



# WEEKLY ECONOMIC COMMENTARY



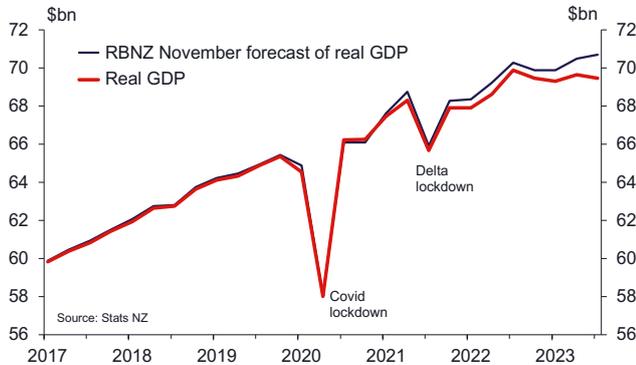
26 Feb 2024 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## Staying the course

Last week we published [our first Economic Overview for 2024](#), which we have titled “Staying the course”. This title captures the outlook for the monetary policy this year as the economy continues the much-needed economic rebalancing that only began in earnest last year.

Economic activity has been tracking sideways over the past year, and we’re forecasting the economy will grow by just 0.5% this year.

### Economic momentum is far weaker than the RBNZ forecast



Households and businesses have been significantly challenged by large increases in consumer prices and operating costs, as well as the related rise in interest rates. Although the intensity of those headwinds is starting to ease, tight financial conditions will continue to be a brake on spending and economic growth over 2024.

An additional challenge is a tough external environment. In addition to shipping disruptions stemming from geopolitical tensions, we continue to see sluggish demand in some key export markets, most notably China. Weak external demand saw prices for our key commodity exports drop by nearly 25% over 2022 and 2023. We expect modest gains in commodity export prices over the

### Key views

	Last 3 months	Next 3 months	Next year
Global economy	➔	➔	↗
NZ economy	↘	➔	↗
Inflation	↘	↘	↘
Short-term interest rates	➔	➔	↘
Long-term interest rates	➔	➔	↘
NZD/USD	↗	➔	↗
NZD/AUD	↗	➔	↘

### Westpac New Zealand Data Pulse Index



### Key data and event outlook

Date	Event
28 Feb 24	RBNZ Monetary Policy Statement and OCR
13 Mar 24	NZ selected price indexes, February
19 Mar 24	RBA Monetary Policy Decision and SMP
20 Mar 24	FOMC Meeting (Announced 21 Mar NZT)
21 Mar 24	GDP, December quarter
27 Mar 24	Govt to release Budget Policy Statement
9 Apr 24	QSBO business survey, March quarter
10 Apr 24	RBNZ Monetary Policy Review
12 Apr 24	NZ Selected price indexes, March
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	RBA Monetary Policy Decision and SMP
13 May 24	NZ Selected price indexes, April

coming year, underpinned by a lift in dairy and to a lesser extent meat prices.

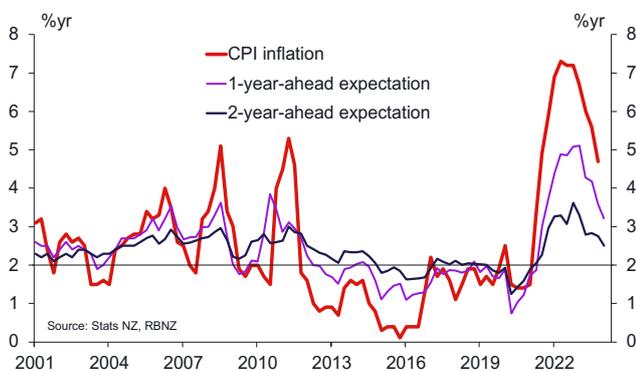
Despite those headwinds, record net migration and a multi-decade high in population growth of 2.6% have provided a floor under activity. That's helped boost the demand for some consumer goods, as well as housing and rental accommodation. Migration has also alleviated staffing shortages that many businesses have struggled with in recent years.

Demand is also being supported by the continuing recovery in international tourism as overseas visitor numbers have now recovered to around 80% of their pre-pandemic levels. That's been a welcome respite for hospitality businesses in many parts of the country, helping to offset the downturn in domestic spending appetites. 2024 is likely to see further increases in international visitors from high spending markets like the US, although flagging momentum in Chinese visitor numbers means we see a more protracted recovery in the tourism sector.

