

Economic Forecast Update

April 2023

› Experiencing the hangover

In our last quarterly, published at the end of last year, we flagged that we were expecting the economy would fall into a recession over 2023. The reported contraction in December 2022 quarterly GDP suggests the economy is buckling a little earlier than expected. We expect that in total the economy will contract upwards of 2% by early 2024, more than half the size of the 2008/09 decline.

The driver of this slowdown remains the overheating of the economy in response to the pandemic kitchen-sink stimulus. High inflation and a stretched labour market are the clearest symptoms of this overheating.

The RBNZ has been leaning hard on excessive spending, including lifting the OCR by 50bp in early April. We expect a final 25bp OCR increase in May. Given the lagged response to OCR increases, as fixed-rate borrowing progressively gets affected, the restraining impact on the economy will

continue to lift over the rest of the year.

It is a year of paying for the central bank and government punchbowl being more potent than anticipated at juicing up the economy. We expect the RBNZ will be in a position to start gradually pulling interest rates down to a more neutral level in the first half of 2024, the equivalent of monetary rehydration.

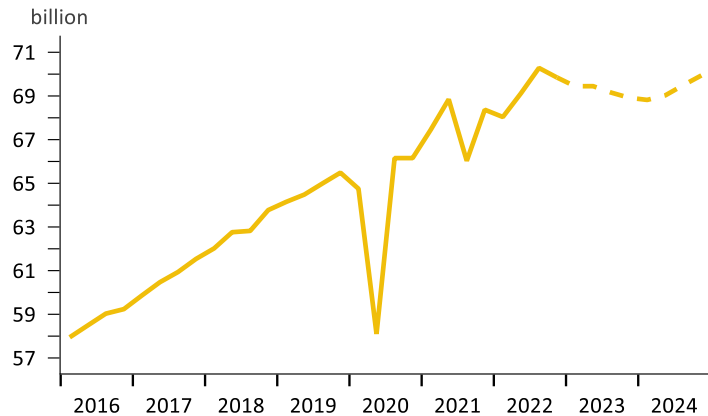
But it is an ever-complicated environment to make decisions in. The weather disasters early in the year will add to inflation and have disrupted short-term activity, but will eventually lift activity as reconstruction gets underway. Meanwhile, there have been wobbles in overseas banks.

Let's hope for lots of headlines this year about swift rebuilding and very little more about the state of US and European banks.

Nick Tuffley, Chief Economist

› NZ Economic Outlook

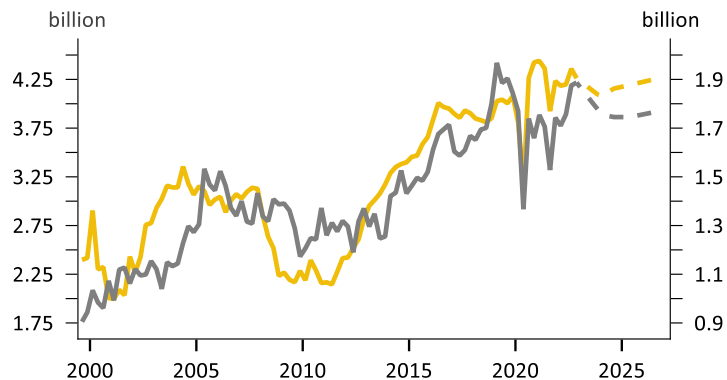
NZ Gross Domestic Product
Quarterly, Chain-volume series expressed in 2009/10 prices



— New Zealand, Production GDP (2009/10 \$m)

Source: Macrobond, ASB

New Zealand Building Construction Outlook
Quarterly volumes, 2009/10 prices



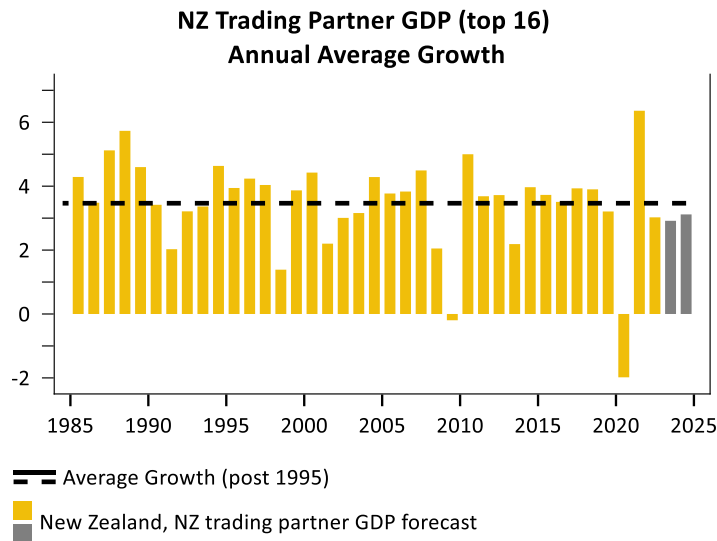
— GDP Non-Residential Building Investment, rhs

— GDP Residential Investment, lhs

Source: Macrobond, ASB

- › The forecast recession has set in a little earlier than expected, with GDP falling 0.6% in the December 2022 quarter. We expect an overall fall of around 2% by early 2024.
- › The contraction will continue to be domestic-led. The squeeze continues to come on households, particularly through higher debt-servicing costs. The weakness in the property markets, particularly the sustained decline in house prices, is starting to flow through to construction. Even though disaster recovery will bolster construction, the underlying headwinds are likely to dominate.
- › Overall exports are hampered by muted dairy production and below-average global growth. The bright spot in the outlook is the continued recovery in international tourism and education, now that the border is fully open.
- › But the current account deficit will continue to expand above 9% of GDP as imports hold up and the cost of servicing NZ's foreign liabilities increases.

› Global Growth and Export Outlook



Source: Macrobond, ASB

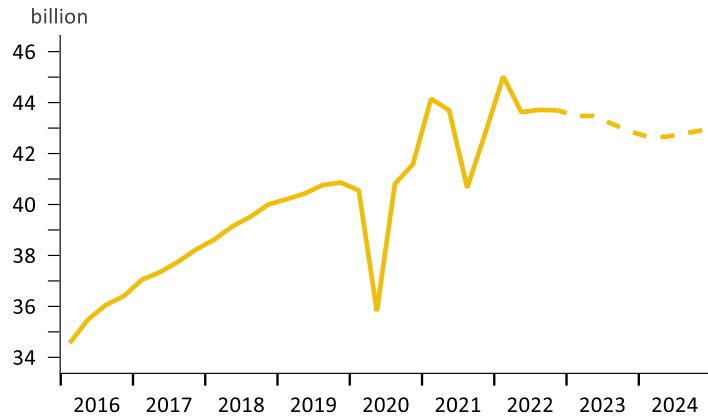


Source: Macrobond, ASB

- › Growth in NZ's main trading partners is overall expected to remain below average. It's not a recession, but it is a period of sustained underperformance after the huge 2021 bounce as many economies relaxed COVID restrictions.
- › The change in fortunes has been most pronounced in mature, developed economies where interest rates have risen rapidly or energy prices have shot up.
- › Growth in Asia looks set to be relatively more resilient. And China looks set to grow at or above 5% this year and next, now that it has given up on its zero-COVID policy. However, that pace is still lower than the 6-7% China managed in the years leading up to the pandemic.
- › Overall export volumes will be fairly flat over 2023. China's rebound will help make up for some of the softer growth elsewhere. The tourism recovery to date is encouraging, with visitor numbers already up to two-thirds of pre-COVID levels. The key Chinese market is only in the early stages of recovery, though airline capacity constraints could hamper the pick up.

