



WEEKLY ECONOMIC COMMENTARY



13 Nov 2023 | Westpac Economics Team | westpac.co.nz/economics | nzeconomics@westpac.co.nz

Data maintains softer tone

Last week was a relatively quiet one as far as local data and events were concerned, with New Zealand markets mostly tossed around by developments in offshore markets. Perhaps of greatest interest to a net energy importer like New Zealand was a further sharp decline in the price of crude oil, with Brent trading down to \$80/bbl compared to over \$95/bbl just a few weeks ago. Should this decline be sustained, lower retail petrol prices will release disposable income that can be spent elsewhere in the economy. And at the margin, lower petrol prices will help to reduce inflation and inflation expectations.

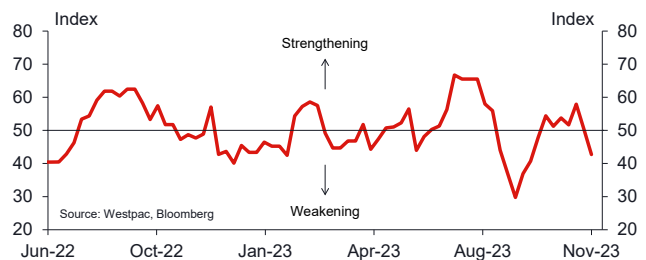
On that score, the RBNZ’s latest survey of expectations – capturing the views of a small number of professional forecasters and business leaders – provided some moderately comforting news. The 1-year ahead expectation of inflation fell 57bps to a more than two-year low of 3.60%, while the 2-year ahead expectation fell 7bps to 2.76%. Both remain much higher than their pre-pandemic levels, but the RBNZ will welcome the direction of travel. Expectations of inflation at the 5-year and 10-year ahead horizon increased slightly. However, the RBNZ’s research has indicated that incorporating long-horizon expectations does not improve the accuracy of forecasts of inflation.

The flow of softer news from the labour market continued, with Seek reporting a further 5.6% decline in job advertising in October. The level of advertising is now 29.4% lower than a year earlier and well below trend levels. News from the manufacturing sector was even more downbeat last week, with the Business NZ manufacturing PMI declining a further 2.6pts to 42.5. This is the weakest outcome for a non-COVID affected month since May 2009, when the economy was still mired in the post-GFC recession. The output index fell to an even softer 41.5, while the employment and new orders indexes fell to 43.3 and 44.1 respectively. Given the focus of New Zealand’s manufacturing sector, we think that the weakening trend likely owes in part to the steep decline in

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

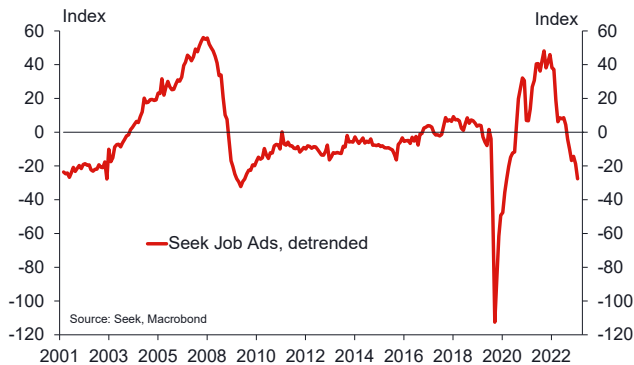


Key data and event outlook

Date	Event
29 Nov 23	RBNZ Monetary Policy Statement and OCR
5 Dec 23	RBA Monetary Policy Decision
13 Dec 23	FOMC Meeting (Announced 14 Dec NZT)
14 Dec 23	NZ GDP September quarter
18 Dec 23	Half Year Economic and Fiscal Outlook (TBC)
16 Jan 24	QSBO Business Survey, December quarter (TBC)
24 Jan 24	NZ CPI, December quarter
31 Jan 24	FOMC Meeting (Announced 1 Feb NZT)
6 Feb 24	RBA Monetary Policy Decision and SMP
7 Feb 24	NZ labour market statistics, December quarter
28 Feb 24	RBNZ Monetary Policy Statement and OCR

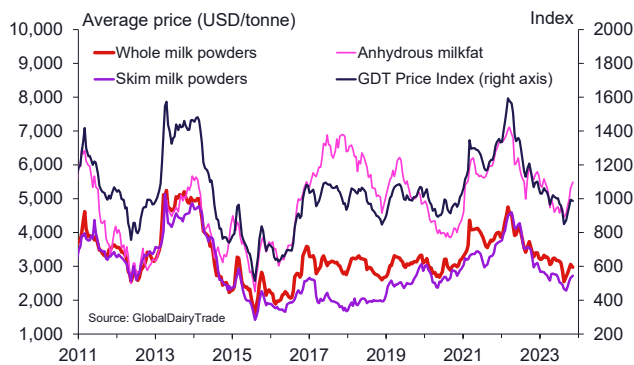
dwelling consents over recent months, which portends a looming slowdown in construction activity.

