



WEEKLY ECONOMIC COMMENTARY



18 Nov 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

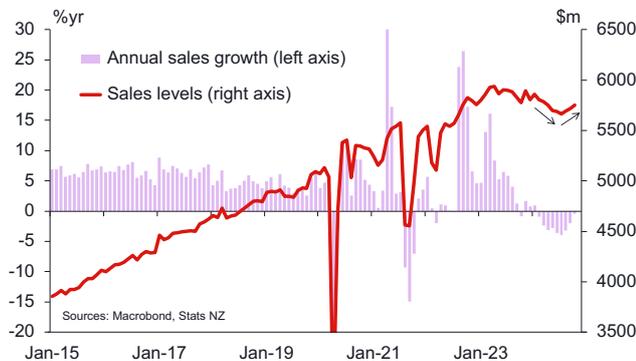
Activity stabilising, inflation contained.

The latest updates on activity have left us with a picture of mixed economic conditions. In some parts of the economy the downturn that we saw over the past year has flattened off and we're starting to see some early signs of a firming in demand. However, overall growth looks likely to remain sluggish through the final months of the year. At the same time, inflation is continuing to soften, meaning further interest rate reductions are in the pipeline.

Starting off with the household sector, October saw retail spending rise 0.6%. That was the third increase in a row and comes on the back of tax cuts in late July, as well as the start of the RBNZ's rate cutting cycle in August.

The rise in retail spending over the past few months follows sharp falls through the first half of the year, and spending is still down on where it was at the start of 2024. However, the gains that we are now seeing are an encouraging sign, especially as the full impact of interest rate cuts is yet to be felt.

Core retail spending

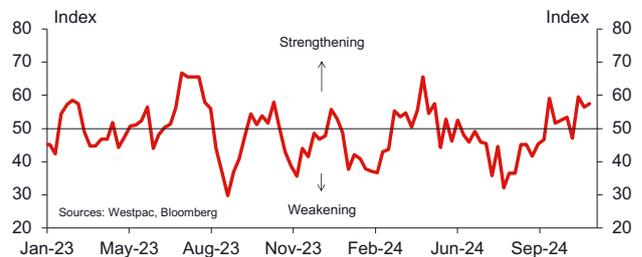


Other parts of the economy are also starting to firm, but only gradually with overall conditions remaining sluggish. Notably, while the October manufacturing PMI

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	↗
NZ economy	↘	→	↗
Inflation	↘	→	→
2 year swap	→	→	↗
10 year swap	↗	→	↗
NZD/USD	↘	→	→
NZD/AUD	↘	↘	↘

Westpac New Zealand Data Pulse Index

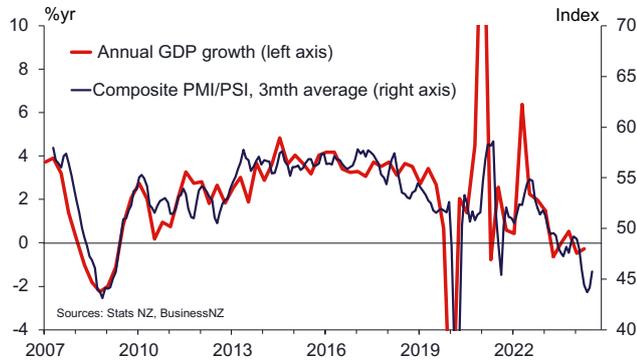


Key data and event outlook

Date	Event
27 Nov 24	RBNZ OCR Review & Monetary Policy Statement
5 Dec 24	Govt financial statements, 4 months to October
10 Dec 24	RBA Monetary Policy Decision
16 Dec 24	NZ Selected price indexes, November
17 Dec 24	Half-Year Economic and Fiscal Update
18 Dec 24	FOMC Meeting (Announced 19 Dec NZT)
19 Dec 24	NZ GDP, September quarter
14 Jan 25 (tbc)	QSBO business survey, December quarter
16 Jan 25	NZ Selected price indexes, December
22 Jan 25	NZ CPI, December quarter
29 Jan 25	FOMC Meeting (Announced 30 Jan NZT)
5 Feb 25	Labour market statistics, December quarter
13 Feb 25	RBNZ Survey of Expectations, December quarter
14 Feb 25	NZ Selected price indexes, January

did suggest that forward orders are declining at a slower pace, overall conditions remained subdued. As a result, the headline index declined modestly to 45.8, consistent with further softness in the manufacturing sector.