› NZ household spending feeling the heat

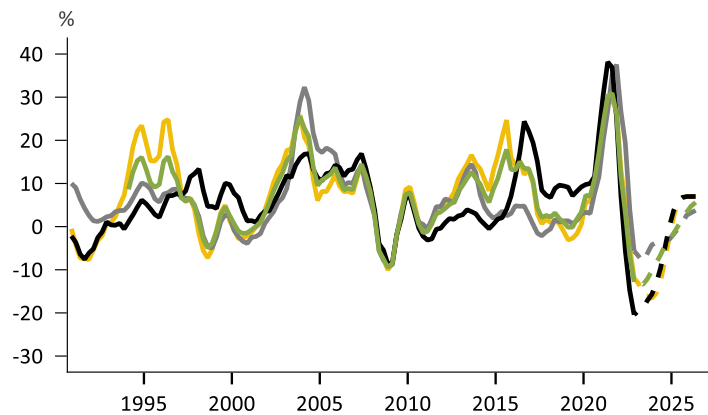
NZ Private Consumption
Quarterly, Chain-volume series expressed in 2009/10 prices



— New Zealand, GDP Private Consumer Spending

Source: Macrobond, ASB

NZ House Price Inflation

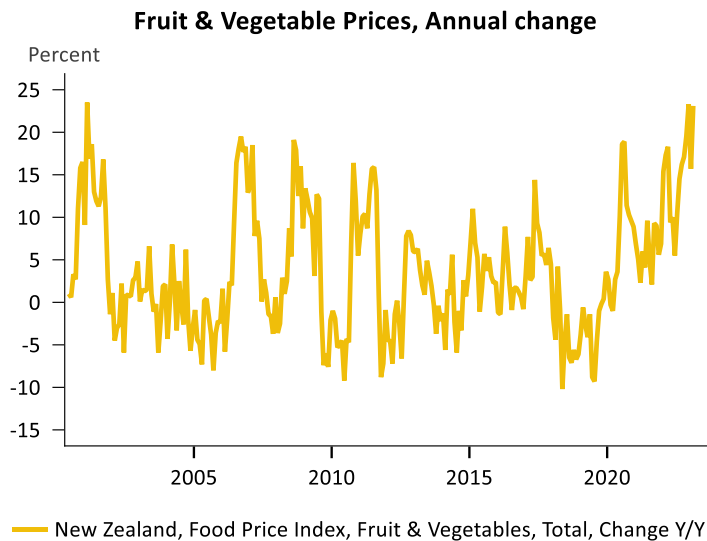
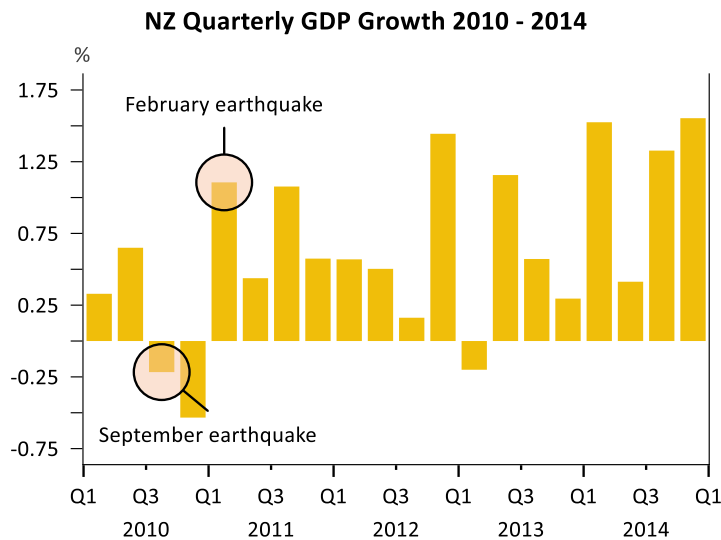


— NZ excluding Auckland, Wellington & Christchurch — Wellington
— Christchurch — Auckland

Source: Macrobond, ASB

- › Consumer spending is under pressure from rising living costs, which we estimated in a recent [Note](#) would add \$150 per week to household costs over 2023. That amount includes \$50 in added debt servicing. Food, housing and transport costs account for the bulk of the remaining cost growth.
- › We don't expect household income growth will keep pace with these increases, despite another year of strong wage growth. Home borrowers will feel the impacts disproportionately.
- › Amidst the contraction in consumer spending volumes, there is also a change in spending patterns. Spending on durables is softening (outside disaster replacement needs) after a strong pandemic spend up. Spending on international travel has started to lift.
- › We expect the housing market to continue to soften, with sales turnover subdued and prices continuing to edge down. We continue to expect a 25% peak-to-trough fall, with prices already down around 16% (and over 20% in Wellington and Auckland).

