

When it rains it pours

Nick Tuffley, Chief Economist

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› Topics

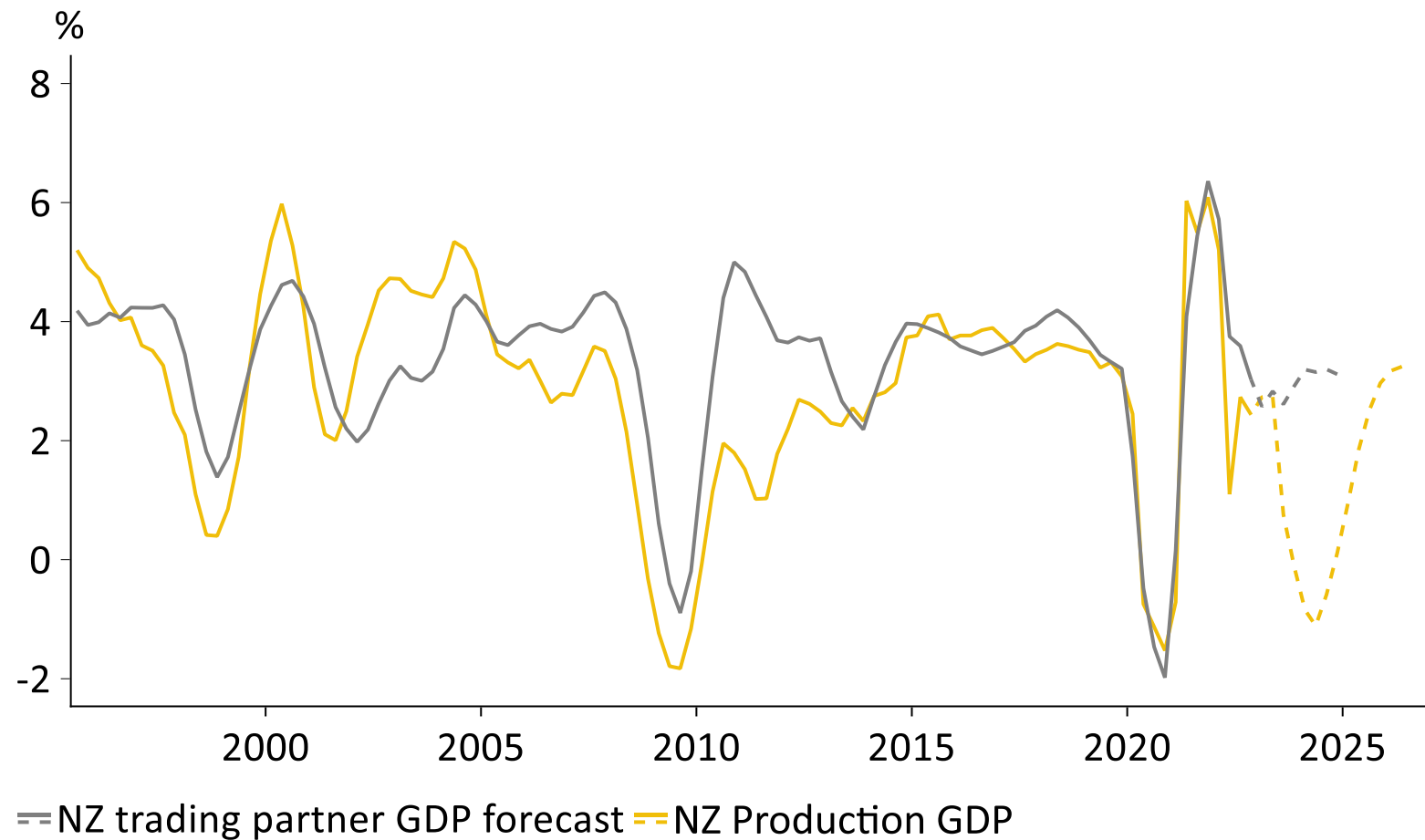
- › Global/external
- › NZ macro overview
- › Inflation and interest rates

› **Global and NZ activity**

- › Tourism, international education starting to recover
- › Consumer spending and construction set to contract, pulling NZ into a potential recession. Disaster recovery could blunt any decline.

