Research

New Zealand At A Glance

2 February 2024

Overview

The New Zealand economy is struggling. It has contracted in three of the last four quarters. We expect more of the same until the second half of this year. All this despite rapid population growth and a resurgence in tourism. With labour supply expanding rapidly and demand growth moderating, the labour market is easing quickly. All this means inflationary pressures are abating, but the RBNZ is not convinced the reduction in inflation is fast enough nor necessarily sustainable. Accordingly, it remains reluctant to provide any suggestion the cash rate might fall any time soon.

Key Indicators	December Years					
	Actual			Forecasts		
	2020	2021	2022	2023	2024	2025
GDP production (an avg %)	-1.4	5.5	2.4	0.7	-0.1	2.7
Consumers Price Index (ann %)	1.4	5.9	7.2	4.7	2.9	1.8
Unemployment Rate (end qtr %)	4.9	3.2	3.4	4.3	5.7	5.8
Current Account (% of GDP)	-1.0	-5.8	-8.8	-7.1	-5.7	-4.2
Fiscal Balance (% GDP June Yr)	-7.3	-1.3	-2.7	-2.4	-2.7	-1.4
NZD/USD (Dec mth avg)	0.71	0.68	0.63	0.62	0.65	0.71
Overnight Cash Rate (Dec mth end %)	0.25	0.75	4.25	5.50	4.75	2.75
10 Year Govt Bond (Dec mth avg %)	0.90	2.40	4.20	4.70	4.30	4.10

International

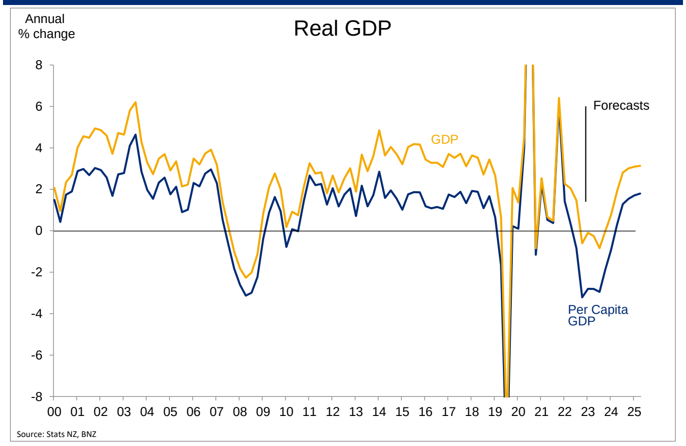
Geopolitical risks remain front of mind. Concern over potential trade disruptions in the Red Sea is the latest cab off the rank but there's still Russia-Ukraine and the Gaza war (including the threat that this might spread into a much bigger conflict) to contend with. As if all this wasn't enough, increasing Sino-Western tensions are still prevalent. To cap things off, it's election season across the planet with the US Presidential election a significant focus. Meanwhile, expectations for New Zealand trading partner growth remain a little sub-par. (Goods) exported-weighted growth of 2.8% is forecast for calendar 2024 down from 3.2% in calendar 2023 and well down from its long-term average of 3.7%.

Stable but sub-par

Growth

The New Zealand economy is bouncing along the bottom. It will stay this way until at least the third quarter of this year. Growth for calendar 2024 is likely to be near zero. Except for 2020's COVID lockdown, this will be the worst performance since the dark days of the Global Financial Crisis. And don't forget it looks like growth in 2023 was also sub 1.0%. What makes this even more staggering is that the annual expansion in our population is approaching 3.0%. Thus, on a per capita basis the economy is already deeply recessive. In the year ahead we expect consumption, government spending and investment to all contract.

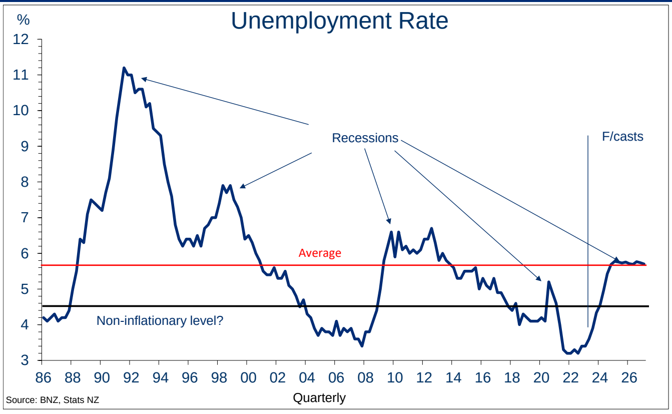
Ouch!!



