

# Economic Forecast Update

December 2023

## › Spring shoots will take time to flourish

Spring feels like it has finally arrived, the daffodils have been and gone, the housing market and business confidence are on the rise. Signs of recovery, or over optimism?

A healthy dose of caution remains wise. The economy appears past its worst at a headline level, thanks to the spending tailwind of the surge in migration. But per-capita GDP is likely to edge down into 2024 while unemployment rises, with the lagged impact of past OCR increases still working its way through households' wallets.

Inflation is coming down but will still take until late 2024 to get back into the 1-3% target band. Interest rate pressure will remain over 2024.

It will be a slow grind back to growth in per-capita GDP, even as headline GDP expands weakly from here. Several seeds of recovery have been sown, nonetheless.

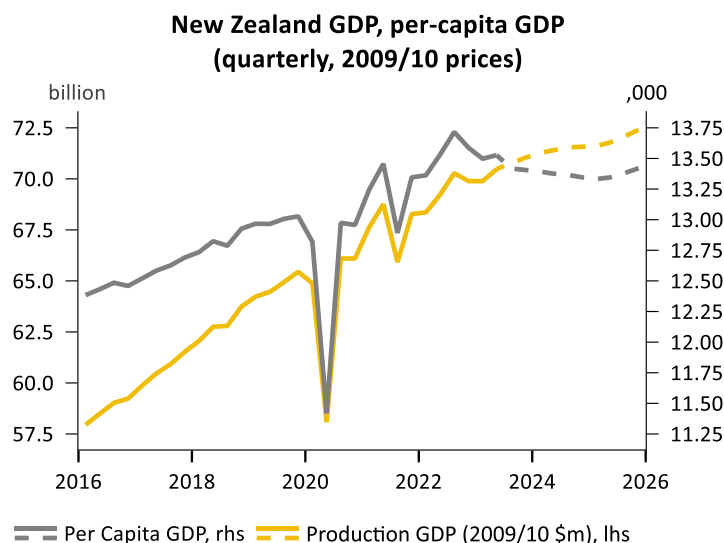
The housing market has turned around, aided by the strong migration flows, some comfort that interest rates are at or near their peak, and the likelihood that the new government will reverse recent property tax changes.

Business sentiment has lifted in response to the change of government, likely a perception that the business environment will be easier. But that perception needs to translate into spurred hiring and investing.

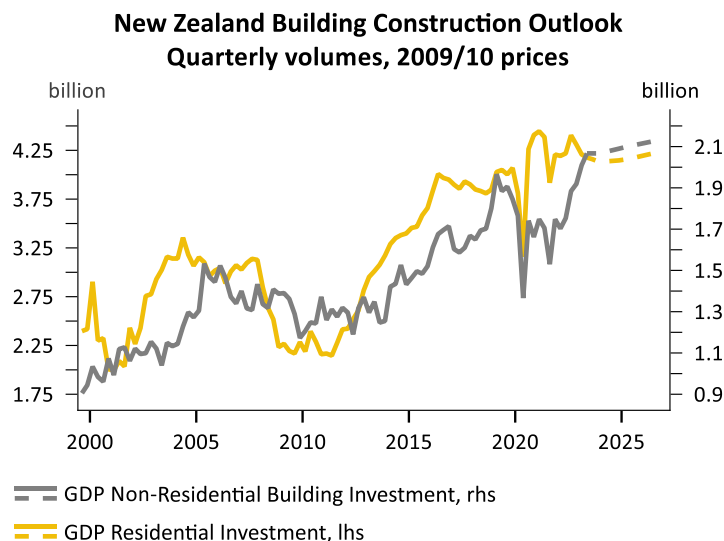
The final caution is that the global environment remains soggy, with added risks of widening military and political conflict. Interest rate increases are still restraining the developed world. And China's post-COVID rebound has been underwhelming, putting downward pressure on NZ key commodity exports and constraining the tourism sector's rebound.

Nick Tuffley, Chief Economist

## › NZ Economic Outlook



Source: Macrobond, ASB

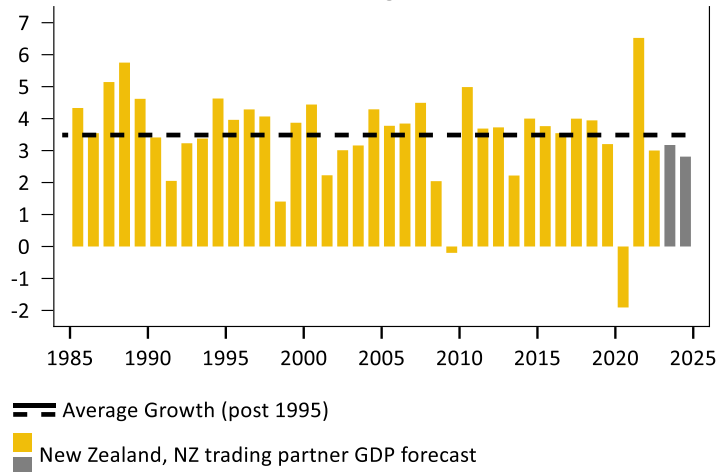


Source: Macrobond, ASB

- › The sheer pace of net migration inflows is set to keep overall GDP expanding after the brief contraction in late 2022. Per-capita GDP is, however, likely to keep shrinking marginally through into 2024.
- › Household budget pressure will remain a significant driver of the soft economic performance. Overall private consumption volumes will be pretty flat. Housing construction is also likely to contract slightly in the short term until building margins become more attractive (and less risky) through cost moderation and further house price recovery.
- › Fiscal restraint – started by the outgoing government and to be continued under the incoming government – will also drag on growth. Weak growth and high interest rates make for some caution from businesses about capital spending.
- › Even though exports are under pressure, weak domestic spending is also keeping a lid on imports. Over 2025 we expect stronger exports to narrow the still-large current account deficit.