Activity indicators and GDP growth

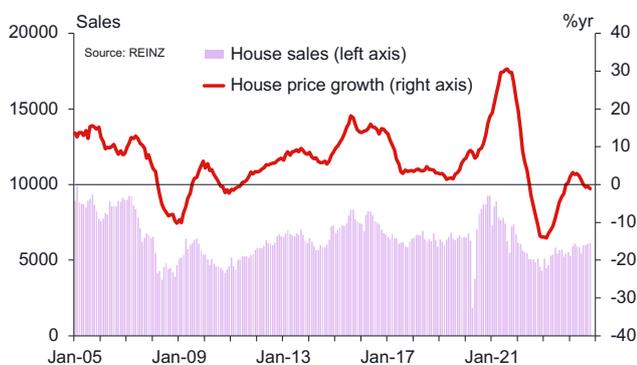


Similarly, in the construction sector the declines in both dwelling consent numbers and concrete production have flattened off, but they are yet to turn higher. We expect residential building activity will remain subdued through the final months of this year and early part of next year, with signs of a material turn higher not expected until the latter part of 2025.

A key influence on both the strength of household spending and construction activity will be the performance of the housing market. On this front, things are still looking pretty flat. Sales have been tracking sideways. Similarly, prices edged down 0.5% in October and have effectively been flat to slightly down over the past year.

We expect that the softness in the housing market and economic activity more generally will give way to stronger activity over the year ahead. That's due to the easing in financial conditions that is already rippling through the economy and which is helping to offset the squeeze on household and businesses' finances.

REINZ house prices and sales



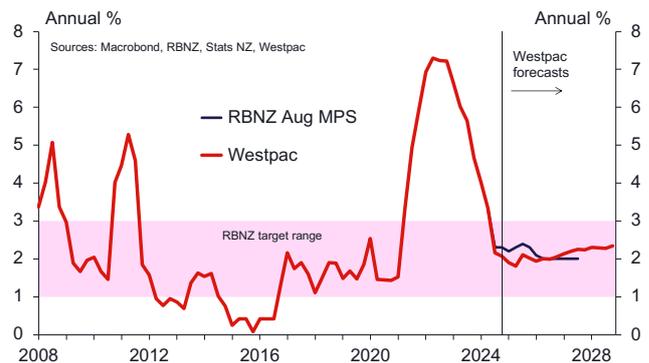
A big part of that easing in financial conditions has been the decline in inflation pressures. Inflation slowed to 2.2% in the year to September and Stats NZ's latest update pointed to further downward pressure in the final part

of the year. The October prices report showed that food prices have fallen 0.9% over the past month. We're also seeing more subdued pricing pressure in areas like hospitality, fuel and rent.

While some of the recent softness in consumer prices has been in volatile areas, the overall trends that we're seeing are consistent with a continued cooling in underlying inflation pressures. Reflecting those trends, the RBNZ's own survey of inflation expectations painted a picture of well contained pressures. Although there was a slight tick higher in longer-term inflation expectations, they remain close to 2%, and expectations for inflation over the coming year have fallen sharply.

We're currently forecasting a 0.4% rise in consumer prices in the December quarter, and last week's updates indicate downside risk to that forecast. Importantly, our forecast is already lower than the RBNZ's last published forecast from August for a 0.5% quarterly rise in consumer prices. We expect the updated projections in the RBNZ's 27 November policy statement will incorporate a lower near term inflation outlook, with inflation likely to track close to 2% over the coming year, with some risk of a temporary dip below 2%.

Consumer price inflation



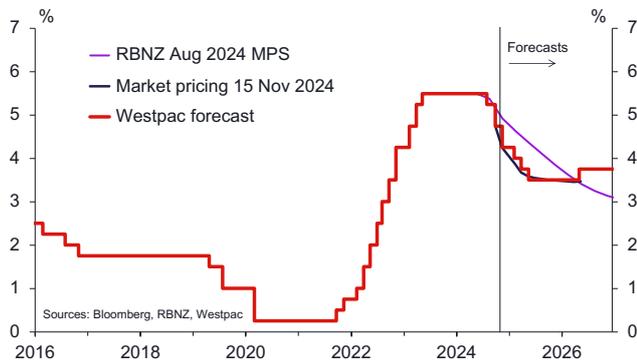
With that well-contained inflation outlook, we expect that the RBNZ will deliver a 50bp cut in the OCR at the upcoming November meeting.

