

# Fortnightly Economic Update

17 May 2024

- **Weak housing market, lower food prices and expected inflation highlights low demand**
- **No turning point in sight amid lower retail spending and sector-wide business activity**
- **Australian Budget remains in surplus**

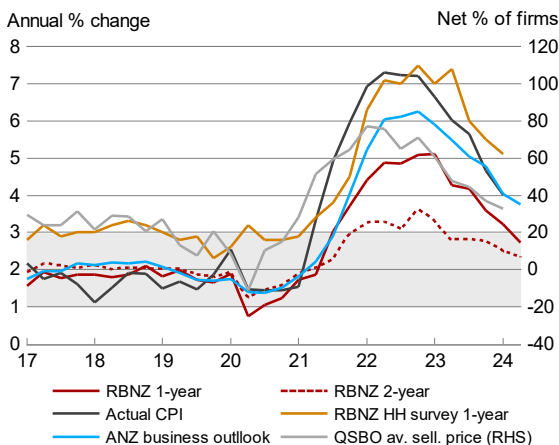
Indicators continue to point to low demand heading into the second quarter affecting consumers and businesses alike. A convincing drop in inflation expectations, discretionary spending and normalising patterns of migration will be welcome news to the Reserve Bank but a rate cut at next week's Monetary Policy Statement is unlikely. Furthermore, business sentiment across all sectors show no sign of a turning point in the near term painting a bleak picture at least in the domestic economy.

The Australian Federal Budget is expected to remain in surplus for the 2023/24 year, the second consecutive surplus, but to return to deficit thereafter. The Budget included personal income tax cuts, alongside expanded subsidies for energy, housing rents and medicines. Other government measures included tax incentives to support clean energy development. Although the Budget will add to aggregate demand, the subsidy measures will likely more than offset any inflationary impacts.

### Expected inflation at its lowest rate in 3 years

The latest Reserve Bank survey of inflation expectations showed solid declines consistent with what we have seen in other surveys. The 1-year ahead measure fell within the target band under 3% for the first time since 2021 and the 2-year ahead dropped closer to the midpoint 2% signalling stronger confidence in the Reserve Bank's ability to maintain price stability.

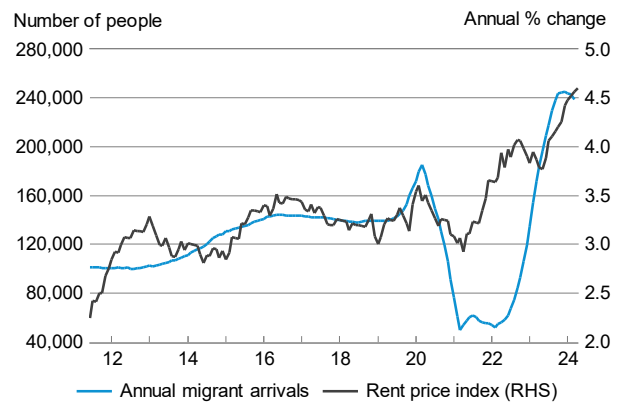
**Figure 1: Measures of inflation expectations**



Source: Stats NZ, RBNZ, Haver

The selected price indexes revealed an overall easing in April that account for about 45% of the CPI and provide an indication of price pressure in some parts of the economy. Food prices grew compared with March but are well down compared with April 2023 (-0.8%) due in large part to continued falls in fruit and vegetables. However, prices of some of the non-tradable components of the food group including some grocery items and restaurant and ready-to-eat meals.