Labour Market

The unemployment rate has started to rise. It's gone from a low of 3.2% in the September Quarter 2022 to 3.9% currently. We forecast it will rise rapidly from here to a peak approaching 6.0% in calendar 2025. Demand for labour will soon start to slow at the very same time that record levels of net immigration dramatically increase supply. The slackening in the labour market is already clear to see. Businesses are reporting that finding staff is getting increasingly easier. Labour market turnover is dropping, and the ratio of job applications to job ads has hit a record high. All of this is starting to put downward pressure on wage inflation.

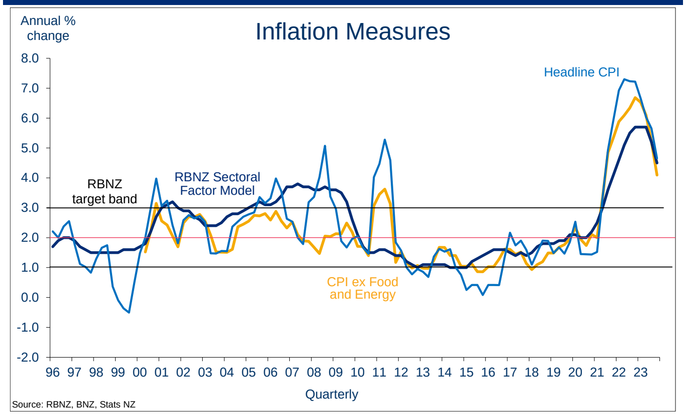
Unemployment on the up



Inflation

Inflation has peaked. As at December 2023 annual CPI inflation was 4.7%. This is a far cry from the 7.2% reported a year earlier. Importantly, not only has headline inflation headed lower but core measures have followed suit. We expect more of the same. We anticipate that annual inflation will be sub 3.0% by the third quarter of this year and be at target by the end of 2025. Tradables prices are leading the way as higher interest rates curtail the demand for big ticket items and discretionary goods. Non-tradables inflation will be slower to respond as price pressures remain elevated for less-interest-driven groups such as insurance and rates.

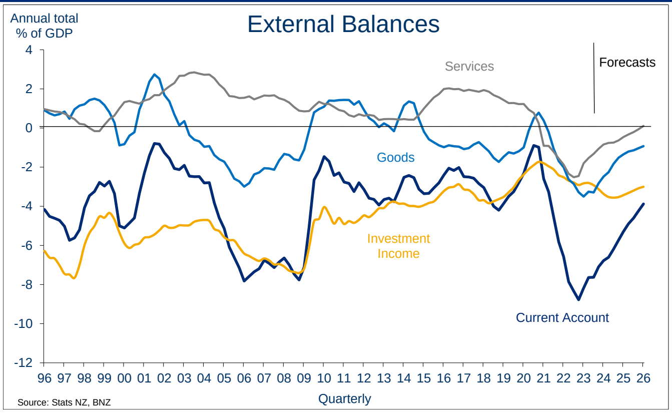
Going down fast



External Accounts

For a while the expansion in New Zealand's external deficit was disconcerting. In a little over two years the current account deficit had risen from a mere 0.9% of GDP to a worrisome 8.8%. The pace of this deterioration was starting to gain the attention of the rating agencies and talk rose of the possibility of a credit rating downgrade. The worm has now turned. The deficit has fallen to 7.6% of GDP and our expectation is that it keeps falling for some time. This is further indication that monetary policy is working to slow the economy with falling imports a key driver of the improvement. A massively improved travel balance has also been helpful.

