

- **External and domestic demand continue to ease**
- **Tourism and employment are buffering the slowdown**
- **Indicators of global growth ease further**

Signs of easing demand pressure were evident in June's quarterly retail trade survey and July's housing consents data, while export figures for July point to fading external support. Employment remained resilient, with net migration helping to boost supply. Indicators of global growth continue to soften, particularly in Europe, which will further dampen export returns.

### *Easing demand pressures...*

The dampening effects of higher interest rates and cost of living pressures on household spending were reflected in June's quarterly retail trade survey. The survey's measure of sales volumes fell 1.0%, the third consecutive fall, leaving volumes 3.4% lower than in the same quarter a year ago. Sales volumes were even weaker when spending on vehicles and fuel is excluded, down 5.1% compared to a year ago.

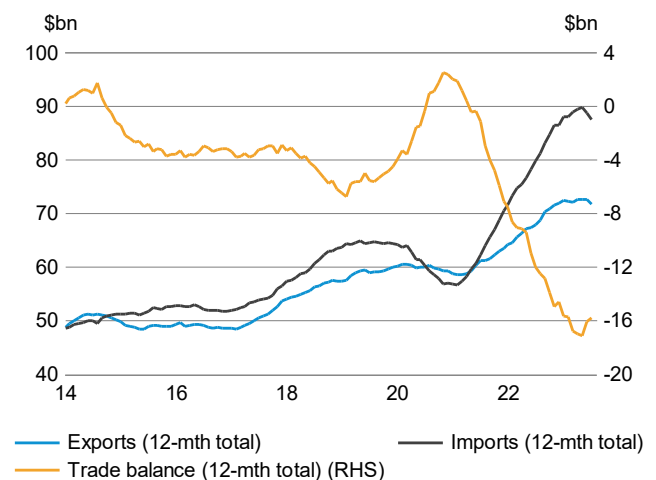
Building consents issued for new dwellings also continued to ease from last year's levels, reflecting higher financing and construction costs. Housing consents fell 25% in July compared with the same month last year and were 21% lower over the 12-months ended July than the previous 12-month period.

The outlook is for growth in household consumption and investment spending to remain subdued. The effects of past monetary tightening are still to be fully passed through to household mortgage payments and the relatively high level of interest rates is expected to restrain credit demand for some time. However, capacity constraints in construction have created a backlog of work and, together with recent population gains and rebuild activity from severe weather earlier in the year, suggest declines in activity may be mild relative to previous cycles.

The weaker global outlook will also weigh on spending as the effects of lower export prices flow through to lower incomes, especially in rural areas. July's merchandise trade data showed exports fell 10.3% compared to June, as dairy exports eased from high levels in the past few months, while imports were up 1.4%.

Despite the fall in July's exports, New Zealand's trade deficit with the rest of the world narrowed to \$15.8 billion in the 12-months ended July, down from a peak of \$17.1bn in May (Figure 1). Lower imports were the main driver of the lower deficit, led by falling petrol and chemical prices as they returned to more normal levels after spiking higher following Russia's invasion of Ukraine. In coming months, imports will ease further as lower prices continue to feed through, although recent falls in prices for dairy and other goods will be an increasing drag on exports and the trade deficit.

**Figure 1: International trade**



Source: Stats NZ

### *...buffered by tourism and employment*

Meanwhile, the recovery in international arrivals to New Zealand over the past year drove sharply higher profits reports by Air New Zealand and Auckland Airport in the year ended June 2023. Auckland Airport also reported that flight capacity to China (New Zealand's second largest tourist market prior to the pandemic) had quickly returned and was expected to recover to 93% of pre-COVID levels by September 2023.

Employment remained resilient to the weaker demand backdrop, rising 0.3% in July's monthly indicator report, to be 3.4% higher than a year ago. Net migration is adding to labour supply, helping to ease acute labour shortages that had developed in some industries.

Improved business confidence could also help to buffer the slowdown in consumer spending. August's NZ Business Outlook survey showed solid gains in business confidence in the economic outlook (up 9 points) and in their own activity (up 10 points), although both measures remained below average. The survey's measures of inflation pressures also continued to trend down, but remained well above pre-pandemic levels, suggesting there is still a lot of inflationary pressure to be unwound.

### IMF forecasts growth to slow to 1%

In their latest annual assessment of the New Zealand economy, the International Monetary Fund (IMF) forecast growth to slow to around 1% in 2023 and 2024, as tighter monetary policy takes hold and restrains household spending. The IMF forecasts for GDP growth, prepared in June, are a little higher than the Reserve Bank's latest forecasts, but lower than Treasury's *Budget Update* forecasts (Table 1). They also show inflation returning to the Reserve Bank's 1-3% target range in 2025, alongside a policy interest rate that remains around current levels until 2025 and an unemployment rate that rises to 5.0% in 2025. Despite the rapid rise in interest rates over the past year or so, the IMF saw no signs that the financial strength of NZ banks had been undermined.