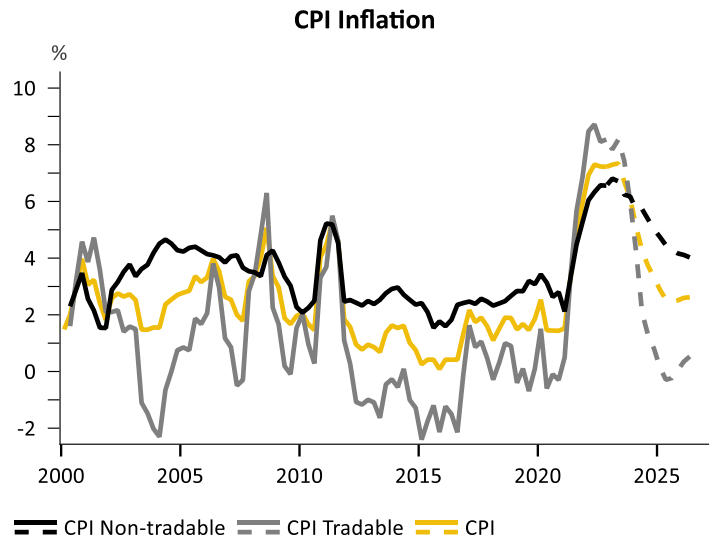
› Grappling with weather disasters



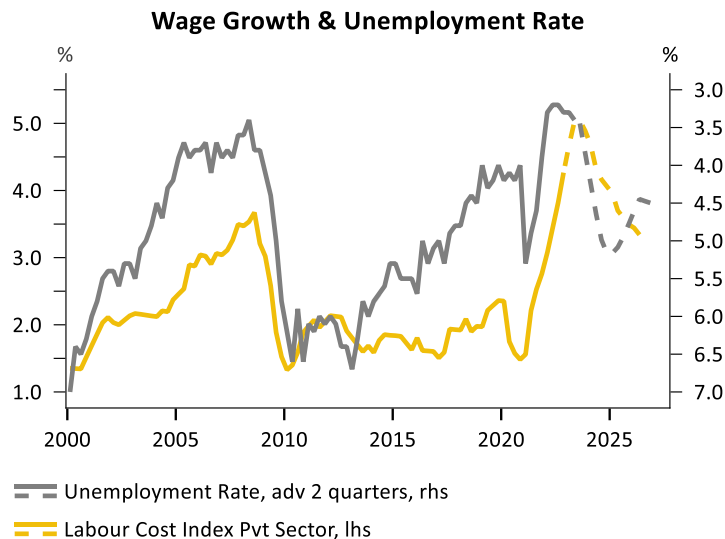
Source: Macrobond, ASB

- › This year started with weather disasters that have had material impacts on the upper half and east coast of the North Island – Hawke’s Bay and Tairāwhiti/Gisborne in particular. The full extent of the damage is unclear but could be in the range of \$10-20 billion.
- › Disasters cause immediate disruption to activity, partly offset by recovery efforts and the need to quickly replace destroyed household items.
- › Rebuilding activity will boost GDP slightly over several years. Some repair work (such as flood damage in Auckland homes) is straightforward. Infrastructure replacement, however, is likely to take longer, particularly in cases where location and design need to be rethought to improve resilience.
- › After the Canterbury earthquakes, it was hard to discern direct earthquake impacts from underlying trends.
- › Prices of some food crops, household items, and car prices are likely to get boosted in the short term. Construction cost impacts will linger, however.

› NZ Inflation Outlook



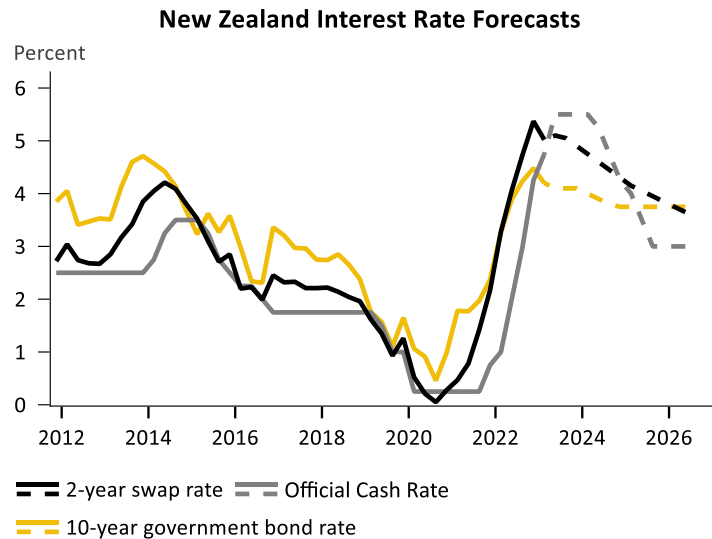
Source: Macrobond, ASB



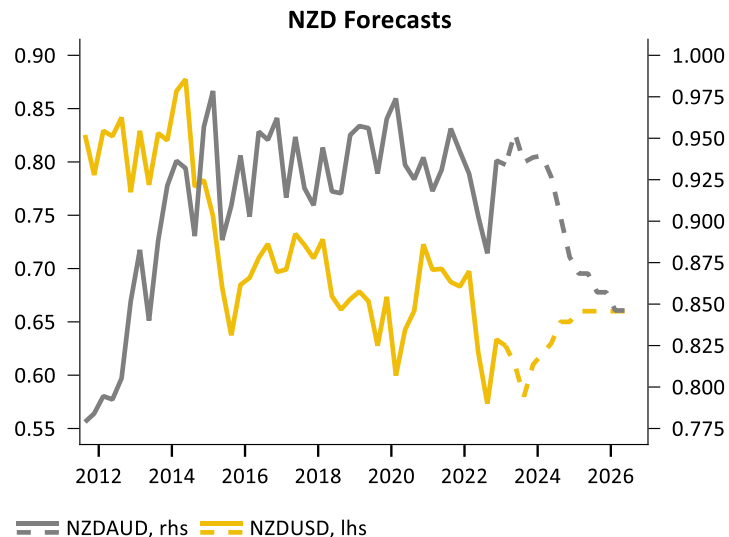
Source: Macrobond, ASB

- › Inflation is set to remain stubbornly high, even though the economy is stalling. We expect headline inflation will remain above 7% for the first half of 2023, and it might take until 2025 until it is back within the RBNZ's 1-3% inflation target band.
- › The recent weather disasters are only making the RBNZ's job more challenging. Short-term inflation will be higher than otherwise, given temporary shortages of some fresh food, household items, and cars. Added construction and insurance costs will have more persistent impacts.
- › The RBNZ will look through any short-term impacts from the disasters, though will be concerned about the risk of people's inflation expectations being boosted by the more prolonged period of high headline inflation.
- › Labour costs will be the more persistent influence on inflation. The pace at which the labour market cools off and softens wage growth will be an important decoder of when the RBNZ eventually cuts the OCR.