All of this leaves us with a mixed picture of economic conditions. While GDP growth has been weak and should remain subdued over the year ahead, the labour market has not eased by as much. Businesses continue to take on staff and the unemployment rate remains relatively low at just 4%. Importantly, that resilience in the labour market has likely contributed to persistent domestic inflation pressures. The housing market has moved sideways in the last three months but should pick up as the year progresses.

Although New Zealand is on course for another tough year, there is light at the end of the tunnel. The sharp tightening in monetary policy over the past few years has been working, with inflation having already fallen from rates of over 7% in 2022 to 4.7% at the end of 2023. Importantly, inflation is set to continue easing over the year ahead. As that occurs, we're likely to also see borrowing costs starting to come back down.

#### Inflation expectations are tracking back to target



That eventual easing in interest rates and improvements in households' purchasing power will help to restimulate demand over time. Lower interest rates will also support

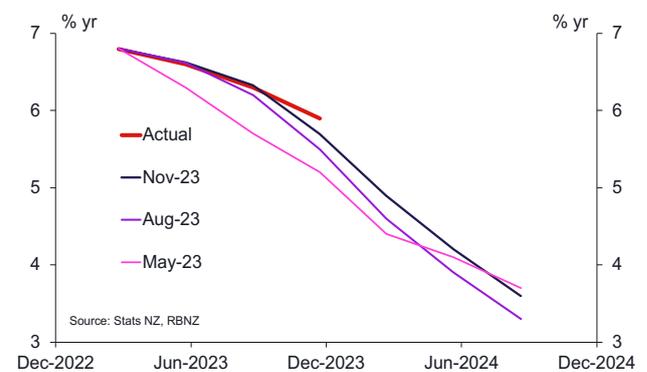
a reacceleration in the housing market, as well as a related lift in construction activity.

We're forecasting that OCR reductions will begin in early 2025, with GDP growth lifting to 1.6% over the course of that year. However, the scope for interest rate cuts depends crucially on what happens to inflation. As discussed in the Inflation and the RBNZ section, domestic inflation has remained 'sticky,' lingering at rates well above the RBNZ's target. If those pressures persist, the RBNZ may need to either keep its foot on the brake for even longer or even raise rates, and the recovery in activity could be delayed year progresses.

The first test of our view regarding the outlook for monetary policy will come this week when the RBNZ conducts its first review of monetary policy settings for 2024, as well as publish revised projections of the outlook for policy over subsequent meetings. In **our preview of this meeting**, we note that we expect the RBNZ to leave the OCR at 5.5%. So, if the OCR is not hiked – the only other feasible outcome – most interest will therefore centre on the profile for interest rates in 2024 and beyond.

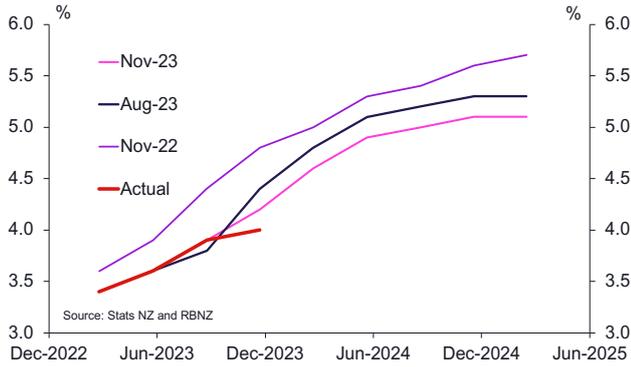
We think the RBNZ's objective will be to try to maintain the recent repricing in financial markets which has removed the expectation of rate cuts until at least the end of this year. The RBNZ will also leave open the option to tighten at the May *Monetary Policy Statement*, should the data warrant.

#### RBNZ non-tradables inflation forecasts have been disappointed



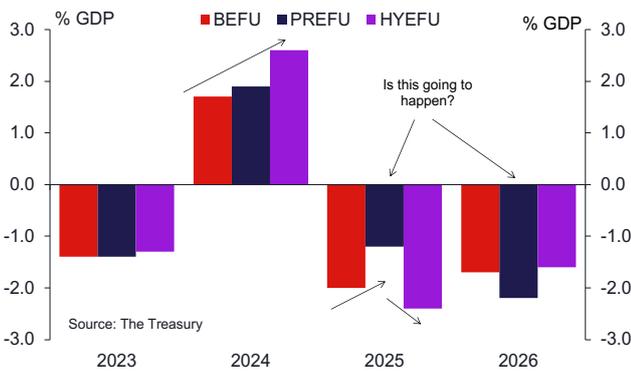
Our recent "**Hawks, Doves and Kiwis**" note includes a number of charts that illustrate the issue that RBNZ policymakers will be debating. A straight read of the data flow since the RBNZ's November meeting might imply a more comforting inflation outlook – although we suspect the RBNZ will put more weight on the more concerning data points – especially a slower than expected unemployment rate) a counter to a very weak Q3 GDP outcome) and a the higher-than-expected non-tradables inflation outcome (a counter to the lower-than-expected CPI outcome). Commodity prices have improved since November, but this is countered by a firmer exchange rate than the RBNZ had assumed.

