

Economic Snapshot *'Wait and see'*

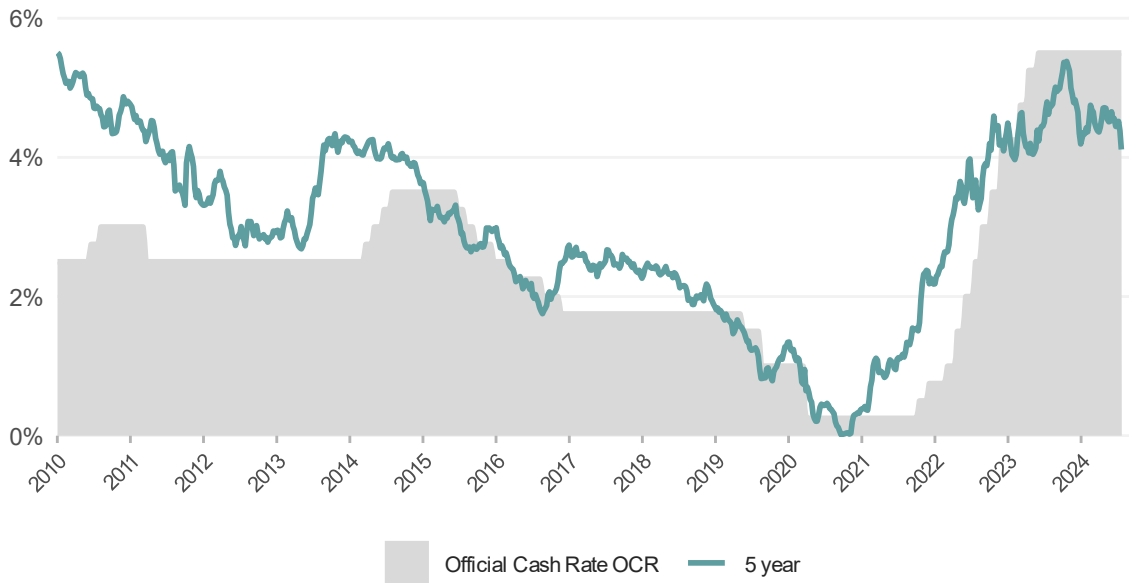


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Aug 2024

Globally, central banks have increased interest rates, cooling the economy to battle inflation. The last mile is the hardest, the inflation battle is not yet over.