› NZ Interest Rates and NZD Outlook



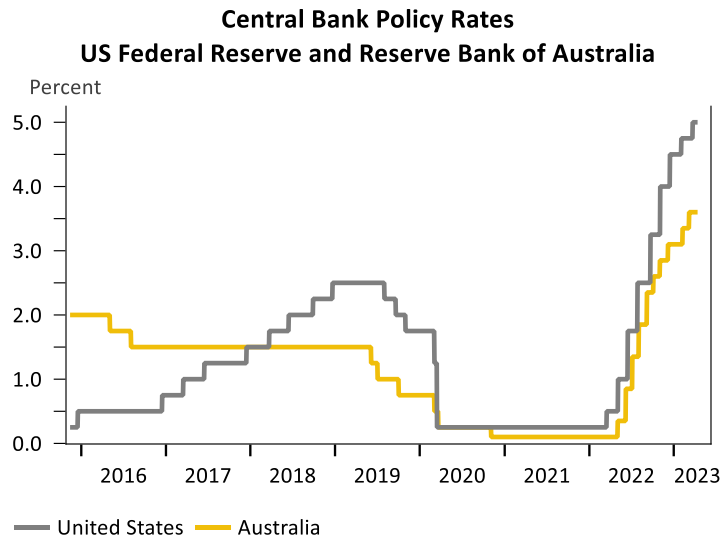
Source: Macrobond, ASB



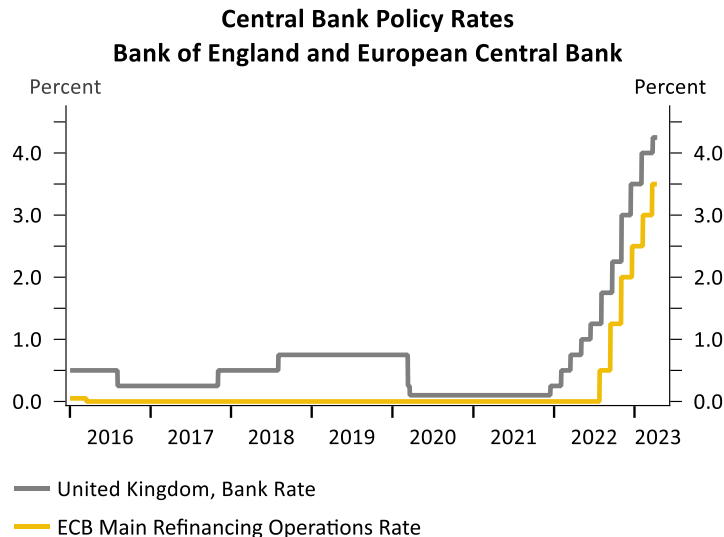
Source: Macrobond, ASB

- › The RBNZ continued its rapid pace of monetary tightening, lifting the OCR by 50bp in April. We expect a 25bp increase in May, and then for the RBNZ to remain on hold until the first half of 2024.
- › We are getting very close to the end of the tightening cycle. There are tentative signs that inflation pressures are peaking. And there is still a considerable amount of lagged monetary tightening that will come through: we estimate the average mortgage rate households are paying is only halfway to the peak.
- › The NZD is having a volatile ride, whacked around by swings in global sentiment from greed to fear. We expect slower global and NZ growth will pull the NZD down slightly over the next six months against the major currencies. We expect some recovery thereafter, as global sentiment becomes more optimistic.
- › There are a lot of factors pushing the NZD around, creating volatility, which stresses the importance of hedging against adverse moves.

Key Central Bank Views



Source: Macrobond, ASB



Source: Macrobond, ASB

- › Most global central banks have continued to lift interest rates, even in the face of wobbles in the US and European banking systems.
- › For the time being, inflation outcomes are dominating any concerns about banking sector fragility, even in the US where the rapid increase in interest rates has contributed to financial vulnerabilities of small- and medium-sized banks.
- › The US Federal Reserve lifted the Federal Funds rate 25bp in March, even after several medium-sized banks failed. We expect a final 25bp lift in May.
- › Likewise, the ECB lifted its policy rate by 50bp even after Credit Suisse's takeover by UBS created a swirl of anxiety about the treatment of a certain type of bank capital. We expect 50bp of further increases, to 4%, by the middle of the year.
- › The RBA left its cash rate on hold in April, at 3.6%. The RBA may make a final 25bp lift in May, though appears very near the end of its shorter tightening cycle.

Forecast Tables

ASB economic forecasts		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Mar-25	Mar-26
		<<actual	forecast >>							
NZ GDP real	AA%	2.4	2.7	2.7	0.8	-0.1	-0.8	-1.1	1.0	3.2
private consumption	AA%	2.8	1.4	1.3	-0.8	-1.7	-1.3	-1.7	-0.5	1.2
dwelling construction	AA%	0.3	2.0	2.9	-1.1	-2.2	-3.3	-3.5	0.9	1.3
other investment	AA%	5.0	2.3	1.7	-1.1	0.0	0.8	0.5	1.8	2.9
exports	AA%	-0.7	5.7	9.5	6.7	5.0	0.1	-0.7	3.2	10.6
imports	AA%	4.5	4.1	3.1	2.0	1.2	-0.4	-1.5	-1.4	1.3
NZ GDP real	A%	2.2	2.1	0.5	-1.6	-1.3	-0.9	-0.6	2.5	3.3
NZ GDP real	Q%	-0.6	-0.6	0.0	-0.4	-0.3	-0.1	0.3	0.8	0.8
NZ CPI	Q%	1.4	1.9	1.7	1.5	0.9	0.9	0.9	0.5	0.6
NZ CPI	A%	7.2	7.3	7.3	6.7	6.1	5.1	4.3	2.9	2.6
NZ house prices (QV index)	A%	-10.9	-12.1	-13.4	-12.9	-12.1	-10.6	-8.4	0.1	5.5
NZ unemployment (sa%)	Qtr	3.4	3.4	3.8	4.2	4.6	5.0	5.2	4.9	4.5
NZ private sector wages (LCI)	A%	4.3	4.7	5.0	5.0	4.9	4.7	4.3	4.0	3.4
Current account balance	%GDP	-8.9	-8.8	-9.1	-9.4	-9.4	-9.3	-9.3	-8.8	-5.6

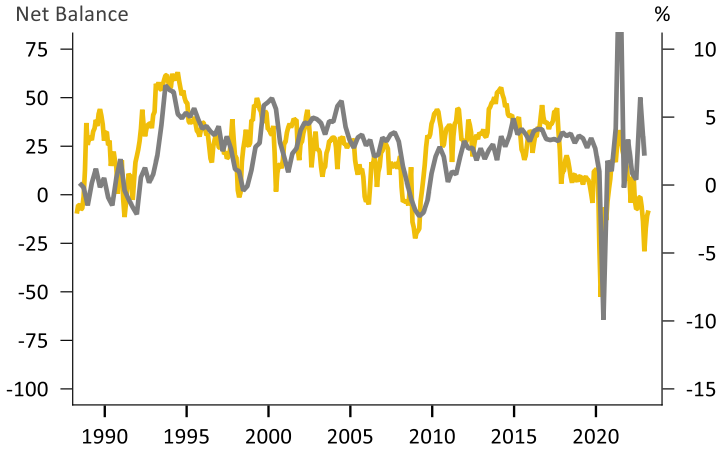
ASB interest rate forecasts		Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Mar-25	Mar-26
		<<actual	forecast >>							
(end of quarter)										
NZ cash rate target		4.75	5.50	5.50	5.50	5.50	5.25	4.75	4.00	3.00
NZ 90-day bank bill		5.23	5.50	5.50	5.50	5.25	5.00	4.60	3.95	3.20
NZ 2-year swap rate		5.02	5.10	5.05	4.90	4.75	4.60	4.45	4.15	3.75
NZ 10-year govt bond		4.2	4.10	4.10	4.10	4.00	3.90	3.80	3.75	3.75