**Figure 2: Rent growth and migrant arrivals**



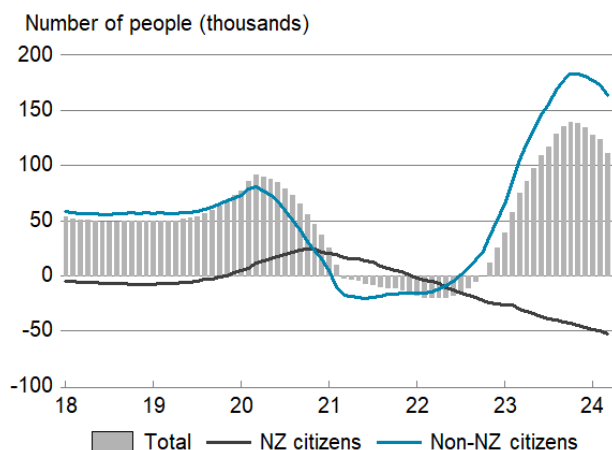
Source: Stats NZ

Further, annual growth in rents which accounts for 9.5% of the CPI are still climbing and are now the highest they've been since September 2008. The continued growth in rents is broadly in line with our long-held expectation that strong migration would boost rents. Annual net migration – while still at historically high levels - continued to slow in March to 111,100 from a peak of 139,100 in October 2023.

However, the underlying data reveals interesting dynamics at play. Estimates for annual departures – which are subject to revision – reached a record high of 127,800 in March. Further, there was a record net outward flow of 52,500 New Zealand citizens, far exceeding the previous 44,400 record in the February 2012 year. By age, the bulk of New Zealand citizen departures were aged between 20 and 29 years. Meanwhile, seasonally adjusted monthly arrivals of migrants while slowing late last year have been increasing this year back over 20,000. Between 2014

and 2019 migrant arrivals averaged around 12,000 per month.

**Figure 3: Annual net migration**



Source: Stats NZ

Overall, the level of net migration for the March 2024 quarter confirms our view that aggregate labour market demand and supply is returning to balance. With an ongoing soft outlook for economic activity in the quarters ahead, continued above average levels of migrant arrivals point to further upside to the unemployment rate, as the ongoing expansion in labour supply is likely to exceed demand. There is some downside risk to our outlook for population growth and therefore aggregate demand if the high number of New Zealanders continue to head abroad.

**Retail card spending on discretionary items falls**

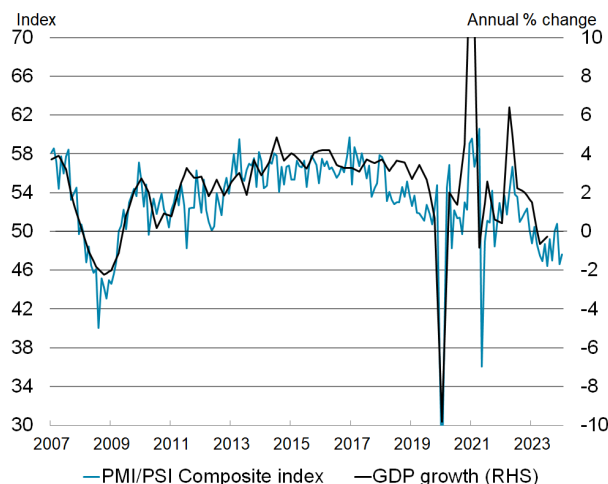
Job security, high inflation, slowing wage growth, and a prolonged period of high interest rates weighed on card spending in April. Even while consumer prices are still increasing at an annual rate of 4%, nominal spending by consumers on retail goods fell 0.4% in the month on a seasonally adjusted basis. The largest falls were across discretionary spending items such as apparel (-1.7%) and durable items which fell 0.7% in the month, and have been falling steadily for the past year to be 8.7% lower than April 2023. This trend is expected to continue this quarter based on recent surveys of consumers' plans to purchase large items and a tick up consumer loan arrears.

**Business activity drops across most sectors**

Amid waning consumer demand, businesses reported contracting activity across both the manufacturing and services sectors in April, consistent with the deterioration across all sectors in last month's ANZ Business Outlook which we reported in our last update. The BNZ-Business-NZ Performance of Services Indexes fell further below 50 – indicating contraction - based on lower employment intentions, and importantly, new orders. New orders fell from 47.9 to 47.1 and is now a full 10 points below its 17-year average. Retail trade and hospitality performed particularly poorly as consumer spending restraint continues. Weak wholesale trade and

transportation services is consistent with the Performance of Manufacturing Index released last week which stayed below 50 for the 14<sup>th</sup> consecutive month. Taken together the indexes point to continued weakness in GDP growth for the first half of this year.