### Unemployment is not rising as quickly as the RBNZ forecast



Market views will likely be best anchored around an expectation of no easing in 2024 by leaving the short-term OCR forecast track unchanged from November. Further out, we see potential for increased in the OCR track (through 2025 and beyond) as they may further revise up their estimate for the neutral OCR (which has been revised twice in the last 6 months). The increased medium term inflation pressure coming from the required adjustments to their labour market forecasts may require an offset in terms of the length of time the OCR remains around 5.5%. This approach would be consistent with continuing with the “longer” rather than “higher” strategy in place since May 2023. The need for further tightening may well end up hinging on the extent to which fiscal policy assists monetary policy with disinflation in the years to come. The RBNZ won’t have much to go on on that score until May.

### Fiscal impulse has frustrated disinflation – will that reverse?



Kelly Eckhold, Chief Economist

### Chart of the week.

It’s been a tough year for New Zealand retailers and households. Nominal spending levels in the December quarter were down 0.4% compared to the same time in 2022. And with large increases in prices, as well as sharp increases in borrowing costs, the amount of goods that households are taking home has been falling for two years now. Weakness in spending has been widespread, with particularly sharp falls in spending on items like furnishings and appliances.

Notably, those declines have come at the same time as population growth has been surging. In per capita terms, the volume of goods that households are taking home has fallen 6.7% over the past year. With interest rates at high levels and inflation still strong, we expect spending growth will remain weak over 2024.

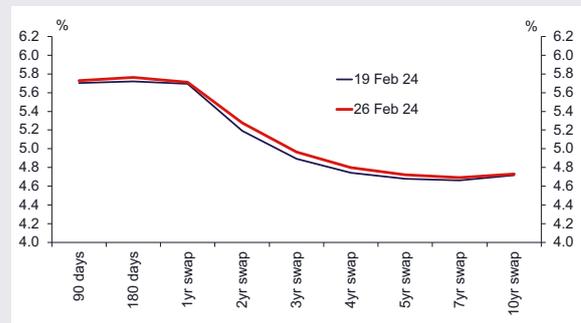
### Retail spending



### Fixed versus floating for mortgages.

With inflation dropping back, we don’t expect that the RBNZ will take the OCR higher. However, we still think OCR reductions are a way off. Fixing for a shorter term would provide borrowers with greater flexibility if mortgage rates fall later this year. However, for borrowers who favour certainty, at current fixed rates we see value in fixing for as long as two years.

### NZ interest rates



# Global wrap

## North America.

US markets had little news to digest last week. The FOMC minutes offered little additional insight. On the data front, the Conference Board's leading index continued to signal below trend growth while the flash composite PMI softened modestly in February. Existing home sales picked up a little in January but remain at a very low level. This week we will receive further news regarding the housing and construction sectors, together with capital goods orders. The second estimate of Q4 GDP will be released, as will the core PCE deflator for January and the latest ISM manufacturing survey. A busy week for FedSpeak begins on Tuesday. In Canada, the CPI fell a surprising 0.4% in January, causing annual inflation to fall to 2.9%. Core inflation measures also moved lower, cementing market expectations that the BoC will likely ease policy later this year. This week Friday's preliminary GDP for Q4 will likely show a modest improvement following a 0.3% contraction in Q3.

## Europe.

In the euro area the flash composite PMI improved 0.4pts to 48.9, with a weaker reading in the manufacturing sector countered by a firmer reading in the services sector. Even so, this represented the 9th consecutive month of contraction. The UK composite PMI also increased 0.4pts to a much more robust 53.3, suggesting that this economy may be lifting from the modest recession reported last year. Even so, earlier in the week BoE Governor Bailey said that "it was not unreasonable" for the market to expect that the Bank would ease policy this year, although he declined to voice a view on when and by how much. This week most interest in the euro area will centre on the flash inflation readings for February, which are likely to reveal further progress towards the ECB's target.

