

# WESTPAC WEEKLY ECONOMIC COMMENTARY

## Add, amend, delete.

11 September 2023



Southern rātā

### Westpac Economics Team

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New Zealand businesses often lack scale and as a nation productivity growth has lagged. One factor that might transform NZ businesses is technology and the use of Artificial Intelligence (AI). AI will be transformative, making some jobs redundant while creating others. We look this week at how AI might impact the workplace and business.

AI isn't really that new but has really come to the fore recently thanks to leaps and bounds in computer processing power, broadband capabilities, and big data. Despite this progress we are just on the cusp of what AI will deliver. Today's AI (such as Apple's Siri or ChatGPT) is all about intelligent systems that carry out a specific task or solve a particular problem but still lacks self-awareness or human-like consciousness which would allow the performance of a broader range of tasks.

Today's AI is still going to shake the tree and will deliver improvements to the bottom line. Global surveys indicate many businesses see AI as critical to their success due to its potential to significantly boost productivity. New Zealand business surveys also suggest a majority of firms think AI will deliver efficiencies, improve customer experience, and result in better products and services.

As to the question whether today's AI will disrupt the nature of work, the answer is "yes". Up to a billion jobs worldwide will be dramatically impacted by AI over the next decade. For example, the World Economic Forum (WEF) sees AI as eliminating 85m

jobs globally but generating 97m new jobs from 2020-2024. In a 2023 report the WEF suggested almost 50% of firms thought that AI would create jobs, while 24% saw AI displacing jobs.

We see AI impacting jobs in three ways. Firstly, many jobs that are highly repetitive or based on very specific instructions/rules will be eliminated. Administrative, legal, architecture and engineering, life and physical sciences and business and financial services jobs might be particularly affected. Secondly, new jobs will be created especially in areas such as AI/machine learning, data analytics, robotics, cloud computing, cybersecurity, product, and project management, as well as digital social media. We see demand for data scientists, AI engineers, data labelling professionals, hardware specialises to grow exponentially in the years ahead.

But the third and most significant impact will be on changes to existing jobs. While many jobs today have some repetitive elements, they also require a great degree of creativity, flexibility, adaptability, and innovation – aspects which cannot be matched by today's AI. Rather than replace workers, the

role of AI will be to augment them, and that will allow workers to move up the value chain where they can deliver additional value, which in turn should yield productivity gains. We see this already in the US where [according to Goldman Sachs](#) roughly 63% of jobs are estimated to be already complemented by AI, and where workers see AI's benefits in terms of their enhanced performance and increased job satisfaction. That is particularly true in areas such as healthcare, finance, education, where AI has opened new roles and job opportunities.

Moving up the value chain though is not without challenge. Among other things it requires the upskilling of workers so they can operate in AI-enabled environment. To that end AI will place an increasingly larger premium not only on higher cognitive skills, but also social and emotional skills. EQ is about to become just as important as IQ, with strong communication skills, having empathy and being able to collaborate across business activities and networked ecosystems, providing a point of differentiation.

New entrants to the workforce will need to be initiated and trained differently. Surveys on graduate employability in the US show that more than half of firms expect many entry level jobs to be replaced by AI, effectively cutting off opportunities for graduates. Graduates are increasingly concerned whether AI will impede their entrance to the workforce. The traditional internship will need to change.

The upshot is that for firms operating in New Zealand AI creates both opportunity and threats. For small firms who may find it easier to embed across their business operations, AI can generate efficiency and productivity gains that enable them to compete more effectively with larger rivals. To respond to this threat, larger firms will have to fully embed AI across their operations. That though will require significant and deep structural changes, including the removal of organisational silos that often plague large firms. For all firms, the prospects are for improved profitability and for workers improved real wage growth that comes with greater productivity.