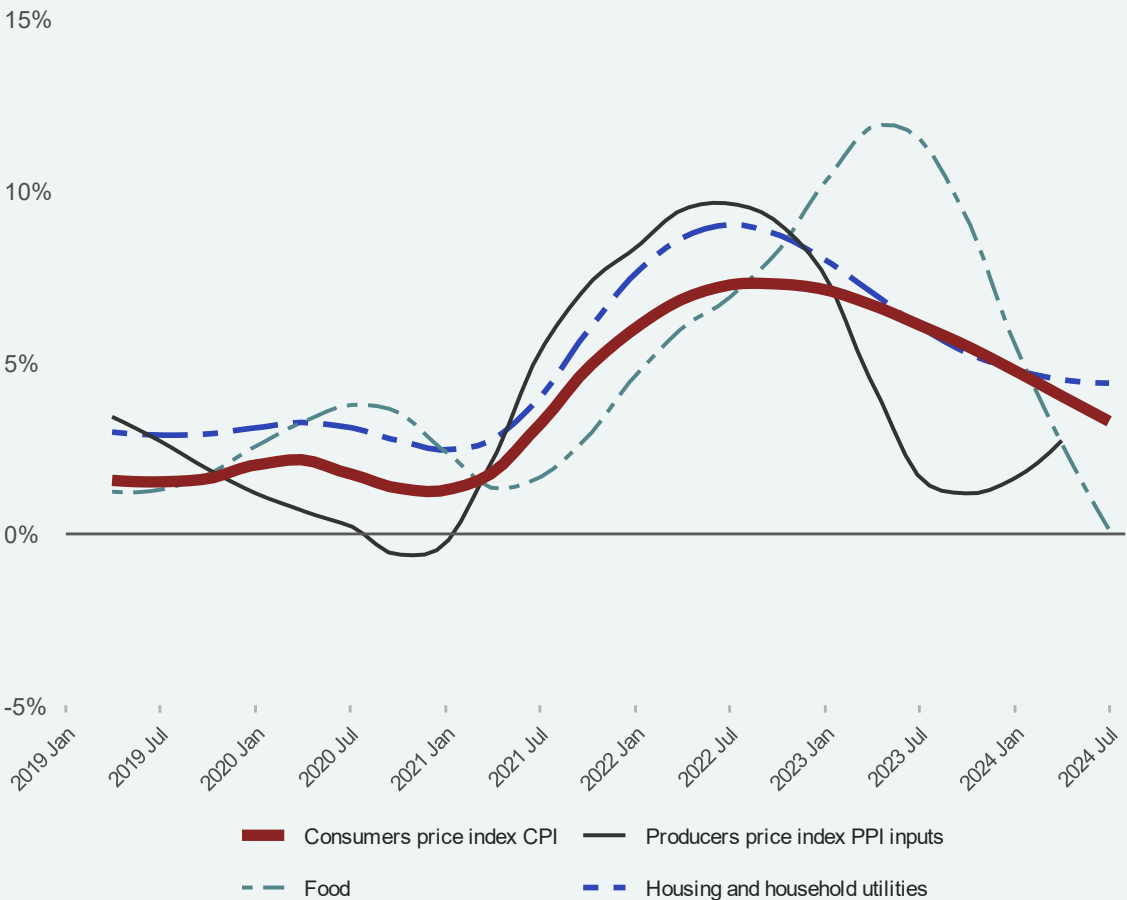
Interest Rates – Cool the brakes

Official cash rate and 5-year swap rate



New Zealand Inflation – Y/Y%

New Zealand inflation components



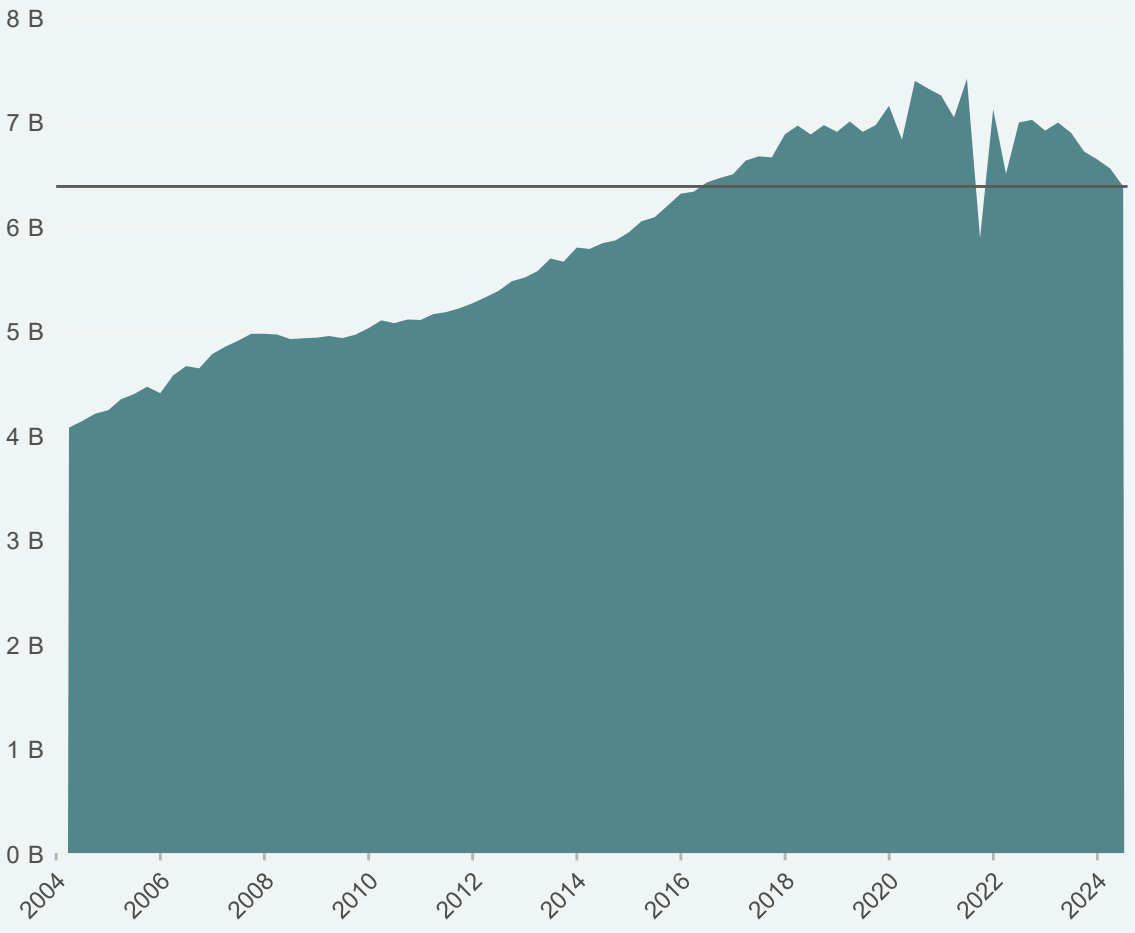
Inflation busting

- Post-covid saw a rapid increase in the inflation rate. In response, the Reserve Bank raised interest rates, making borrowing more expensive, reducing consumer spending and business investment. This can help lower the pressure on prices.
- This appears to have worked, around the world inflation rates are falling back to acceptable levels.