## Asia-Pacific.

Australia's wage price index rose 0.9% in Q4, lifting annual growth to 4.2% – the most since 2009. However, the share of private sector employees receiving a pay rise declined – indicative of a softening jobs market. This week attention will turn to Q4 construction and CAPEX reports as markets build up to the release of Q4 GDP figures next month. In Japan, the flash PMI reports softened in February with the composite index falling to 50.3. This week the focus in Japan will be on Tuesday's inflation reading for January, while news on IP, retail sales and the labour market will follow later in the week. In China, an unexpectedly large 25bp cut in its reference mortgage rate highlighted policymakers' concern about ongoing weakness in the property market. This week, Friday's official PMI reports for February will be scrutinised.

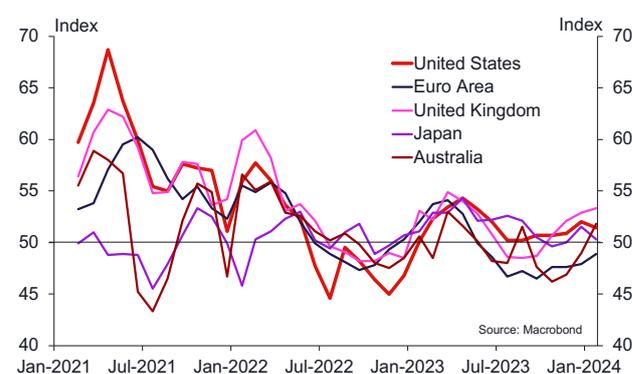
Trading partner real GDP (calendar years)

	Annual average % change			
	2022	2023	2024	2025
Australia	3.8	2.0	1.3	2.2
China	3.0	5.2	5.2	5.0
United States	2.1	2.5	2.6	1.3
Japan	1.0	2.0	0.9	0.9
East Asia ex China	4.5	3.4	4.1	4.2
India	7.2	7.0	6.3	6.5
Euro Zone	3.3	0.5	0.6	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

	23-Feb	Jun-24	Dec-24	Dec-25
<b>Australia</b>				
Cash	4.35	4.35	3.85	3.10
90 Day BBSW	4.34	4.37	3.92	3.30
3 Year Swap	3.99	3.95	3.75	3.50
3 Year Bond	3.78	3.75	3.55	3.30
10 Year Bond	4.19	4.05	3.85	4.00
10 Year Spread to US (bps)	-13	5	5	0
<b>US</b>				
Fed Funds	5.375	5.125	4.375	3.375
US 10 Year Bond	4.32	4.00	3.80	4.00

S&P Global composite PMI readings



Australian wage price index



# Financial markets wrap

## Interest rates.

NZ swap rates are sitting around three-month highs, partly due to higher US yields, and partly to speculation the RBNZ could hike at its next meeting on Wednesday. The RBNZ's MPS thus presents a major event risk for markets, which have priced a 30% chance of a hike at this meeting and a 60% chance of one by May. A hike would push short maturity swap rates higher, while the reaction to a pause would depend on the magnitude and direction of revisions to the RBNZ's OCR forecast. Our forecast of an on-hold decision and roughly unchanged OCR forecast may cause a small fall in swap rates. Also important will be the Governor's press conference and meeting minutes, which will be closely watched for hints on guidance.

In the US, GDP data, PCE inflation data, and much Fed speak, all have the potential to move US rates, and in turn, NZ rates.

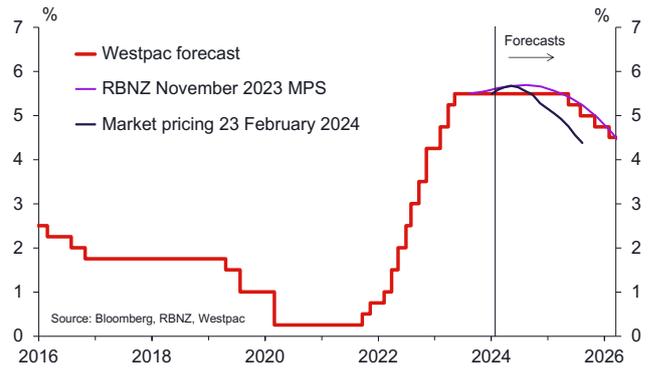
## Foreign exchange.