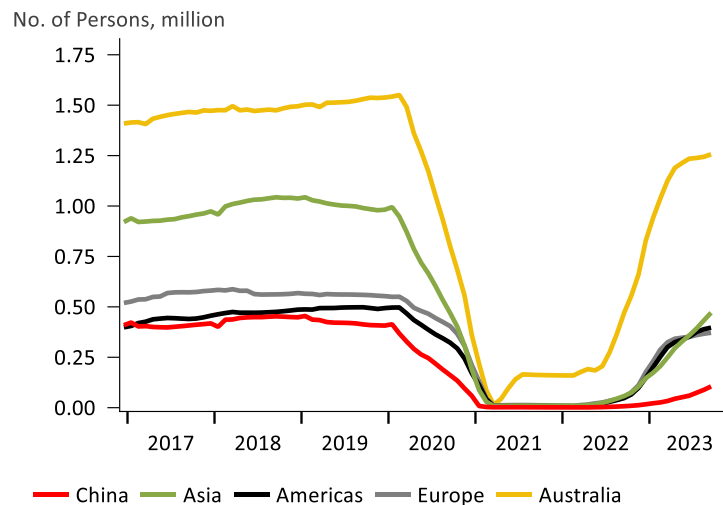
## › Global Growth and Export Outlook

NZ Trading Partner GDP (top 16)  
Annual Average Growth



Source: Macrobond, ASB

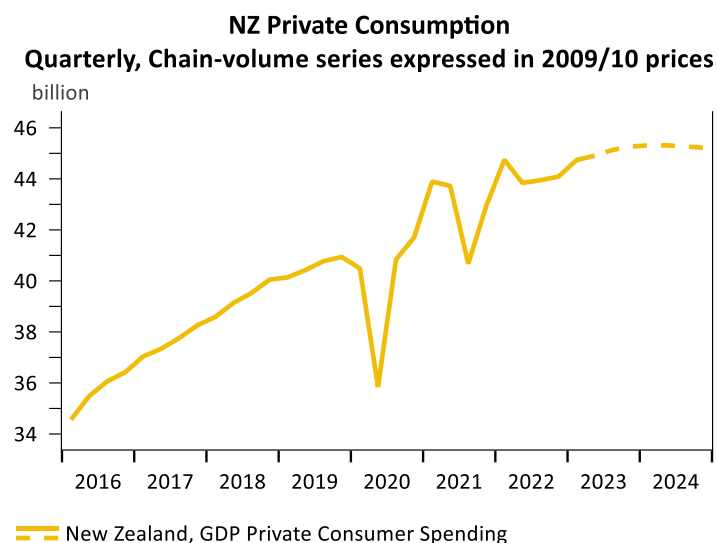
Visitor arrivals to NZ by Country, annual total



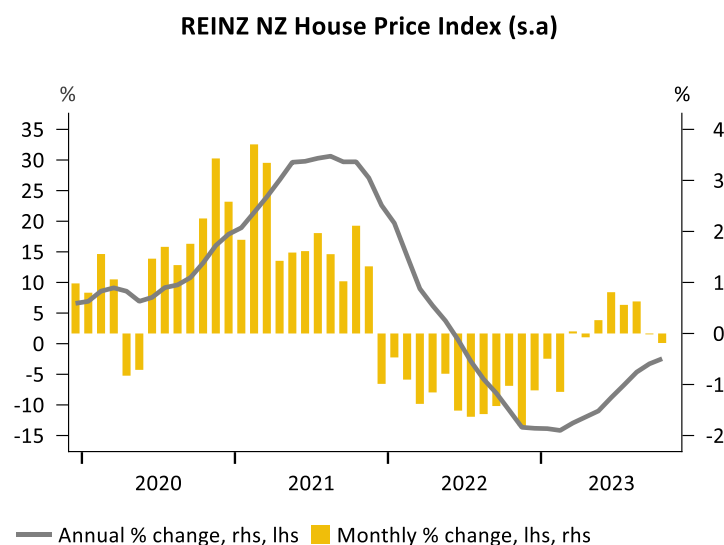
Source: Macrobond, ASB

- › Based off the latest Consensus Economics survey, 2023 growth in NZ's key trading partners is set to record a similar pace to 2022 at around 3.2%. 2024 is likely to be slightly slower, with a forecast of 2.8%.
- › The weight of high interest rates is still making its presence felt in much of the developed world. The US and Europe face the prospect of sub 1% growth in 2024. Across the Tasman, Australia is still on track to grow, though in part through its net migration surge.
- › China's prospects have been trimmed to around 4.5% for 2024, slight deceleration from around 5% for 2023. Consumption growth is likely to slow after a muted COVID rebound, and the property sector is under pressure.
- › NZ's export prices are feeling the downdraft of slow global consumer demand, China in particular.
- › The recovery in tourism is fairly advanced from the Australian, American and European markets. Recovery in visitors from Asia is still lagging, though there has been a more noticeable recovery in visitors from the key Chinese market as 2023 draws to an end.

## › NZ Households



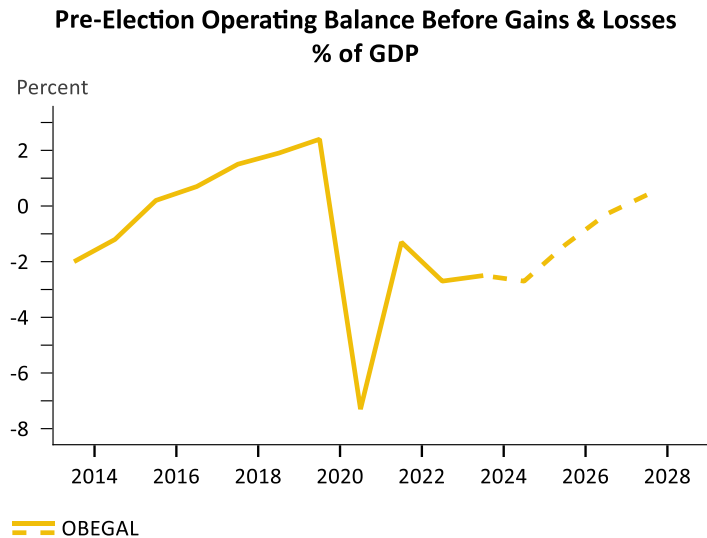
Source: Macrobond, ASB



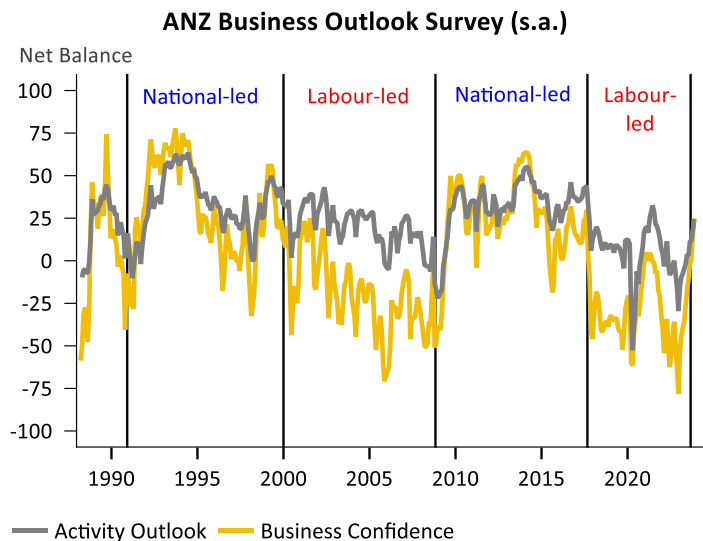
Source: Macrobond, ASB

- › We expect consumer spending volumes to be relatively flat over 2024. Population growth is holding the level of spending up: on a per-capita basis, volumes are likely to continue edging down over much or all of 2024. The tail end of higher mortgage rates is still working its way through, and will keep pressure on into early 2025.
- › Spending volumes have fallen in more discretionary categories, though even staple items are down. Services and travel have generally bucked the trend.
- › Meanwhile, the housing market continues to find a base. Prices have risen for much of the past 6 months as the median of days taken to sell has dropped sharply back near the long-run average. Inventory on the market has edged down, aided by low levels of new listings and a tick up in turnover.
- › We expect prices to lift 7% over calendar 2024 and strengthen further over 2025 once interest rates come down. Migration is underpinning the market, and looming changes to the tax treatment of residential property investment may also nudge prices up.