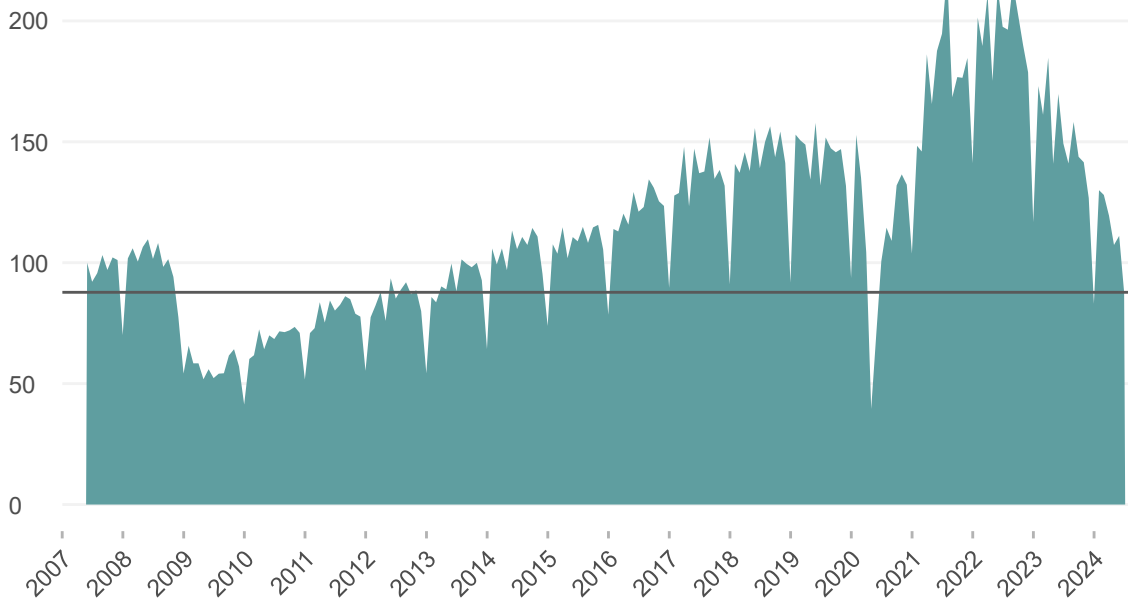


However, higher interest rates have been very effective at cooling the economy. New Zealand is seeing the largest pull-back in recent memory.