#### Skills/competencies that will be required in an AI enabled future

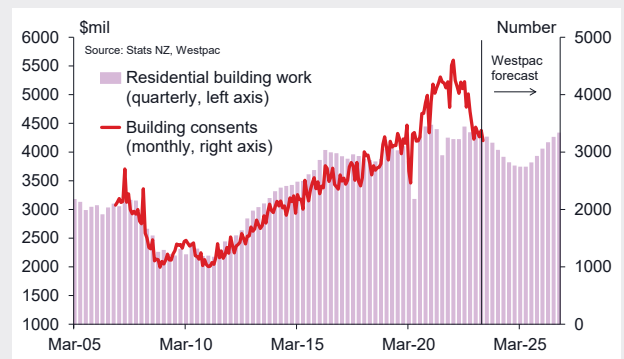
Estimated total hours worked in Europe and US (billion)



## Chart of the week

With large increases in building costs and interest rates, as well as sharp falls in house prices, fewer new building projects are coming to market. That's seen the number of residential building consents issued fall by 15% in the year to July. We're forecasting a related downturn in home building over the coming year. However, with supply chain disruptions and staffing shortages slowing down construction activity in the wake of the pandemic, there is still a large pipeline of projects to work through. As a result, we expect the easing in building activity will be gradual. But given the extent of delays and cost increases over the past year, it's likely that some previously consented work will end up being cancelled.

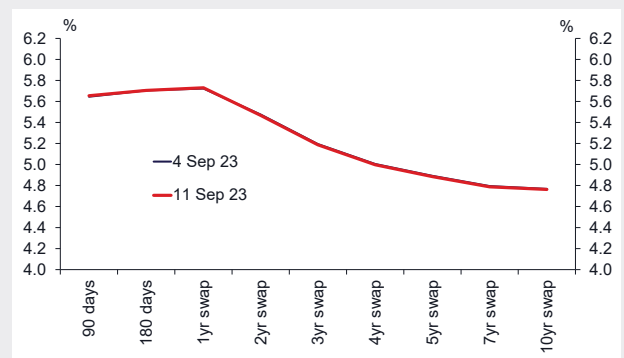
#### Consents down, but still working through pipeline



## Fixed vs floating for mortgages

We think the current best value for borrowers is fixing for one year and rolling for this term. That is likely to produce a lower borrowing cost on average over the next few years. Longer fixed terms would be more suited to those who want certainty in their repayments.

#### NZ interest rates



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# The week ahead

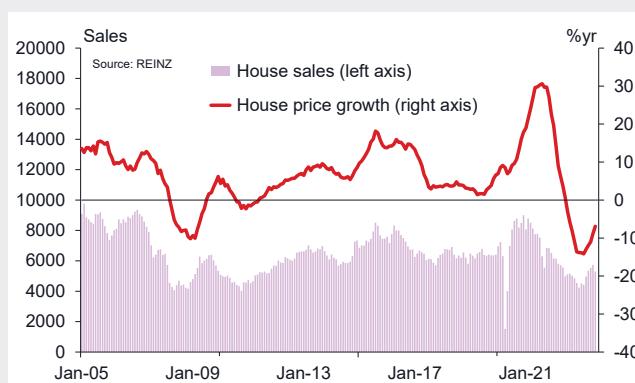
## NZ Aug REINZ house sales and prices

**TBC, Sales – Last: -7.6% mth, +1.6% annual**  
**Prices – Last: +0.6% -6.9% annual**

New Zealand’s housing market has found a base, but it’s not roaring away. Sales have picked up in recent months, but they remain at low levels. Similarly, the sharp fall in house prices seen over the past year has been arrested.

We expect the August housing market update will show a continuation of recent trends. Population growth has picked up. In addition, we are seeing signs that confidence is returning to the housing market, with days to sell peaking and listings starting to rise. Even so, we don’t expect much of an acceleration in the near term. Interest rates have been creeping higher and investors are remaining on the sidelines ahead of October’s election.

REINZ house prices and sales



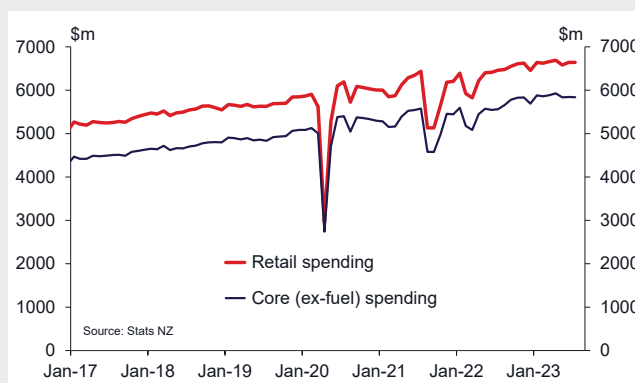
## NZ Aug retail card spending

**Sep 12, Last: Flat, Westpac f/c: +0.6%**

Retail spending levels were flat in July. That was despite the boost to demand from the FIFA World Cup and continued increases in the prices of many items. That soft result likely reflects that households are tightening their purse strings in the face of continued increases in both living costs and interest rates.