## › Implications of the Change of Government



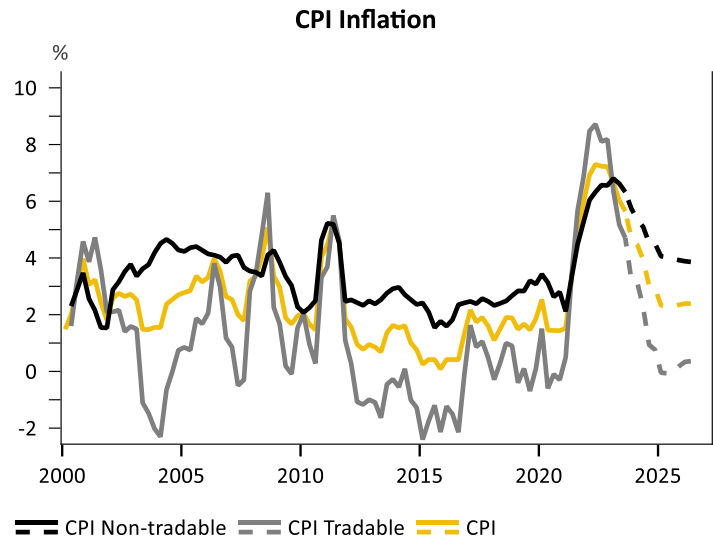
Source: Macrobond, ASB



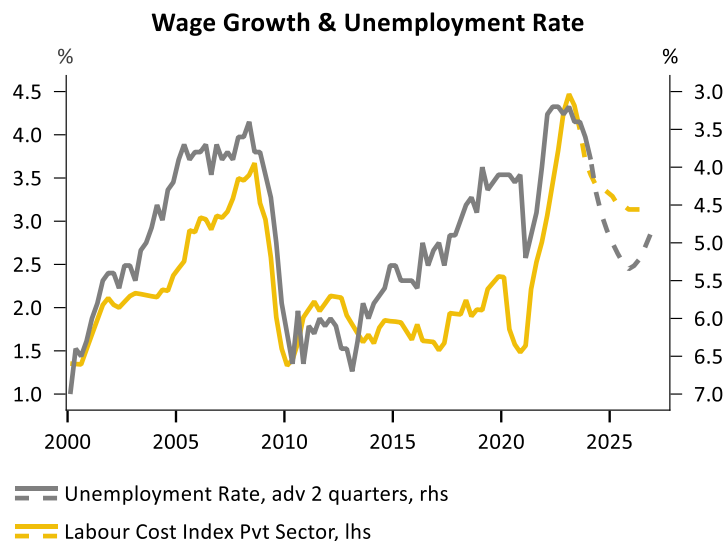
Source: Macrobond, ASB

- › The new government (National, ACT and NZ First parties) will chart a different economic course in several key areas, gradually having an impact on the economy.
- › All three parties want to exercise a greater degree of fiscal prudence, including getting more bang for buck out of government spending. Income tax cuts are slated for July 2024: no cuts have occurred since 2010.
- › Provided the Government's overall fiscal position is tighter than laid out in the Pre-election Economic and Fiscal Update, any tax cuts should not make the RBNZ's job of containing inflation more difficult.
- › Reinstating interest expense deductibility for residential property investment and shortening the Brightline tax will lift investor interest in property and potentially boost prices, but could help moderate rental inflation.
- › Business confidence is up – but is usually higher under National-led governments regardless of how the economy actually performs. More importantly, businesses' views for their own trading outlook lifted. But perception needs to become reality.

## › NZ Inflation Outlook



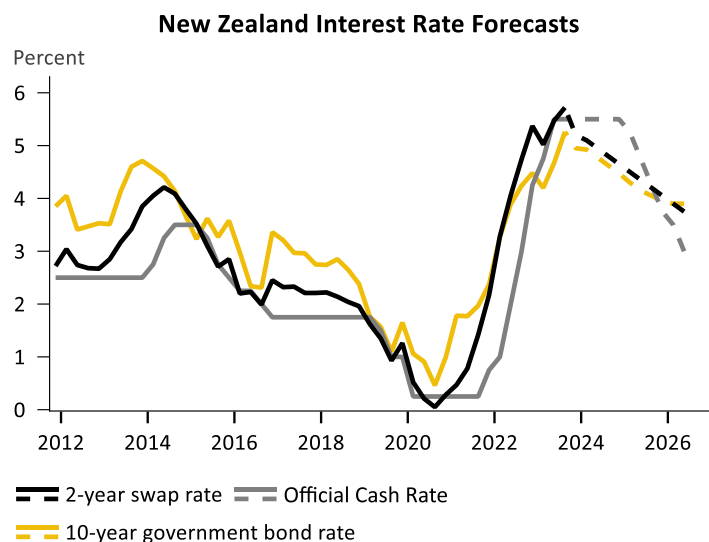
Source: Macrobond, ASB



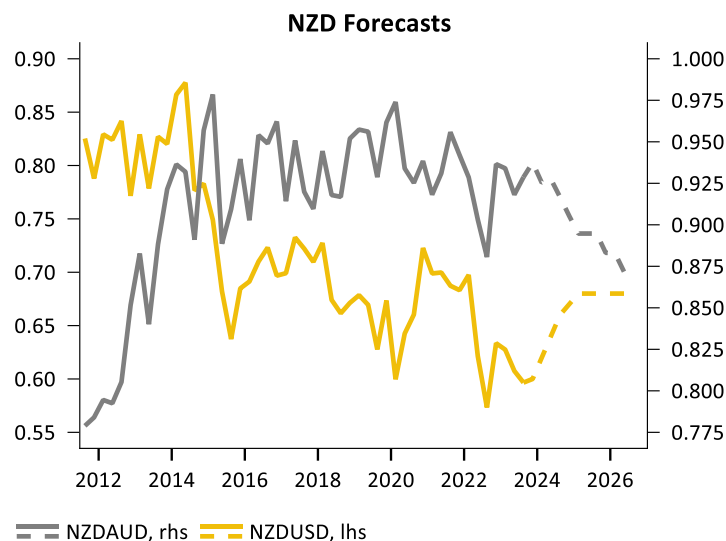
Source: Macrobond, ASB

- › Inflation is clearly on the way down. Nevertheless, we expect it will take until late 2024 before inflation falls back into the 1-3% target band.
- › Tradable inflation – outside of fuel – is pulling back noticeably. Food price rises, for example, have dropped to 6.3% yoy from a peak of 12.5%.
- › Non-tradable inflation will remain sticky, and is set to fall more modestly. Rental inflation will be held up by the strength of population growth. Council rates are increasing sharply as councils deal with cost pressures. Helpfully, construction cost inflation has receded substantially, though any migration-fuelled pick-up in building activity could renew capacity constraints in the sector.
- › The strong wage growth of the past couple of years has not been matched by added productivity, placing added cost pressure on businesses. As wage growth continues to gradually ease, so too will pressure on cost bases.
- › Inflation expectations are generally easing, reducing the risk of high inflation changing behaviours.