ASB foreign exchange forecasts		Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Mar-25	Mar-26
		<<actual	forecast >>							
(end of quarter)										
USD per NZD		0.63	0.61	0.58	0.61	0.62	0.63	0.65	0.66	0.66
GBP per NZD		0.51	0.50	0.50	0.52	0.52	0.52	0.52	0.53	0.53
AUD per NZD		0.93	0.95	0.94	0.94	0.94	0.93	0.90	0.87	0.85
JPY per NZD		83.6	82.4	76.6	79.3	79.4	80.0	81.9	83.2	83.2
EUR per NZD		0.57	0.57	0.55	0.56	0.55	0.55	0.55	0.54	0.54
CNY per NZD		4.3	4.2	4.1	4.2	4.2	4.3	4.4	4.4	4.4
TWI - 17 country		71.3	70.8	67.9	70.0	70.3	70.5	71.6	71.5	71.2

Additional Charts

> Business Confidence

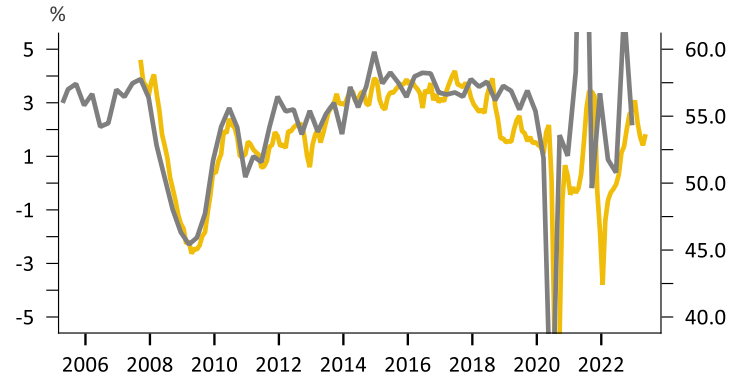
ANZ Own Activity and GDP growth



— NZ Annual GDP growth, rhs — ANZ Own Activity Outlook, s.a., lhs

Source: Macrobond, ASB

Annual GDP Growth & BusinessNZ GDP Weighted Composite Index

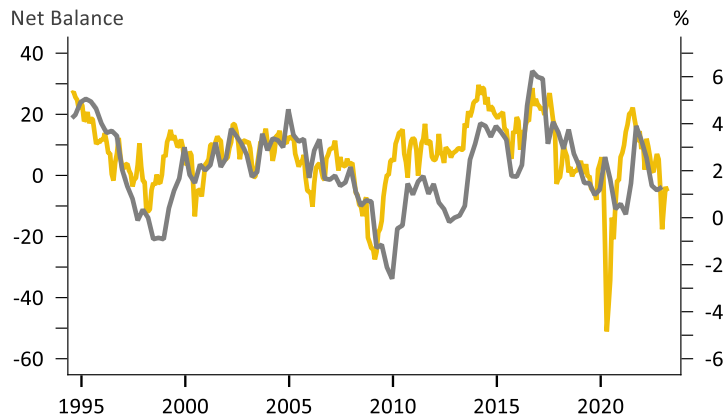


— NZ GDP, lhs

— BusinessNZ Composite Index, 3 month average, adv 1q, rhs

Source: Macrobond, ASB

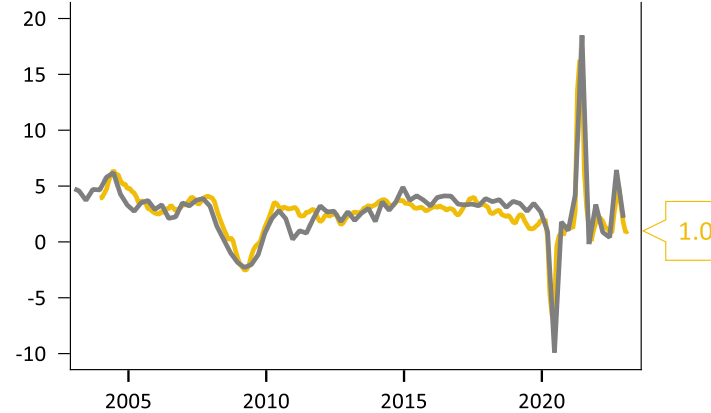
ANZ Employment Intentions & NZ Annual Employment Growth