**Table 1: GDP forecasts**

	Years ending December				
	2023	2024	2025	2026	2027
IMF	1.1	1.0	2.1	2.2	2.7
RBNZ (Aug)	0.7	0.8	2.6	n/a	n/a
Treasury (BEFU)	1.4	1.6	2.7	3.1	n/a

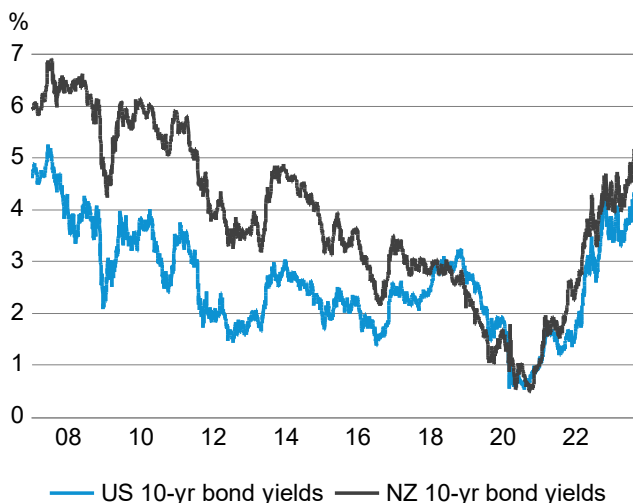
n/a not available

Sources: IMF, RBNZ, the Treasury

### Wider budget deficits expected in PREFU

New Zealand government bond yields have been rising. This is mainly due to global factors. However, analyst expectations of additional bond issuance may also be playing a role.

**Figure 2: US and NZ 10-year bond yields**

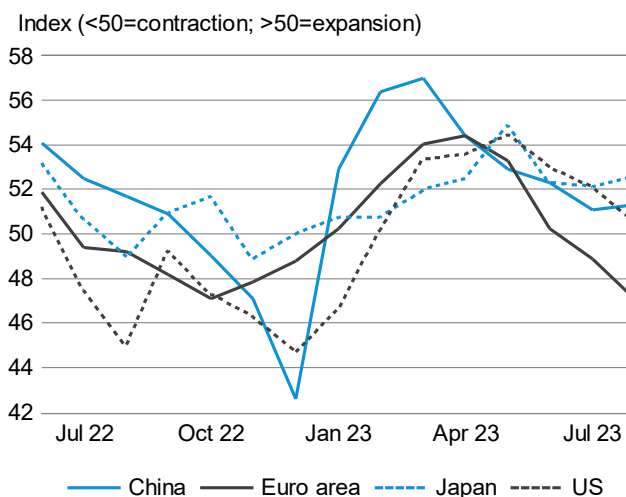


Source: Haver

### Global growth indicators ease further

The latest round of purchasing managers surveys (PMIs) pointed to slower activity in the months ahead, particularly in Europe. Sharply weaker services sentiment, especially in Germany, saw August's euro area composite PMI slide to its lowest level since late 2020. Services also drove the weaker US composite, although the contraction in manufacturing also deepened. PMIs in China were mixed but slightly higher overall as increases in construction and manufacturing more than offset weaker services sentiment. Japan's PMIs also recorded a small gain.

**Figure 3: Global composite PMIs**



Source: Haver

Central bank leaders emphasised upside risks to inflation and their commitment to maintaining a restrictive policy stance at their annual meeting in Jackson Hole, Wyoming. US Federal Reserve Chair Powell said the Fed was prepared to raise rates further if necessary and hold policy at a restrictive level until it is confident that inflation was returning to target. Getting inflation back to target is expected to require a period of below-trend economic growth as well as some softening in the labour market. Financial market pricing for the Fed's September meeting shows a near 20% chance of a 25bps hike. A cumulative 15bp of tightening is priced for the next 2 meetings.

In a similar vein, European Central Bank President Lagarde said the Bank will set borrowing costs as high as required and keep them at restrictive levels for as long as needed to return inflation to its 2% target.

Striking a different tone, Bank of Japan Governor Ueda commented that underlying inflation is still a bit below its 2% target, providing a rationale for the Bank's still loose monetary stance.