**Figure 4: Performance indexes and GDP growth**

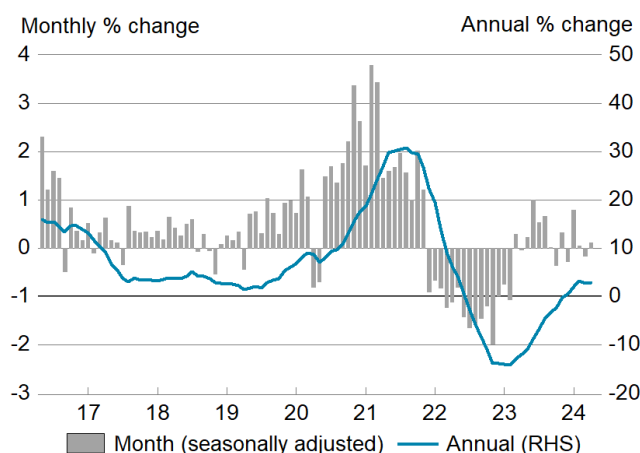


Source: Stats NZ, BNZ-BusinessNZ

**Housing market moving sideways**

House prices continued to show weak growth in April in another hit to household wealth and consumer demand. The house price index released by the Real Estate Institute of New Zealand (REINZ) increased just 0.1% in the month on a seasonally adjusted basis and 2.9% higher than April 2023 (Figure 5). This continues the flat house price trend we have seen for the past few months and reinforces our view that house price growth is likely to remain weak throughout 2024. Stronger house price growth is unlikely to eventuate until interest rates begin to fall towards the end of the year.

**Figure 5: REINZ House price index growth**



Source: Haver

A potential factor keeping house price growth low is the increasing pace of the number of house listings (up 35% over the year) providing greater choice to buyers and placing downward pressure on house prices. The greater housing stock for sale was reflected in the median days to sell, which increased from 41 in March to 44 days in April seasonally adjusted.

## Australian budget remains in surplus...

Australia's Commonwealth Budget is expected to record a second consecutive surplus in 2023/24 as firmer tax receipts support a turnaround from the deficit forecast in December. However, the underlying cash balance is expected to be back in deficit from 2024/25 onwards, mostly reflecting policy decisions, and deficits are larger than forecast in December's *Mid-Year Outlook*. As a result, debt measures are expected to increase (Table 1).

**Table 1: Key Budget forecasts (years ending June)**

	Actual	Forecasts					Projection
	2023	2024	2025	2026	2027	2028	2035
<b>Economic forecasts</b>							
Real GDP	3.1	1 3/4	2	2 1/4	2 1/2	2 3/4	
Unemployment rate	3.6	4	4 1/2	4 1/2	4 1/2	4 1/4	
Consumer price index	6	3 1/2	2 3/4	2 3/4	2 1/2	2 1/2	
<b>Fiscal forecasts (% of GDP)</b>							
Underlying cash balance	0.9	0.3	1.0	1.5	0.9	0.8	0.1
Gross debt	34.7	33.7	33.9	35.1	35.2	34.9	30.2
Net debt	19.2	18.6	20	21.5	21.8	21.9	18.7

\*Real GDP is percentage change on previous year ended June. Unemployment rate is for June quarter. The consumer price index is growth from June quarter in the previous year.

Source: Australian Treasury

The Budget's policy focus was on household income support measures including previously announced revisions to long-planned tax cuts from July 1, subsidies for rent and electricity, measures to lower prices of medicines, and support for wage settlements in aged and child care sectors.

Policy initiatives underpinning the "Future Made in Australia" initiative included grants, loans and tax credits for industries involved in clean energy production.

## ...as energy and rent subsidies reduce inflation...

The new energy and rent subsidies are expected to lower inflation by around 0.5 percentage points in 2024/25, which lowers the inflation forecast to 2¾%. Although the subsidy helps return inflation to the target range, its expiry at the end of the fiscal year raises questions around whether it will remain in the range.

On the broader macroeconomic impulse, commentators assessed the budget as adding marginally to demand, but noted that the inflation impacts would be outweighed by the direct price effects of the subsidies. Relative to the Treasury's previous forecasts, analysts saw the budget as adding around 0.3 percentage points to GDP growth over the next two years. However, with recently released State budgets also adding to demand, including through additional household energy subsidies, some analysts estimate the total addition to demand could approach 1% of GDP.