— NZ Employment Growth, rhs — ANZ Employment Intentions, lhs

Source: Macrobond, ASB

Treasury NZ Activity Index and Annual GDP growth



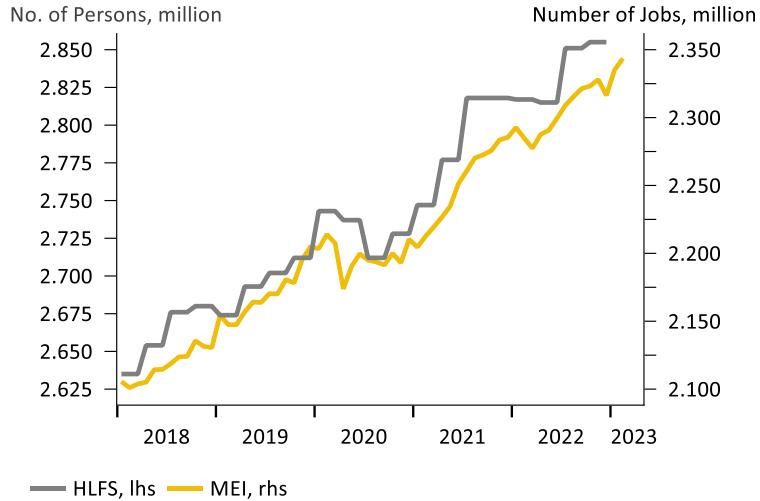
— NZ Annual GDP growth

— NZ Activity Index (NZ Treasury), 3 month moving average

Source: Macrobond, ASB

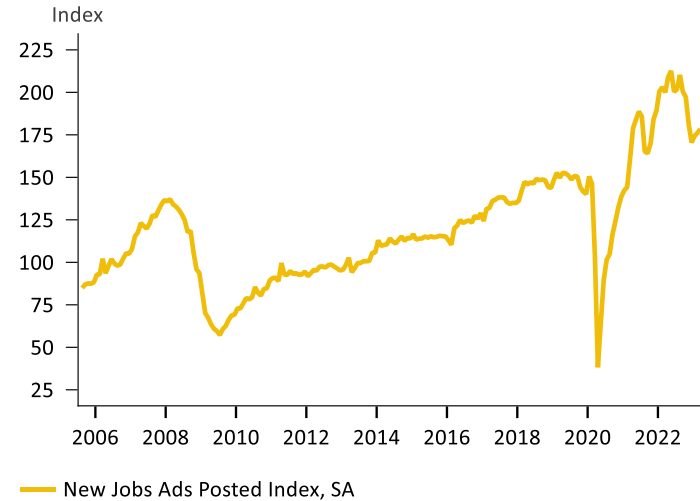
Employment

New Zealand Employment Indicators



Source: Macrobond, ASB

SEEK Website New Jobs Ads Posted Index, SA



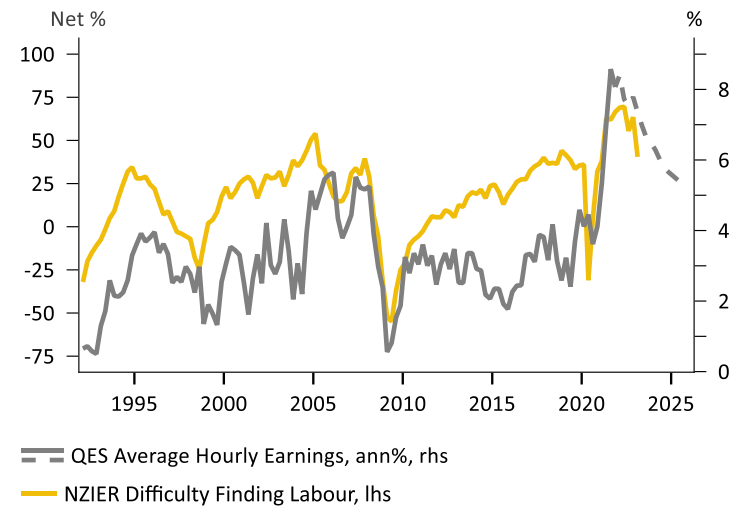
Source: Macrobond, ASB

New Zealand Unemployment Rate



Source: Macrobond, ASB

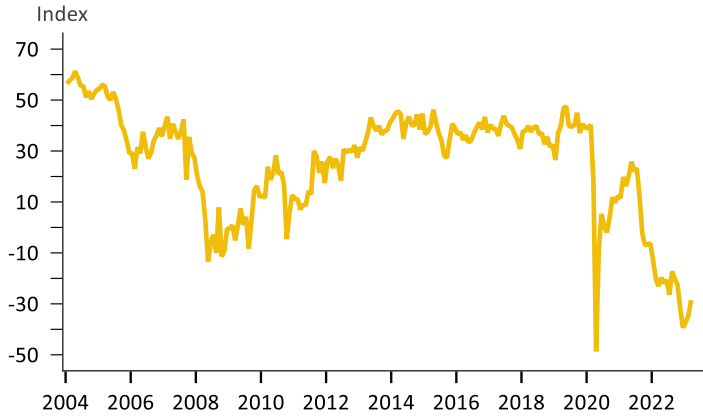
Difficulty Finding Labour and Average Hourly Wages



Source: Macrobond, ASB

> NZ Retail Spending and Consumer Confidence

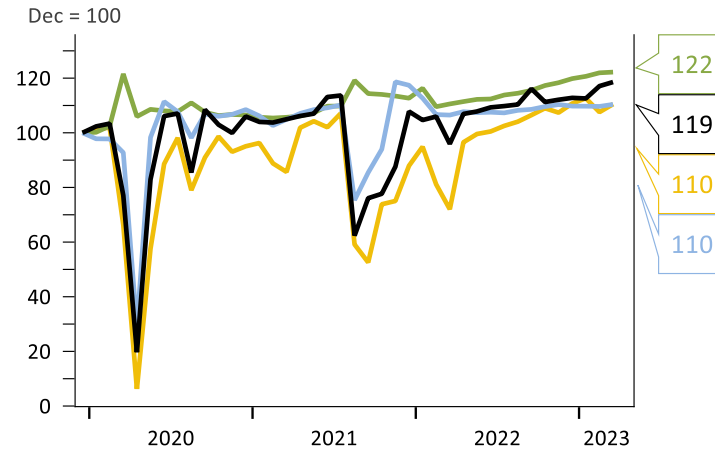
Good Time To Buy a Major Household Item
ANZ/Roy Morgan, Net Balance s.a.