We’re forecasting a 0.6% rise in retail spending in August. That’s in part due to the sharp rise in fuel prices over the past month. However, core spending (excl. fuel) is expected to be up only slightly. While the population is growing rapidly, mounting financial pressures are providing a brake on spending.

NZ monthly retail card spending



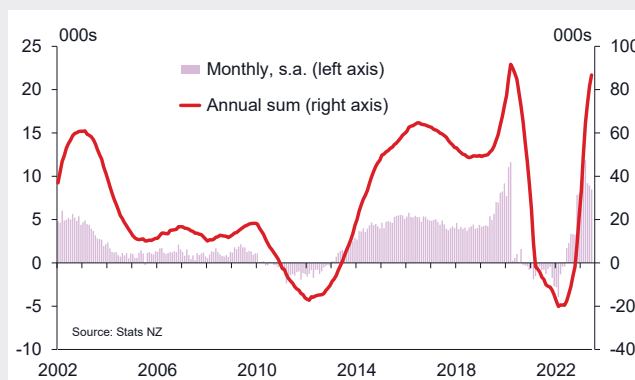
## NZ July net migration

**Sep 12, Last: +8,475**

Tightening financial conditions and weak commodity prices are weighing on the economy. However, a very large migrant inflow is providing considerable support to domestic demand and the housing market, while also allowing firms to address shortages of skilled labour.

Allowing for seasonal factors, net migrant inflows have slowed somewhat since peaking in March. This reflects a pickup in departures, rather than any slowdown in arrivals. While these trends may have continued in July, another large net inflow seems very likely. Indeed, in July the annual inflow is likely to exceed 90,000 people for the first time since the onset of the pandemic.

NZ net migration



# The week ahead

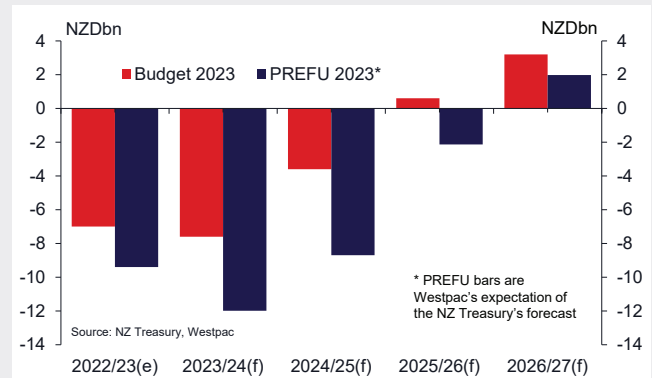
## NZ Pre-Election Economic and Fiscal Update (PREFU)

Sep 12

With next month's General Election coming into view, this week the Treasury will publish the Pre-Election Economic and Fiscal Update. Economic conditions have deteriorated since the Treasury published the Budget in May, with tax revenue already tracking more than NZ\$2bn below the Budget forecast during the now completed 2022/23 fiscal year.

We expect that the Treasury's updated forecasts will show the operating balance (OBEGAL) returning to surplus in 2026/27 – a year later than previously forecast. And given our expectation that the Treasury will forecast a cumulative NZ\$15bn increase in the deficit through to 2026/27, it is also likely to announce a large increase in the projected government borrowing programme.

## NZ Fiscal Operating Balance (OBEGAL)



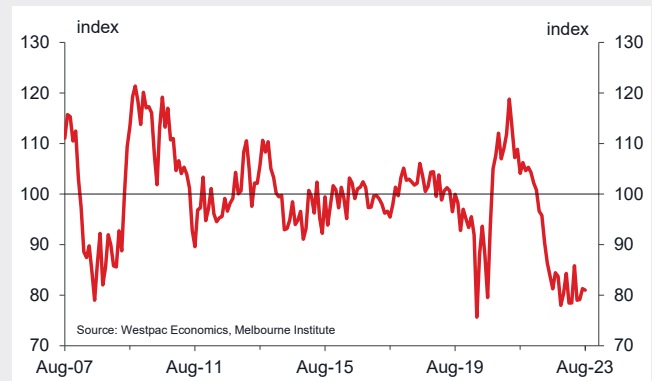
## Aus Sep Westpac-MI Consumer Sentiment

Sep 12, Last: 81

Consumer sentiment dipped 0.4% to 81 in August from 81.3 in July, continuing to show little or no response to the RBA Board's decision to leave the cash rate on hold in recent meetings. Ongoing pressure on family finances continues to weigh heavily with August seeing a notable jump in fuel prices.