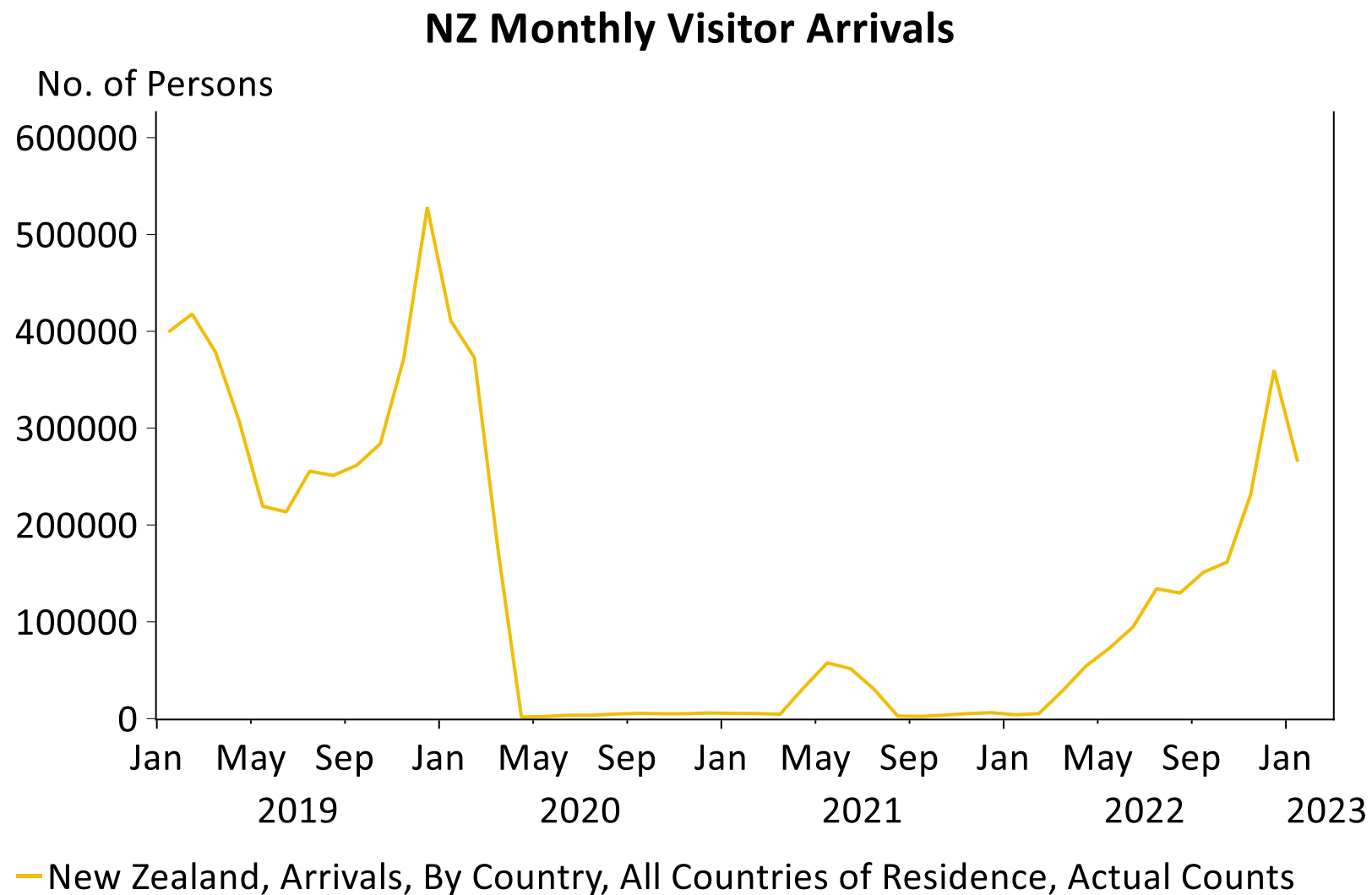
> Global growth and NZ GDP growth

NZ & NZ Trading Partner
Annual Average GDP Growth



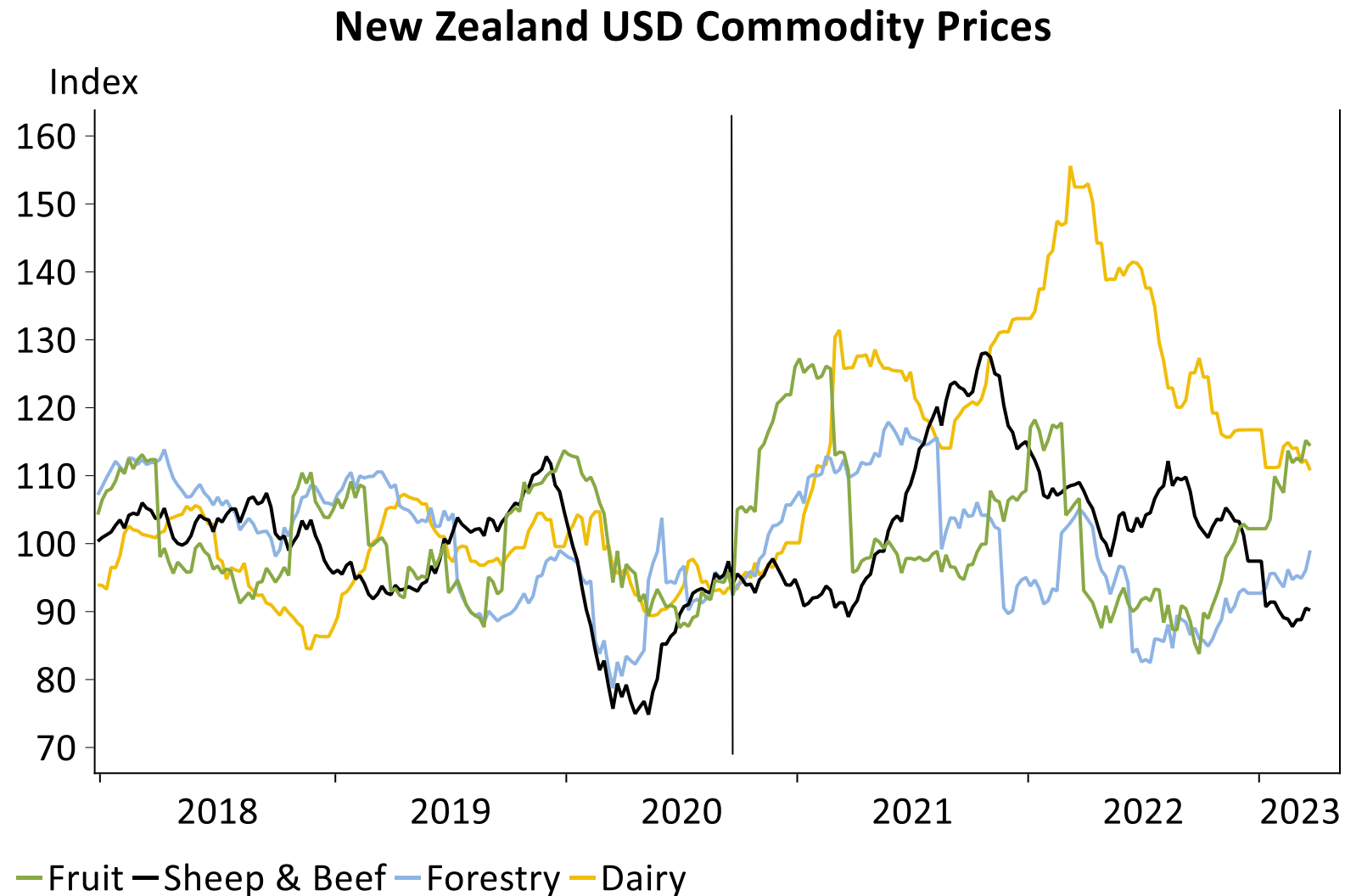
Source: Macrobond, ASB

› Nascent tourism recovery



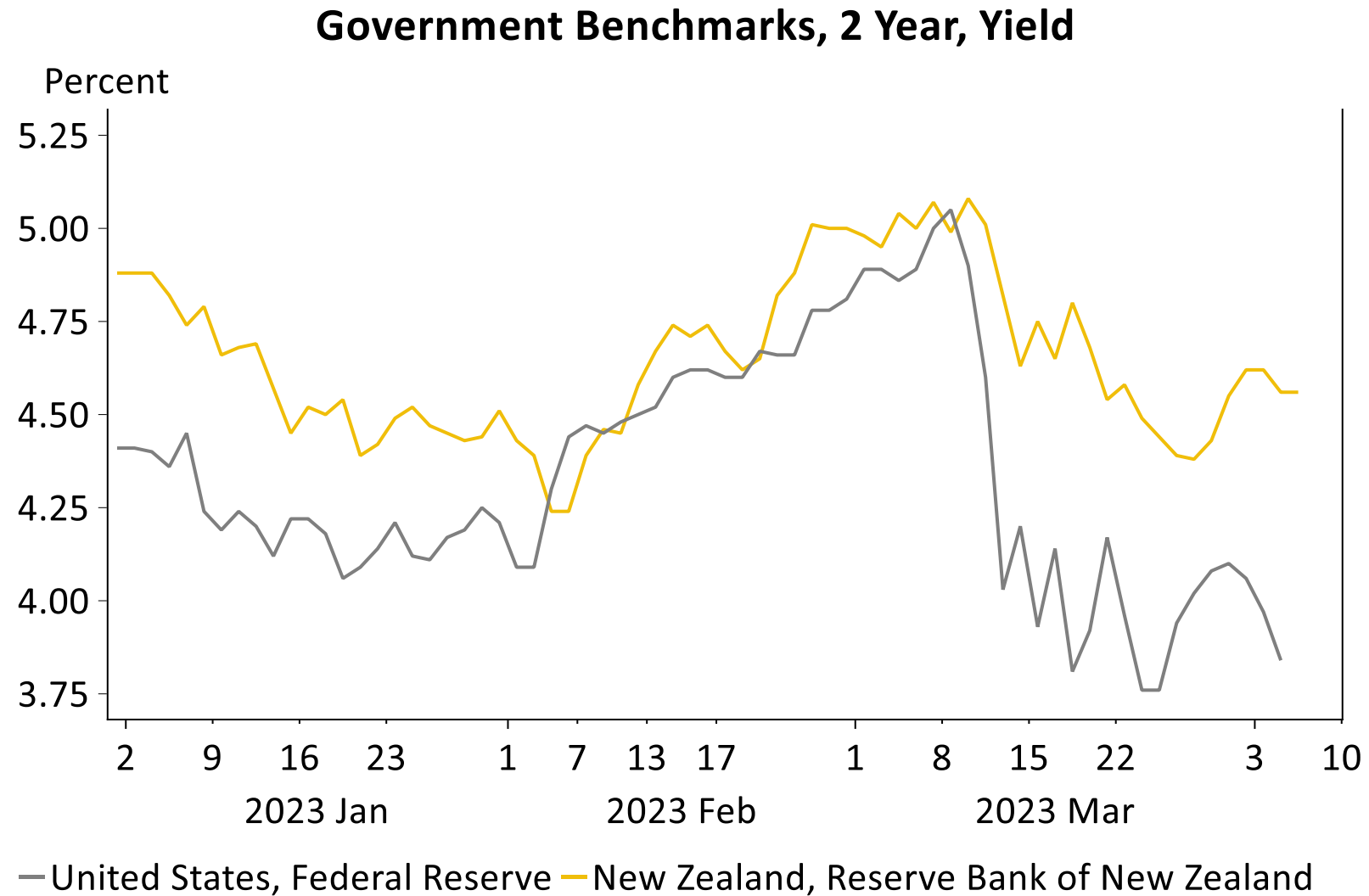
Source: Macrobond, ASB

› NZ commodity export prices off highs



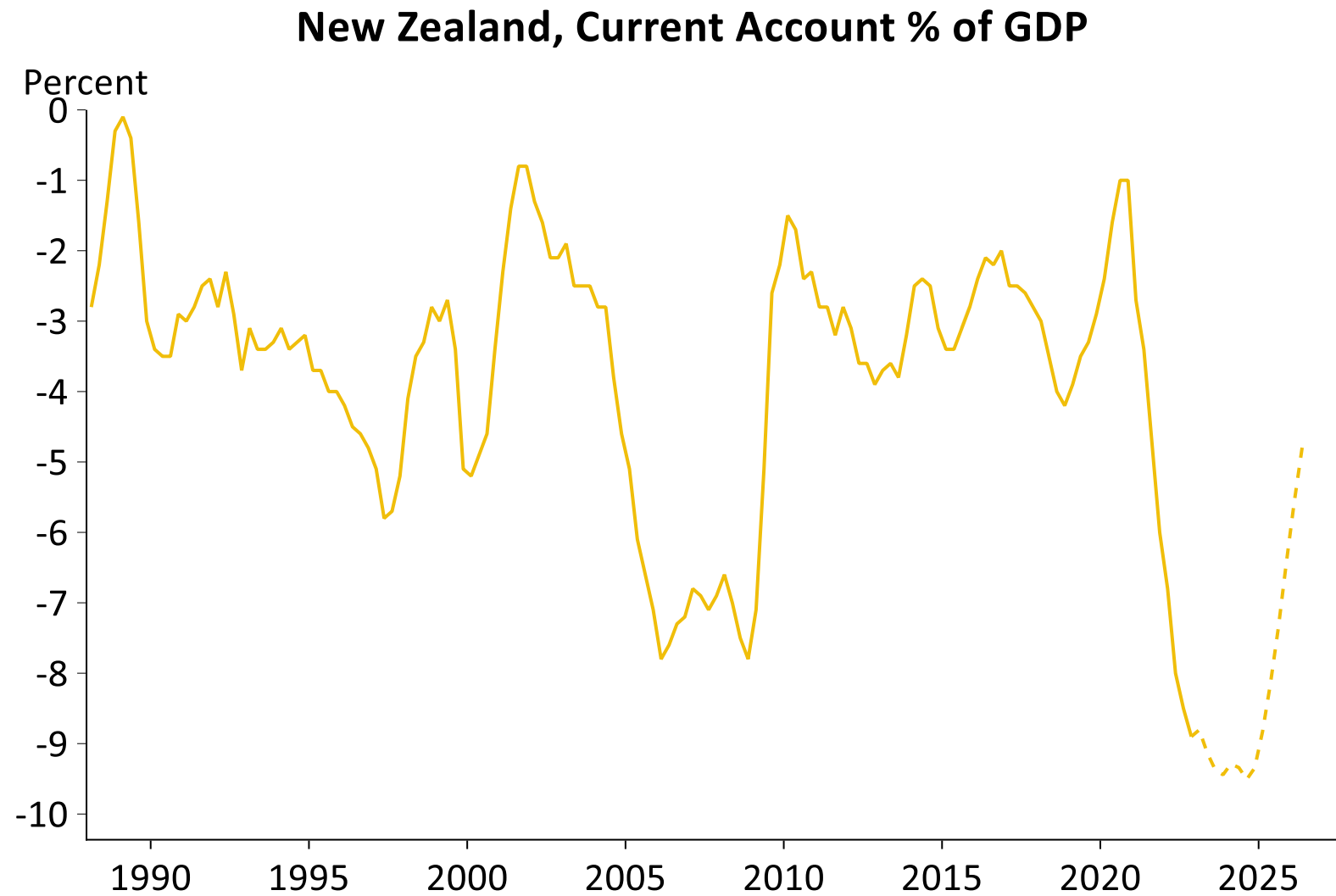
Source: Macrobond, ASB

› Bank worries flaring up



Source: Macrobond, ASB