Seek job ads, detrended



Turning to the rural sector, the recent run of better dairy news was halted with the GDT auction producing a 2.7% decline in the price of whole milk powder. We remain comfortable with our forecast that Fonterra’s farmers will receive \$7.25 per kilo for their milk this season – a level that will leave many farmers in the red given high interest rates and on-farm costs. Last week also saw an increasing focus of the plight of New Zealand’s sheep farmers. Lamb schedules have declined to around \$6.75 per kilo of late, down more than \$2 from the same time last year. As with weakness in dairy prices, much of the weakness in prices for lamb can be traced to soft demand from China, while increased production in Australia is also hindering returns this year. Weak commodity prices mean that the rural sector will be a weight on economic growth over the coming year.

GlobalDairyTrade auction prices



Finally, last week also saw the release of the interim government financial statements for the three months to September, providing the first insight into how the fiscal accounts are tracking in the new 2023/24 year. This provided some good news for the incoming government, with tax revenue running fractionally ahead of the heavily downgraded forecasts that were contained in the Pre-Election Economic and Fiscal Update. At face value, this suggests that we should not expect a further upward revision to this year’s borrowing programme when the

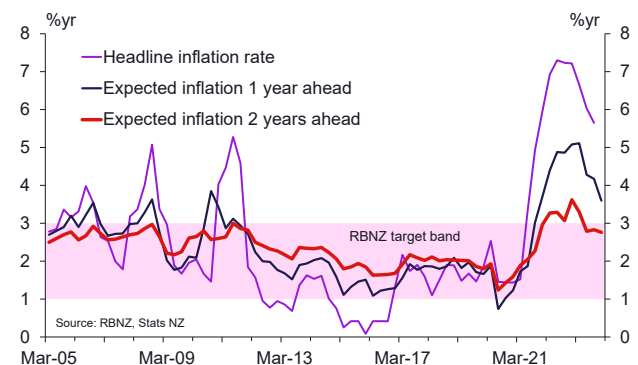
Treasury releases the Half-Year Economic and Fiscal Update next month.

This week’s somewhat busier local diary begins today with the release of the Business NZ Performance of Services Index for October. Following three months below the key 50-level, the index rebounded to a slightly expansionary reading of 50.7 in September, with the new orders index improving to its highest level since May. A sharp pick-up in responses from the Otago/Southland region and in the cultural/recreational industry hinted at the impact the ongoing recovery in foreign tourist arrivals. It will be interesting to see whether the improvement has been maintained, especially in light of last week’s poor manufacturing survey.

On Tuesday, Statistics New Zealand will publish an expanded set of monthly CPI series for October. In addition to the usual update on food and dwelling rental prices, for the first time we will receive monthly data covering airfares, accommodation services, fuel prices (exclusive of discounts) and prices for tobacco and alcohol. The new data on airfares will be especially useful, as this is one of the more volatile and so difficult to forecast components of the quarterly CPI report.

A busy Wednesday will begin with REINZ releasing its housing report for October. After allowing for seasonal effects, house sales fell, and prices moved sideways in September. We suspect that the proximity of the General Election played a role in suppressing activity in September, and this may have also been at play in the first half of October. Indeed, figures published last week by Auckland’s largest real estate agency indicated a further small decline in their sales in October (after allowing for seasonal effects), which nonetheless remained well above the exceptionally low levels reached a year earlier.

RBNZ Survey of expectations



Later that morning, we expect news of another large inflow of migrants in September. Of greater importance will be whether there is a repeat of the recent pattern of large upward revisions to previous months – revisions that lifted the annual inflow to a record 110,000 people in August. Electronic card transactions data for October

will also command attention, especially after the very soft consumer spending that was reported in September. Meanwhile, the RBNZ will release the results of its latest survey of household inflation expectations. The RBNZ's research has indicated that amongst all measures of inflation expectations, year-ahead household inflation expectations add the most explanatory power to forecasts of inflation.

On Friday the week will close with the release of the annual national accounts for the year to March 2023 and the business price indexes for the September quarter. At least through the June quarter, the latter have pointed to a significant moderation in the pace of increase in firms' non-labour costs, and we expect that this trend will have remained intact through the latest quarter despite higher energy-related costs. Finally, we are hopeful that coalition negotiations to form the next government will have concluded by the end of this week. If so, the focus for the market will be on what policy trade-offs have been made to secure the agreement.

Darren Gibbs, Senior Economist



Mo' cam



Kelly Eckhold
Chief Economist

Movember moustache progress day 13

Movember.