Last week NZD/USD broke above its month-old range (0.6040-0.6175) and sustained the move. It now needs to rise above 0.6220 to signal potential for 0.6300 during the next few weeks. The recent NZD/USD has been driven by a tiring US dollar and hawkish expectations of the RBNZ.

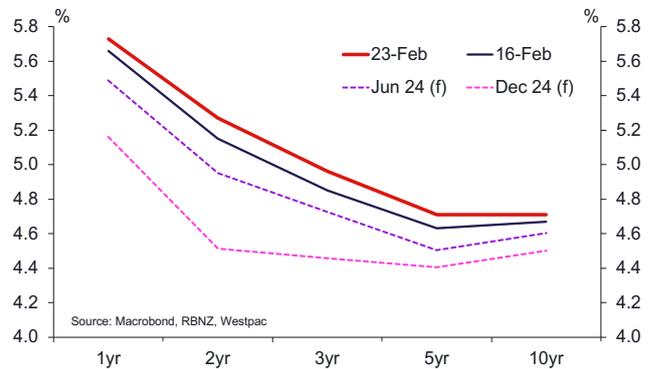
This week, there's plenty of major event risk to ruffle both sides of the exchange rate. In NZ, on Wednesday the RBNZ will deliver its OCR decision and update its OCR forecast. Given markets have priced a small chance of a hike at this meeting and a larger chance by May, there's likely to be some NZD reaction whatever the outcome. Multi-month, we remain bullish, seeing potential for 0.6300+. That is based on expectations that the RBNZ's next easing cycle will start much later than the US Federal Reserve's (we forecast June 2024 and February 2025, respectively). Such a rise could present a hedging opportunity for NZ importers.

NZD/AUD's recent break above its year-old range (at around 0.9350) extended further last week, and targets 0.9470 next, with potential for 0.9550 multi-week. NZ-AU yield spreads have risen sharply (around 60bp) over the past month, as markets reassess expectations of the RBNZ and RBA. Longer term fundamentals (fiscal and current account outlooks) point in the opposite direction, but that's likely a story for markets later this year.

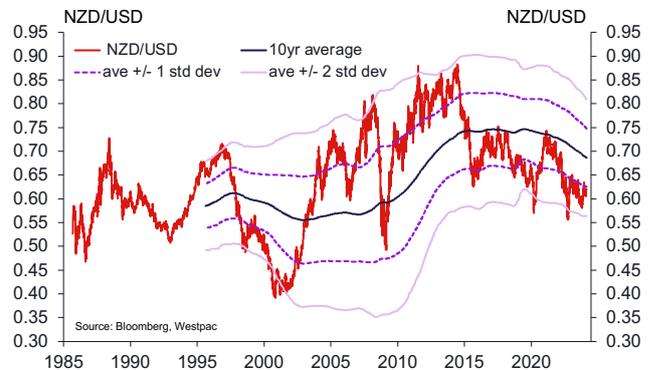
Official Cash Rate forecasts



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	0.620	0.603-0.635	0.555-0.743	0.651	0.64
AUD	0.944	0.920-0.944	0.873-0.992	0.933	0.91
EUR	0.572	0.553-0.572	0.517-0.637	0.585	0.56
GBP	0.489	0.478-0.497	0.464-0.544	0.508	0.50
JPY	93.1	88.1-93.1	61.3-93.1	78.2	88.3

# The week ahead

## NZ Jan monthly employment indicator

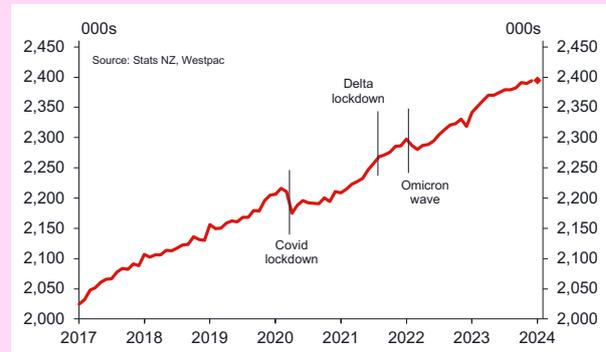
Feb 28, Last: +0.2%. Westpac f/c: 0.0%

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.

Job growth has slowed since mid-2023. While still growing, it has now fallen behind the pace of population growth, which continues to be boosted by record net inward migration. Surveys suggest that businesses are no longer struggling to find more workers, and job advertisements have fallen below pre-Covid levels.

The (very limited) weekly data for January suggests a flat outturn for the month.