› Large external deficit

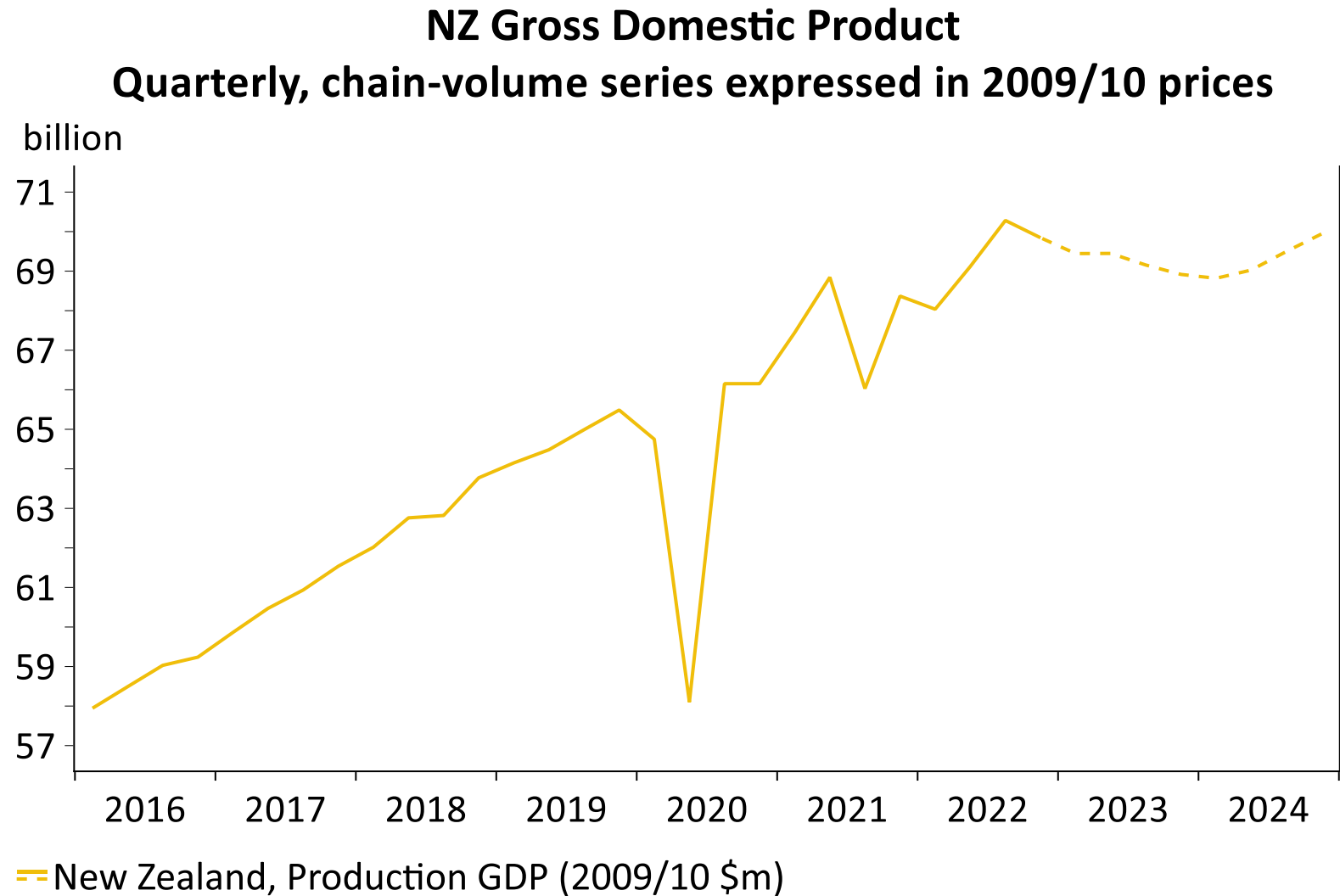


Source: Macrobond, ASB

› **Impact of Auckland floods and Cyclone Gabrielle**

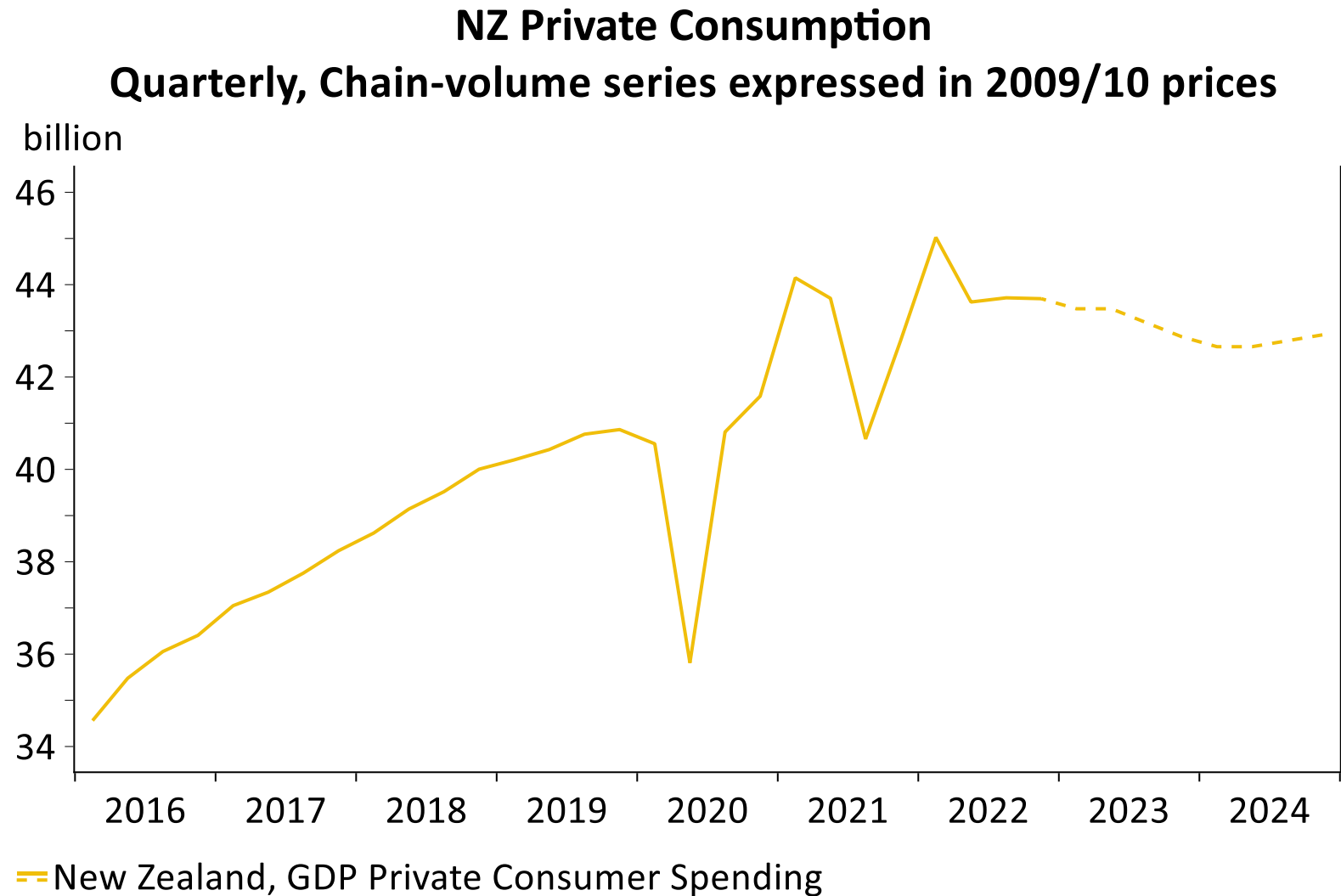
- › Damage unclear still: guesstimate ~\$10-20bn (~4% of GDP). Canterbury earthquakes ~\$40bn in 2011 \$ (~20% of 2011 GDP).
- › Contrasts: Canterbury a huge damage bill but geographically concentrated. Storms affected bigger land area; land remediation challenges; land routes impacted
- › Short-term disruption to normal commercial activities.
- › Rebuild could add 1% to GDP over next few years.
- › Short-term shortages of food, household items, cars.
- › Construction sector pressures will be prolonged.
- › Agriculture/horticulture/viticulture output hit for potentially years.
- › To what extent will land use change? Industry impacts?
- › Climate change adaption, engineering resilience to weather.