Overall, the mix of higher demand and lower inflation will complicate assessments of underlying price pressures, but analysts did not see any immediate implications for monetary policy settings. Financial market pricing indicates

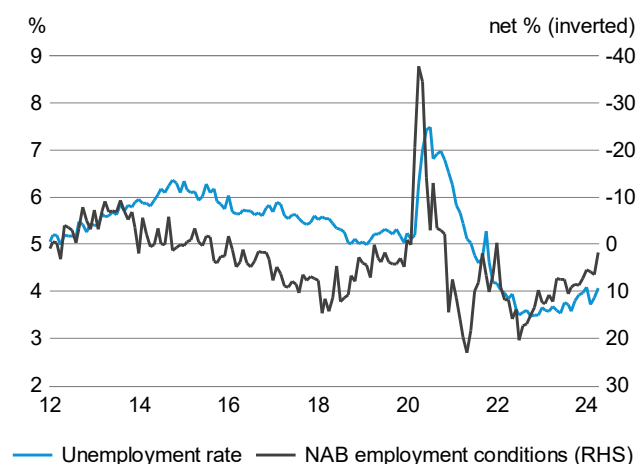
the policy interest rate could remain at 4.35% until mid-2025.

## ...and unemployment edges up

In other developments, Australia's labour market appeared to loosen in April, with the unemployment rate rising to 4.1%, two-tenths higher than in March, and broadly in line with the Budget's prediction of an average of 4% in the quarter (Figure 6). Employment rose 0.3% in the quarter but was outpaced by labour supply growth as participation increased. Although the release cautioned that some of the increase in unemployment may be temporary, other indicators also suggest labour demand is easing.

Earlier in the week, wage data for the March quarter showed growth slowed to 0.8%, the lowest in two years, while the annual rate eased to 4.1%. Meanwhile, advertised jobs fell to a three year low according to the Seek index and employment conditions were sharply weaker in the NAB Monthly Business Survey (Figure 6). The NAB survey also showed headline business confidence dipped to a 27-month low amidst subdued trading conditions.

**Figure 6: Australian labour market indicators**



Source: Haver

## US economy shows signs of easing...

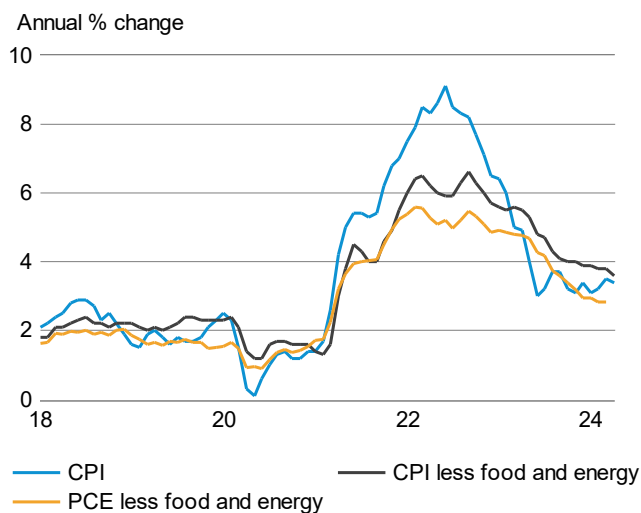
Following the March quarter deceleration in GDP growth to 1.6% (annualised), US data has shown further signs of slowing activity and cooling price pressures, reinvigorating expectations of monetary policy easing this year.

In the labour market, April's non-farm payroll report showed an increase of 175,000 jobs in April, well below the average of 269,000 over the prior three months. Other indicators also eased: the unemployment rate rose one-tenth to 3.9% and hourly wage growth eased to 3.9% on an annual basis. Meanwhile, retail sales were flat in April, while consumer confidence was lower in key surveys.

Consumer price inflation slowed in April following a period of unexpected strength over the first quarter. The headline consumer price index (CPI) rose 0.3% in April, down from 0.4% in the prior two months, taking the annual rate to

3.4%. Excluding food and energy, annual CPI inflation slowed to a three-year low of 3.6% (Figure 7).