But even with inflation pressures looking much better contained than they have for a long time, the risks are not all in one direction. The global landscape is looking a lot rockier, especially in the wake of the recent US election. The related downside risks for the NZD could offset the some of the recent softness in imported inflation. At the same time, we are still seeing strong increases in some domestic costs, like local council rates and insurance charges. Those increases mean that non-tradables inflation (a key focus for the RBNZ) is easing only gradually, and that's limiting the downside for overall inflation.

In light of such concerns, we expect that the RBNZ will adopt a more gradual and data dependent approach to policy changes next year. We're forecasting that the RBNZ will continue to cut the cash rate in the early part of next

year, but in more measured 25bp increments, with the cash rate expected to reach a low of 3.50% by mid-2025.

Official Cash Rate forecasts



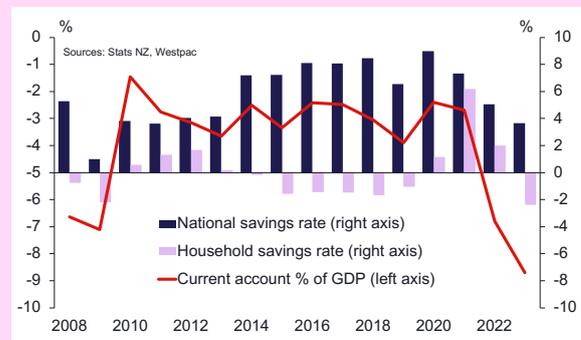
Satish Ranchhod, Senior Economist

Chart of the week.

Last week, Stats NZ released the annual National Accounts for the year ended March 2023. Based on improved data, Stats NZ now think that household consumption spending was higher than previously estimated, while household disposable income was lower than previously estimated. As a result, household savings fell \$6.5bn – much more than thought previously – which equates to a savings rate of -2.4% of net adjusted disposable income. This is the weakest outcome in 16 years but follows a period when household savings had been unusually positive – especially by New Zealand’s poor standard – as consumption spending was constrained artificially during the pandemic.

Overall national savings stood at \$11.8bn in the year to March 2023. The savings rate of 3.7% of disposable income marked the weakest outcome for 10 years. And with savings well below that needed to fund the nation’s investment, this led to a substantial current account deficit of \$34bn or 8.6% of GDP.

Savings and the current account deficit

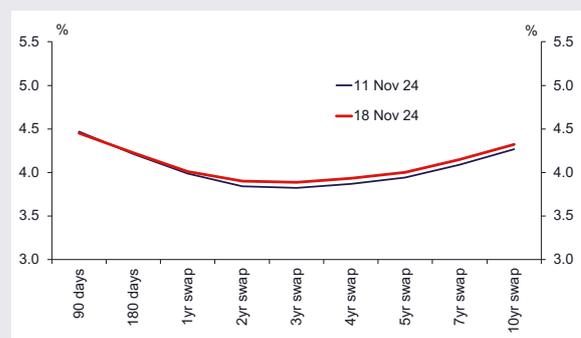


Fixed versus floating for mortgages.

The RBNZ followed up August’s 25bp cut in the OCR with a supersized 50bp cut at its October policy review. We expect another 50bp cut at the November review, with further, but more gradual, cuts in 2025.

A significant amount of OCR easing is already factored into longer-term mortgage rates. This suggests that it’s now more attractive to fix for longer periods than it has been for a while – perhaps even for terms as long as two to three years. Mortgage rates for shorter terms of up to a year are substantially higher now but are likely to fall in the coming months towards current longer term fixed rates.

NZ interest rates



Global wrap

Asia-Pacific.

In Australia, the Westpac-MI consumer sentiment survey rose 5.3% in November, the second month of strong gains. Most of the improvement has been centred on forward-looking views on the economy and family finances, while current conditions have picked up but remain at historically weak levels. Notably, there was a marked deterioration in survey responses after the US election result. Employment rose by a more modest 16k in October, although with the unemployment rate holding at 4.1% and labour force participation still near a record high, the Australian labour market remains in robust health. The week ahead is light on data, but with RBA officials speaking on Monday and Thursday.

