

Fortnightly Economic Update

20 DECEMBER 2024

- The economy is weaker than we thought but a 2025 recovery is still expected
- Other more timely indicators suggest demand is slowly returning
- OECD expects steady global growth but warns rising trade restrictions are a threat

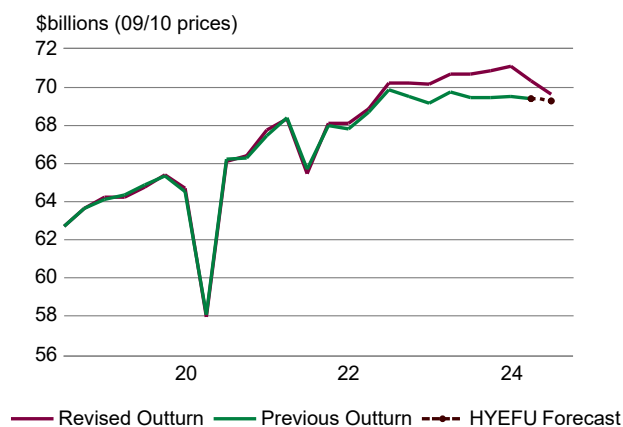
The economic downturn is significantly deeper than most expected. Real GDP fell a combined 2.1% over the June and September quarter, marking the largest consecutive quarterly fall since the early 1990s. Despite these changes, timely data continues highlighting the worst is behind us and so we continue to expect activity to recover over 2025. Together with international developments, markets have shifted their view toward a faster easing in interest rates.

Global growth is projected to remain steady in 2025 and 2026 according to the OECD's December *Economic Outlook*. However, further increases in global trade restrictions would be a headwind to global growth.

The economy is weaker than we thought...

Real GDP fell 1.0% in the September quarter and June quarter growth was revised down from 0.2% to 1.1% (Figure 1). This decline reversed most of the upward revisions to GDP in the 2023 and 2024 March years. Real GDP per capita has now fallen for the eighth consecutive quarter, down 4.8% on its peak two years ago. This exceeds the 3.9% decline over the global financial crisis.

Figure 1: Revisions to real GDP



Sources: Stats NZ, the Treasury

Economic activity fell across most industries and expenditure components. Relative to our expectation, the decline in manufacturing was in-line, but there was further weakness across the services sector. Domestic activity has

fallen sharply off the back of tight monetary policy, while exports of services (tourism) has provided some offset.

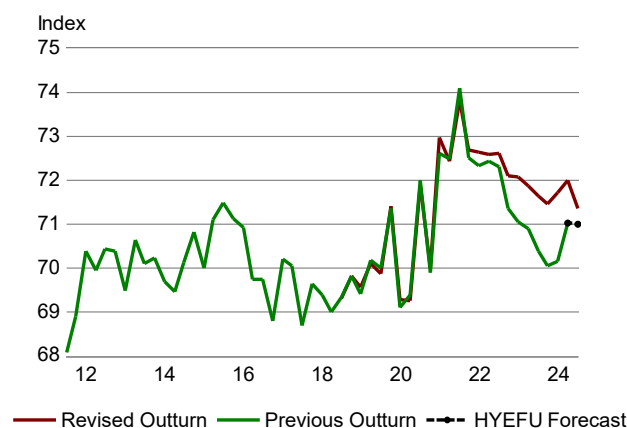
Together with the US federal funds rate cut moment before, the NZ dollar depreciated, and markets priced in a higher likelihood for a 50-basis point OCR cut in February.

...although we still expect a 2025 recovery

While the outturn was a surprise for most, any change to our economic outlook will be much smaller. As covered in the *Half Year Update*, weak economic activity persisted for longer than we thought, remaining weak over the second half of 2024 before recovering from early-2025. While we still need to assess the details of yesterday's GDP release, we still think that we have reached the bottom of the economic cycle and anticipate activity to recover over 2025 (a view supported by more timely indicators below).

As highlighted in our previous special topic – [Forecast Evolution and Future Trends](#) – labour productivity has been a key source of change to our medium-term outlook. While the recent revision lifted the level of labour productivity over 2022 and 2023, it hasn't changed our view that productivity is retreating from the post-COVID highs (Figure 2).

Figure 2 – Labour productivity (GDP per hour worked)



Sources: Stats NZ, the Treasury

The COVID period has made it extremely challenging for the measurement of official statistics, with key data sources and collections being impacted. Seasonal patterns have

also been disturbed and may take some time to stabilise. All of this adds up to an environment where future releases may continue to see larger than normal revisions to both levels and quarterly growth profiles.