> NZ GDP level



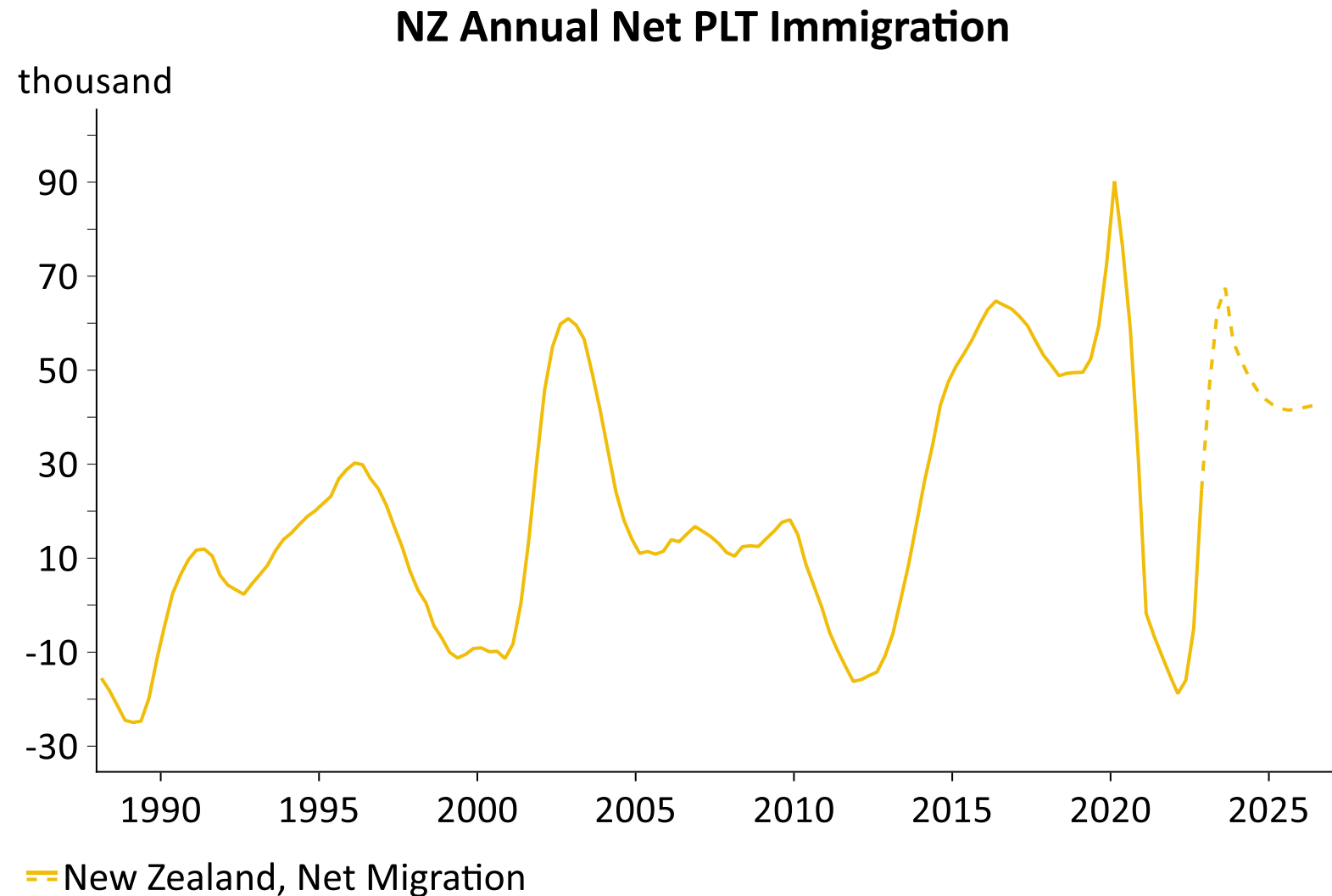
Source: Macrobond, ASB

> Consumer spending to contract



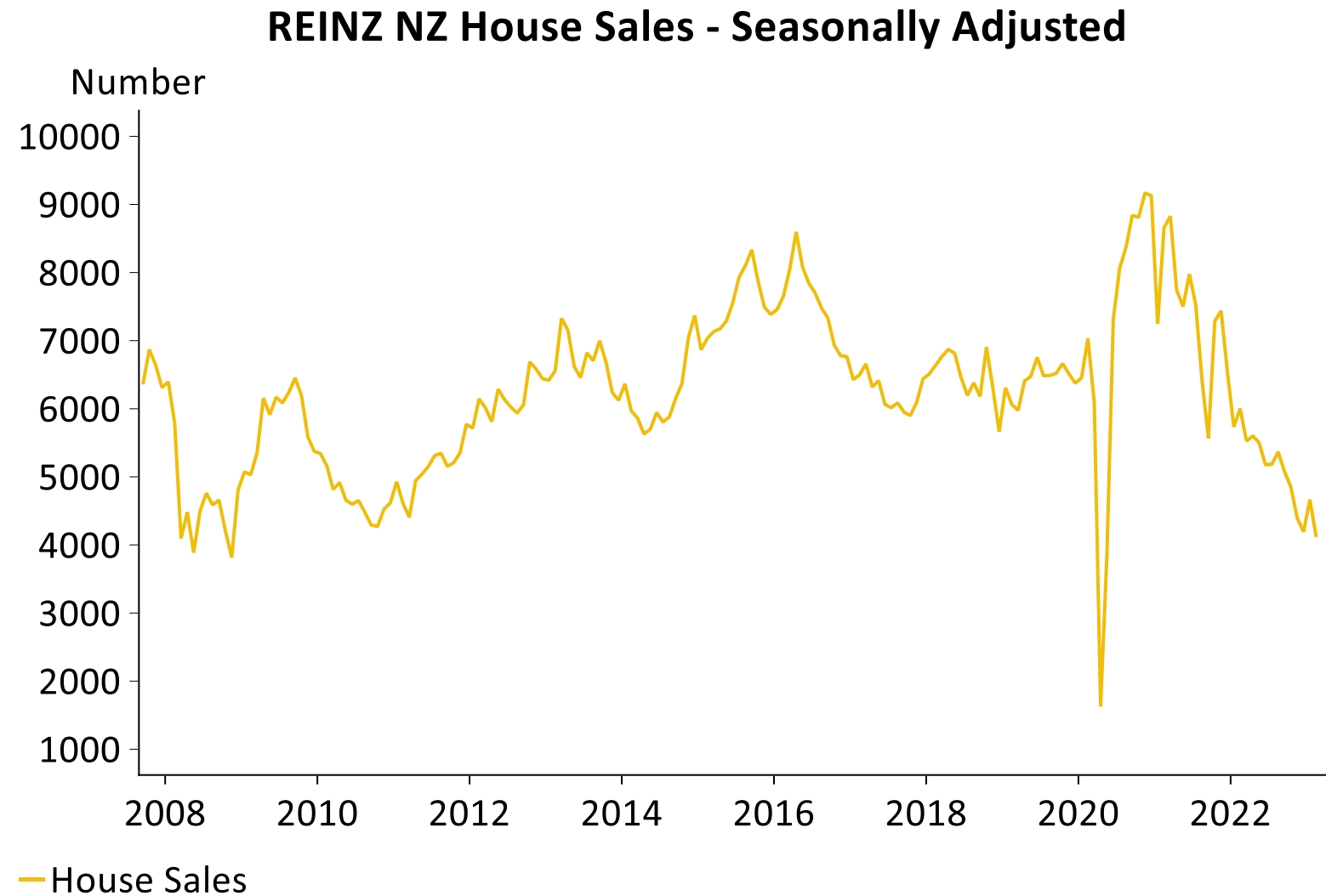
Source: Macrobond, ASB

› Net migration is lifting and revised up



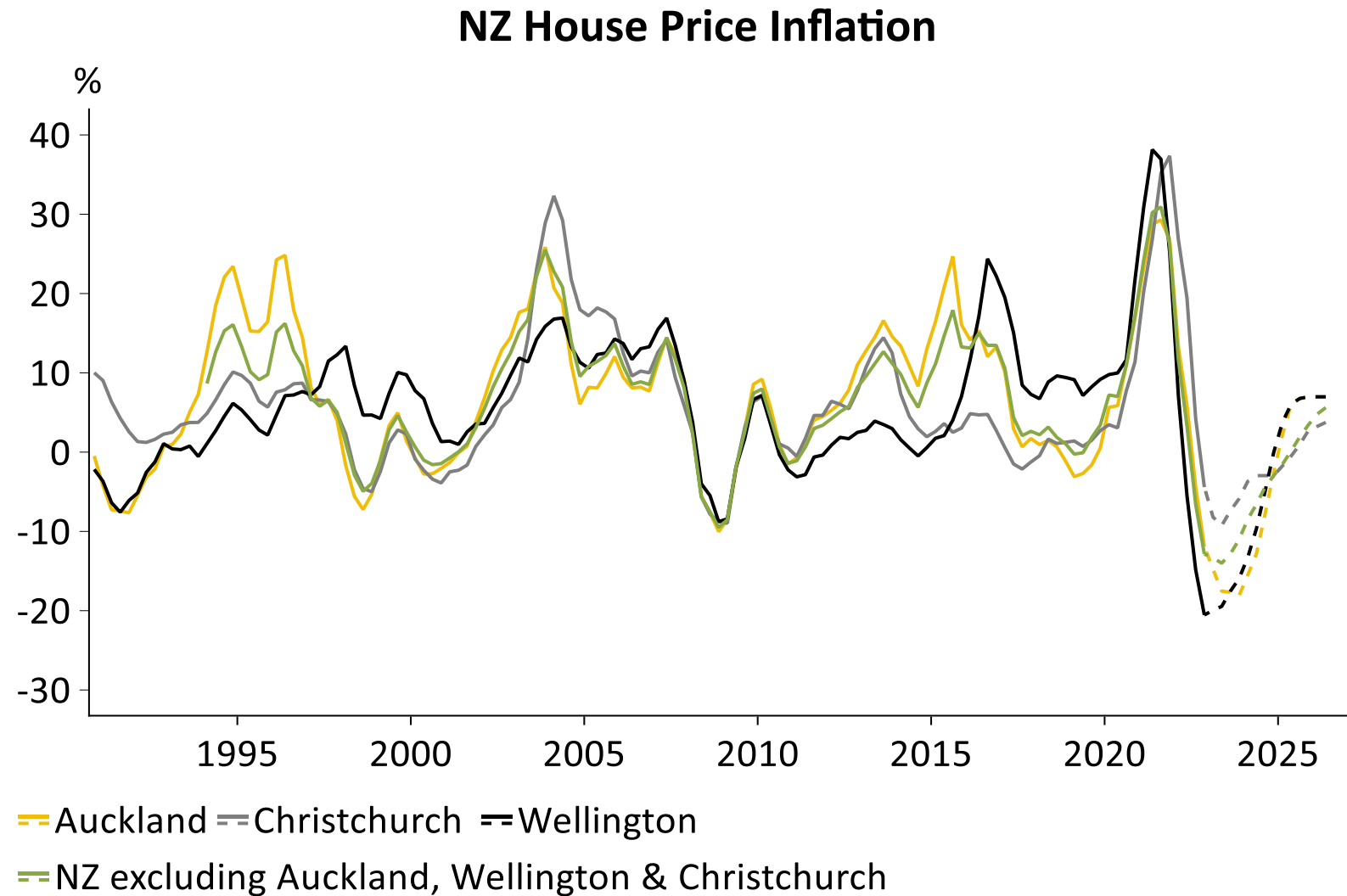
Source: Macrobond, ASB

› NZ house sales weak



Source: Macrobond, ASB

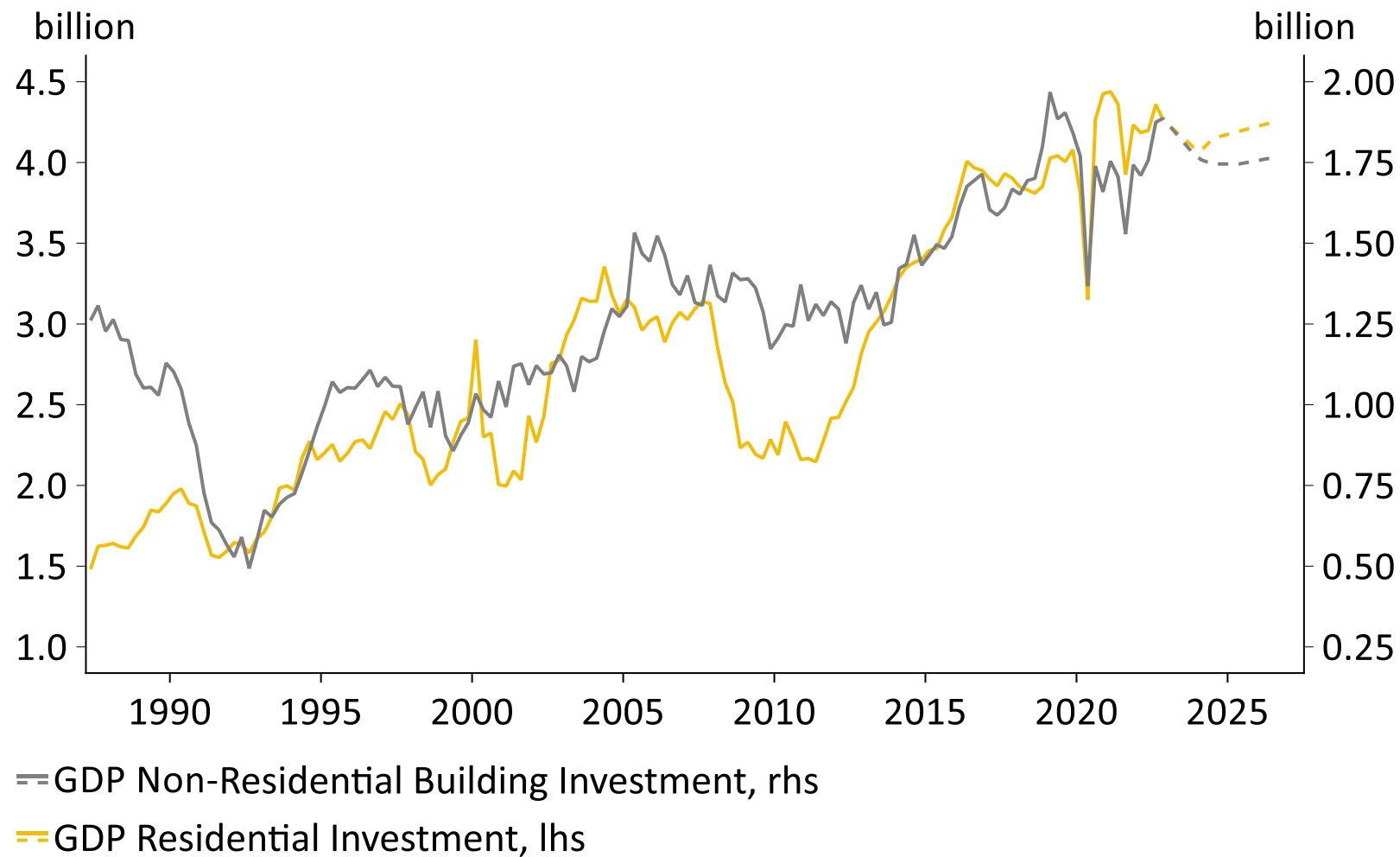
> NZ house price inflation