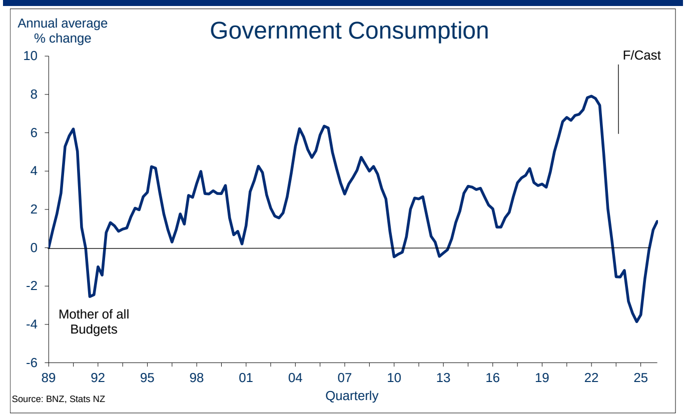
External balances improving



Fiscal Policy

The Government has vowed to slash government consumption. Success on this front will be a necessity if its forecast of an improving fiscal balance is to be achieved. It will also be needed to facilitate proposed tax cuts in a manner that will not be inflationary. Do not underestimate the size of the proposed spending cuts. They are bigger than those included in Ruth Richardson's legendary "mother of all budgets". The fiscal deficit for the year ended June 2023 was 2.4% of GDP. The government intends returning this to surplus in fiscal 2027. We think this will be a tough ask given the expected softness of the economy over the period.

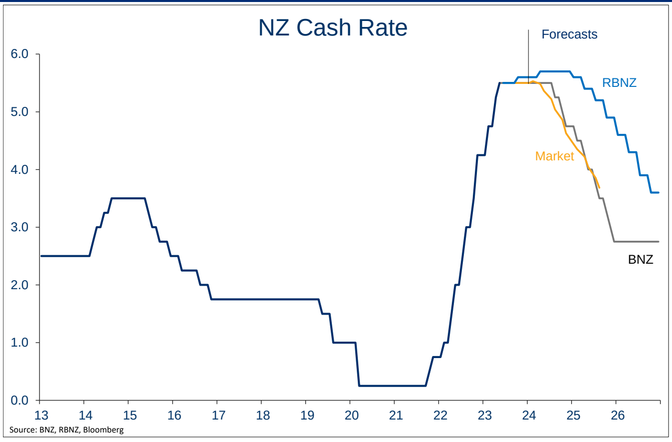
Battening down the hatches



Interest Rates and RBNZ Policy

Inflation is falling, the labour market is easing, the economy is flatlining so the time is ripe for the RBNZ to consider rate cuts. And bear in mind that monetary policy tends to take around 18 months to have its full impact, so this means the economy has only just fully adjusted to a 3.0% cash rate. With all this in mind, financial markets have priced in almost four 25 basis point rate cuts by the end of this year. We too believe rate cuts are warranted but think the market may be getting ahead of itself. The RBNZ certainly thinks it is and shows no sign of backing down from its expectation that the cash rate will not fall until well into 2025.

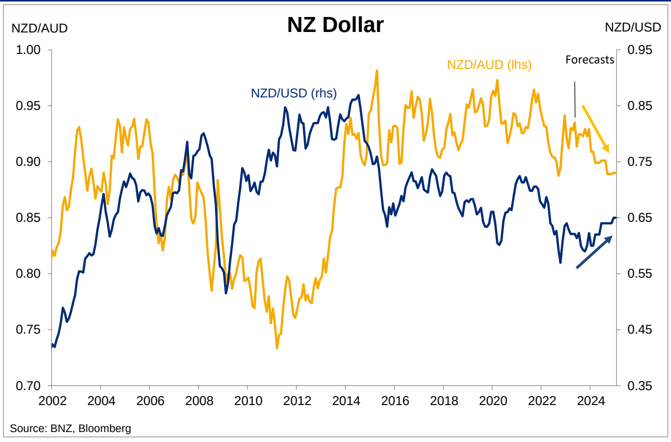
RBNZ will have the final say



Exchange Rates

We expect the New Zealand Dollar to appreciate against the USD over the remainder of this year. This is not so much a view on the strength of the local currency but more an expectation that the USD weakens against the majors. We maintain the view that the Fed will ease aggressively and that this will weaken the USD. In addition, we think the NZD is underpriced relative to global risk metrics. More generally, though, we see inherent weakness in the NZD driven by our relatively poor economic outlook. This is particular the case with comparison to Australia against whose dollar we are expected to depreciate.