## US bond yields rise as growth remains resilient

US government bond yields have trended higher in recent weeks, producing a tightening in financial conditions. Since early July 10-year government bond yields have increased by around 35 basis point to their highest levels since 2008 (Figure 2). Analysts attribute much of the rise in US yields to expectations of stronger growth that has seen consensus forecasts revise away expectations of recession over the next year. Consensus forecasts now see growth of 1.7% in 2023, up from 1.2% in June, while growth in 2024 is one-tenth higher at 0.8%.

Following strong rises in July's retail sales and industrial production earlier in the month, more recent US data has been on the softer side and bond yields have partially retraced their gains. In addition to the weaker PMIs, second quarter GDP growth was revised to 0.5% from 0.6% previously. In the labour market, July's Job Openings and Labour Turnover Survey (JOLTS) pointed to a cooling labour market, as the downward trend in vacancies and new hires continued. The Conference Board measure of consumer confidence fell following two months of increases but remained above average.

## China's growth remains subdued

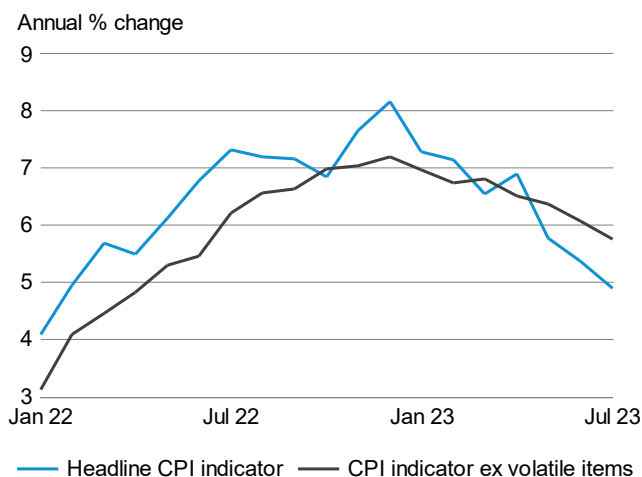
China's recovery looks to have continued in August but at a slower pace than earlier in the year, with the PMIs modestly higher overall (Figure 3). The manufacturing PMI increased 0.4 points to 49.7, marginally below the threshold of 50 that signals expansion, while the non-manufacturing survey provided a partial offset, easing 0.5 pts to 50.5, led by weaker services. More positively, the construction component increased for the first time since March, with analysts pointing to increased infrastructure spending as the key driver.

Government policy support continues to increase, but analysts describe measures to date as piecemeal and modest. Following cuts to its key policy interest rates in mid-August, China's central bank underwhelmed market expectations with a 10bps cut to the 1-year prime loan rate (LPR) and no change to the 5-year rate - the benchmark mortgage rate. However, support is continuing to ramp up. Rules for mortgages have been relaxed and property policies have become more supportive, while a range of measures to encourage capital market activity have also been announced. China's Minister of Finance signalled that fiscal policy may become more active, and analysts expect further monetary easing and property-related measures to be introduced in coming weeks.

## Lower inflation in Australia

Annual inflation eased to 4.9% in July according to the official monthly CPI indicator (Figure 4). Inflation has eased materially this year and the annualised three-month increase is now back within the Reserve Bank's 2-3% target range at 2.7%. However, the measure that excludes volatile items is much firmer at 5.8%, and analysts warn that the headline measure could rebound to over 5% in September.

Figure 4: Australian CPI indicator



Source: Haver

Australian GDP for the June quarter is due on 6 September and analysts expect growth of around 0.3% in the quarter.

Australian Treasurer Jim Chalmers released the government's 2023 Intergenerational Report, the 6<sup>th</sup> report since 2002. The report shows that without remedial action the federal budget will fall back into deficit this fiscal year and remain there for the next 40 years as population ageing increases spending pressures and erodes the tax base. Other forces shaping the outlook are the use of technology, rising demand for care and support services, climate change and the net zero transformation, and increased geopolitical risk. Chalmers' identified investment in the workforce, technology, and energy transformation as the key to lifting productivity.

## Coming up:

Date	Release
4 Sep	Terms of trade indexes (Q2)
6 Sep	Building work put in place (Q2)
7 Sep	Economic Survey of Manufacturing (Q2)
12 Sep	PREFU
13 Sep	Food and rental price indexes (Aug)