**Figure 7: US inflation**



Source: Haver

Analysts expect lower CPI inflation will flow through to an annual rise of around 2.8% in the Federal Reserve's preferred inflation measure of core personal consumption expenditure prices. Although both inflation measures remain above the Fed's 2% target, progress towards the target, alongside other signs of easing price pressure, increased investor confidence that it would be able to lower interest rates in coming months, sending US equities to fresh highs. Financial market pricing indicates a high probability of a 25-basis point cut in September.

### ...while Chinese imports face higher tariffs

The Biden administration announced that it would impose new/higher tariffs on around US\$18 billion of mostly clean-energy goods imports from China, and that tariffs imposed in 2018-19 would remain in place. The new tariffs appear to be intended to protect US producers from competition in areas identified by China's policymakers as the "New Three" products to drive high quality growth - electric vehicles, solar panels and batteries - and semi-conductors where investment growth has been strong. There were also tariffs in areas where the US is seeking to promote supply chain independence such as port cranes and medical equipment.

Overall, the new tariffs cover a relatively small proportion of total goods imports from China, and an even smaller proportion of China's global exports. Analysts estimate the tariffs will affect around 4% of imports to the US and around 0.5% of total exports. They also expect China will retaliate with measures of its own and expect these to mirror the relatively minor impacts on China's trade.

These measures follow a lengthy review, initiated by the previous government, and warnings from Treasury Secretary Janet Yellen that the US would take steps to

counter the threat to US industry from China's focus on boosting industrial production to spur growth.

The European Union is also considering tariff measures to protect its electric vehicle industry. However, the EU's actions are expected to be consistent with World Trade Organisation rules around anti-subsidy protection, in contrast to the US tariffs.

### Low inflation in China

Weaker-than-expected credit data, along with soft inflation, easing sentiment in manufacturing and services surveys and persistent housing market weakness confirm subdued domestic demand amidst weak consumer confidence.

Inflation remained low in April, with consumer prices edging up 0.3% from a year ago, chiefly owing to higher fuel prices. Excluding food and energy, consumer prices rose 0.7%. Meanwhile, producer prices fell for the nineteenth month in a row, down 2.5% from a year ago.

Weak household confidence was also likely a factor behind the slump in credit demand. April data showed new Total Social Financing contracted for the first time in almost 20 years, led by net repayment of household loans alongside regulatory changes. The first tranche of the government's RMB1 trillion ultra-long bond programme, announced following the credit data, is expected to revive credit growth in the months ahead. The contraction comes against the backdrop of the prolonged-housing market slump.

Further measures to support the ailing property market may soon be announced, according to media reports.

### GDP falls in Japan

GDP contracted in the March quarter, down 0.5% on the previous quarter, led by lower household spending. This was the fourth consecutive quarter of declining household spending, reflecting weakness in real wage growth.

The weakness in GDP and household spending raises questions around the pace of central bank monetary tightening following the long-awaited ending of negative interest rates. Household spending is expected to pick up as real wage growth resumes following recent wage rises that have been the strongest in 30 years and one-off tax cuts starting in June. On the other hand, currency weakness is adding to inflation and confidence is subdued.

### Coming up:

Date	Release
22 May	RBNZ Monetary Policy Statement
23 May	Retail trade (Q1)
24 May	Merchandise trade (Apr)
28 May	Employment indicators (Apr)
30 May	Budget 2024