USD outlook the key



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Quarterly Forecasts

Forecasts as at 2 February 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Dec-23 to Dec-24

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP (production s.a.)	1.8	-0.6	-0.2	0.5	-0.3	-0.1	-0.4	-0.1	0.6	0.7
Retail trade (real s.a.)	-0.5	-0.8	-1.3	-0.9	0.0	0.5	0.2	0.6	0.8	0.9
Current account (ytd, % GDP)	-8.3	-8.8	-8.2	-7.6	-7.6	-7.1	-6.8	-6.6	-6.2	-5.7
CPI (q/q)	2.2	1.4	1.2	1.1	1.8	0.5	0.6	0.6	1.1	0.5
Employment	1.4	0.6	1.0	1.0	-0.2	0.3	-0.1	0.0	0.1	0.3
Unemployment rate %	3.2	3.4	3.4	3.6	3.9	4.3	4.5	5.0	5.4	5.7
Avg hourly earnings (ann %)	8.6	8.1	8.2	7.7	7.1	7.0	6.2	5.5	4.4	4.3
Trading partner GDP (ann %)	3.7	2.1	2.9	3.5	3.1	3.2	2.7	2.8	2.7	2.9
CPI (y/y)	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.6	2.9	2.9
GDP (production s.a., y/y))	6.4	2.3	2.1	1.5	-0.6	-0.1	-0.3	-0.8	0.0	0.8

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock: 90 Day Bank Bills	5 Year	10 Year	Swaps: 2 Year	5 Year	10 Year	US Rates: Libor 3 month	US 10 yr	Spread: NZ-US Ten year
2022 Sep	2.83	3.33	3.65	3.77	4.12	3.95	3.95	3.00	3.10	0.67
Dec	4.00	4.27	4.34	4.31	5.10	4.67	4.55	4.50	3.80	0.49
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.63	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
Forecasts										
2024 Mar	5.50	5.60	4.85	4.90	4.90	4.75	4.65	5.80	4.40	0.50
Jun	5.50	5.50	4.60	4.70	4.50	4.50	4.50	5.55	4.20	0.50
Sep	5.25	5.00	4.30	4.50	4.05	4.25	4.40	5.30	4.00	0.50
Dec	4.75	4.75	4.00	4.25	3.60	3.95	4.15	4.80	3.75	0.50
2025 Mar	4.50	4.25	3.70	4.10	3.25	3.75	4.10	4.30	3.50	0.60
Jun	4.00	3.75	3.60	4.10	3.00	3.65	4.10	3.80	3.50	0.60
Sep	3.50	3.15	3.55	4.10	2.90	3.70	4.20	3.30	3.50	0.60
Dec	2.75	2.90	3.55	4.10	2.95	3.70	4.20	3.05	3.50	0.60

Exchange Rates (End Period)