## Tables

<b>Quarterly Indicators</b>		<b>2022Q1</b>	<b>2022Q2</b>	<b>2022Q3</b>	<b>2022Q4</b>	<b>2023Q1</b>	<b>2023Q2</b>
Real Production GDP (1)	qpc	0.1	1.5	1.4	-0.7	-0.1	...
	aapc	5.2	1.2	2.9	2.7	2.9	...
Current account balance (annual)	%GDP	-6.8	-8.0	-8.5	-9.0	-8.5	...
Merchandise terms of trade	apc	3.3	-2.2	-6.4	-4.2	-6.2	...
CPI inflation	qpc	1.8	1.7	2.2	1.4	1.2	1.1
	apc	6.9	7.3	7.2	7.2	6.7	6.0
Employment (HLFS) (1)	qpc	-0.1	-0.1	1.2	0.7	1.1	1.0
Unemployment rate (1)	%	3.2	3.3	3.3	3.4	3.4	3.6
Participation rate (1)	%	70.9	71.0	71.6	71.8	72.0	72.4
LCI salary & wage rates - total (2)	apc	3.0	3.4	3.7	4.1	4.3	4.3
QES average hourly earnings - total (2)	apc	4.8	6.4	7.4	7.2	7.6	6.9
Core retail sales volume	apc	3.2	-1.8	5.0	-3.6	-4.0	-5.1
Total retail sales volume	apc	2.3	-3.7	4.9	-4.0	-4.1	-3.5
WMM - consumer confidence (3)	Index	92.1	78.7	87.6	...	...	...
QSBO - general business situation (1,4)	net%	-36.1	-61.9	-42.7	-75.2	-63.2	-59.2
QSBO - own activity outlook (1,4)	net%	5.9	-13.8	-16.3	-33.6	-8.0	-16.7

<b>Monthly Indicators</b>		<b>Mar 23</b>	<b>Apr 23</b>	<b>May 23</b>	<b>Jun 23</b>	<b>Jul 23</b>	<b>Aug 23</b>
Merchandise trade balance (12 month)	NZ\$m	-16,778.4	-17027.1	-17135.6	-16113.4	-15805.5	...
Dwelling consents - residential	apc	-25.1	-25.8	-17.7	-15.7	-25.4	...
House sales - dwellings	apc	-12.7	-11.8	2.2	18.2	1.6	...
REINZ - house price index	apc	-12.9	-12.0	-11.0	-8.8	-6.9	...
Estimated net migration (12 month total)	people	64,519.0	73454.0	81706.0	86773.0	...	...
ANZ NZ commodity price index	apc	-9.8	-10.3	-10.3	-11.0	-13.8	...
ANZ world commodity price index	apc	-17.4	-17.3	-13.2	-14.3	-14.7	...
ANZBO - business confidence	net%	-43.4	-43.8	-31.1	-18.0	-13.1	-3.7
ANZBO - activity outlook	net%	-8.5	-7.6	-4.5	2.7	0.8	11.2
ANZ-Roy Morgan - consumer confidence	net%	77.7	79.3	79.2	85.5	83.7	85.0
NZAC	apc	...	...	...	...	...	...

<b>Daily Indicators</b>		<b>Fri</b>	<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>
		<b>25/8/23</b>	<b>28/8/23</b>	<b>29/8/23</b>	<b>30/8/23</b>	<b>31/8/23</b>	<b>1/9/23</b>
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.5918	0.5917	0.5914	0.5953	0.5968	...
NZD/AUD	\$	0.9222	0.9206	0.9187	0.9209	0.9186	...
Trade weighted index (TWI)	index	69.60	69.56	69.49	69.83	69.88	...
Official cash rate (OCR)	%	5.50	5.50	5.50	5.50	5.50	...
90 day bank bill rate	%	5.63	5.64	5.65	5.64	5.65	...
10 year govt bond rate	%	5.00	5.00	5.01	4.95	4.91	...
<b>Share markets (6)</b>							
Dow Jones	index	34,347	34560	34853	34890	34722	...
S&P 500	index	4,406	4433	4498	4515	4508	...
VIX volatility index	index	15.7	15.1	14.5	13.9	13.6	...
AU all ords	index	7,333	7366	7416	7507	7518	...
NZX 50	index	11,468	11479	11528	11521	11554	...
<b>US interest rates</b>							
3 month OIS	%	5.33	5.33	5.33	5.33	...	...
3 month Libor	%	5.67	...	5.68	5.67	...	...
10 year govt bond rate	%	4.25	4.20	4.12	4.12	4.09	...
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	80.47	80.65	81.14	81.63	83.63	...
Gold	US\$/ounce	1,915.50	...	1930.00	1947.55	1942.30	...
CRB Futures	index	550.78	550.91	549.88	549.71	...	...