Westpac's Chief Economist Kelly Eckhold, along with the rest of the Economics and Strategy Team are throwing their support behind Movember to help raise awareness and funding for men's health issues. Movember helps to provide funding for research related to prostate cancer and testicular cancer, as well as support for mental health and suicide prevention.

The Westpac Economics and Strategy Team will be attempting to grow moustaches right through November.

If you'd like to support Kelly and the rest of the team, or if you'd like to learn more about the men's health issues that Movember supports, please follow the link below. Your support is greatly appreciated. All donations go directly to the Movember Foundation.

[Support the Westpac Economics Mo' Bros](#)

Chart of the week.

While the unemployment rate remains low, the heat is starting to come out of the labour market. As GDP growth has slowed, fewer businesses are looking to take on new staff. At the same time, businesses are telling us that it's become easier to find workers since the borders have reopened. Wage growth has not eased materially at this stage. However, businesses are reporting that they expect wage growth to soften over the coming years, and we're hearing increasing reports that it's becoming harder for workers to negotiate larger pay increases. Against that backdrop, the level of staff turnover has fallen as workers see less opportunity to secure large pay increases by switching jobs, and many are instead opting for certainty in their employment.

Expected wage growth

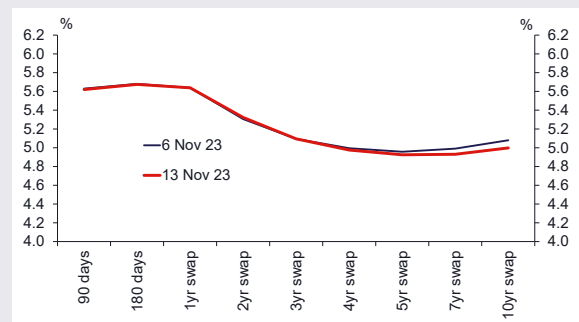


Fixed versus floating for mortgages.

The RBNZ has signalled that it expects to hold the cash rate at its current level of 5.50% for an extended period. We see a risk that the OCR could go higher in the coming months, and that interest rate cuts could be some time away.

We see value in fixing for terms as long as three years. Shorter terms could be more expensive, but would provide borrowers with greater flexibility.

NZ interest rates



Global wrap

North America.

Fed Chair Powell's speech at the IMF's annual research conference struck a hawkish tone. Powell highlighted the risk that stronger growth could delay the easing in inflation, and that would warrant a further response from monetary policy. He also noted that the FOMC is not confident that the stance of policy is restrictive enough to bring inflation down to 2%, and that the Fed would not hesitate to tighten policy further if appropriate to do so. Powell's comment supported a recovery in US Treasury yields, which nonetheless remain below the levels we saw prior to the Fed's November meeting. The US dataflow over the past week was relatively light. The highlight was November's University of Michigan Survey which pointed to an uncomfortable combination of slumping consumer confidence but a sharp rise in expectations for inflation. The focus this week will be on the October updates on CPI inflation, retail spending and industrial production. The CPI report will be especially important in determining the direction of bond yields.

Asia-Pacific.

As expected, last week the RBA hiked the cash rate 25bps to 4.35% with the Board highlighting increased concern about how quickly inflation is easing. We don't expect this will be followed by another hike in December. The last paragraph of the RBA statement contained a softening in forward guidance, noting that "Whether further tightening of monetary policy is required...will depend upon the data and the evolving assessment of risks." There's not enough data before the December meeting to push the RBA over the line. Nevertheless, the February meeting remains live. This week's focus will Thursday's labour market update, which is expected to show modestly below-trend jobs growth. Chinese data over the past week generally printed below expectations, with the CPI falling 0.2% in the year to September and the PPI down 2.6%. Similarly, exports fell 3% in the year to October. China's key domestic activity indicators for October will be released on Wednesday.

Other.

Crude oil prices have continued to slip and are now below the levels we saw prior to the start of the Israel/ Hamas conflict. With the conflict not broadening to other states, concerns about supply disruptions have eased back. In addition, prices have been weighed down by concerns about slowing global growth (especially in China). The data flow from Europe was light last week. ECB President Lagarde spoke and played down the chances of near-term rate cuts. Lagarde's comments noted upside risks for inflation and that rates are likely to remain high for longer.