## NZ monthly filled jobs



## RBNZ Monetary Policy Statement

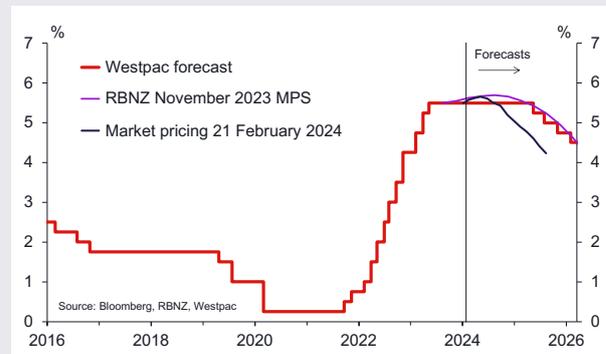
Feb 28, Last: 5.50%. Westpac f/c: 5.50%, Mkt f/c: 5.50%

We expect the RBNZ will leave the OCR unchanged at 5.50% at its February policy meeting. An increase in the OCR is a genuine possibility, but we suspect the RBNZ's goal will be to drive home the message that the OCR is not moving lower in 2024.

A straight read of the data since November might imply a more comforting inflation outlook, although the RBNZ may put more weight on the more concerning data points. Q3 GDP was weaker than expected, and headline inflation has slowed by more than forecast. But core inflation measures remain high, and labour market pressures have not eased as quickly as they expected.

The RBNZ's short-term forward profile for the OCR is likely to be little changed, keeping open the option to tighten – perhaps as early as the May Monetary Policy Statement – should the data warrant it. Future data on non-tradables inflation, the labour market, the housing market, and the Budget will be key in making the case for any further tightening.

## Official Cash Rate forecasts



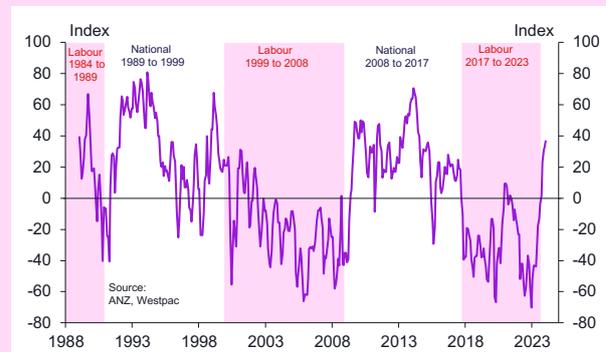
## NZ Feb ANZBO business confidence

Feb 29, Last: 36.6

Business confidence pushed higher again in January. However, while sentiment has been on the rise, reported trading activity over the past year has remained soft. We'll be watching the February survey to see if that divergence has continued, and if there is a related firming in hiring or investment intentions.

A key focus will be the survey's various price and inflation gauges. Recent months have seen a pick-up 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 about 'sticky' inflation.

## NZ ANZBO business confidence



# The week ahead

## NZ Jan building consents

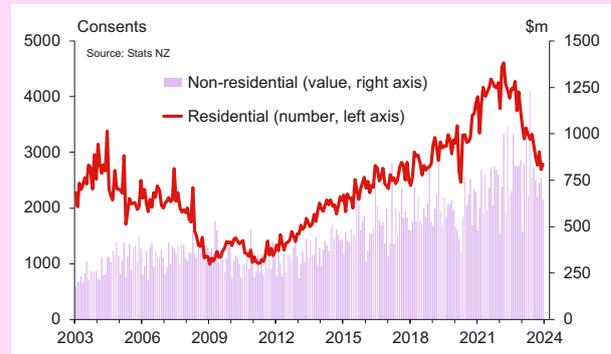
Mar 1, Last: +3.7 %. Westpac f/c: +3%

Residential building consent numbers rose 3.7% in December, and we expect a similarly modest rise in January.

That would leave the longer-term downtrend in consent issuance in place. In annual terms, we expect consent numbers to slip below 37,000. That would be the lowest level since 2019. Despite strong population growth, the combination of high build costs, increases in borrowing rates and a weak housing market has seen fewer new developments coming to market.

Commercial building consent numbers are also expected to remain soft, with slowing economic growth putting the brakes on new developments.