Domestic activity signals a turning point...

Retail spending appears to be making a slow return. Stats NZ's card spending data lifted slightly in the month of October, it's fourth monthly consecutive lift. Further, the ANZ-Roy Morgan Consumer Confidence survey showing confidence continuing to lift. Perception of current and future conditions continued trending up, while household perceptions of whether it's a good time to buy a major household item lifted sharply.

Businesses remain confident about activity next year. The ANZ's *Business Outlook* (ANZBO) survey showed perceptions of past activity and future activity continued lifting, and overall business confidence remains at high levels. Of the industries covered, the most surprising result was the increasing optimism of the construction sector which likely confirms the sector is at or near its trough.

A likely source of elevated business confidence is easing inflationary pressure and the expectation for ongoing interest rate cuts. While price and cost indicators in the ANZBO were mixed in the month, the *Selected Price Indexes* for November provided further evidence that inflationary pressure is easing. The most significant movements were: food prices falling 0.1%; petrol and diesel prices lifting slightly; and domestic airfares up 11% reflecting higher than usual demand.

... although housing remains subdued...

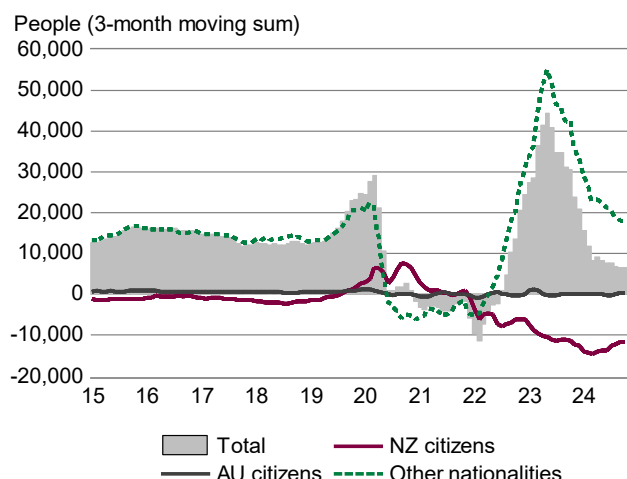
Demand for building new houses remains subdued. Residential building consents issued fell 5.2% in October consent issuance per 1000 residents is steady and at a similar level to 2017. While interest rates have been easing, there is an elevated level of new builds among property listings already exist which could see a delay to consents picking up again.

Elevated housing stock continues constrain house price growth. While the REINZ House Price Index grew by a modest 0.2% (s.a.) in November, it is down 1.4% on a year ago. Housing activity indicators, including sales, days to sell, and stock for sale, point to ongoing weakness in the market. However, housing stock for sale on may have peaked in October, according to realestate.co.nz. If stock levels continue falling, choice for buyers will fall, leading to upward pressure on house prices in 2025.

...and immigration and tourism level off

Annual net immigration dropped to 38,800 in October as annual arrivals slowed and departures hit record highs. While monthly inflows of non-NZ citizens are near pre-COVID levels, we expect the net outflows of NZ citizens to remain elevated for some time (Figure 3). As a result, we forecast net migration to dip below 30,000 in mid-2025.

Figure 3 – Net migration by citizenship



Source: Stats NZ

Tourism continues to gradually recover with October's visitor arrivals lifting slightly in the month and sitting around 85% of pre-COVID levels. Chinese visitor arrivals have lagged other tourist markets post-COVID but there are signs of improvement. The slower tourism recovery was captured in our *Half Year Update*, with a return to pre-COVID levels in 2026.

International trade deficit continued narrowing

The November monthly trade deficit fell to \$440 million, taking the annual deficit down to \$8.2 billion as goods exports rose slightly and goods imports eased. This deficit is down from \$13.5 billion in the year ended November 2023.

OECD expects stable global growth

Global growth is projected to strengthen slightly to 3.3% in 2025 and 2026 according to the OECD's December *Economic Outlook*. In OECD economies, growth is expected to be more moderate at 1.9% in both years (Table 1). The outlook for New Zealand's major trading partners is mixed. Slower growth in the United States and China is partly offset by firmer growth in Australia, Japan and the euro area.