With rates again left on hold in September, and easing inflation suggesting prospects of further hikes are becoming remote, sentiment may gain a little more traction. However cost of living pressures clearly remain a major issue, fuel prices posting another lift over the last month.

## Aus Consumer Sentiment Index



## Aus Aug overseas arrivals and departures, preliminary

Sep 12, Arrivals, Last: 1749.2k

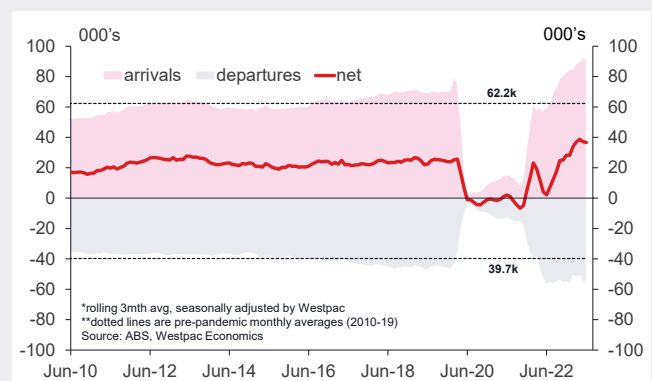
Sep 12, Departures, Last: 1501.6k

Over June and July, the burst in short-term travel associated with the mid-year holiday season saw headline overseas arrivals and departures bounce notably. There is further scope for these short-term flows to continue cycling through August, although the mix of intended lengths of travel at this stage is still uncertain.

That said, permanent and long-term travel, which tends to be a better (albeit still limited) indicator of net migration flows, is continuing to exhibit strength, with net arrivals in this category tracking monthly gains of +37k/mth on a three-month average basis. The visa detail is also constructive, suggesting that the recovery in net overseas migration is continuing to track a strong pace.

On September 14, we will also receive official population estimates for Q1 2023. Based on data from the Labour Force Survey – working age population growth up from 1.9%/yr in Dec-22 to 2.2%/yr in Mar-23 – net migration will likely post another sizeable gain, in the realm of +150k.

## Aus permanent & long-term travel



# The week ahead

## Aus Aug Labour Force – employment change ('000s)

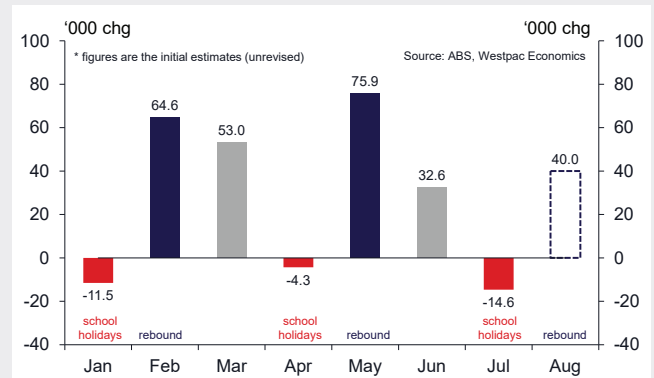
Sep 14, Last: -14.6k, WBC f/c: +40k  
Mkt f/c: +25.3k, Range: -20k to +50k

In July, employment growth surprised materially to the downside, falling by -14.6k (-0.1%). Providing a partial explanation for the result, the ABS noted that “we continue to see some changes around when people take their leave and start or leave a job”.

Within the context of a historically tight labour market with ample job opportunities, there are more individuals than usual who are moving between jobs – a dynamic, which recently, has tended to surface as a decline in employment during school holidays and a bounce in the following month. As a comparison, employment was initially reported to have declined in both January and April, to then snap-back in the following month (+64.6k in Feb; +75.9k in May).

We believe July’s read does not signify a material shift in labour market dynamics, but is rather reflective of a new seasonal pattern that has emerged. Our forecast +40k lift leaves employment up +25k over the last two months.

