	-	Kashkari.
Wed 10					
NZ	RBNZ policy decision	5.50%	5.50%	5.50%	RBNZ to reiterate OCR is on hold for a sustained period.
US	Mar CPI	0.4%	0.3%	0.3%	Shelter now constitutes more than half of total inflation.
	FOMC March Minutes	-	-	-	Colour on perceived risks and expected scale of policy easing.
	Fedspeak	-	-	-	Goolsbee.
Thu 11					
Aus	Apr MI inflation expectations	4.3%	-	-	Gradually easing, in line with actual outcomes.
Chn	Mar CPI %yr	0.7%	0.4%	-	Inflation uptrend likely to remain soft as consumers remain...
	Mar PPI %yr	-2.7%	-2.8%	-	... hesitant and excess capacity woes remain.
Eur	ECB policy decision, deposit rate	4.00%	4.00%	4.00%	Signalling June as likely timing for first rate cut.
US	Mar PPI	0.6%	-	-	Consistent with at-target consumer goods inflation.
	Initial jobless claims	-	-	-	To remain at a low level, for now.
	Fedspeak	-	-	-	Williams, Collins.
Fri 12					
NZ	Mar manufacturing PMI	49.3	-	-	Off recent lows, but still weak.
	Mar card spending	-1.8%	-	0.8%	Longer term trend in spending remains flat.
	Mar selected price indices	-	-	-	Likely to signal upside risk to the RBNZ inflation forecast.
Chn	Mar trade balance, US\$bn	39.7	71.34	-	Surplus underpinned by robust Asian demand.
US	Mar import price index	0.3%	-	-	Global goods disinflation story remains intact.
	Apr Uni. of Michigan sentiment	80.0	-	-	Consumers growing more confident in inflation outlook.
	Fedspeak	-	-	-	Daly.

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