Source: Macrobond, ASB

> NZ construction

New Zealand Building Construction Outlook



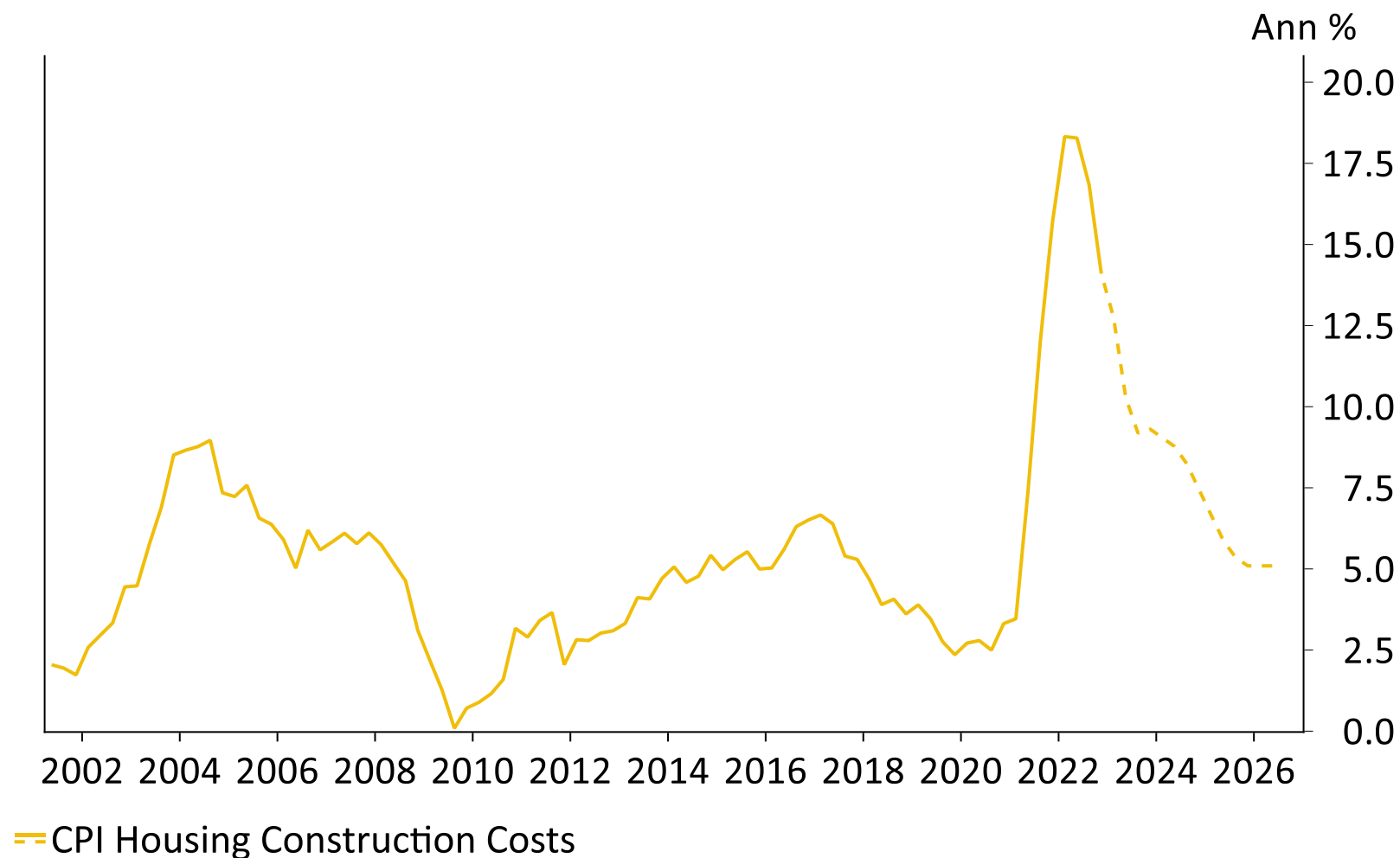
Source: Macrobond, ASB

› Inflation, interest rates

- › Lingering labour shortages and wage costs
- › Inflation proving quite sticky at the peak
- › Short-term boost from disaster impacts
- › Wage-related inflation pressure key to duration of high interest rates