## Tables

<b>Quarterly Indicators</b>		<b>2022Q4</b>	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1
Real Production GDP (1)	qpc	-0.4	-0.3	0.5	-0.3	-0.1	...
	aapc	2.4	2.7	3.0	1.3	0.6	...
Current account balance (annual)	%GDP	-8.8	-8.2	-7.6	-7.4	-6.9	...
Merchandise terms of trade	apc	-4.2	-7.1	-5.0	-1.7	-10.6	...
CPI inflation	qpc	1.4	1.2	1.1	1.8	0.5	0.6
	apc	7.2	6.7	6.0	5.6	4.7	4.0
Employment (HLFS) (1)	qpc	0.6	1.2	1.1	-0.0	0.4	-0.2
Unemployment rate (1)	%	3.4	3.4	3.6	3.9	4.0	4.3
Participation rate (1)	%	71.8	72.1	72.4	72.0	71.9	71.5
LCI salary & wage rates - total (2)	apc	4.1	4.3	4.3	4.2	4.3	4.1
QES average hourly earnings - total (2)	apc	7.2	7.6	6.9	6.7	6.9	5.2
Core retail sales volume	apc	-3.6	-4.0	-5.1	-3.1	-3.2	...
Total retail sales volume	apc	-4.0	-4.1	-3.5	-3.4	-4.1	...
WMM - consumer confidence (3)	Index	75.6	77.7	83.1	80.2	88.9	...
QSBO - general business situation (1,4)	net%	-78.3	-63.8	-58.0	-50.6	-9.9	-23.7
QSBO - own activity outlook (1,4)	net%	-34.2	-7.1	-16.6	-14.1	6.6	-11.5

<b>Monthly Indicators</b>		<b>Nov 23</b>	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
Merchandise trade balance (12 month)	NZ\$m	-13,900.4	-13622.7	-12595.4	-12063.2	-9873.2	...
Dwelling consents - residential	apc	-36.4	-28.1	-28.3	-6.0	-26.2	...
House sales - dwellings	apc	14.1	20.3	12.5	47.3	11.3	25.3
REINZ - house price index	apc	-0.2	0.6	2.1	3.2	2.8	2.9
Estimated net migration (12 month total)	people	138,253.0	134445.0	127487.0	123420.0	111146.0	...
ANZ NZ commodity price index	apc	-2.1	0.8	5.1	6.3	3.1	7.3
ANZ world commodity price index	apc	-4.3	-1.8	1.4	3.6	0.9	3.2
ANZBO - business confidence	net%	30.8	33.2	36.6	34.7	22.9	14.9
ANZBO - activity outlook	net%	26.3	29.3	25.6	29.5	22.5	14.3
ANZ-Roy Morgan - consumer confidence	net%	91.9	93.1	93.6	94.5	86.4	82.1
NZAC	apc	1.0	1.0	1.5	2.3	...	...

<b>Daily Indicators</b>		<b>Thu</b>	<b>Fri</b>	<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>
		<b>9/5/24</b>	10/5/24	13/5/24	14/5/24	15/5/24	16/5/24
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6006	0.6025	0.6010	0.6015	0.6047	0.6123
NZD/AUD	\$	0.9127	0.9117	0.9123	0.9110	0.9117	0.9160
Trade weighted index (TWI)	index	70.90	71.03	70.94	70.97	71.20	71.71
Official cash rate (OCR)	%	5.50	5.50	5.50	5.50	5.50	5.50
90 day bank bill rate	%	5.63	5.63	5.63	5.63	5.64	5.63
10 year govt bond rate	%	4.72	4.73	4.75	4.71	4.67	4.59
<b>Share markets (6)</b>							
Dow Jones	index	39,388	39513	39432	39558	39908	39869
S&P 500	index	5,214	5223	5221	5247	5308	5297
VIX volatility index	index	12.7	12.6	13.6	13.4	12.5	12.4
AU all ords	index	7,994	8023	8019	7996	8021	8150
NZX 50	index	11,747	11755	11652	11618	11526	11728
<b>US interest rates</b>							
3 month OIS	%	5.33	5.33	5.33	5.33	5.33	...
3 month Libor	%	5.59	5.58	5.58	5.59	5.59	...
10 year govt bond rate	%	4.45	4.50	4.48	4.45	4.36	4.38
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	79.26	79.81	80.71	79.62	78.63	...
Gold	US\$/ounce	2,325.70	2372.45	2343.80	2354.85	2357.50	2377.40
CRB Futures	index	542.37	544.28	541.20	546.01	543.18	...