(1) Seasonally adjusted  
(2) Ordinary time, all sectors  
(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion  
(5) Reserve Bank (11am)  
(6) Daily close

*Data in italic font are provisional*  
... Not available

Country	Indicator		Jan 23	Feb 23	Mar 23	2023Q1	Apr 23	May 23	Jun 23	2023Q2	Jul 23	Aug 23
United States	GDP (1)	qpc				0.5				0.5		
	Industrial production (1)	mpc	1.0	0.0	0.1		0.5	-0.4	-0.8		1.0	...
	CPI	apc	6.4	6.0	5.0		4.9	4.0	3.0		3.2	...
	Unemployment rate (1)	%	3.4	3.6	3.5		3.4	3.7	3.6		3.5	...
	Employment change (1)	000s	472.0	248.0	217.0		217.0	281.0	185.0		187.0	...
	Retail sales value	apc	7.4	5.3	2.2		1.3	2.1	1.6		3.2	...
	House prices (2)	apc	2.6	0.4	-1.1		-1.7	-1.7	-1.2		...	...
	PMI manufacturing (1)	index	47.4	47.7	46.3		47.1	46.9	46.0		46.4	...
Consumer confidence (1)(3)	index	106.0	103.4	104.0		103.7	102.5	110.1		114.0	106.1	
Japan	GDP (1)	qpc				0.9				1.5		
	Industrial production (1)	mpc	-3.9	3.7	0.3		0.7	-2.2	2.4		-2.0	...
	CPI	apc	4.4	3.3	3.2		3.4	3.2	3.2		3.2	...
	Unemployment rate (1)	%	2.4	2.6	2.8		2.6	2.6	2.5		2.7	...
	Retail sales value	apc	5.0	7.3	6.9		5.1	5.8	5.6		6.8	...
	PMI manufacturing (1)	index	48.9	47.7	49.2		49.5	50.6	49.8		49.6	...
	Consumer confidence (1)(4)	index	31.0	30.9	34.0		35.0	36.2	36.8		37.1	36.1
Euro area	GDP (1)	qpc				0.0				0.3		
	Industrial production (1)	mpc	0.5	1.8	-4.4		1.2	0.0	0.5		...	...
	CPI	apc	8.7	8.5	6.9		7.0	6.1	5.5		5.3	...
	Unemployment rate (1)	%	6.7	6.6	6.5		6.5	6.5	6.4		6.4	...
	Retail sales volume	apc	-1.8	-2.4	-3.3		-2.8	-2.4	-1.4		...	...
	PMI manufacturing (1)	index	48.8	48.5	47.3		45.8	44.8	43.4		42.7	...
	Consumer confidence (5)	index	-20.6	-19.0	-19.1		-17.5	-17.4	-16.1		-15.1	-16.0
United Kingdom	GDP (1)	qpc				0.1				0.2		
	Industrial production (1)	mpc	-0.2	-0.1	0.8		0.1	-0.7	1.8		...	...
	CPI	apc	8.8	9.2	8.9		7.8	7.9	7.3		6.4	...
	Unemployment rate (1)	%	3.7	3.8	3.9		3.8	4.0	4.2		...	...
	Retail sales volume	apc	-5.4	-4.0	-4.7		-3.6	-2.5	-1.6		-3.2	...
	House prices (6)	apc	1.1	-1.1	-3.1		-2.7	-3.4	-3.5		-3.8	...
	PMI manufacturing (1)	index	47.0	49.3	47.9		47.8	47.1	46.5		45.3	...
Consumer confidence (1)(5)	net %	-45.0	-38.0	-36.0		-30.0	-27.0	-24.0		-30.0	-25.0	
Australia	GDP (1)	qpc				0.2				...		
	CPI	apc				7.0				6.0		
	Unemployment rate (1)	%	3.7	3.6	3.5		3.7	3.6	3.5		3.7	...
	Retail sales value	apc	7.7	6.5	5.6		3.3	4.3	3.0		1.4	...
	House Prices (7)	apc				...					...	...
	PMI manufacturing (1)	index	-17.1	-6.4	5.6		-20.2	-5.1	-19.8		-25.6	...
Consumer confidence (8)	index	84.3	78.5	78.5		85.8	79.0	79.2		81.3	81.0	
China	GDP	apc				4.5				6.3		
	Industrial production	apc	2.4	2.4	3.9		5.6	3.5	4.4		3.7	...
	CPI	apc	2.1	1.0	0.7		0.1	0.2	0.0		-0.3	...
PMI manufacturing (1)	index	50.1	52.6	51.9		49.2	48.8	49.0		49.3	49.7	
South Korea	GDP (1)	qpc				0.3				0.6		
	Industrial production (1)	mpc	1.9	-2.7	4.7		-0.7	3.1	-1.5		-2.0	...
	CPI	apc	5.2	4.8	4.2		3.7	3.3	2.7		2.3	...

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index