## Aus employment in 2023: shifting holiday behaviour



## Aus Aug Labour Force – unemployment rate (%)

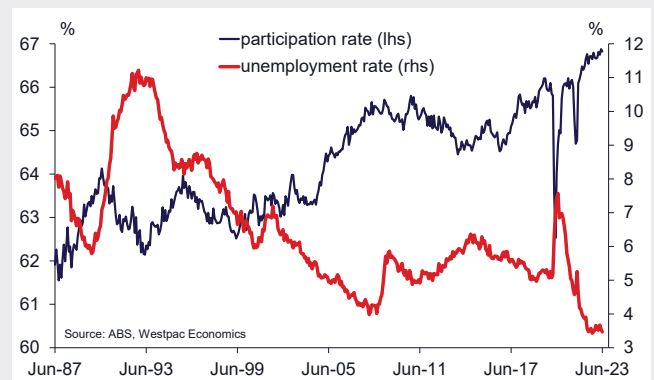
Sep 14, Last: 3.7%, WBC f/c: 3.6%  
Mkt f/c: 3.6%, Range: 3.6% to 3.9%

In July, the participation rate edged slightly lower, from 66.8% to 66.7%, resulting in the labour force expanding by 20.9k. Together with the fall in employment, the unemployment rate rose 0.2ppts from 3.5% to 3.7%.

As outlined above, we believe this result is part of a new seasonal pattern that will likely repeat itself in August. Indeed, in both January and April, the unemployment rate rose from 3.5% to 3.7% (as it did in July), only to snap-back in the following month (3.5% in February; 3.6% in May). Incorporating this pattern does not alter our near-term view on the labour market – no longer tightening, but not slackening to a material degree anytime soon.

For August, we expect the participation will be little changed, at 66.7%, resulting in the unemployment rate moving down to 3.6%.

## Aus unemployment



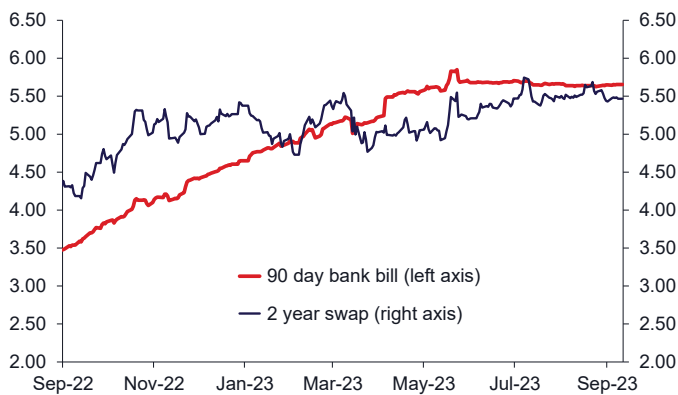


# New Zealand forecasts

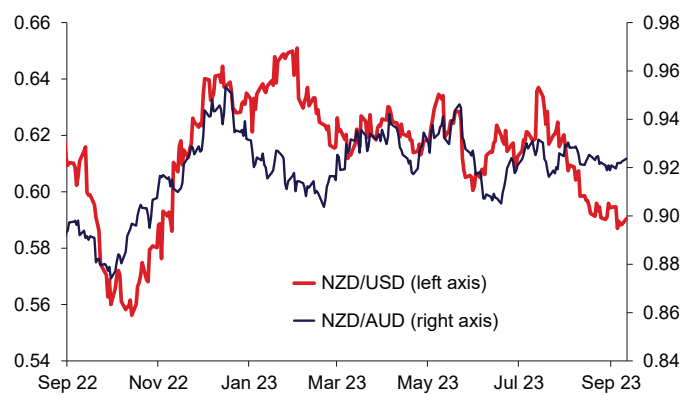
Economic forecasts	Quarterly				Annual			
	2022	2023						
% change	Dec	Mar	Jun	Sep	2021	2022	2023f	2024f
GDP (Production)	-0.7	-0.1	0.8	0.1	6.0	2.7	1.1	0.3
Employment	0.7	1.1	1.0	0.3	3.3	1.7	2.4	0.1
Unemployment Rate % s.a.	3.4	3.4	3.6	3.8	3.2	3.4	4.3	5.2
CPI	1.4	1.2	1.1	2.0	5.9	7.2	4.9	2.9
Current Account Balance % of GDP	-8.7	-8.2	-8.0	-8.2	-5.7	-8.7	-7.8	-6.0