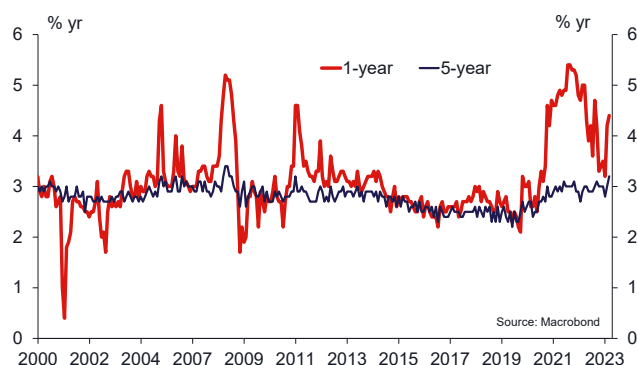
Trading partner real GDP (calendar years)

	Annual average % change			
	2021	2022	2023	2024
Australia	5.2	3.7	1.9	1.2
China	8.4	3.0	5.3	5.3
United States	5.9	2.1	2.4	1.5
Japan	2.1	1.1	1.8	1.1
East Asia ex China	4.3	4.5	3.4	4.3
India	9.1	6.8	6.4	6.4
Euro Zone	5.4	3.5	0.6	1.1
United Kingdom	7.6	4.0	0.3	0.5
NZ trading partners	6.2	3.2	3.4	3.3
World	6.3	3.4	3.1	3.1

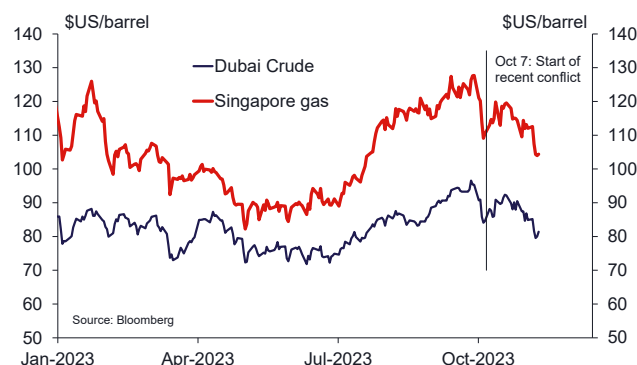
Australian & US interest rate outlook

	Latest	Dec-23	Jun-24	Dec-24
Australia				
Cash	4.35	4.35	4.35	3.85
90 Day BBSW	4.40	4.55	4.47	3.97
3 Year Swap	4.44	4.50	4.30	4.10
3 Year Bond	4.24	4.30	4.10	3.90
10 Year Bond	4.64	4.70	4.50	4.30
10 Year Spread to US (bps)	2	-10	-10	-10
US				
Fed Funds	5.375	5.375	4.875	4.375
US 10 Year Bond	4.62	4.80	4.60	4.40

US UoM inflation expectations



Global oil prices



Financial markets wrap

Interest rates.

NZ swap rates extended the month-old decline last week, with the 2yr swap now down a total of 53bp to 5.32%, while the 10yr has fallen a total of 46bp to 4.99%. Early in the week a softer US jobs report was the main catalyst, the move stalling after Fed chair Powell warned that they were not confident that their hiking cycle was over. Markets have priced out any further RBNZ rate hikes in this cycle. Moreover, a steady flow of swap receiving has resulted in markets pricing a rate cut as early as August 2024.

This week's NZ data calendar is largely second-tier, although still informative. REINZ house prices, migration, and electronic retail sales will be watched. The main offshore events of relevance to NZ markets will reports on US CPI inflation, Australian jobs and Chinese activity.

Given the speed of decline over the past month, and the lack of major NZ events, we expect the 2yr swap rate to consolidate above 5.20% during the week ahead. Regarding curve slope, a short period of flattening can be expected, but eventually the steepening trend should resume and continue into next year.

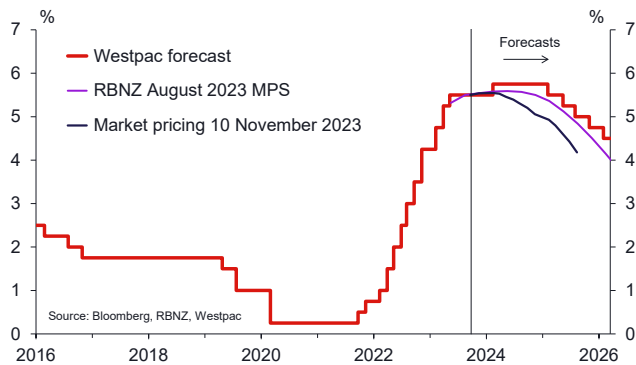
Foreign exchange.

NZD/USD remained above the 0.5800 support area last week, rising to 0.6000 after the softer US payrolls data, but then retracing half the move. Momentum suggests a retest of the 0.5800 area is possible during the week ahead, but much will depend on the outcome of US CPI inflation data.