Chinese officials provided more detail on a debt swap package that will allow local governments to refinance 'hidden debt' at a lower cost, freeing up funds that can be directed towards infrastructure spending and support for the housing sector. Activity data for October suggested that the authorities' shift towards proactive support is paying off, but also highlighted that more direct stimulus will likely be necessary. Retail sales accelerated and the decline in house prices slowed, but growth in fixed assets and industrial production were little changed.

North America.

The US CPI report for October was in line with expectations, with prices rising by 0.2%*mth* (2.6%*yr*) on the headline and 0.3%*mth* (3.3%*yr*) on the core measure. Shelter remains the one significant laggard in the cooling of inflation, with annual growth still running near 5%. However, the FOMC does not seem overly concerned about this item, given that rental growth for current agreements is now close to zero. We continue to expect another 25bp rate cut at the 18 December policy review, although FOMC Chair Powell noted last week that "the economy is not sending any signals that we need to be in a hurry to lower rates", and that the path of the policy rate will be data-dependent.

Europe and UK.

The UK economy remains subdued, with GDP growing by just 0.1% in the September quarter (and the monthly GDP measure slipping into negative territory in September). This week's CPI report is expected to see annual inflation rise above 2% again after last month's sharper than expected slowdown to 1.7%. Euro zone GDP rose by 0.4% in Q3, in line with forecasts. Data is light for the week ahead, but ECB President Lagarde will be speaking on Friday night.

Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	2.4
China	5.2	5.0	4.8	4.5
United States	2.9	2.7	2.3	2.0
Japan	1.9	0.1	1.1	0.9
East Asia ex China	3.3	4.2	4.1	4.1
India	7.8	7.0	6.8	6.5
Euro Zone	0.4	0.6	1.5	1.5
United Kingdom	0.1	1.0	1.4	1.5
NZ trading partners	3.3	3.2	3.4	3.2
World	3.2	3.3	3.3	3.3

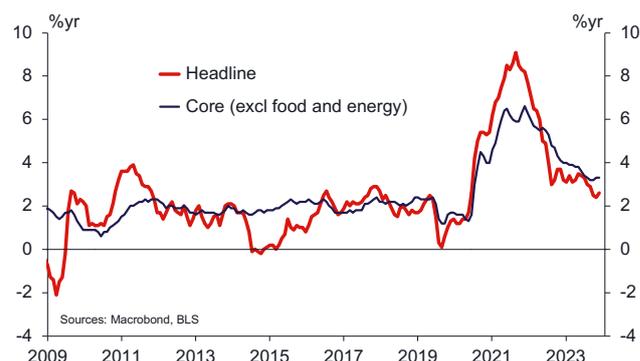
Australian & US interest rate outlook

	15 Nov	Dec-24	Mar-25	Dec-25
Australia				
Cash	4.35	4.35	4.10	3.35
90 Day BBSW	4.42	4.42	4.19	3.50
3 Year Swap	4.11	4.00	3.90	3.80
3 Year Bond	4.18	3.95	3.80	3.65
10 Year Bond	4.65	4.50	4.45	4.55
10 Year Spread to US (bps)	19	20	15	5
US				
Fed Funds	4.625	4.375	3.875	3.375
US 10 Year Bond	4.46	4.30	4.30	4.50

Australian consumer & business confidence



US CPI inflation



Financial markets wrap

Interest rates.

NZ swap rates retain an upward bias, following global moves, in particular the US which has responded to stronger economic data as well as the prospect of higher interest rates under Trump.

The 2yr swap formed a base at 3.50% in October – the lowest level since 2022, and possibly the low point in this easing cycle. There is potential for a test of 4.00% during the month ahead. Forward swap rates tell us the market currently does not expect to see a 2yr rate any lower than 3.75% in this cycle.

Event risk this week is light. There's Fedspeak and inflation expectations data in the US, and some RBA commentary to watch, but nothing noteworthy in NZ. The next major NZ event will be the RBNZ MPS on 27 November.

Markets have pared pricing for RBNZ easing to reflect a 100% chance of a 50bp cut on 27 November, but now no chance of a larger 75bp cut. The OCR cycle low is now priced to be around 3.40%, close to Westpac's forecast of 3.50%, but higher than the 3.00% the RBNZ projected in August.