— Buy Major Household Item, Net Balance

Source: Macrobond, ASB

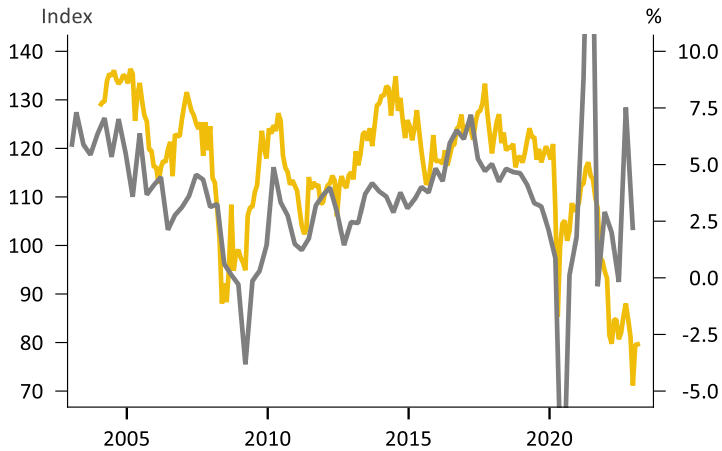
NZ Electronic Card Spending - Rebased



— Services — Durables — Consumables — Hospitality

Source: Macrobond, ASB

ANZ Consumer Confidence & Consumer Spending



— Consumer Spending, ann%, rhs — ANZ Consumer Confidence, lhs

Source: Macrobond, ASB

NZ Consumer Spending and House Price Growth

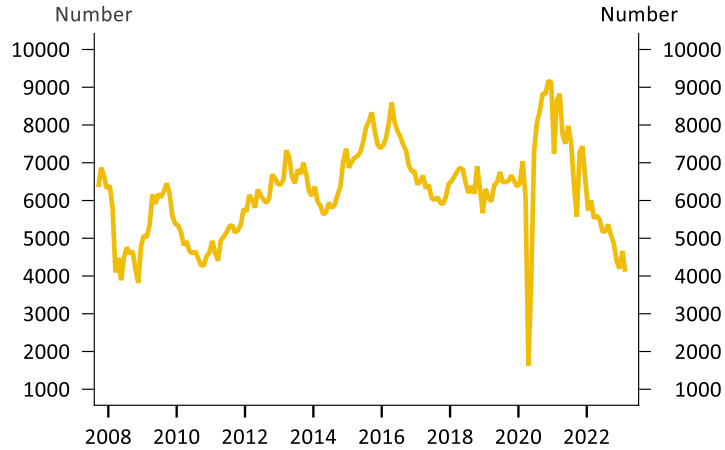


— House Price Index NZ, rhs — GDP Private Consumer Spending, lhs

Source: Macrobond, ASB

> Housing and Construction

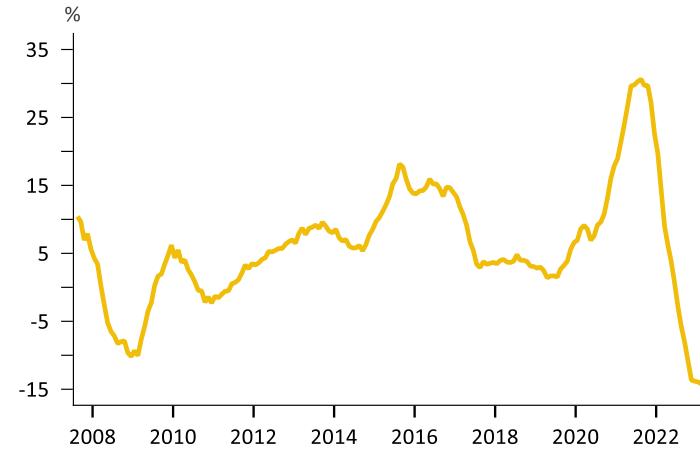
REINZ NZ House Sales - Seasonally Adjusted



— House Sales

Source: Macrobond, ASB

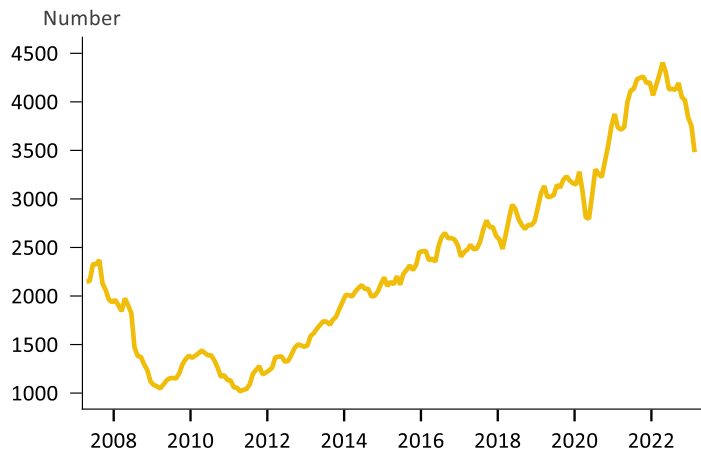
REINZ NZ Annual House Price Growth



— House price growth (ann %)