## › NZ Interest Rates and NZD Outlook



Source: Macrobond, ASB

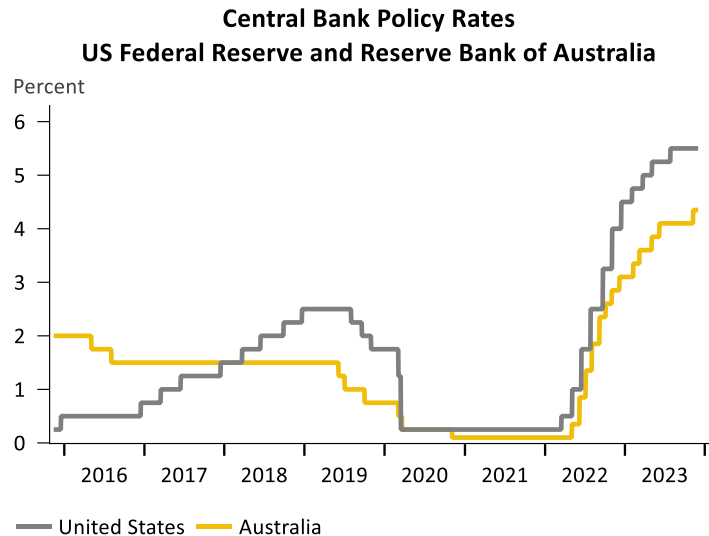


Source: Macrobond, ASB

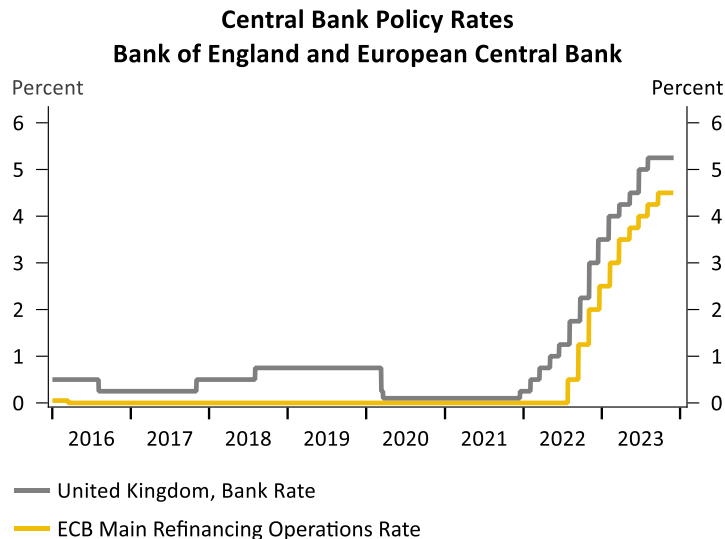
- › It's been our view since May that the RBNZ has finished lifting the OCR for this cycle. Accordingly, we think there is a high hurdle to further rate hikes. But in a well-worn refrain, the OCR is likely to stay high for longer – we don't expect rate cuts until early 2025.
- › Inflation is still nearly double the top of the inflation target band, and it will take quite some time until the RBNZ is confident enough that inflation will return to, and stay, below 3%.
- › Wholesale (swap) term rates have likely peaked, though volatility is elevated while markets attempt to pick the turning point for central banks.
- › We expect the NZD to range around USD0.60, before grinding higher over 2024 to circa 0.67 as global inflation cools and lower interest rates start to underwrite global economic recovery.
- › An earlier start to the cutting cycle by the US Fed relative to the RBNZ can also support NZD in 2024.
- › We expect NZD/AUD to consolidate around 0.9250 before drifting lower in 2024H2 as the global economy recovers.



## Key Central Bank Views



Source: Macrobond, ASB



Source: Macrobond, ASB

- › Central banks can largely be divided into two categories: done and probably done.
- › But sticky core inflation means few are willing to count their chickens and many central banks have retained tightening biases – albeit watered-down versions.
- › We still think we are some way from a global interest rate cutting cycle.
- › The US Federal Reserve has left the Fed Funds rate on hold at 5.25-5.50% since July. Economic data are consistent with our view that the Fed is done.
- › The BoE has also left interest rates on hold at 5.25% since August. We expect the BoE is done hiking.
- › The ECB raised interest rates by 25bps in September before leaving rates on hold since then. We also expect the ECB has now reached the peak of its tightening cycle.
- › The RBA resumed rates hikes in November (+25bps to 4.35%) after a five-month hiatus. We think the RBA is probably done but there is still a risk of another 25bps hike in early 2024.

# Forecast Tables

ASB economic forecasts		Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Mar-26
		<<actual	forecast >>							
<b>NZ GDP real</b>	AA%	3.2	1.8	1.7	1.7	1.7	1.8	1.5	1.1	1.1
private consumption	AA%	3.2	1.9	1.9	2.3	1.9	1.3	0.6	0.2	0.1
dwelling construction	AA%	3.4	-1.0	-2.6	-3.1	-3.1	-1.8	-0.7	-0.2	0.9
other investment	AA%	5.0	3.9	5.5	5.8	3.8	2.5	1.1	0.2	1.3
exports	AA%	11.9	8.8	6.7	2.1	-2.2	-1.9	-2.1	-2.2	6.7
imports	AA%	3.3	1.4	-1.1	-4.4	-6.5	-6.8	-6.4	-5.3	2.0
NZ GDP real	A%	1.8	0.8	1.9	2.3	1.6	1.3	0.9	0.6	1.7
NZ GDP real	Q%	0.9	0.6	0.5	0.4	0.2	0.2	0.1	0.0	0.5
NZ CPI	Q%	1.1	1.8	0.6	1.0	0.5	0.9	0.4	0.4	0.5
<b>NZ CPI</b>	A%	6.0	5.6	4.8	4.5	3.9	3.0	2.9	2.3	2.4
NZ house prices (QV index)	A%	-9.5	-7.8	-5.8	-2.9	-1.7	2.7	7.3	11.3	13.9
NZ unemployment (sa%)	Qtr	3.6	3.9	4.2	4.4	4.6	4.8	4.9	4.9	4.6
NZ private sector wages (LCI)	A%	4.3	4.1	3.7	3.5	3.4	3.4	3.3	3.3	3.2
Current account balance	%GDP	-7.5	-7.1	-6.2	-5.4	-5.1	-4.6	-4.2	-3.9	-2.5