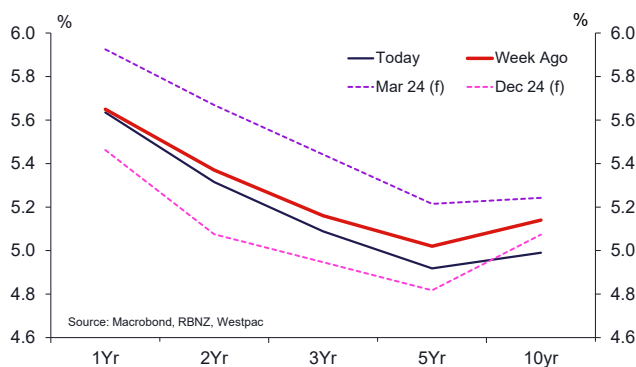
Any decline to 0.5800 would present another opportunity for those looking to hedge expected foreign currency receipts. Longer term, we expect NZD/USD to rise during 2024, ending the year at around 0.6200, if the USD weakens in line with diminishing US economic outperformance.

NZD/AUD last week bounced off 0.9150 to 0.9270, despite the RBA hiking its cash rate. The accompanying guidance was not as hawkish as markets had expected, and so the AUD fell in response. Further ahead, though, we expect the cross to find support from a less downbeat view on China's economic prospects for 2024. China's fiscal boost aimed at infrastructure should help Australia's commodity export mix relative to NZ's, even if for now it only seems evident in iron ore at 8-month highs. Moreover, the significant improvement in Australia-China diplomatic relations may also help boost demand for Australian services exports i.e. education and tourism. Multi-month, we target 0.9100.

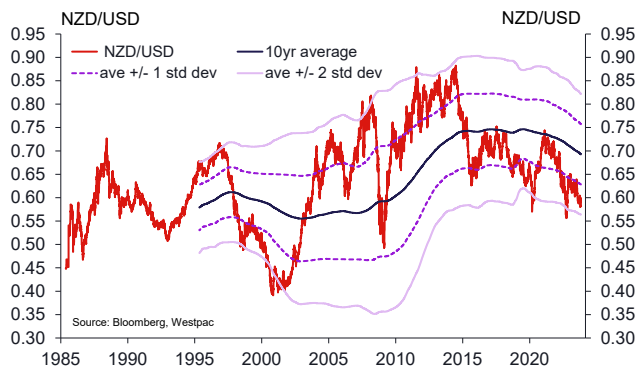
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mnt range	5yr range	5yr avg	Dec-24
USD	0.589	0.578-0.606	0.555-0.743	0.655	0.62
AUD	0.927	0.915-0.939	0.873-0.992	0.934	0.89
EUR	0.552	0.543-0.570	0.517-0.637	0.586	0.55
GBP	0.482	0.464-0.492	0.464-0.551	0.510	0.49
JPY	89.2	86.0-89.8	61.3-89.8	77.3	86.1

The week ahead

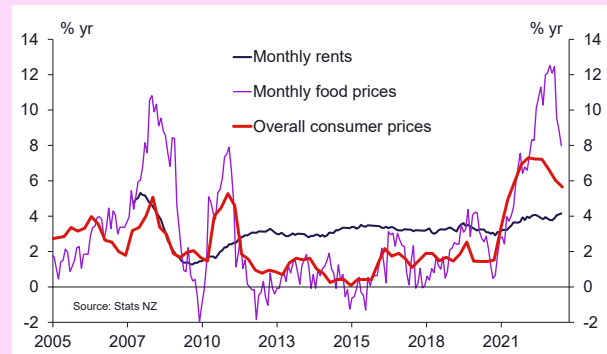
NZ Oct food prices and other monthly price gauges

Nov 14

From this month Stats NZ will be releasing an expanded suite of monthly price data. In addition to information on food prices and housing rents which they have already been providing, Stats NZ will now also provide monthly information on alcoholic beverages and tobacco, petrol and diesel, domestic and international airfares and accommodation services.

As prices for many of these goods and services can be volatile, they are often excluded when looking at 'core' measures of inflation. However, combined they account for around 44% of household spending. This information will help remove some of the uncertainty around the quarterly CPI result.

Consumer prices



NZ Oct REINZ house sales and prices

Nov 15, Sales* – Last: -3.4% mth, +5.1% annual

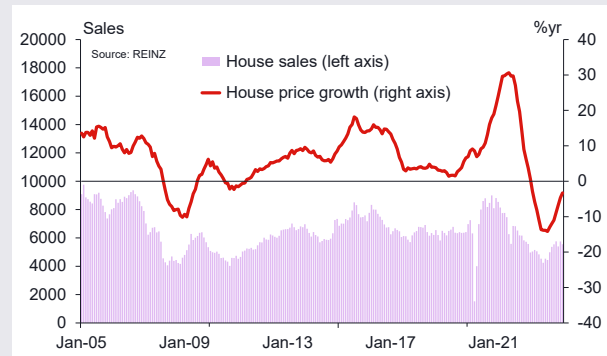
Prices* – Last: +0.1% mth, -3.3% annual

* Monthly figures based on Westpac seasonal adjustment

New Zealand's housing market has found a base, but it isn't roaring away just yet. Sales have picked up in recent months, though they remain at low levels. Similarly, the sharp fall in house prices seen over the past year has been arrested with prices starting to nudge higher in some regions.