## NZ building consents

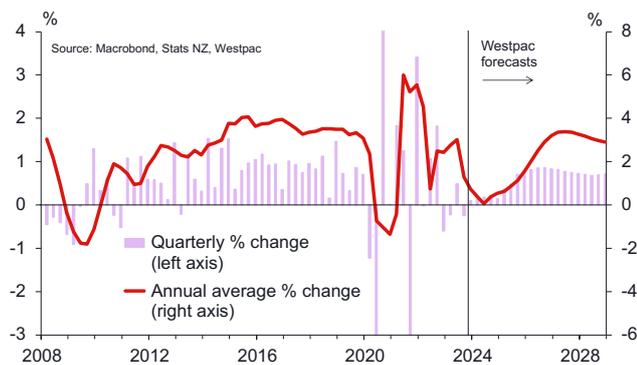


# Economic and financial forecasts

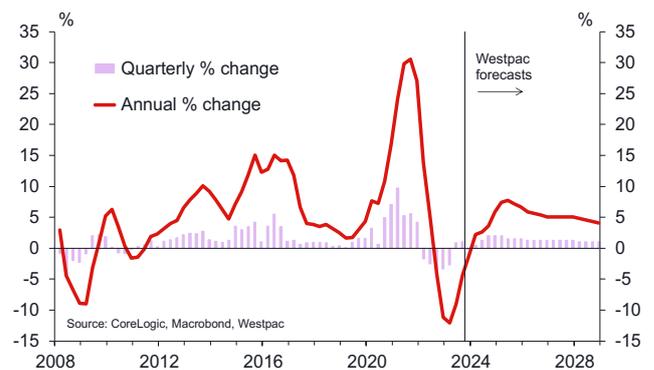
Economic indicators	Quarterly % change				Annual % change			
	Sep-23	Dec-23	Mar-24	Jun-24	2022	2023	2024	2025
GDP (production)	-0.3	0.1	0.2	0.2	2.4	0.7	0.5	1.6
Consumer price index	1.8	0.5	0.7	0.6	7.2	4.7	2.7	2.3
Employment change	-0.1	0.4	0.0	0.2	1.7	2.4	0.3	1.0
Unemployment rate	3.9	4.0	4.3	4.6	3.4	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)	-7.6	-7.0	-6.4	-5.8	-8.8	-7.0	-4.4	-3.6
Terms of trade	-0.6	0.3	2.0	2.0	-4.2	-1.5	6.1	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