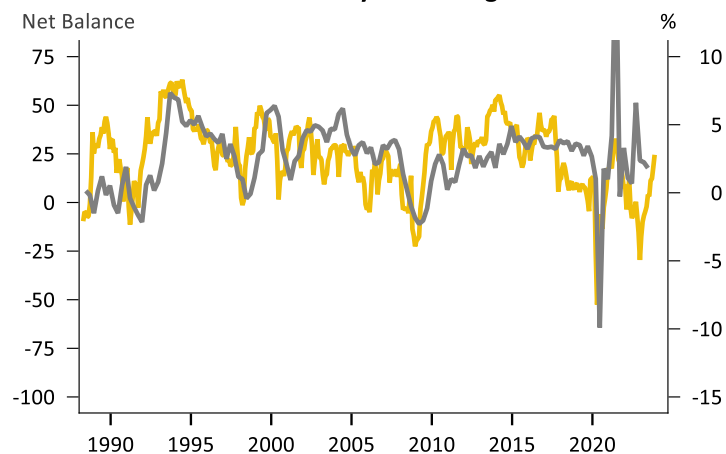
ASB interest rate forecasts		Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Mar-25	Mar-26
(end of quarter)		<<actual	forecast >>							
NZ cash rate target		5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.25	3.50
NZ 90-day bank bill		5.74	5.60	5.60	5.60	5.55	5.50	5.25	5.25	3.50
NZ 2-year swap rate		5.72	5.15	5.05	4.90	4.75	4.60	4.45	4.45	3.85
NZ 10-year govt bond		5.26	4.95	4.90	4.80	4.65	4.50	4.35	4.35	4.00

ASB foreign exchange forecasts		Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Mar-25	Mar-26
(end of quarter)		<<actual	forecast >>							
USD per NZD		0.60	0.60	0.62	0.64	0.66	0.67	0.68	0.68	0.68
GBP per NZD		0.49	0.49	0.50	0.51	0.52	0.52	0.52	0.52	0.52
AUD per NZD		0.93	0.94	0.93	0.93	0.92	0.91	0.89	0.89	0.88
JPY per NZD		89.1	81.6	82.5	83.2	84.5	87.1	89.1	89.1	91.1
EUR per NZD		0.56	0.56	0.56	0.56	0.55	0.55	0.55	0.55	0.55
CNY per NZD		4.4	4.3	4.4	4.5	4.6	4.6	4.6	4.6	4.5
TWI - 17 country		70.8	69.4	70.6	71.8	72.9	73.2	73.7	73.7	73.3

# 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

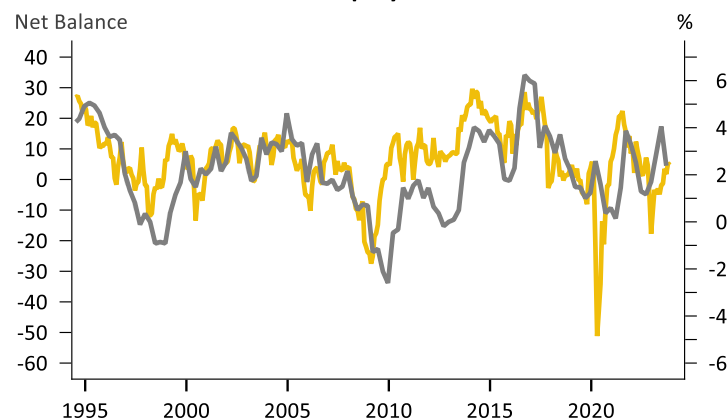
Annual GDP Growth & BusinessNZ  
GDP Weighted Composite Index



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

Source: Macrobond, ASB

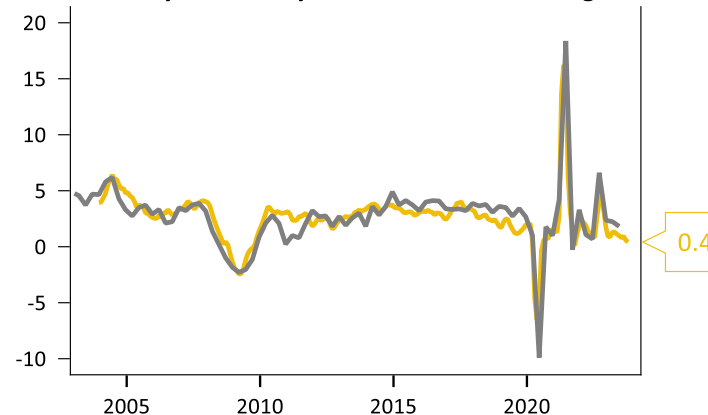
ANZ Employment Intentions &  
NZ Annual Employment Growth