Table 1: OECD economic outlook summary

	GDP (ann. avg. % change, years ended December)		
	Forecast		
	2024	2025	2026
World	3.2	3.3	3.3
OECD	1.7	1.9	1.9
US	2.8	2.4	2.1
Euro area	0.8	1.3	1.5
China	4.9	4.7	4.4
Australia	1.1	1.9	2.5
Japan	-0.3	1.5	0.6

Source: OECD

The OECD reported that headline inflation eased in most countries through 2024, led by further declines in food, energy, and goods price inflation. Services price inflation eased more gradually but by the end of 2025 or early 2026, inflation is expected to be back to target in most economies.

Key sources of uncertainty around the OECD's forecasts include the potential for an escalation in geopolitical tensions and for an increase in trade restrictions to protect domestic industry. The OECD noted that import restrictions now affect 12% of global imports, over three times more than in 2015, and warns that continued increases could drag on productivity growth and ultimately reduce growth.

Global momentum continued in December

The services sector continued to drive growth in advanced economies according to December's round of activity indicators. The all-industry measure of activity from the Purchasing Managers' Index rose to a seven-month high as stronger services activity more than offset a weaker manufacturing index. The US looks to still be the dominant growth engine in developed economies, with the all-industry index reaching a 33-month high that is well above that in other economies.

The US consumer is a key driver of the economy's out-performance and November's retail trade report pointed to continued strong growth. Total sales values rose 0.7%, indicating real growth rose at an annualised pace of around 3%, down only modestly from 3.5% in the September quarter.

More policy support on the way in China...

In contrast, China's consumer spending remained lacklustre. November's retail sales fell 1.3%, although this followed a strong run in the previous two months. On the other hand, industrial production advanced 0.5%, broadly in line with its pre-pandemic trend, illustrating the imbalance between demand and supply-side performance.

In search of a better balance, the government announced its intention to deliver more monetary and fiscal policy support in 2025. The focus remains on stabilising the property and stock markets, with some additional support for household consumption, among other goals. The impact of policy easing to date is expected to lift growth through the first half of 2025.

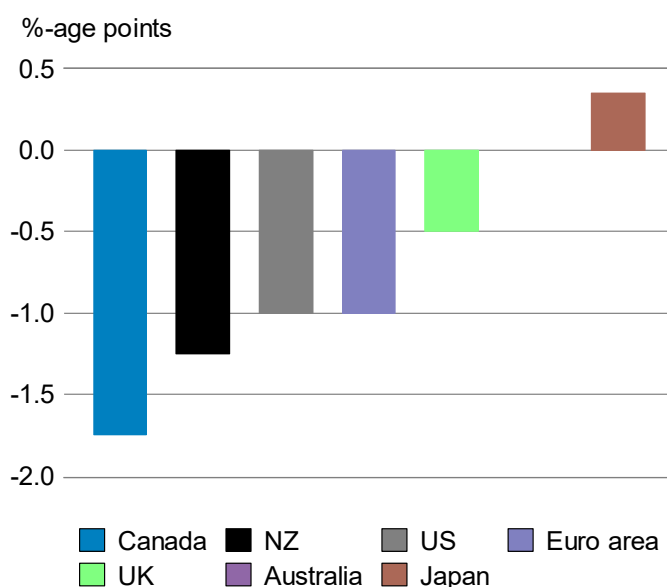
...and in developed markets

The bias towards easier monetary policy continued in December, although domestic inflation drivers are increasingly important to decision makers as the global shocks of the past continue to fade.

The US Federal Reserve and the European Central Bank (ECB) opted for 25 basis point cuts at their December meetings. The Fed lowered its policy rate target range to 4.25%-4.5% but expected slow progress in further reducing inflation substantially reduced projections of policy rate cuts in 2025. Although the ECB expressed confidence that inflation would settle at its 2% target, concerns around domestic inflation saw it take a cautious approach to easing.

Meanwhile, the Bank of Canada (BC) cut its policy rate 50 basis points as unemployment rose and inflation fell. Central banks in Japan, Australia and the UK kept their policy rates steady in December. Since the start of the year the BC has lowered its policy rate 1.75 percentage points (ppts), compared to 1.25 ppts in NZ and 1.0 ppts in the US and euro area, and no change in Australia (Figure 4).