After a pause in September, we expect the firming in the housing market continued through October. In addition to strong population growth, real estate agents are reporting enquiries have picked up over the past month. Even so, we still expect that the recovery in the housing market will remain gradual for now, with increases in borrowing rates and (potentially) some lingering election related uncertainty in the first half of the month.

REINZ house prices and sales



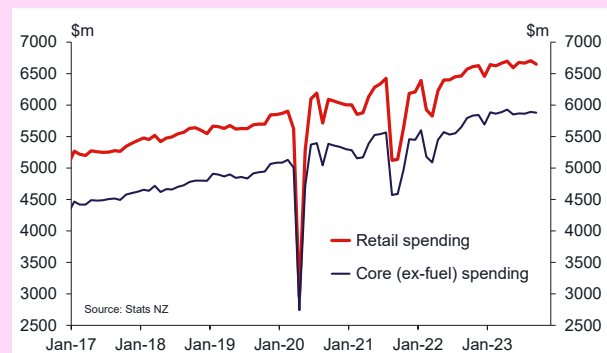
NZ Oct retail card spending

Nov 15, Last: -0.8%, Westpac f/c: +0.1%

Retail spending fell by 0.8% in September with widespread softness. Households' purchasing power has been significantly eroded by large increases in consumer prices, as well as related increases in financing costs.

We expect those financial headwinds will remain a drag on spending through the final months of the year, and are forecasting a muted 0.1% rise in retail spending in October. While the rapid increases in the population are providing a floor under spending, spending on items such as household durables is expected to remain soft.

NZ monthly retail card spending



The week ahead

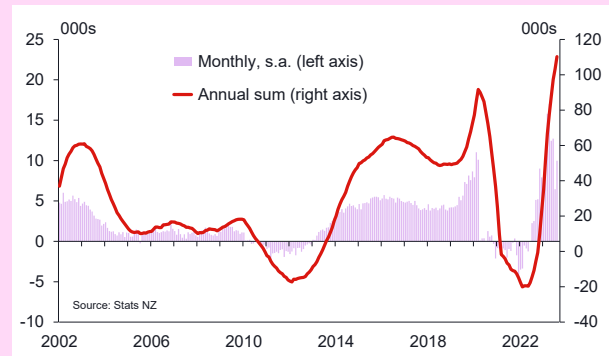
NZ September net migration

Nov 15, Last: +9,980 (s.a.)

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 April. Even so, with this month's net inflow likely to exceed that seen a year earlier, the annual inflow is likely to surpass the record 110,000 people reached in August. Indeed, the annual inflow could increase significantly if inflows in earlier months are revised higher, as has been the recent trend.

NZ net migration



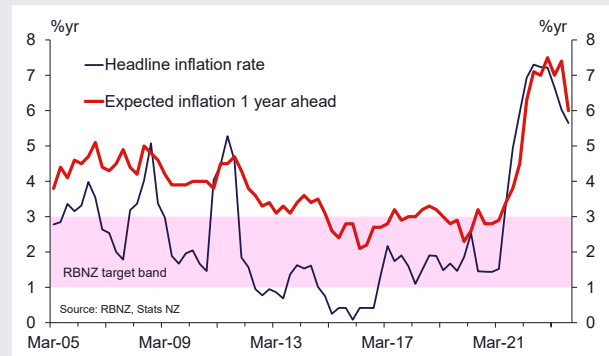
NZ RBNZ Household Expectations Survey

Nov 15, Last: Expected inflation one year ahead: +6.0%

The RBNZ looks at a range of measures when assessing how inflation expectations are evolving, including the expectations of households. The RBNZ's research has highlighted that, although they often overestimate how fast prices are rising, households' expectations tend to have greater explanatory power for inflation than surveys of business people.

As inflation has been easing, households' expectations for inflation have also fallen. We expect a further fall in November, especially as the survey comes on the back of the softer than expected September quarter inflation report. We'll also be watching how expectations for house prices and wages are evolving.