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

Source: Macrobond, ASB

Treasury NZ Activity Index and Annual GDP growth

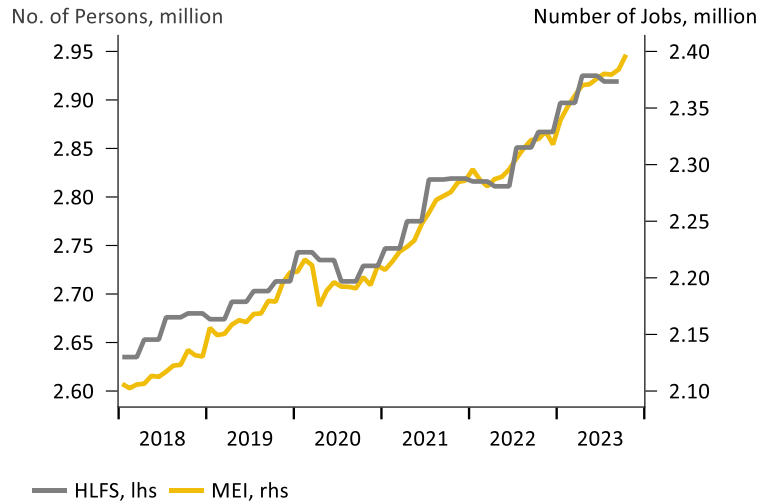


— NZ Annual GDP growth — NZ Activity Index (NZ Treasury), 3 month moving average

Source: Macrobond, ASB

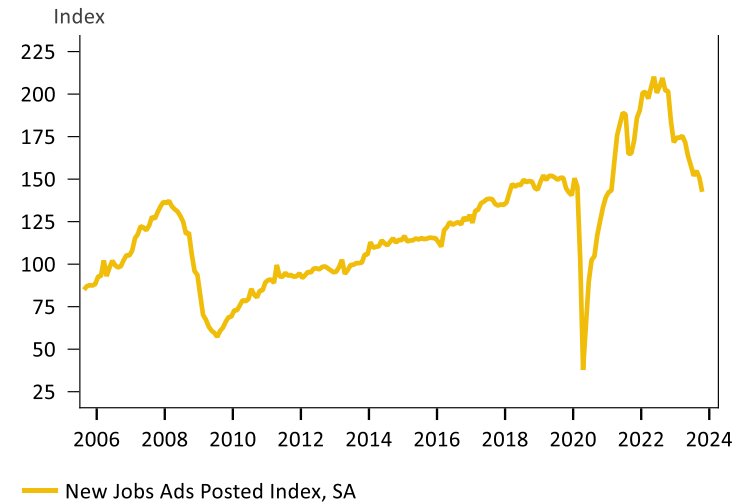
# > Employment

**New Zealand Employment Indicators**



Source: Macrobond, ASB

**SEEK Website New Jobs Ads Posted Index, SA**



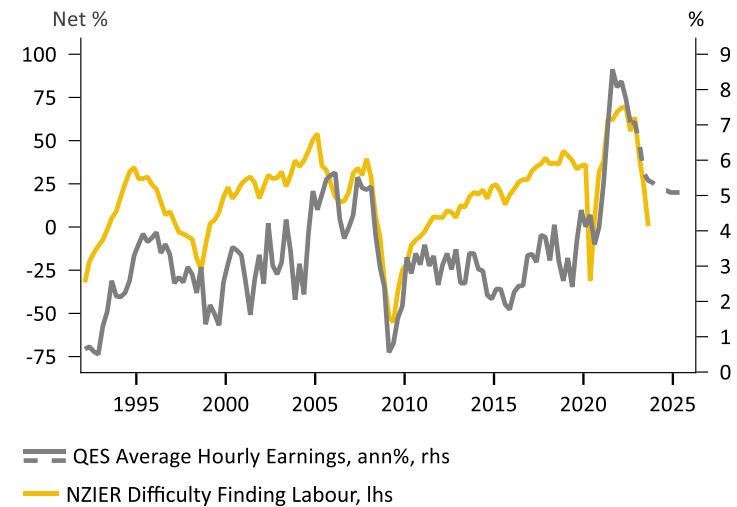
Source: Macrobond, ASB

**New Zealand Unemployment Rate**



Source: Macrobond, ASB

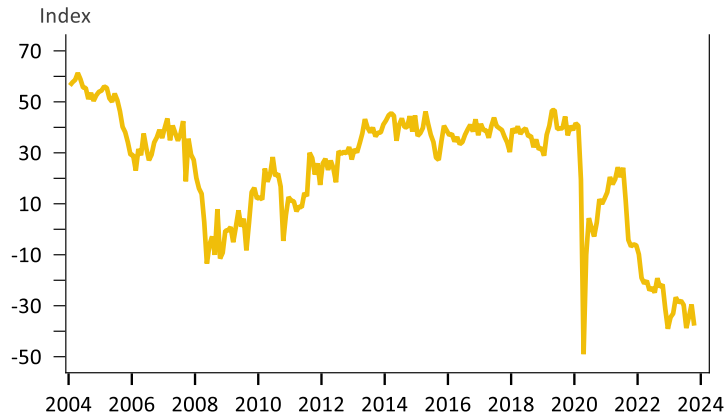
**Difficulty Finding Labour and Average Hourly Wages**



Source: Macrobond, ASB

# > NZ Retail Spending and Consumer Confidence

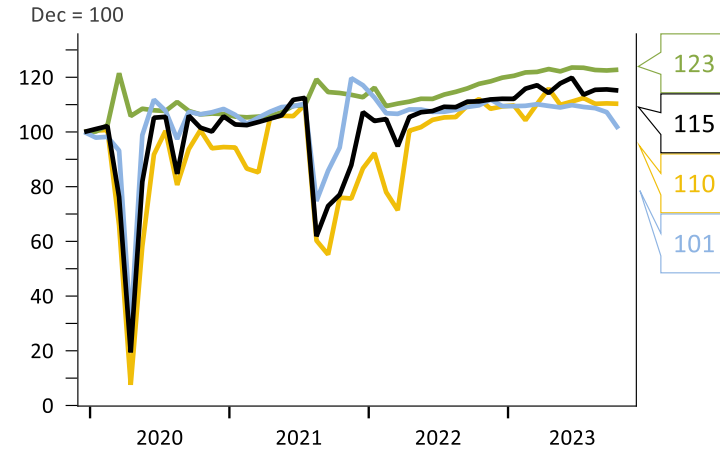
**Good Time To Buy a Major Household Item**  
ANZ/Roy Morgan, Net Balance s.a.



— Buy Major Household Item, Net Balance

Source: Macrobond, ASB

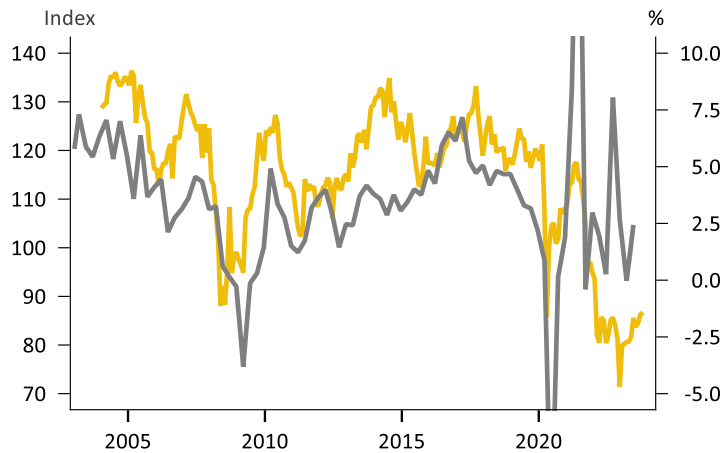
**NZ Electronic Card Spending - Rebased**