Figure 4: Central bank policy rate change in 2024



Source: Haver

Coming up:

Date	Release
25 Dec	🎄📺 International package deliveries 🎄📺
13 Jan	Building Consents Issuance (Nov)
16 Jan	Selected Price Indexes (Dec)
21 Jan	Electronic Card Transactions (Dec Qtr)
22 Jan	Consumers Price Index (Dec Qtr)
23 Jan	International migration and travel (Nov)

Tables

Quarterly Indicators		2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3
Real Production GDP (1)	qpc	0.7	0.0	0.3	0.3	-1.1	-1.0
	aapc	4.0	2.4	1.8	1.4	0.6	0.1
Current account balance (annual)	%GDP	-8.0	-7.7	-6.9	-6.6	-6.6	-6.4
Merchandise terms of trade	apc	-5.0	-1.7	-10.7	-3.7	-1.6	1.4
CPI inflation	qpc	1.1	1.8	0.5	0.6	0.4	0.6
	apc	6.0	5.6	4.7	4.0	3.3	2.2
Employment (HLFS) (1)	qpc	1.1	0.2	0.3	-0.4	0.2	-0.5
Unemployment rate (1)	%	3.6	3.9	4.0	4.4	4.6	4.8
Participation rate (1)	%	72.4	72.1	71.9	71.5	71.7	71.2
LCI salary & wage rates - total (2)	apc	4.3	4.2	4.3	4.1	4.2	3.8
QES average hourly earnings - total (2)	apc	6.9	6.7	6.9	5.2	5.0	3.9
Core retail sales volume	apc	-5.1	-3.1	-3.2	-1.7	-2.2	-2.8
Total retail sales volume	apc	-3.5	-3.4	-4.1	-2.4	-3.6	-2.5
WMM - consumer confidence (3)	Index	83.1	80.2	88.9	93.2	82.2	90.8
NZIER QSBO - general bus.situation (1,4)	net%	-58.6	-55.9	-7.2	-19.8	-39.7	-4.8
NZIER QSBO - own activity outlook (1,4)	net%	-18.3	-9.7	9.6	-4.4	-12.9	-2.4

Monthly Indicators		Jul 24	Aug 24	Sep 24	Oct 24	Nov 24	Dec 24
Merchandise trade balance (12 month)	NZ\$m	-9,362	-9,411	-9,142	-9,068	-8,246	...
Dwelling consents - residential	apc	9.61	-9.12	1.55	-6.86	...	...
REINZ house sales (number)	apc	19.80	6.39	4.63	25.80	10.77	...
REINZ - house price index	apc	0.10	-0.85	-0.56	-1.13	-1.33	...
Estimated net migration (12 month total)	people	61,819.00	50,165.00	42,659.00	38,776.00	...	...
ANZ NZ commodity price index	apc	11.49	12.46	10.01	10.51	19.22	...
ANZ world commodity price index	apc	8.37	13.95	14.37	12.88	17.61	...
ANZBO - business confidence	net%	27.10	50.60	60.90	65.70	64.90	62.30
ANZBO - activity outlook	net%	16.30	37.10	45.30	45.90	48.00	50.30
ANZ-Roy Morgan - consumer confidence	net%	87.90	92.20	95.10	91.20	99.80	100.20
NZAC	apc	...	...	...	...	...	...

Daily Indicators		Thu 12/12/24	Fri 13/12/24	Mon 16/12/24	Tue 17/12/24	Wed 18/12/24	Thu 19/12/24
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6	0.6	0.6	0.6	0.6	0.6
NZD/AUD	\$	0.9	0.9	0.9	0.9	0.9	0.9
Trade weighted index (TWI)	index	68.8	68.5	68.6	68.8	68.6	67.5
Official cash rate (OCR)	%	4.3	4.3	4.3	4.3	4.3	4.3
90 day bank bill rate	%	4.3	4.3	4.3	4.3	4.3	...
10 year govt bond rate	%	4.4	4.5	4.5	4.5	4.6	4.5
Share markets (6)							
Dow Jones	index	43,914	43,828	43,717	43,450	42,327	42,342
S&P 500	index	6,051	6,051	6,074	6,051	5,872	5,867
VIX volatility index	index	14	14	15	16	28	24
AU all ords	index	8,587	8,550	8,494	8,559	8,559	8,415
NZX 50	index	12,693	12,754	12,797	12,914	12,866	12,754
US interest rates							
3 month OIS	%	4.6	4.6	4.6	4.6	4.6	...
10 year govt bond rate	%	4.3	4.4	4.4	4.4	4.5	4.6
Commodity prices (6)							
WTI oil	US\$/barrel	70.0	71.3	70.7	70.1	70.6	69.9
Gold	US\$/ounce	2,684.4	2,659.1	2,654.2	2,636.4	2,635.7	2,592.4
CRB Futures	index	540.6	539.5	541.5	540.0	540.8	537.4