(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		2023Q3	Oct 23	Nov 23	Dec 23	2023Q4	Jan 24	Feb 24	Mar 24	2024Q1	Apr 24
United States	GDP (1)	qpc	1.2				0.8				0.4	
	Industrial production (1)	mpc		-0.7	0.3	-0.3		-0.8	0.8	0.1		0.0
	CPI	apc		3.2	3.1	3.4		3.1	3.2	3.5		3.4
	Unemployment rate (1)	%		3.8	3.7	3.7		3.7	3.9	3.8		3.9
	Employment change (1)	000s		165.0	182.0	290.0		256.0	236.0	315.0		175.0
	Retail sales value	apc		2.7	4.0	5.5		0.3	2.1	3.8		3.0
	House prices (2)	apc		4.9	5.4	6.1		6.6	7.3	...		...
	PMI manufacturing (1)	index		46.9	46.6	47.1		49.1	47.8	50.3		49.2
Consumer confidence (1)(3)	index		99.1	101.0	108.0		110.9	104.8	103.1		97.0	
Japan	GDP (1)	qpc	-0.9				0.0				-0.5	
	Industrial production (1)	mpc		1.2	-0.6	1.2		-6.7	-0.6	4.4		...
	CPI	apc		3.3	2.9	2.6		2.2	2.8	2.8		...
	Unemployment rate (1)	%		2.5	2.5	2.5		2.4	2.6	2.6		...
	Retail sales value	apc		4.1	5.4	2.4		2.1	4.7	1.1		...
	PMI manufacturing (1)	index		48.7	48.3	47.9		48.0	47.2	48.2		49.6
	Consumer confidence (1)(4)	index		35.9	35.8	36.9		37.7	38.6	39.7		38.3
Euro area	GDP (1)	qpc	-0.1				-0.1				0.3	
	Industrial production (1)	mpc		-0.5	0.4	1.6		-3.2	1.0	0.6		...
	CPI	apc		2.9	2.4	2.9		2.8	2.6	2.4		...
	Unemployment rate (1)	%		6.6	6.5	6.5		6.5	6.5	6.5		...
	Retail sales volume	apc		-1.2	-0.6	-0.6		-0.7	-0.5	0.7		...
	PMI manufacturing (1)	index		43.1	44.2	44.4		46.6	46.5	46.1		45.7
Consumer confidence (5)	index		-17.9	-16.9	-15.1		-16.1	-15.5	-14.9		-14.7	
United Kingdom	GDP (1)	qpc	-0.1				-0.3				0.6	
	Industrial production (1)	mpc		-1.4	0.5	0.6		-0.5	1.0	0.2		...
	CPI	apc		4.7	4.2	4.2		4.2	3.8	3.8		...
	Unemployment rate (1)	%		4.0	3.9	3.8		4.0	4.2	4.3		...
	Retail sales volume	apc		-2.3	0.2	-2.9		0.4	-0.3	0.8		...
	House prices (6)	apc		-3.3	-2.0	-1.8		-0.2	1.2	1.6		0.6
	PMI manufacturing (1)	index		44.8	47.2	46.2		47.0	47.5	50.3		49.1
Consumer confidence (1)(5)	net %		-30.0	-24.0	-22.0		-19.0	-21.0	-21.0		-19.0	
Australia	GDP (1)	qpc	0.3				0.2				...	
	CPI	apc	5.4				4.1				3.6	
	Unemployment rate (1)	%		3.8	3.9	4.0		4.1	3.7	3.9		4.1
	Retail sales value	apc		1.3	2.1	0.3		1.2	5.3	1.3		...
	House Prices (7)	apc	...				...					...
	PMI manufacturing (1)	index		-20.9	-25.3	-23.8		-23.8	-12.6	-7.0		-13.9
Consumer confidence (8)	index		82.0	79.9	82.1		81.0	86.0	84.4		82.4	
China	GDP	apc	4.9				5.2				5.3	
	Industrial production	apc		4.6	6.6	6.8		7.0	7.0	4.5		...
	CPI	apc		-0.2	-0.5	-0.3		-0.8	0.7	0.1		0.3
	PMI manufacturing (1)	index		49.5	49.4	49.0		49.2	49.1	50.8		50.4
South Korea	GDP (1)	qpc	0.6				0.6				1.3	
	Industrial production (1)	mpc		-1.7	1.6	-0.4		-1.5	2.9	-3.2		...
	CPI	apc		3.8	3.3	3.2		2.8	3.1	3.1		2.9

(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