RBNZ Household Expectations Survey

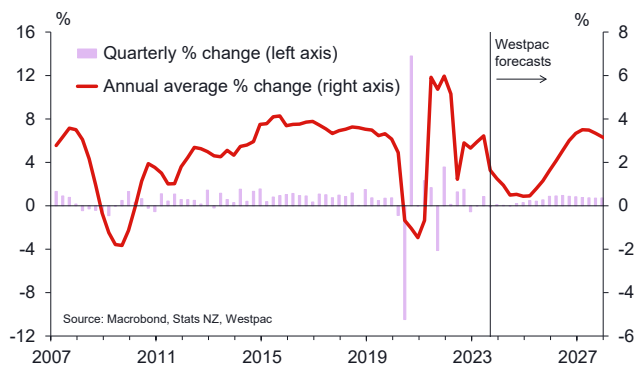


Economic and financial forecasts

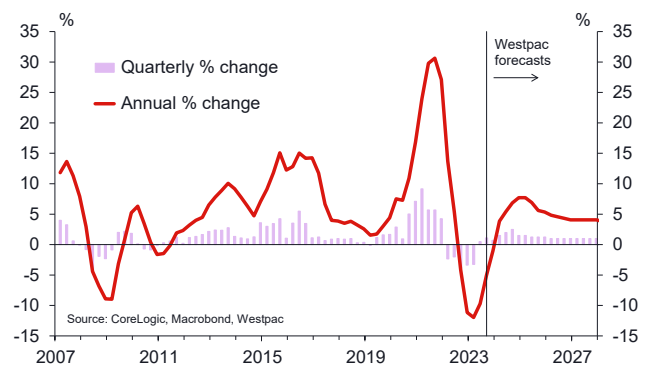
Economic indicators	Quarterly % change				Annual % change			
	Jun-23	Sep-23	Dec-23	Mar-24	2021	2022	2023	2024
GDP (production)	0.9	-0.1	0.1	0.2	6.0	2.7	1.2	0.9
Consumer price index	1.1	1.8	0.9	0.9	5.9	7.2	5.1	3.2
Employment change	1.0	-0.2	0.1	0.1	3.3	1.7	1.9	0.2
Unemployment rate	3.6	3.9	4.3	4.6	3.2	3.4	4.3	5.3
Labour cost index (all sectors)	1.1	1.1	0.9	0.8	2.6	4.1	4.2	3.4
Current account balance (% of GDP)	-7.5	-7.7	-7.3	-6.8	-5.8	-8.8	-7.3	-5.6
Terms of trade	0.4	-4.8	-1.7	2.9	2.8	-4.2	-7.5	9.5
House price index	0.5	2.1	1.0	1.5	27.0	-11.2	1.0	8.0

Financial forecasts	End of quarter				End of year			
	Jun-23	Sep-23	Dec-23	Mar-24	2021	2022	2023	2024
OCR	5.50	5.50	5.50	5.75	0.75	4.25	5.50	5.75
90 day bank bill	5.62	5.66	5.85	5.85	0.82	4.26	5.85	5.75
2 year swap	5.18	5.53	5.79	5.67	2.08	5.10	5.79	5.08
5 year swap	4.44	4.90	5.34	5.22	2.46	4.67	5.34	4.82
10 year bond	4.27	4.87	5.45	5.45	2.39	4.31	5.45	5.15
TWI	70.9	70.6	70.3	70.3	74.3	70.8	70.3	69.2
NZD/USD	0.62	0.61	0.60	0.61	0.70	0.60	0.60	0.62
NZD/AUD	0.93	0.92	0.91	0.91	0.95	0.92	0.91	0.89
NZD/EUR	0.57	0.56	0.56	0.56	0.61	0.59	0.56	0.55
NZD/GBP	0.49	0.48	0.49	0.49	0.52	0.51	0.49	0.49