Foreign exchange.

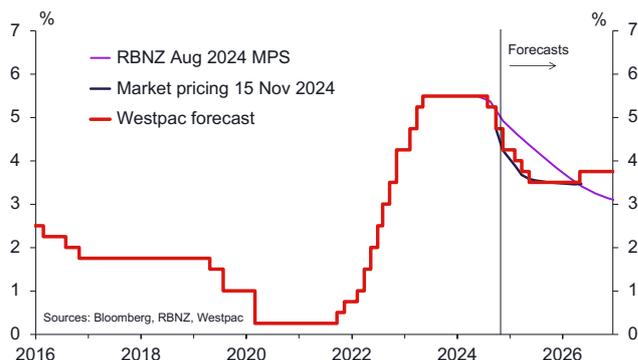
NZD/USD retains downward momentum following a 5c decline over the past six weeks. There are some key support levels nearby which look vulnerable, 0.5850 and 0.5775. A break below the latter would signal the NZD could fall a lot further.

The main driver remains the strong US dollar, which was further boosted ahead of, and after, Trump's victory. A pro-growth regime should, all else equal, be USD-positive. In addition to the US dollar, NZ-US yield spreads, which are now negative for short maturities (which means it is costly to hold the NZD vs the USD) have weighed and are likely to continue doing so for some time.

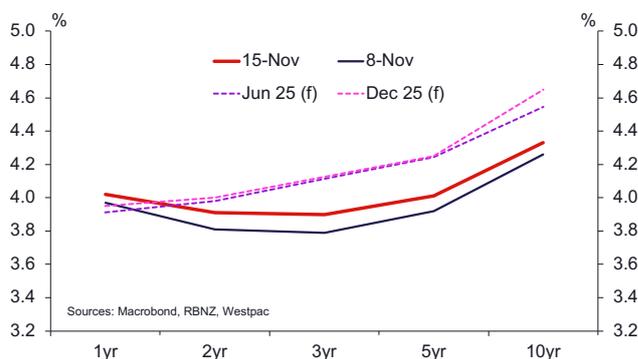
The fall in NZD/USD will be welcomed by NZ exporters, with hedging levels below 0.5900 seen as attractive.

NZ-AU yield spreads are also negative, and have helped depress NZD/AUD, although the Trump victory has provided some support. A trade war would likely be positive for NZD/AUD, since the AUD tends to underperform during such events. We remain bearish NZD/AUD for the month ahead, targeting 0.89, but cautiously so as we await US trade policy details.

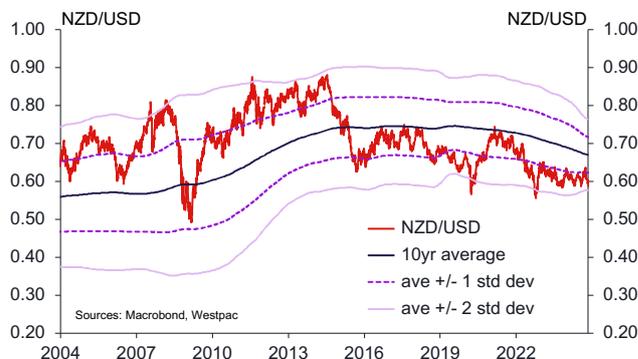
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

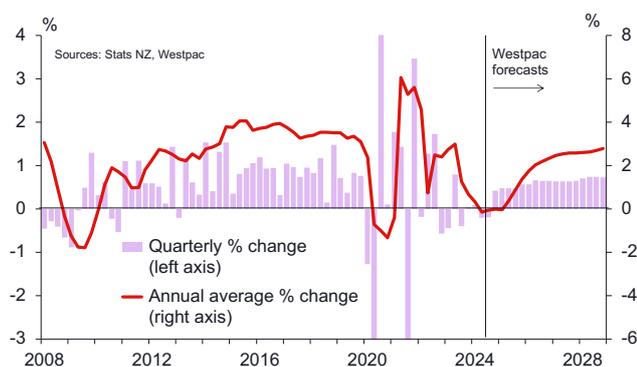
	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-24
USD	0.586	0.584-0.636	0.555-0.743	0.644	0.59
AUD	0.907	0.902-0.925	0.873-0.992	0.929	0.89
EUR	0.556	0.544-0.569	0.517-0.637	0.581	0.55
GBP	0.464	0.458-0.476	0.456-0.535	0.502	0.46
JPY	90.3	86.5-92.1	61.3-98.6	81.2	90.3