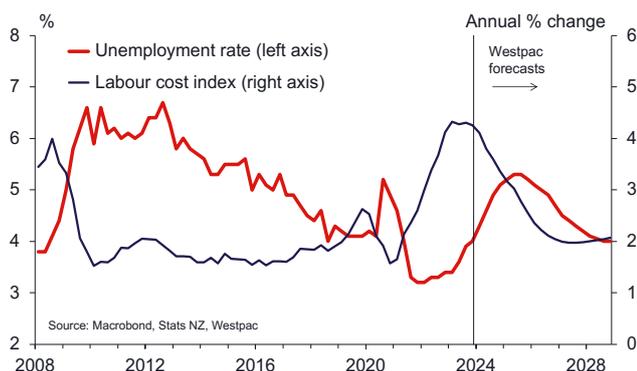
GDP growth



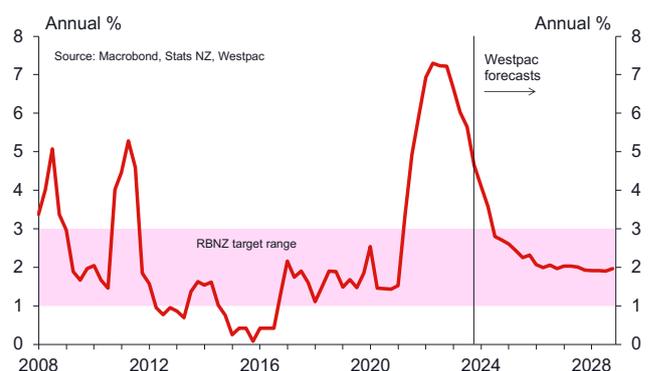
House prices



Employment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 26</b>					
<b>US</b>	Feb Dallas Fed index	-27.4	-	-	Manufacturing conditions weak across the regions.
	Jan new home sales	8.0%	3.0%	-	Near-term outlook favourable relative to resale market.
<b>Tue 27</b>					
<b>Jpn</b>	Jan CPI %yr	2.6%	1.9%	-	Tokyo CPI points to a soft outcome for January.
<b>US</b>	Jan durable goods orders	0.0%	-4.5%	-	Solid uptrend in core orders into year-end.
	Feb Richmond Fed index	-15	-	-	Manufacturing conditions weak across the regions.
	Feb consumer confidence index	114.8	114.8	-	Sentiment flourishes following inflation reassessment.
	Dec S&P/CS home price index	0.15%	-	-	Monthly gains easing, annual growth tapering around 5.5%/yr.
	Fedspeak	-	-	-	Schmid, Barr.
<b>Wed 28</b>					
<b>NZ</b>	Dec employment indicator	0.2%	-	0.0%	Job growth has fallen below the pace of population growth.
	RBNZ policy decision	5.50%	5.50%	5.50%	Slow progress on reducing core inflation remains a concern.
<b>Aus</b>	Jan Monthly CPI Indicator %yr	3.4%	3.5%	3.9%	Durable goods deflating; base effects to see a lift to 3.9%/yr.
	Q4 construction work done	1.3%	0.8%	0.8%	Activity a 12.4% burst from Q2 '22. Growth pace to moderate.
<b>Eur</b>	Feb economic confidence	96.2	-	-	Consumers and businesses both circumspect on outlook.
<b>US</b>	Q4 GDP (annualised)	3.3%	3.3%	-	Second estimate to provide more colour on the growth mix.
	Jan wholesale inventories	0.4%	-	-	Outlook subdued given patchy wholesale and flat industrial.
	Fedspeak	-	-	-	Bostic, Collins, Williams.
<b>Thu 29</b>					
<b>NZ</b>	Feb ANZ business confidence	36.6	-	-	Pricing intentions have picked up again recently.
<b>Aus</b>	Q4 private capital expenditure	0.6%	0.4%	0.0%	Transitioning from earlier strength, grew 10.9%/yr to Q2 '23.
	2023/24 capex plans, \$bn	171.2	-	-	Est 4 printed 10.3% above Est 4 a year ago.
	Jan retail sales	-2.7%	1.5%	0.3%	Monthly noise masking a significant weakening.
	Jan private sector credit	0.4%	0.4%	0.4%	Average pace is running a modest 0.4%.
<b>Jpn</b>	Jan industrial production	1.4%	-7.0%	-	Subdued trend amid slowdown in global appetite.
<b>US</b>	Jan personal income	0.3%	0.5%	-	Six-month pace down on H1 2023, slightly below average...
	Jan personal spending	0.7%	0.2%	-	... while spending momentum remains surprisingly resilient.
	Jan PCE deflator	0.2%	0.3%	-	Tracking 2.0%/yr on a six-month annualised basis.
	Feb Chicago PMI	46.0	-	-	Continues to point to below-trend growth.
	Feb Kansas City Fed index	-9	-	-	Manufacturing conditions weak across the regions.
	Jan pending home sales	8.3%	1.0%	-	Consistent as a leading indicator of resale market weakness.
	Initial jobless claims	201k	-	-	To remain at a relatively low level, for now.
	Fedspeak	-	-	-	Bostic, Goolsbee, Mester.
<b>Fri 01</b>					
<b>NZ</b>	Feb ANZ consumer confidence	93.6	-	-	Gradually improving but still low.
	Jan building permits	3.7%	-	3.0%	Downtrend remains in place, annual total lowest since 2019.
<b>Aus</b>	Feb CoreLogic home value index	0.4%	-	0.6%	Slightly firmer result in Feb but pace still down vs. 2023.
<b>Jpn</b>	Jan jobless rate	2.4%	2.4%	-	Tight labour market facilitates sustainable wages growth.
<b>Chn</b>	Feb NBS manufacturing PMI	49.2	49.3	-	High-tech industry a bright-spot, but employment measures...
	Feb NBS non-manufacturing PMI	50.7	51.2	-	... point to enduring uncertainty over household incomes.
	Feb Caixin manufacturing PMI	50.8	50.7	-	More volatile than NBS, broadly signalling flat conditions.
<b>Eur</b>	Feb CPI %yr	2.8%	-	-	ECB comfortable with current pace of disinflation.
	Jan unemployment rate	6.4%	6.4%	-	Providing some offset to downside activity risks.
<b>US</b>	Feb ISM manufacturing	49.1	49.2	-	Demand remains the key headwind for manufacturers.
	Feb Uni. of Michigan sentiment	79.6	79.6	-	Final estimate.
	Fedspeak	-	-	-	Williams, Waller, Bostic, Daly, Kugler.
<b>Global</b>	Feb S&P Global manufacturing PMI	-	-	-	Final estimate for Japan, Eurozone, UK and US.

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