— 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**

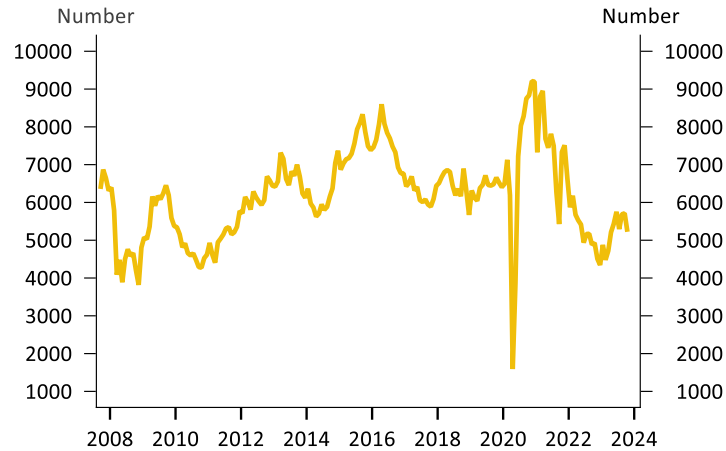


— House Price Index NZ, rhs — GDP Private Consumer Spending, lhs

Source: Macrobond, ASB

# > Housing and Construction

REINZ NZ House Sales - Seasonally Adjusted



House Sales

Source: Macrobond, ASB

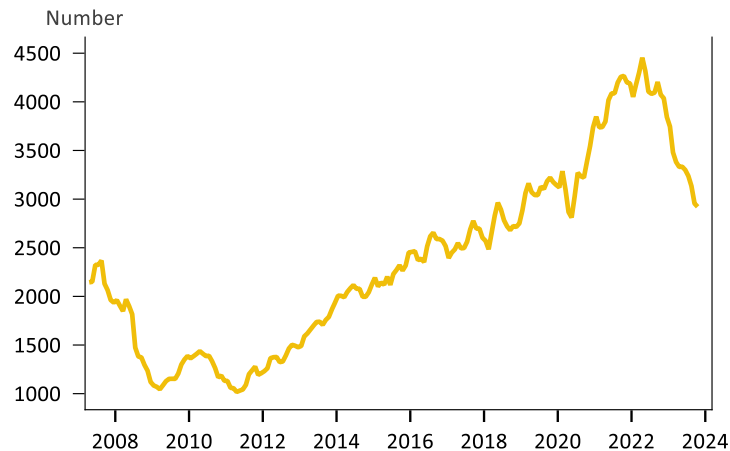
REINZ NZ Annual House Price Growth



House price growth (ann %)

Source: Macrobond, ASB

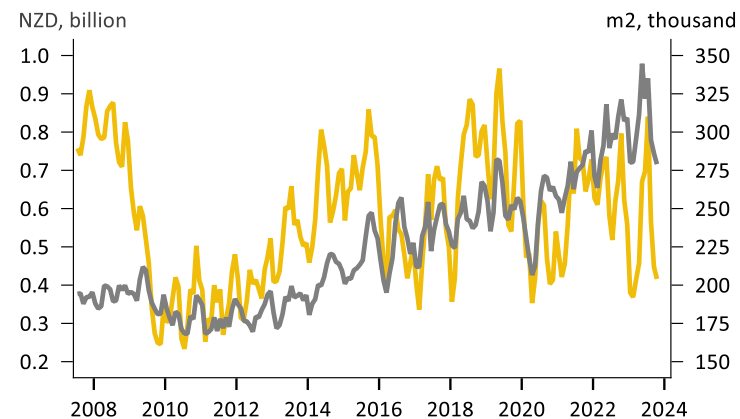
NZ New Residential Dwelling Consent



3 month moving average

Source: Macrobond, ASB

NZ Non-Residential Building Consents  
3 month moving average

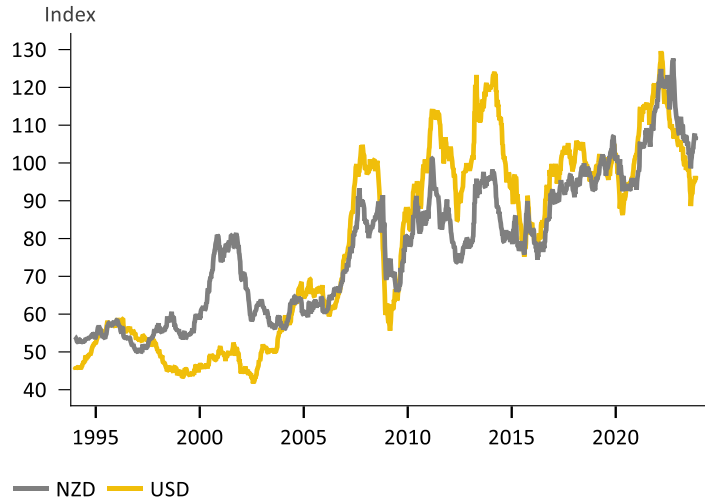


Value, lhs Metres squared, rhs

Source: Macrobond, ASB

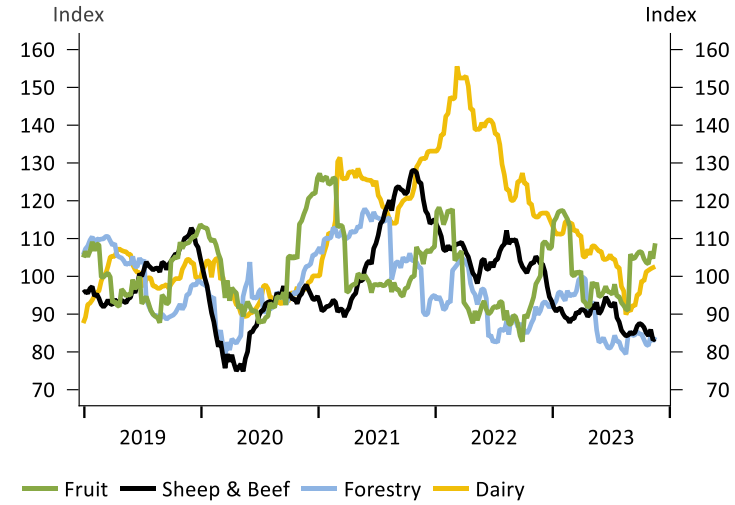
# ➤ NZ Export and Import Commodity Prices