	USD Forecasts: NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts: NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.61	0.66	1.09	1.27	146	0.61	0.93	0.56	0.48	89.8	71.6
Mar-24	0.62	0.69	1.13	1.31	145	0.62	0.90	0.55	0.47	89.9	71.0
Jun-24	0.64	0.71	1.16	1.35	138	0.64	0.90	0.55	0.47	88.3	72.1
Sep-24	0.64	0.72	1.17	1.34	135	0.64	0.89	0.55	0.48	86.4	71.3
Dec-24	0.65	0.73	1.18	1.35	130	0.65	0.89	0.55	0.48	84.5	71.3
Mar-25	0.67	0.75	1.19	1.35	125	0.67	0.89	0.56	0.50	83.8	72.5
Jun-25	0.69	0.77	1.21	1.37	120	0.69	0.90	0.57	0.50	82.8	73.8
Sep-25	0.71	0.78	1.22	1.37	118	0.71	0.91	0.58	0.52	83.8	75.4
Dec-25	0.71	0.78	1.23	1.38	116	0.71	0.91	0.58	0.51	82.4	75.3
Mar-26	0.69	0.76	1.23	1.38	115	0.69	0.91	0.56	0.50	79.4	73.6
Jun-26	0.68	0.75	1.21	1.37	114	0.68	0.91	0.56	0.50	77.5	73.2
TWI Weights						13.8%	16.5%	9.8%	3.1%	6.1%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 2 February 2024	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.4	0.5	2.4	7.4	3.3	0.7	-0.1	2.2
Government Consumption	7.9	2.0	-1.2	-3.5	1.4	7.8	4.9	-1.5	-3.9	0.9
Total Investment	10.2	2.1	-1.7	-2.2	4.2	12.0	3.4	-1.0	-3.2	3.1
Stocks - ppts cont'n to growth	0.5	-0.1	-0.3	0.2	0.0	1.4	-0.4	-0.5	0.4	0.0
GNE	7.9	2.4	-1.4	-0.8	2.7	10.0	3.4	-1.0	-1.7	2.2
Exports	2.5	6.0	4.2	3.8	5.5	-2.7	-0.2	7.9	3.6	5.4
Imports	17.3	4.6	-0.6	-0.8	3.8	14.8	4.6	1.2	-1.8	3.2
Real Expenditure GDP	4.7	2.7	-0.4	0.3	3.0	5.9	2.2	0.2	-0.3	2.7
GDP (production)	**4.5**	**2.8**	**0.1**	**0.5**	**3.0**	**5.5**	**2.4**	**0.7**	**-0.1**	**2.7**
GDP - annual % change (q/q)	*0.7*	*2.1*	*-0.3*	*1.9*	*3.1*	*2.5*	*2.3*	*-0.1*	*0.8*	*3.1*
Output Gap (ann avg, % dev)	1.3	1.9	-0.4	-1.3	-0.2	1.5	1.9	0.1	-1.3	-0.5
Nominal Expenditure GDP - $bn	359	388	414	435	459	353	381	408	429	453
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.7	2.0	5.9	7.2	4.7	2.9	1.8
Employment	2.5	2.9	1.0	0.9	2.4	3.3	1.7	2.1	0.3	2.3
Unemployment Rate %	3.2	3.4	4.5	5.8	5.7	3.2	3.4	4.3	5.7	5.8
Wages - ahote (private sector)	5.3	8.2	6.2	3.9	3.0	4.1	8.1	7.0	4.3	3.0
Productivity (ann av %)	1.7	0.6	-1.8	0.1	0.9	3.5	0.3	-1.8	-0.4	1.0
Unit Labour Costs (ann av %)	4.6	6.4	7.6	4.3	2.2	2.4	6.4	8.0	5.3	2.4
House Prices	13.8	-12.1	2.6	8.6	13.4	27.2	-11.1	-1.6	6.7	13.4
External Balance										
Current Account - $bn	-23.6	-31.8	-28.0	-23.0	-17.8	-20.6	-33.4	-28.9	-24.6	-19.2
Current Account - % of GDP	-6.6	-8.2	-6.8	-5.3	-3.9	-5.8	-8.8	-7.1	-5.7	-4.2
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.8	-1.7	-0.8					
Net Core Crown Debt (excl NZS Fund Assets)	17.0	18.0	22.4	23.2	23.3					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	36.0	34.0					
Bond Programme - % of GDP	5.6	7.2	9.2	8.3	7.4					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.62	0.67	0.69	0.68	0.63	0.62	0.65	0.71
USD/JPY	119	134	145	125	115	114	135	144	130	116
EUR/USD	1.10	1.07	1.13	1.19	1.23	1.13	1.06	1.09	1.18	1.23
NZD/AUD	0.93	0.93	0.90	0.89	0.91	0.95	0.94	0.93	0.89	0.91
NZD/GBP	0.52	0.51	0.47	0.50	0.50	0.51	0.52	0.49	0.48	0.51
NZD/EUR	0.62	0.58	0.55	0.56	0.56	0.60	0.60	0.57	0.55	0.58
NZD/YEN	81.5	83.0	89.9	83.8	79.4	77.4	85.6	89.5	84.5	82.4
TWI	73.9	71.0	71.0	72.5	73.6	73.0	72.9	72.0	71.3	75.3
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	4.50	2.75	0.75	4.25	5.50	4.75	2.75
90-day Bank Bill Rate	1.45	5.16	5.60	4.25	2.90	0.92	4.55	5.63	4.75	2.90
5-year Govt Bond	2.90	4.40	4.85	3.70	3.55	2.20	4.30	4.50	4.00	3.55
10-year Govt Bond	3.20	4.35	4.90	4.10	4.10	2.35	4.25	4.65	4.25	4.10
2-year Swap	3.00	5.15	4.90	3.25	3.00	2.22	5.21	4.93	3.60	2.95
5-year Swap	3.20	4.50	4.75	3.75	3.80	2.56	4.62	4.43	3.95	3.70
US 10-year Bonds	2.10	3.65	4.40	3.50	3.50	1.45	3.60	4.00	3.75	3.50
NZ-US 10-year Spread	1.10	0.70	0.50	0.60	0.60	0.90	0.65	0.65	0.50	0.60

(1) *Average for the last month in the quarter*

Source: Statistics NZ, BNZ, NZ Treasury

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