Economic and financial forecasts

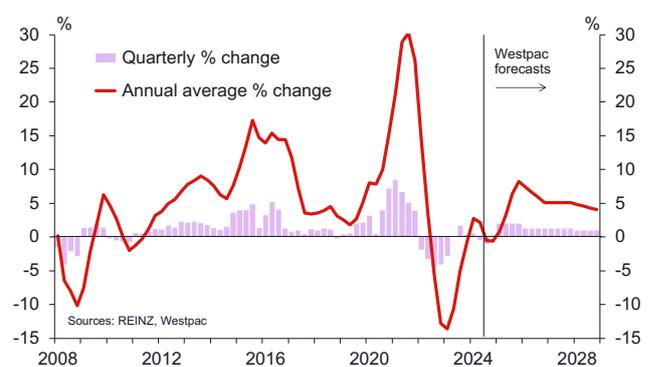
Economic indicators	Quarterly % change				Annual % change			
	Jun-24	Sep-24	Dec-24	Mar-25	2023	2024	2025	2026
GDP (production)	-0.2	-0.2	0.3	0.4	0.7	0.0	1.5	2.8
Consumer price index	0.4	0.6	0.4	0.5	4.7	2.1	2.0	2.1
Employment change	0.2	-0.5	-0.3	-0.1	2.8	-1.0	0.2	2.1
Unemployment rate	4.6	4.8	5.1	5.3	4.0	5.1	5.4	4.6
Labour cost index (all sectors)	1.2	0.6	0.7	0.5	4.3	3.5	2.0	1.8
Current account balance (% of GDP)	-6.7	-6.3	-5.7	-5.0	-7.1	-5.7	-3.9	-4.5
Terms of trade	2.0	2.0	4.9	1.4	-10.7	14.8	0.8	1.1
House price index	-0.4	-1.0	0.3	2.0	-0.6	-0.6	8.2	5.1

Financial forecasts	End of quarter				End of year			
	Jun-24	Sep-24	Dec-24	Mar-25	2023	2024	2025	2026
OCR	5.50	5.25	4.25	4.00	5.50	4.25	3.50	3.75
90 day bank bill	5.63	5.31	4.25	3.80	5.65	4.25	3.60	3.85
2 year swap	5.01	4.06	3.80	3.80	5.28	3.80	3.95	4.00
5 year swap	4.53	3.81	3.85	3.90	4.85	3.85	4.15	4.25
10 year bond	4.74	4.31	4.55	4.55	5.09	4.55	4.70	4.85
TWI	71.4	70.9	69.0	68.1	70.8	69.0	66.7	67.6
NZD/USD	0.61	0.61	0.59	0.59	0.60	0.59	0.59	0.61
NZD/AUD	0.92	0.91	0.89	0.88	0.93	0.89	0.85	0.85
NZD/EUR	0.56	0.56	0.55	0.54	0.56	0.55	0.54	0.55
NZD/GBP	0.48	0.47	0.46	0.45	0.49	0.46	0.45	0.46