Source: Macrobond, ASB

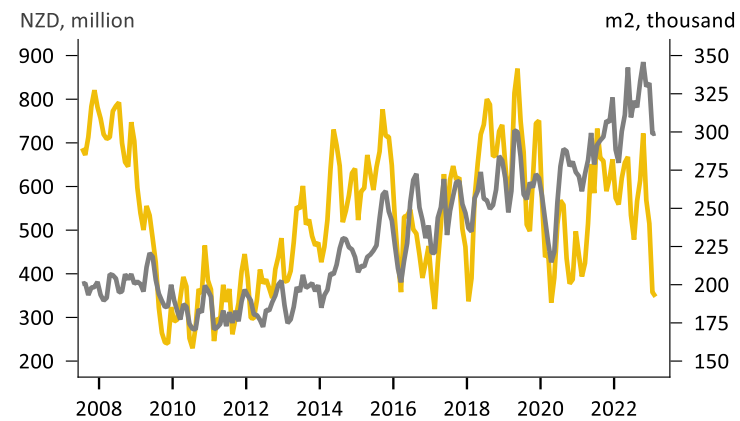
NZ New Residential Dwelling Consent



— 3 month moving average

Source: Macrobond, ASB

**NZ Non-Residential Building Consents
3 month moving average**

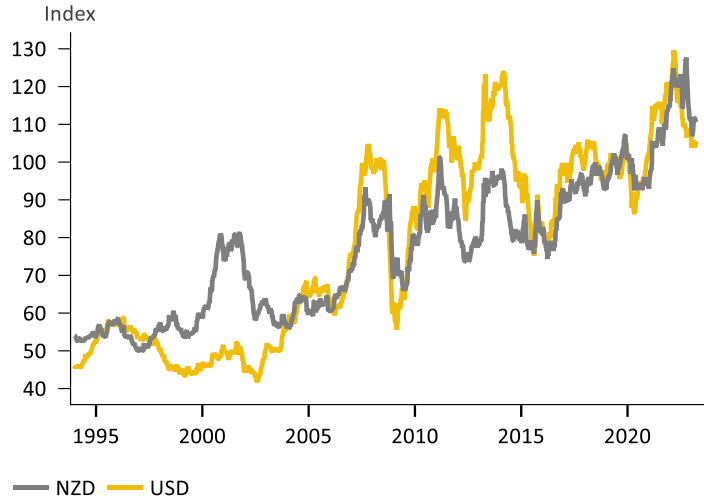


— Value, lhs — Metres squared, rhs

Source: Macrobond, ASB

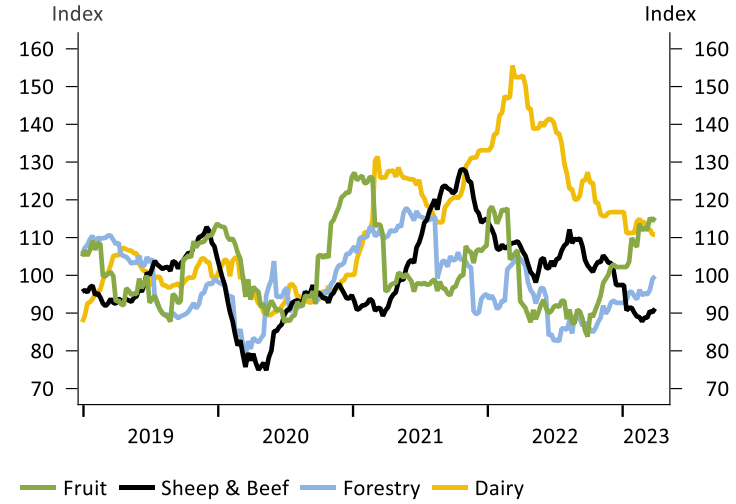
> NZ Export and Import Commodity Prices

ASB Commodity Index



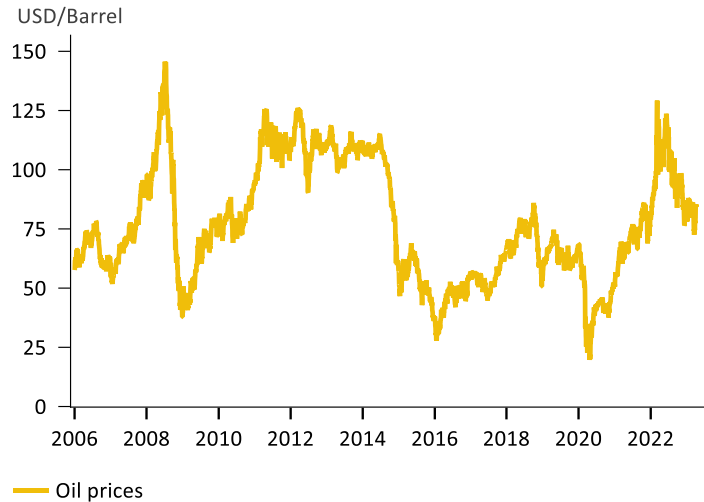
Source: Macrobond, ASB

New Zealand USD Commodity Prices



Source: Macrobond, ASB

World Oil Prices - North Sea Brent Crude - USD Spot



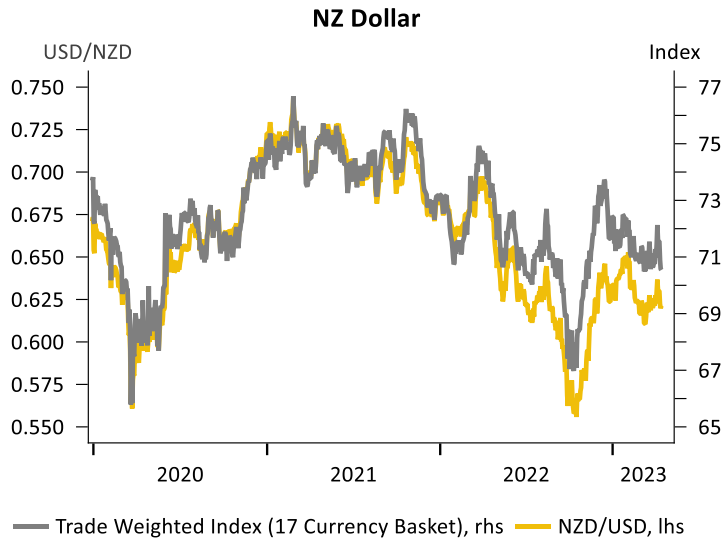
Source: Macrobond, ASB

Baltic Dry Index, USD

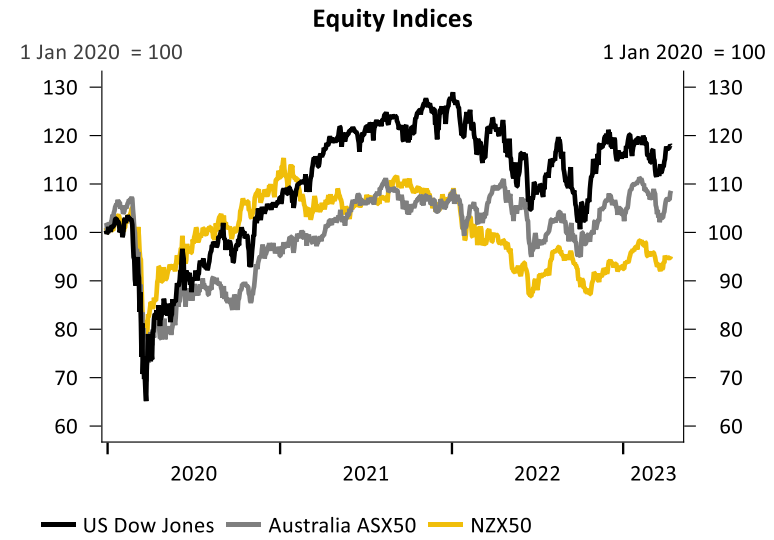


Source: Macrobond, ASB

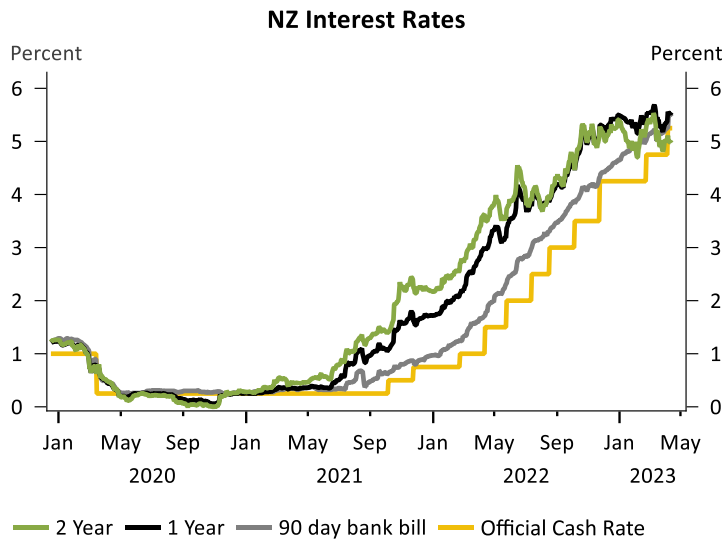
> Financial Markets Recent Trends



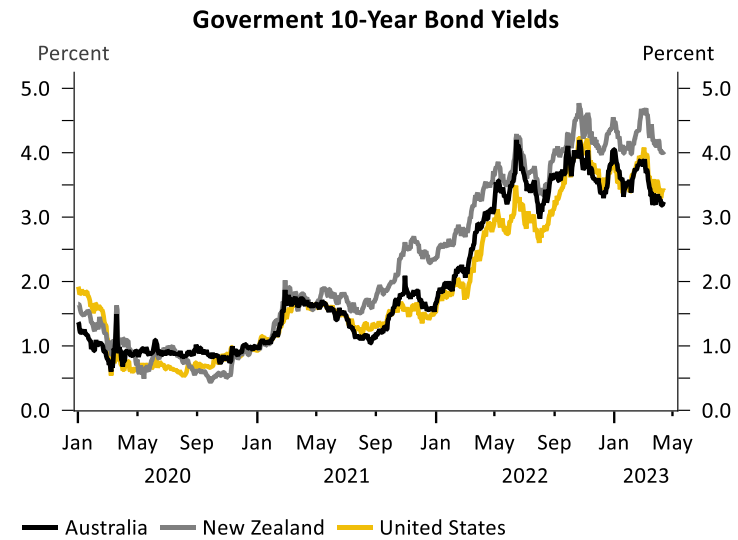
Source: Macrobond, ASB



Source: Macrobond, ASB



Source: Macrobond, ASB



Source: Macrobond, ASB

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