Financial forecasts	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Cash	5.50	5.75	5.75	5.75	5.50	5.25	5.00
90 Day bill	5.65	5.85	5.85	5.85	5.60	5.35	5.10
2 Year Swap	5.64	5.49	5.29	5.06	4.80	4.55	4.33
5 Year Swap	4.84	4.74	4.62	4.51	4.38	4.26	4.15
10 Year Bond	4.95	4.85	4.65	4.45	4.25	4.10	3.95
NZD/USD	0.59	0.61	0.61	0.62	0.62	0.62	0.63
NZD/AUD	0.92	0.92	0.92	0.91	0.90	0.89	0.88
NZD/JPY	85.6	87.8	87.2	86.4	85.6	84.9	83.4
NZD/EUR	0.55	0.55	0.55	0.55	0.55	0.55	0.55
NZD/GBP	0.46	0.48	0.48	0.48	0.48	0.48	0.48
TWI	69.1	70.3	69.9	69.4	68.9	68.6	68.2

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 11 September 2023

Interest rates	Current	Two weeks ago	One month ago
Cash	5.50%	5.50%	5.50%
30 Days	5.60%	5.60%	5.61%
60 Days	5.63%	5.62%	5.63%
90 Days	5.66%	5.64%	5.64%
2 Year Swap	5.47%	5.58%	5.52%
5 Year Swap	4.89%	4.99%	4.91%

NZ foreign currency mid-rates as at 11 September 2023

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.5904	0.5902	0.5986
NZD/EUR	0.5509	0.5459	0.5469
NZD/GBP	0.4730	0.4690	0.4713
NZD/JPY	86.74	86.49	86.80
NZD/AUD	0.9237	0.9209	0.9211
TWI	69.68	69.56	70.04

# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Tue 12</b>					
NZ	Aug REINZ house sales %yr	1.6%	-	-	Due this week. The recent stabilisation in the market...
	Aug REINZ house prices %yr	-6.9%	-	-	... is expected to have continued in August.
	Jul net migration	8475	-	-	While departures are rising, another large net inflow is likely.
	Aug retail card spending	0.0%	-	0.6%	Boosted by fuel price rises, core spending growth muted.
	Pre-Election Economic & Fiscal Update	-	-	-	Expect bigger deficits and a lift in the borrowing programme
Aus	Sep WBC-MI Consumer Sentiment	81.0	-	-	Yet to show a material response to end of rate hikes.
	Aug NAB business survey	10	-	-	Conditions well below 2022 highs. Confidence soft & fragile.
	Aug overseas arrivals (preliminary)	1749.2k	-	-	Longer-term travel buoyant as mid-year holiday burst unfolds.
Eur	Sep ZEW survey of expectations	-5.5	-	-	Confidence fragile as financial tightening impacts.
UK	Jul ILO unemployment rate	4.2%	4.5%	-	Labour supply surge driving the rise in unemployment.
	Jul average weekly earnings	8.2%	-	-	Sustained lift in wage inflation of most concern for BoE.
US	Aug NFIB small business optimism	91.9	91.3	-	Small businesses excellent guide on health of economy.
<b>Wed 13</b>					
NZ	Aug food price index	-0.5%	-	0.5%	Earlier rises in produce prices easing.
Eur	Jul industrial production	0.5%	-1.0%	-	Outlook subdued given weak orders and declining backlog.
UK	Jul monthly GDP	0.5%	-	-	June's momentum highly unlikely to be sustained.
	Jul trade balance £bn	-4.8	-	-	Deficit has narrowed significantly over the past year.
US	Aug CPI	0.2%	0.5%	0.4%	Headline buoyed in Aug by energy; food a partial offset.
<b>Thu 14</b>					
Aus	Sep MI inflation expectations	4.9%	-	-	Provides a general view of risks.
	Aug employment change	-14.6k	25.3k	40.0k	July's decline a consequence of shifting behaviours...
	Aug unemployment rate	3.7%	3.6%	3.6%	... August to see employment bounce-back.
	Q1 population growth %yr	1.9%	-	-	Another large increase in net migration, in the realm of +150k.
Jpn	Jul core machinery orders	2.7%	-0.9%	-	Weak over year, outlook uncertain.
	Jul industrial production	-2.0%	-	-	Final estimate.
Eur	ECB policy decision (deposit rate)	3.75%	-	-	Sticky core inflation points to another hike - likely the last.
US	Aug retail sales	0.7%	0.1%	0.2%	Expected to stall again after robust 3 months to July.
	Aug PPI	0.3%	0.4%	-	Upstream price pressures again seen as a risk.
	Jul business inventories	0.0%	0.1%	-	Demand volatility a challenge for business managing supply.
	Initial jobless claims	216k	-	-	Businesses keen to hold onto staff despite uncertainty.
<b>Fri 15</b>					
NZ	Aug manufacturing PMI	46.3	-	-	Mounting financial pressures weighing on activity.
Chn	Aug retail sales ytd %yr	7.3%	6.8%	-	It is too early to see a meaningful improvement in demand...
	Aug industrial production ytd %yr	3.8%	3.8%	-	... from recent policy changes...
	Aug fixed asset investment ytd %yr	3.4%	3.3%	-	... which are likely to show through at year end.
Eur	Jul trade balance €bn	12.5	-	-	Choppy profile highlights risks to external demand.
US	Sep Uni. of Michigan sentiment	69.5	69.4	-	Cost of living a concern; labour market highly supportive.
	Aug industrial production	1.0%	0.1%	-	Manufacturing remains under pressure.
	Sep Fed Empire state index	-19.0	-10.7	-	Regional surveys to remain volatile.
	Aug import price index	0.4%	0.3%	-	Rally in USD to limit import price inflation in coming months.