ASB Commodity Index



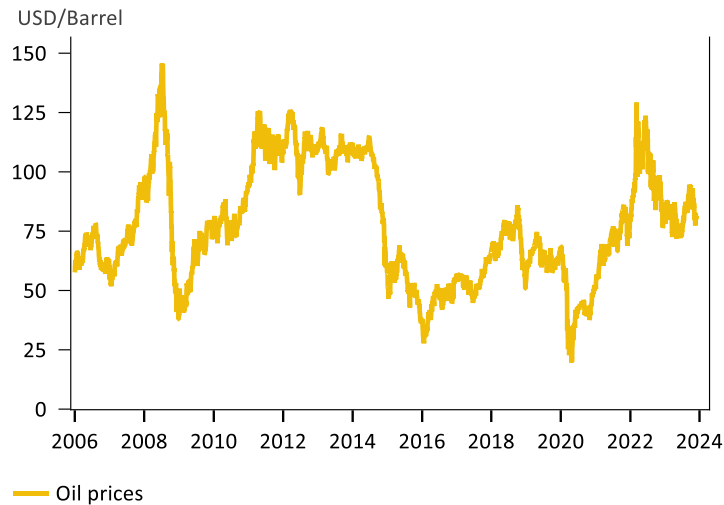
Source: Macrobond, ASB

New Zealand USD Commodity Prices



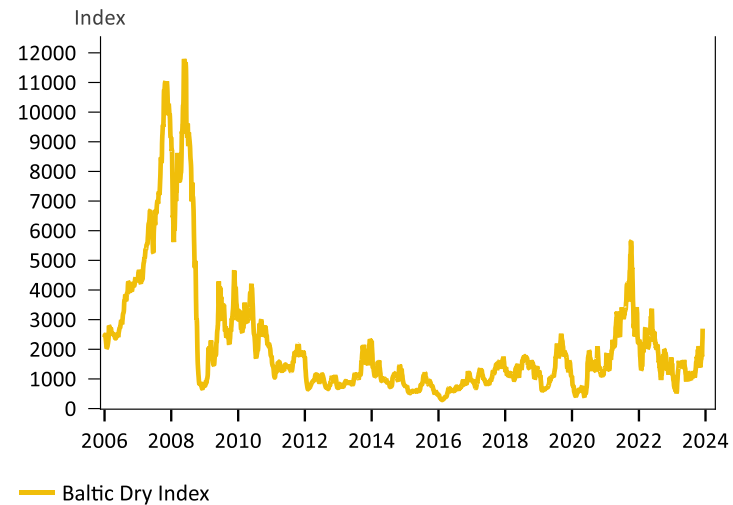
Source: Macrobond, ASB

World Oil Prices - North Sea Brent Crude - USD Spot



Source: Macrobond, ASB

Baltic Dry Index, USD

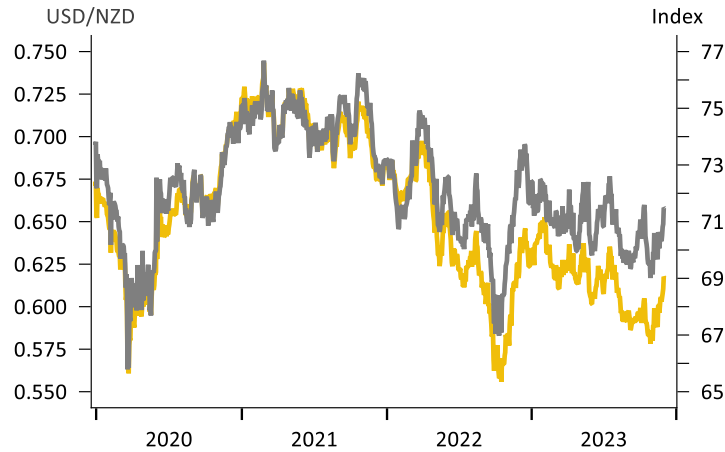


Source: Macrobond, ASB



# Financial Markets Recent Trends

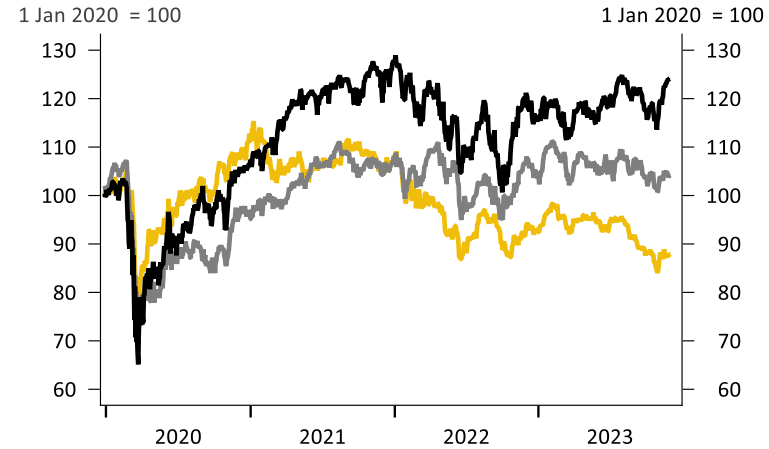
## NZ Dollar



— Trade Weighted Index (17 Currency Basket), rhs — NZD/USD, lhs

Source: Macrobond, ASB

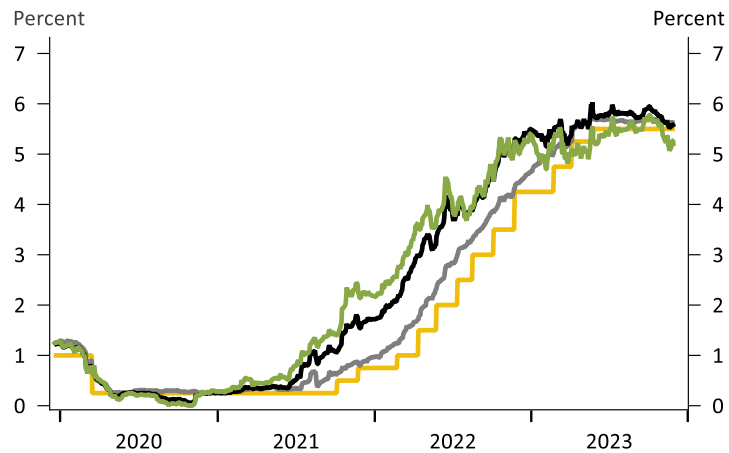
## Equity Indices



— US Dow Jones — Australia ASX50 — NZX50

Source: Macrobond, ASB

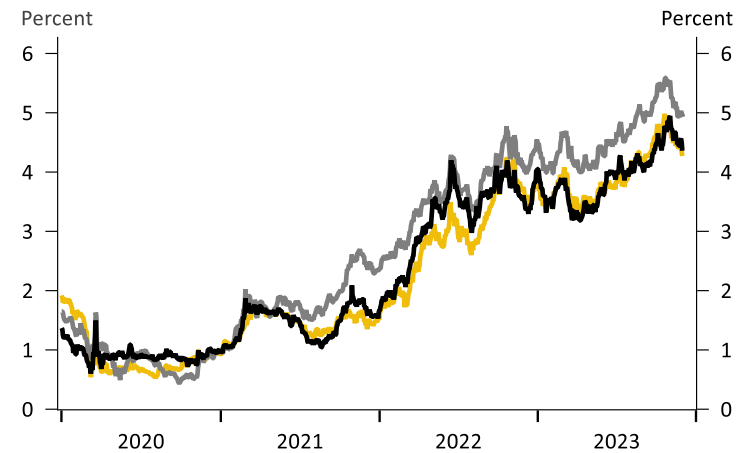
## NZ Interest Rates



— 2 Year — 1 Year — 90 day bank bill — Official Cash Rate

Source: Macrobond, ASB

## Government 10-Year Bond Yields



— Australia — New Zealand — United States

Source: Macrobond, ASB

## › ASB Economics

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