(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		May 24	Jun 24	2024Q2	Jul 24	Aug 24	Sep 24	2024Q3	Oct 24	Nov 24	Dec 24
United States	GDP (1)	qpc			0.7				0.8			
	Industrial production (1)	mpc	0.6	0.3		-0.7	0.5	-0.5		-0.4	-0.1	...
	CPI	apc	3.3	3.0		2.9	2.5	2.4		2.6	2.7	...
	Unemployment rate (1)	%	4.0	4.1		4.3	4.2	4.1		4.1	4.2	...
	Employment change (1)	000s	216.0	118.0		144.0	78.0	255.0		36.0	227.0	...
	Retail sales value	apc	2.6	2.0		2.9	2.0	2.0		2.9	3.8	...
	House prices (2)	apc	6.9	6.6		5.9	5.2	4.6		...	...	...
	PMI manufacturing (1)	index	48.7	48.5		46.8	47.2	47.2		46.5	48.4	...
Japan	Consumer confidence (1)(3)	index	101.3	97.8		101.9	105.6	99.2		109.6	111.7	...
	GDP (1)	qpc			0.5				0.3			
	Industrial production (1)	mpc	3.6	-4.2		3.1	-3.3	1.6		2.8	...	...
	CPI	apc	2.9	2.8		2.7	3.1	2.4		2.2	2.9	...
	Unemployment rate (1)	%	2.6	2.5		2.7	2.5	2.4		2.5	...	...
	Retail sales value	apc	2.8	3.8		2.7	3.1	0.7		1.3	...	...
	PMI manufacturing (1)	index	50.4	50.0		49.1	49.8	49.7		49.2	49.0	...
	Consumer confidence (1)(4)	index	36.7	37.1		37.1	36.7	37.0		36.1	35.8	...
Euro area	GDP (1)	qpc			0.2				0.4			
	Industrial production (1)	mpc	-1.0	0.4		-0.9	1.3	-1.5		0.0	...	...
	CPI	apc	2.6	2.5		2.6	2.2	1.7		2.0	2.2	...
	Unemployment rate (1)	%	6.4	6.4		6.4	6.3	6.3		6.3	...	...
	Retail sales volume	apc	0.4	-0.8		0.2	2.5	3.0		1.9	...	...
	PMI manufacturing (1)	index	47.3	45.8		45.8	45.8	45.0		46.0	45.2	...
	Consumer confidence (5)	index	-14.3	-14.0		-13.0	-13.5	-13.0		-12.5	-13.7	...
United Kingdom	GDP (1)	qpc			0.5				0.1			
	Industrial production (1)	mpc	-0.2	0.7		-0.7	0.4	-0.5		-0.6	...	...
	CPI	apc	2.8	2.8		3.1	3.1	2.6		3.2	3.5	...
	Unemployment rate (1)	%	4.4	4.2		4.2	4.1	4.3		4.3	...	...
	Retail sales volume	apc	1.1	-0.7		1.0	1.8	3.2		2.4	...	...
	House prices (6)	apc	1.3	1.5		2.1	2.4	3.2		2.4	3.7	...
	PMI manufacturing (1)	index	51.2	50.9		52.1	52.5	51.5		49.9	48.0	...
	Consumer confidence (1)(5)	net %	-17.0	-14.0		-13.0	-13.0	-20.0		-21.0	-18.0	-17.0
Australia	GDP (1)	qpc			0.2				0.3			
	CPI	apc			3.8				2.8			
	Unemployment rate (1)	%	4.0	4.1		4.2	4.1	4.1		4.1	3.9	...
	Retail sales value	apc	2.1	2.1		2.6	4.0	0.9		3.8	...	...
	House Prices (7)	apc			...							
	PMI manufacturing (1)	index	-31.1	-26.5		-19.5	-30.8	-33.6		-19.7	-17.9	...
	Consumer confidence (8)	index	82.2	83.6		82.7	85.0	84.6		89.8	94.6	92.8
China	GDP	apc			4.7				4.6			
	Industrial production	apc	5.6	5.3		5.1	4.5	5.4		5.3	5.4	...
	CPI	apc	0.3	0.2		0.5	0.6	0.4		0.3	0.2	...
	PMI manufacturing (1)	index	49.5	49.5		49.4	49.1	49.8		50.1	50.3	...
South Korea	GDP (1)	qpc			-0.2				0.1			
	Industrial production (1)	mpc	-0.7	0.7		-4.0	4.2	-0.1		0.0	...	...
	CPI	apc	2.7	2.4		2.6	2.0	1.6		1.3	1.5	...

(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