# International forecasts

Economic Forecasts (Calendar Years)	2019	2020	2021	2022	2023f	2024f
<b>Australia</b>						
Real GDP %yr	1.9	-1.8	5.2	3.7	1.6	1.0
CPI inflation %yr	1.8	0.9	3.5	7.8	3.9	3.2
Unemployment rate %	5.2	6.8	4.7	3.5	3.8	4.7
Current account % of GDP	0.7	2.4	3.1	1.2	1.0	0.3
<b>United States</b>						
Real GDP %yr	2.3	-2.8	5.9	2.1	1.8	0.4
CPI inflation %yr	1.9	1.2	7.2	6.4	2.5	2.0
Unemployment rate %	3.7	8.1	5.4	3.6	3.6	4.5
Current account % of GDP	-2.6	-2.5	-2.4	-2.4	-2.4	-2.4
<b>Japan</b>						
Real GDP %yr	-0.4	-4.3	2.1	1.1	1.4	1.0
<b>Euro zone</b>						
Real GDP %yr	1.6	-6.1	5.4	3.5	0.6	1.2
<b>United Kingdom</b>						
Real GDP %yr	1.6	-11.0	7.6	4.0	0.3	0.5
<b>China</b>						
Real GDP %yr	6.0	2.2	8.4	3.0	5.2	5.5
<b>East Asia ex China</b>						
Real GDP %yr	3.8	-2.3	4.3	4.5	3.7	4.3
<b>World</b>						
Real GDP %yr	2.8	-2.8	6.3	3.4	3.0	3.0

Forecasts finalised 7 August 2023

Interest rate forecasts	Latest	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
<b>Australia</b>							
Cash	4.10	4.10	4.10	4.10	3.85	3.60	3.35
90 Day BBSW	4.12	4.30	4.30	4.22	3.97	3.72	3.47
10 Year Bond	4.09	4.00	3.80	3.60	3.40	3.30	3.22
<b>International</b>							
Fed Funds	5.375	5.375	5.125	4.875	4.625	4.375	4.125
US 10 Year Bond	4.22	4.10	3.90	3.70	3.50	3.40	3.30

Exchange rate forecasts	Latest	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6388	0.66	0.67	0.68	0.69	0.70	0.71
USD/JPY	147.22	144	142	140	138	136	133
EUR/USD	1.0714	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.2491	1.27	1.28	1.29	1.30	1.30	1.30
USD/CNY	7.3455	7.15	7.00	6.90	6.80	6.70	6.60
AUD/NZD	1.0837	1.08	1.10	1.10	1.11	1.13	1.13



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