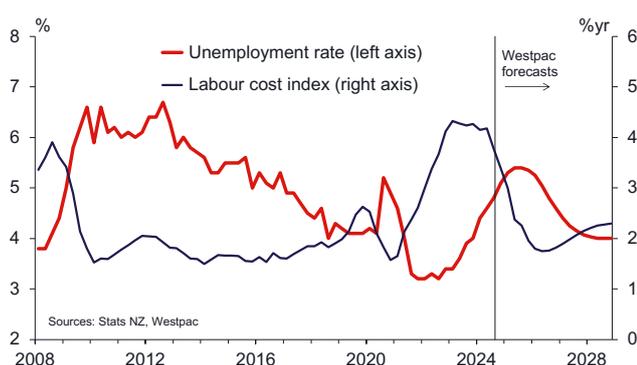
GDP growth



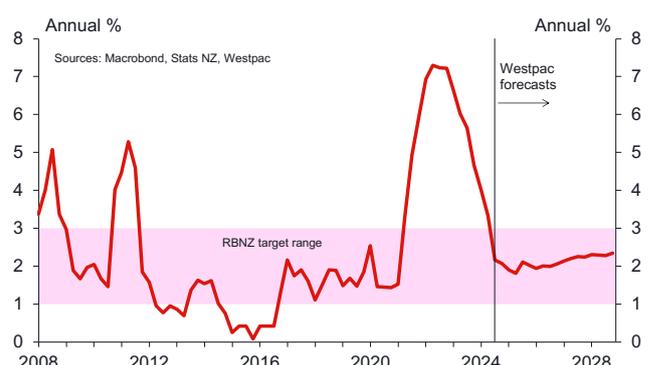
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 18					
NZ	Oct BusinessNZ PSI	45.7	-	-	Continues to indicate contraction of services activity.
Aus	RBA Assist' Governor (Fin Market)	-	-	-	Kent speaking in Canberra.
Jpn	Sep Core Machinery Orders, %mth	-1.9	1.5	-	Fading momentum points to downside risk to investment.
Eur	Sep Trade Balance, €bn	11.0	-	-	At risk of further narrowing near-term, on soft demand.
US	Nov NAHB Housing Market, index	43	42	-	Some firming in recent months, but a long road ahead.
Tue 19					
Aus	Nov RBA Minutes	-	-	-	Board did not actively consider a rate hike or cut, like September.
Eur	Oct HICP Inflation, %ann	2.0	-	-	Final estimate detail to support ECB's patient approach to rates.
US	Oct Building Permits, %mth	-3.1	1.2	-	Lower borrowing costs should support activity...
	Oct Housing Starts, %mth	-0.5	-1.2	-	... but the effect will probably come with a lag.
Wed 20					
Aus	Oct Westpac-MI Leading Index, %ann'd	-0.15	-	-	Set to capture positive changes in key components.
UK	Oct CPI, %ann	1.7	2.1	-	Focus on services inflation.
Thu 21					
Aus	RBA Governor Bullock	-	-	-	Speaking at the Women in Payments Conference.
Eur	Nov Consumer Confidence, index	-12.5	-	-	Scope for confidence recovery to speed up, on inflation and rates.
US	Nov Philly Fed, index	10.3	-	-	Manufacturing broadly characterised as subdued...
	Nov Kansas City Fed, index	-4	-	-	... across most of the nation.
	Oct Leading Index, %mth	-0.5	-	-	Pointing to downside growth risks.
	Oct Existing Home Sales, %mth	-1.0	1.0	-	Holding at its nadir as sellers wait patiently for lower rates.
	Initial Jobless Claims	-	-	-	Downside risks to the labour market are growing.
	Fedspeak	-	-	-	Goolsbee, Hammack.
Fri 22					
Jpn	Oct CPI, %ann	2.5	2.3	-	Confidence over inflation growing; BOJ monitoring global risks.
	Nov Jibun Bank Manufacturing PMI, index	49.2	-	-	Contracting as demand, both local and global, weakens...
	Nov Jibun Bank Services PMI, index	49.7	-	-	... with early signs broadening into services activity.
Eur	Nov HCOB Manufacturing PMI, index	46.0	46.0	-	Manufacturing stuck in contraction for over two years...
	Nov HCOB Services PMI, index	51.6	52.0	-	... continued growth in services provides a meaningful offset.
	ECB President Lagarde	-	-	-	Keynote address at the Frankfurt European Banking Congress.
UK	Nov GfK Consumer Sentiment, index	-21	-	-	Reception to UK Budget in focus; backdrop otherwise improving.
	Oct Retail Sales, %mth	0.3	-	-	Improving real wages coincide with higher retail spending.
	Nov S&P Global Manufacturing PMI, index	49.9	-	-	UK manufacturing on relatively firmer footing compared to peers.
	Nov S&P Global Services PMI, index	52.0	-	-	Services are where inflationary pressures persist.
US	Nov S&P Global Manufacturing PMI, index	48.5	-	-	Headwinds linger for US industry...
	Nov S&P Global Services PMI, index	55.0	-	-	... while services provide a welcome offset.
	Nov Uni. Of Michigan Sentiment, index	73.0	72.0	-	Final estimate.

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