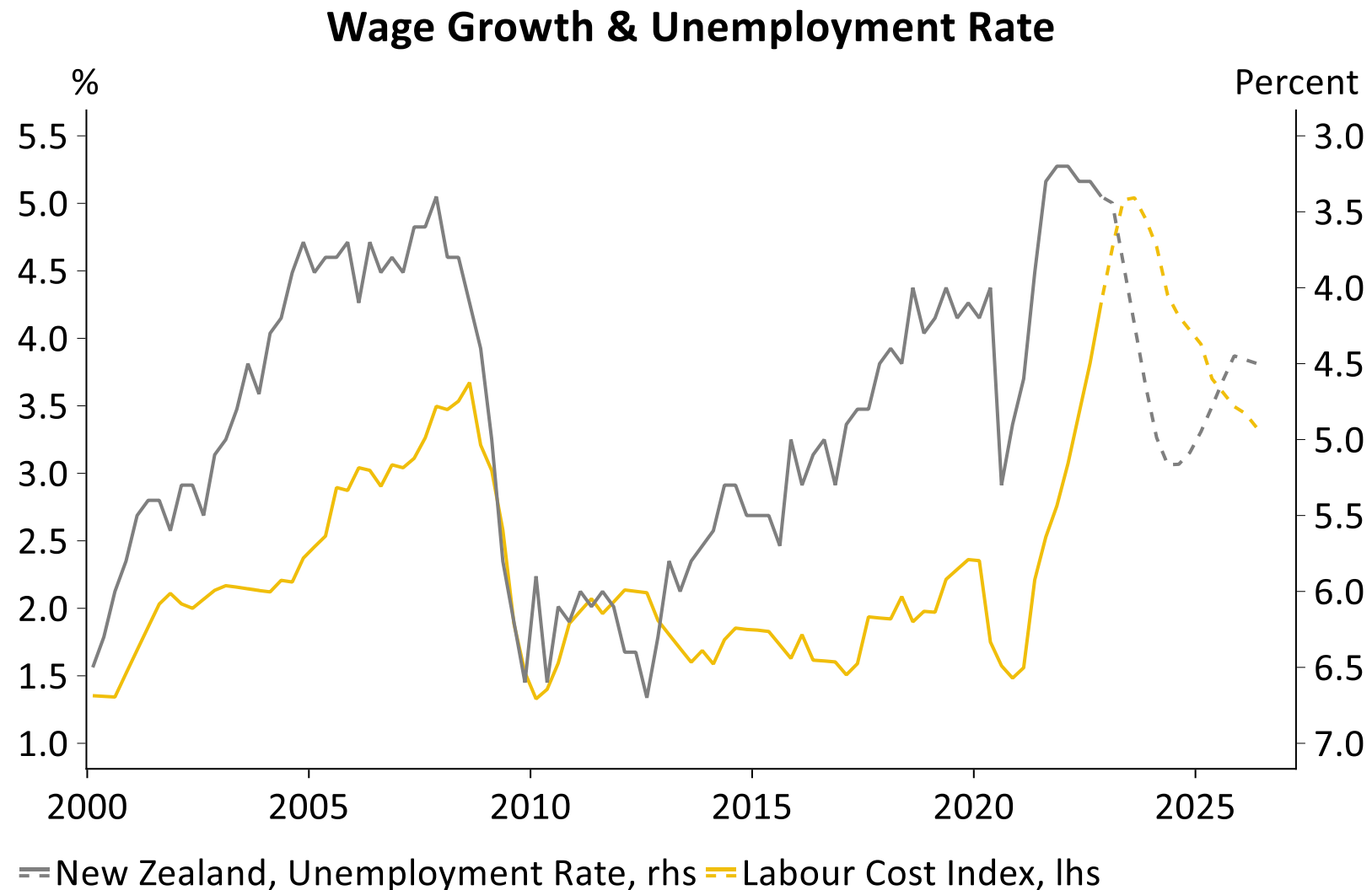
> Housing construction costs

CPI Housing Construction Costs



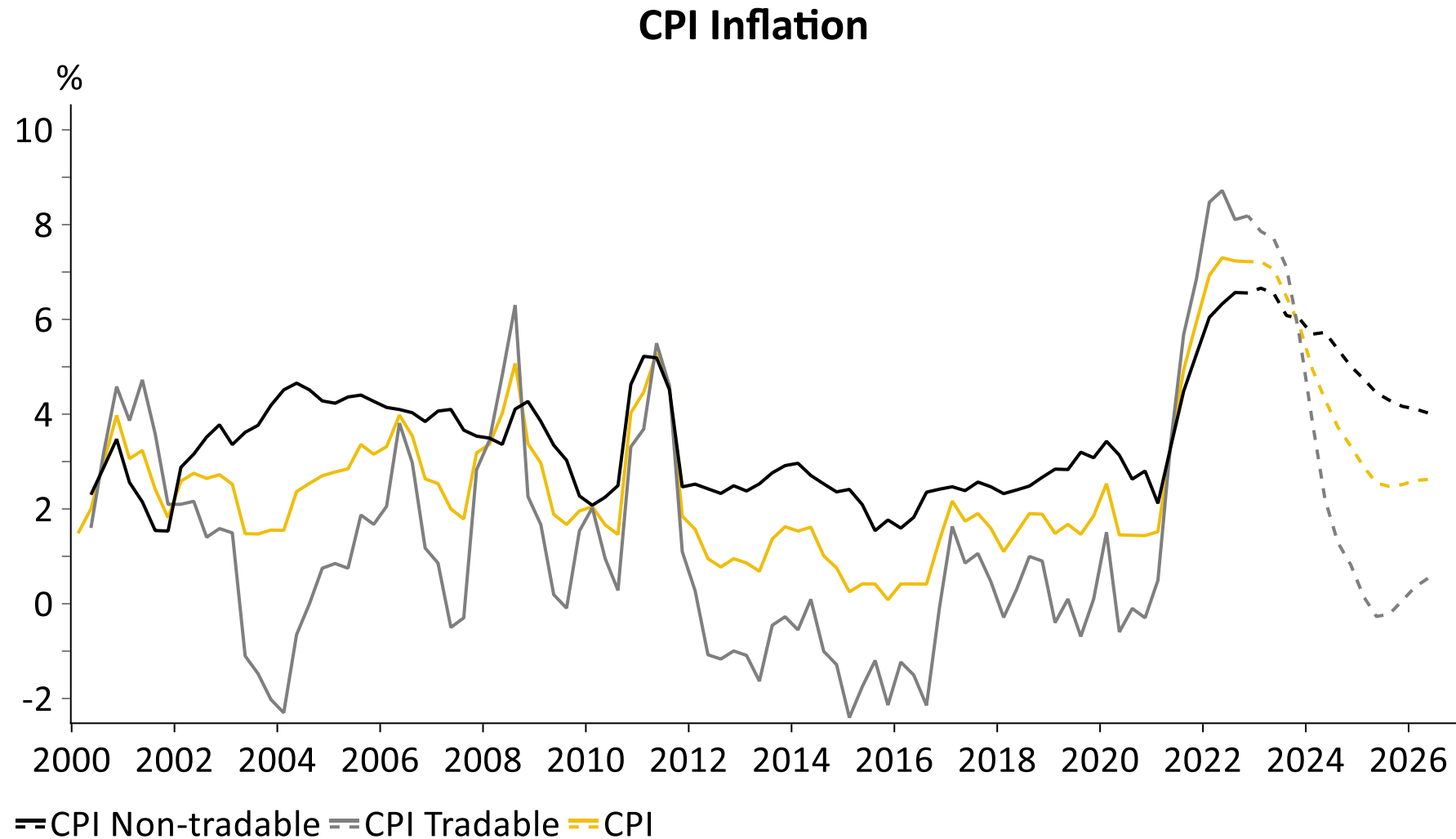
Source: Macrobond, ASB

› Wage inflation rising



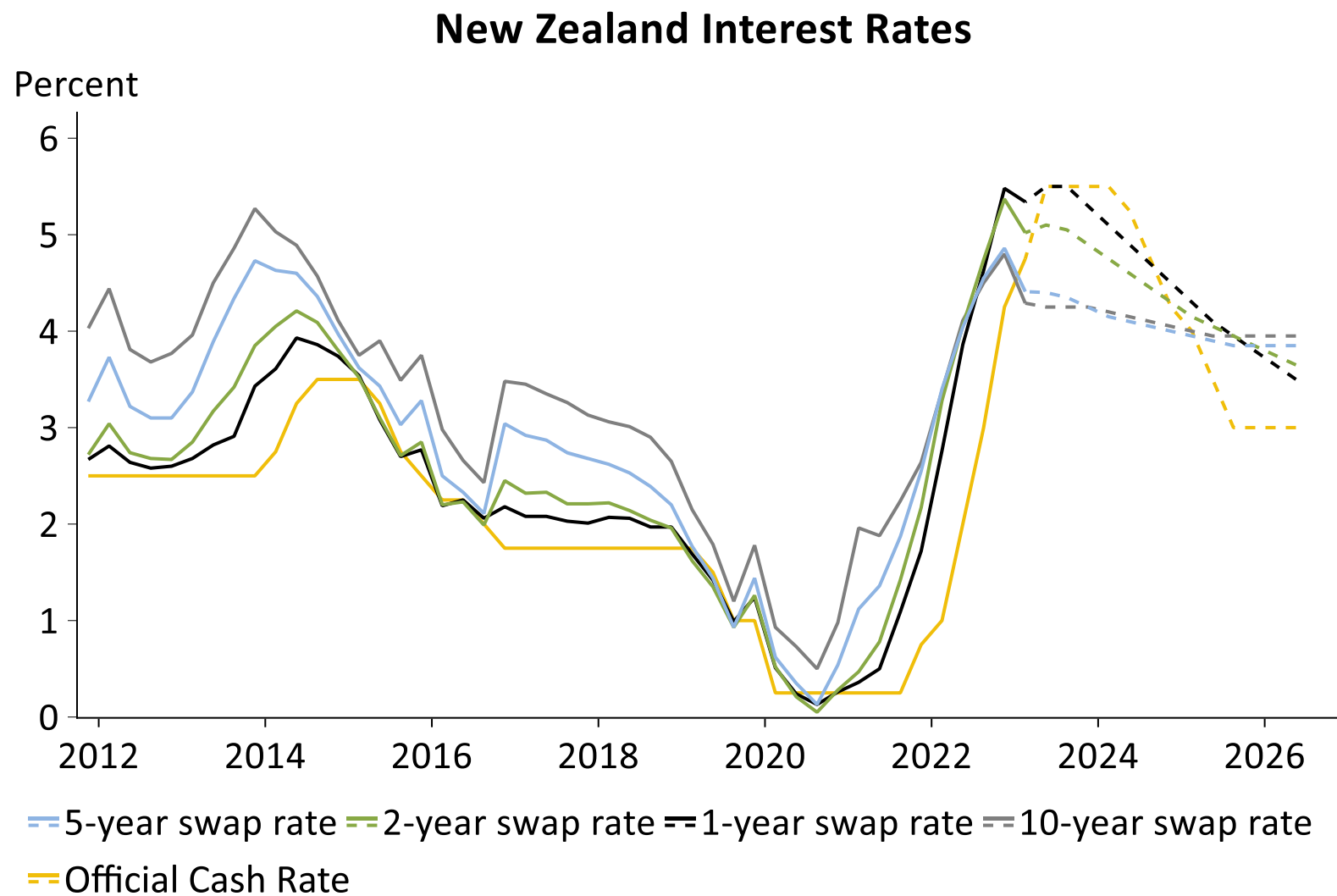
Source: Macrobond, ASB

› Inflation: high and persistent



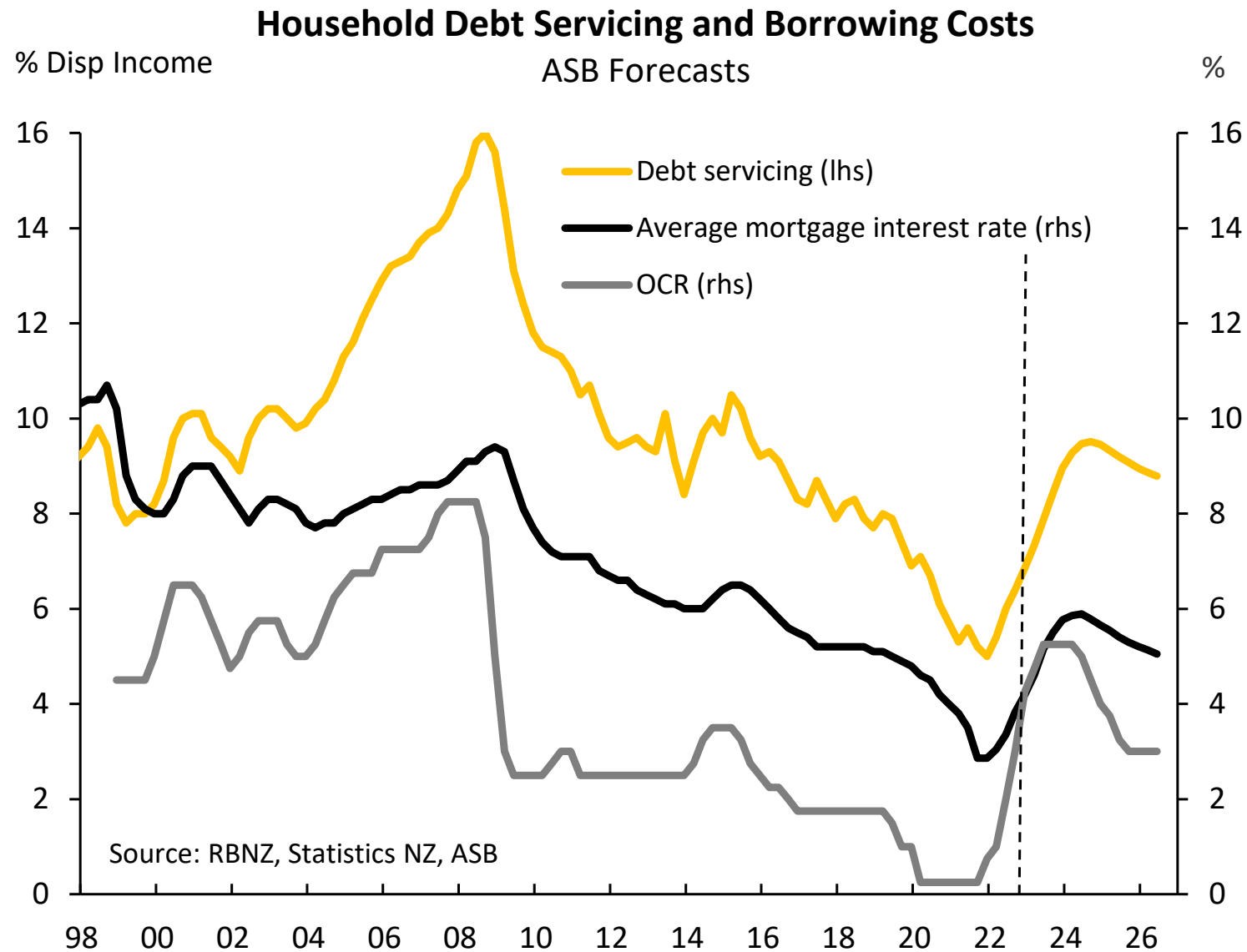
Source: Macrobond, ASB

> Interest rates

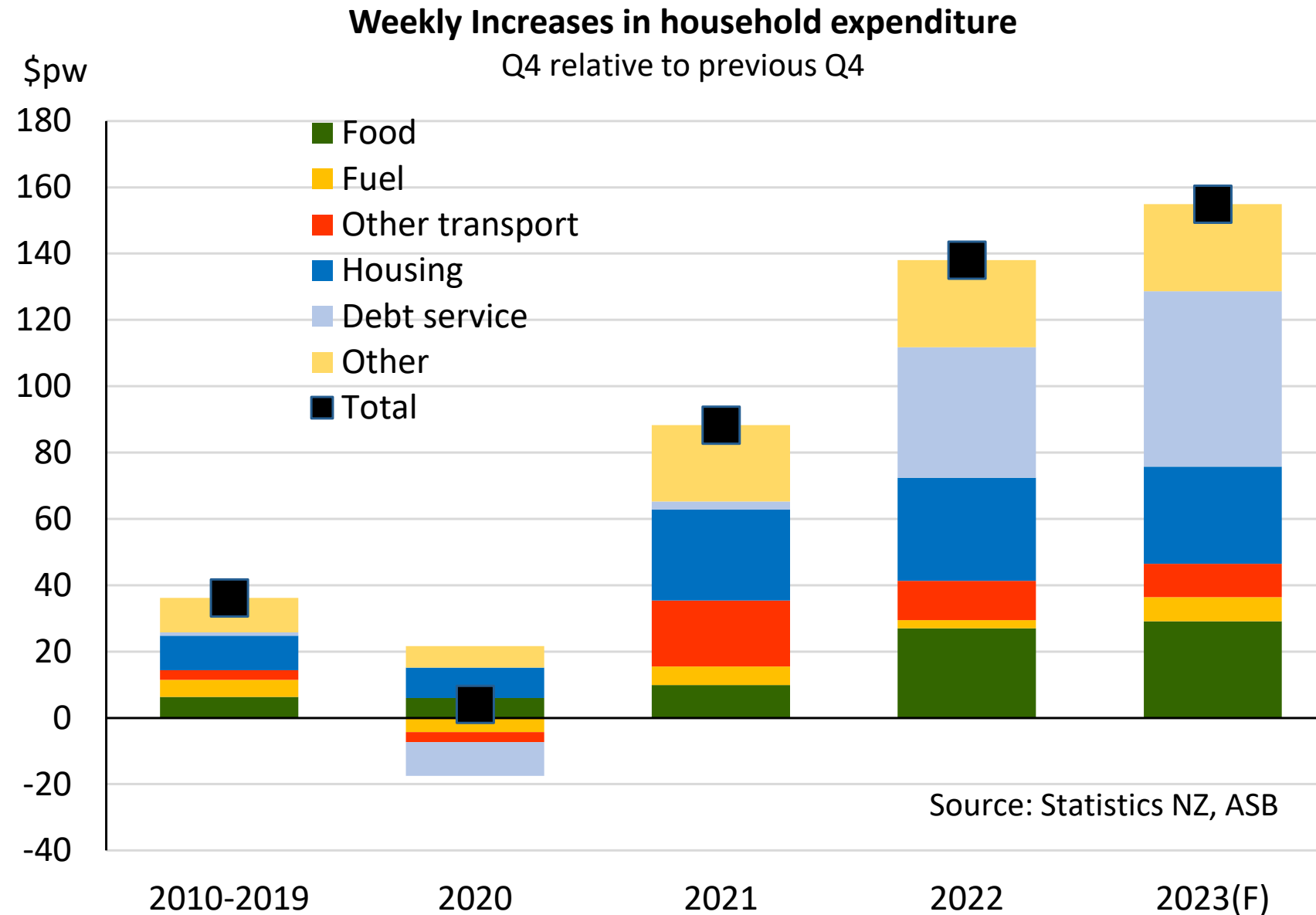


Source: Macrobond, ASB

> Debt servicing manageable overall



> Household cost of living impacts



› Summary

- › Households feeling the pinch: consumer spending volumes to contract
- › Tourism recovering: Asia now lifting; but airline route constraints
- › Weather disaster: disruption, added inflation, slight rebuild boost, rethinking of weather risks and vulnerabilities
- › Labour market tight, with further wage pressure (and higher living costs). Inbound immigration now picking up strongly, will help ease labour tightness
- › OCR peak of 5.5% expected; OCR cuts from first half of 2024



» Thank you

Nick Tuffley
Chief Economist
nick.tuffley@asb.co.nz