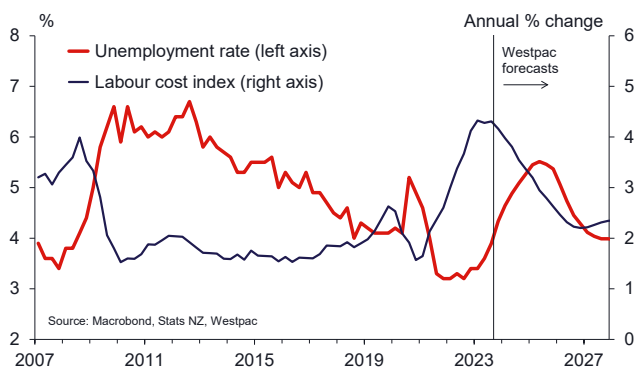
GDP growth



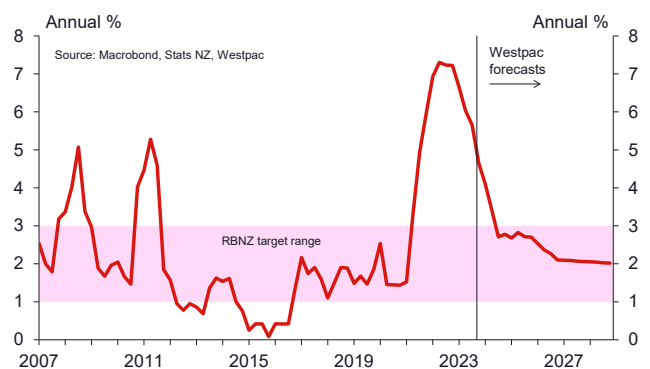
House prices



Employment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 13					
NZ	Oct BusinessNZ PSI	50.7	-	-	Set to remain low in the face of tight financial conditions.
Aus	RBA Acting Assist' Gov. (Economic)	-	-	-	Kohler, speaking at UBS Conference.
Tue 14					
NZ	Oct monthly price indicators	-	-	-	Stats NZ to release expanded set of month price gauges.
	RBNZ Assist' Gov. Silk	-	-	-	Speech on balance sheets and financial stability.
Aus	Nov WBC-MI Consumer Sentiment	82.0	-	-	Will capture the sentiment impact of the RBA's Nov rate hike.
	Oct NAB business survey	11	-	-	Cost & price pressures eased in Sep, as conditions moderated.
Eur	Q3 GDP	-0.1%	-0.1%	-	Second estimate.
	Nov ZEW survey of expectations	2.3	-	-	Rate hikes weighing on sentiment.
UK	Sep average weekly earnings %yr	8.1%	8.3%	-	Sustained lift in wage inflation remains a concern.
US	Oct CPI	0.4%	0.1%	0.1%	Services inflation to keep pressure on headline inflation.
	Oct NFIB small business optimism	90.8	-	-	Costs keeping businesses pessimistic.
	Fedspeak	-	-	-	Jefferson and Goolsbee.
Wed 15					
NZ	Oct REINZ house sales %yr	5.1%	-	-	Firming in housing market to continue but...
	Oct REINZ house prices %yr	-3.3%	-	-	... high interest rates acting as a brake on demand.
	Sep net migration	9980	-	-	A large inflow is likely; also watching for upward revisions.
	Sep retail card spending	-0.8%	-	0.1%	Financial headwinds weighing on spending.
	Q4 Household Expectations Survey	6.0%	-	-	Expectations to fall again following the drop in the inflation.
Aus	Q3 WPI	0.8%	1.3%	1.3%	Sep qtr lift boosted by an outsized minimum wage increase.
Jpn	Q3 GDP	1.2%	-0.1%	-	Net exports likely a drag; consumption will remain fragile.
Chn	Oct retail sales ytd %yr	6.8%	6.9%	-	Chinese consumers remain cautious.
	Oct industrial production ytd %yr	4.0%	4.1%	-	Asian demand is keeping production up.
	Oct fixed asset investment ytd %yr	3.1%	3.1%	-	Ex-property to show strength, property remains in slumber.
Eur	Sep industrial production	0.6%	-	-	Cars are a bright spot.
	Sep trade balance €bn	11.9	-	-	Asian demand added strength to exports.
UK	Oct CPI %yr	6.7%	-	-	Simmering goods inflation to aid disinflation.
US	Oct retail sales	0.7%	-0.3%	-	Pullback in consumer spending likely after surprise lift.
	Oct PPI	0.5%	0.1%	-	Oil price movements in October could feed through to PPI.
	Nov Fed Empire state index	-4.6	-2.1	-	Little reason to be upbeat about manufacturing.
	Sep business inventories	0.4%	0.4%	-	Uncertain demand outlook will keep inventories low.
Thu 16					
Aus	Oct employment change	6.7k	24.5k	25k	Hours worked is weakening as employment softens gradually...
	Oct unemployment rate	3.6%	3.7%	3.6%	... in line with low unemployment but rising underutilisation.
	Nov MI inflation expectations	4.8%	-	-	Provides a general view of risks.
Jpn	Sep core machinery orders	-0.5%	0.9%	-	Weakness in developed world demand weighing on orders.
US	Oct industrial production	0.3%	-0.4%	-	Downbeat manufacturing sentiment to see lower IP.
	Oct import price index	0.1%	-0.3%	-	Strong dollar keeping import prices low.
	Initial jobless claims	217k	-	-	To remain low, for now.
	Nov Philly Fed index	-9	-11	-	Regional indicators to show weakness in manufacturing...
	Nov Kansas City Fed index	-8	-	-	... sentiment as demand softens.
	Nov NAHB housing market index	40	40	-	Low inventory slows sales.
	Fedspeak	-	-	-	Mester, Williams and Barr.
Fri 17					
Eur	Oct CPI %yr	2.9%	2.9%	-	Final estimate.
UK	Oct retail sales	-0.9%	-	-	Rate hikes weigh in on discretionary spending.
US	Oct housing starts	7.0%	-0.6%	-	Tight financial conditions are dissuading residential...
	Oct building permits	-4.5%	-1.4%	-	... construction adding risks to pipeline of work.
	Fedspeak	-	-	-	Collins, Goolsbee and Daly.

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