Retail Spend – Inflation adjusted
New Zealand inflation components



Job advertisements online
Job posting index as published by Stats NZ/



Out in the cold

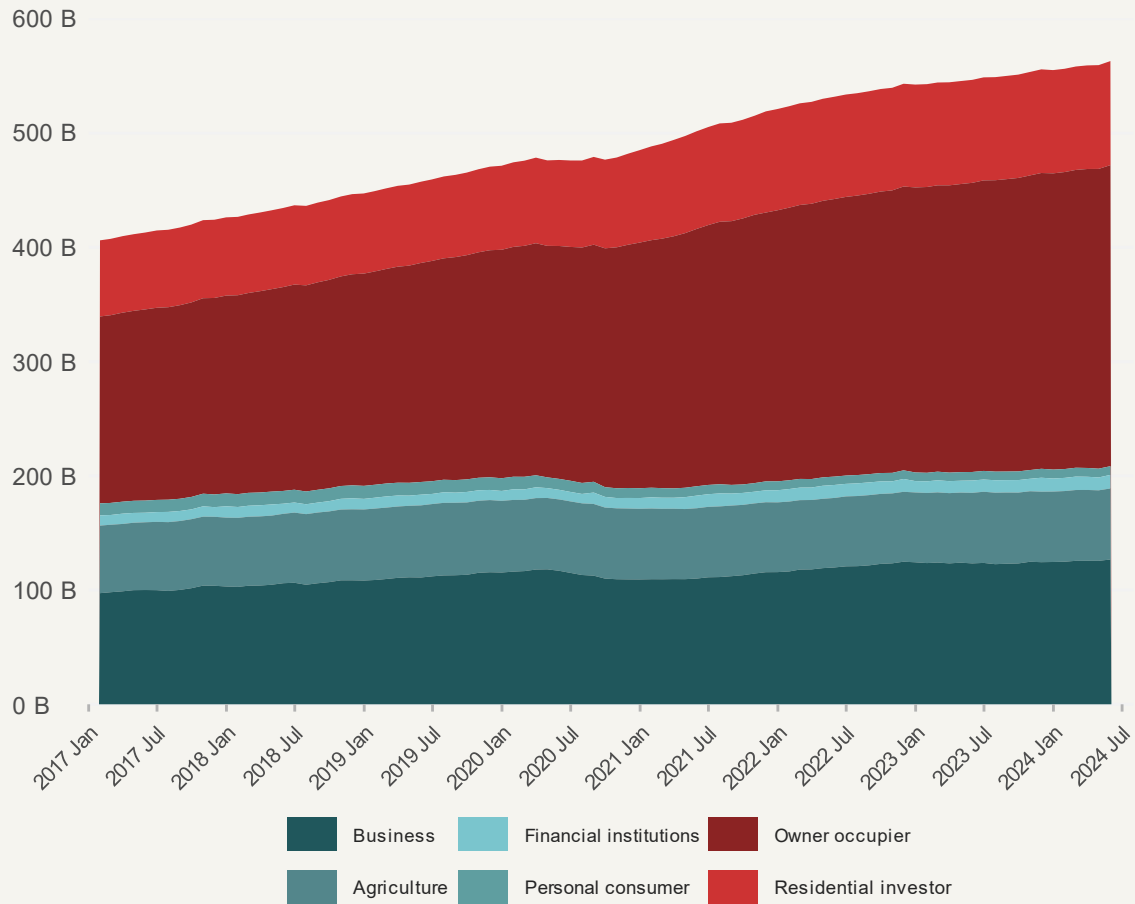
- Adjusted for inflation, retail card spend has nosedived to 2016 levels.
- Online job positing's have collapsed back to levels no seen since the mid 2000's.
- Both indicators suggest the downturn is bigger than any in recent memory.



While New Zealand has relatively low public debt, it has exceptionally high housing debt. High interest rates flow into high mortgage payments reducing consumer spend.

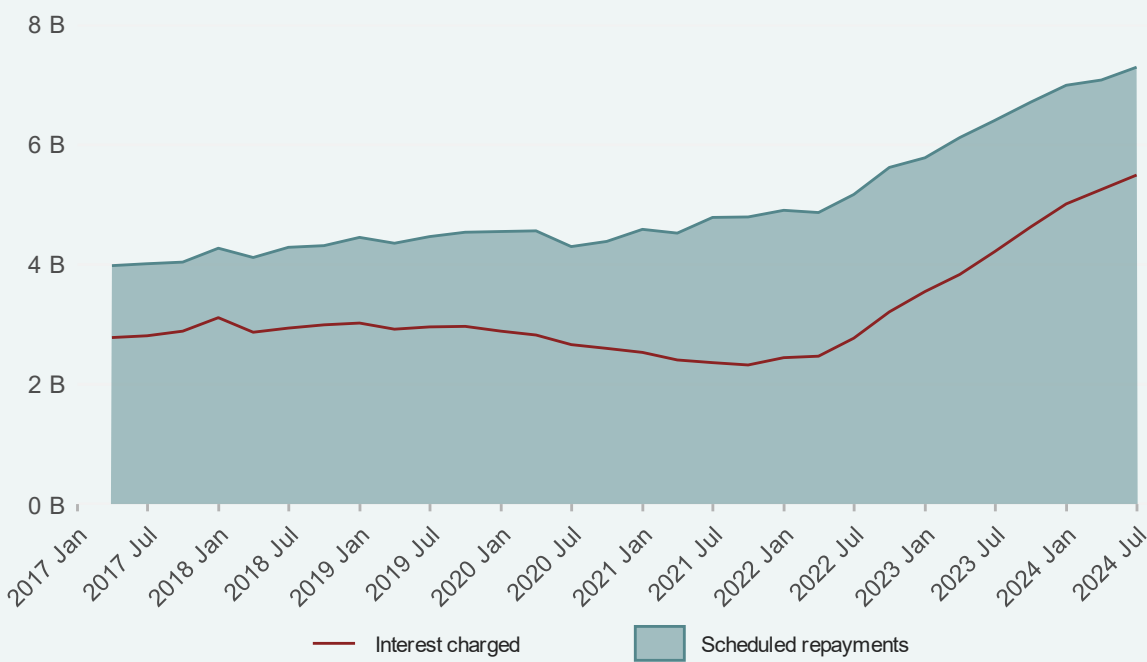
New Zealand debt – Focused on households

Banks: Assets - Loans by product



Monthly mortgage repayments

Residential mortgage loan repayments to June 24



Death by mortgage

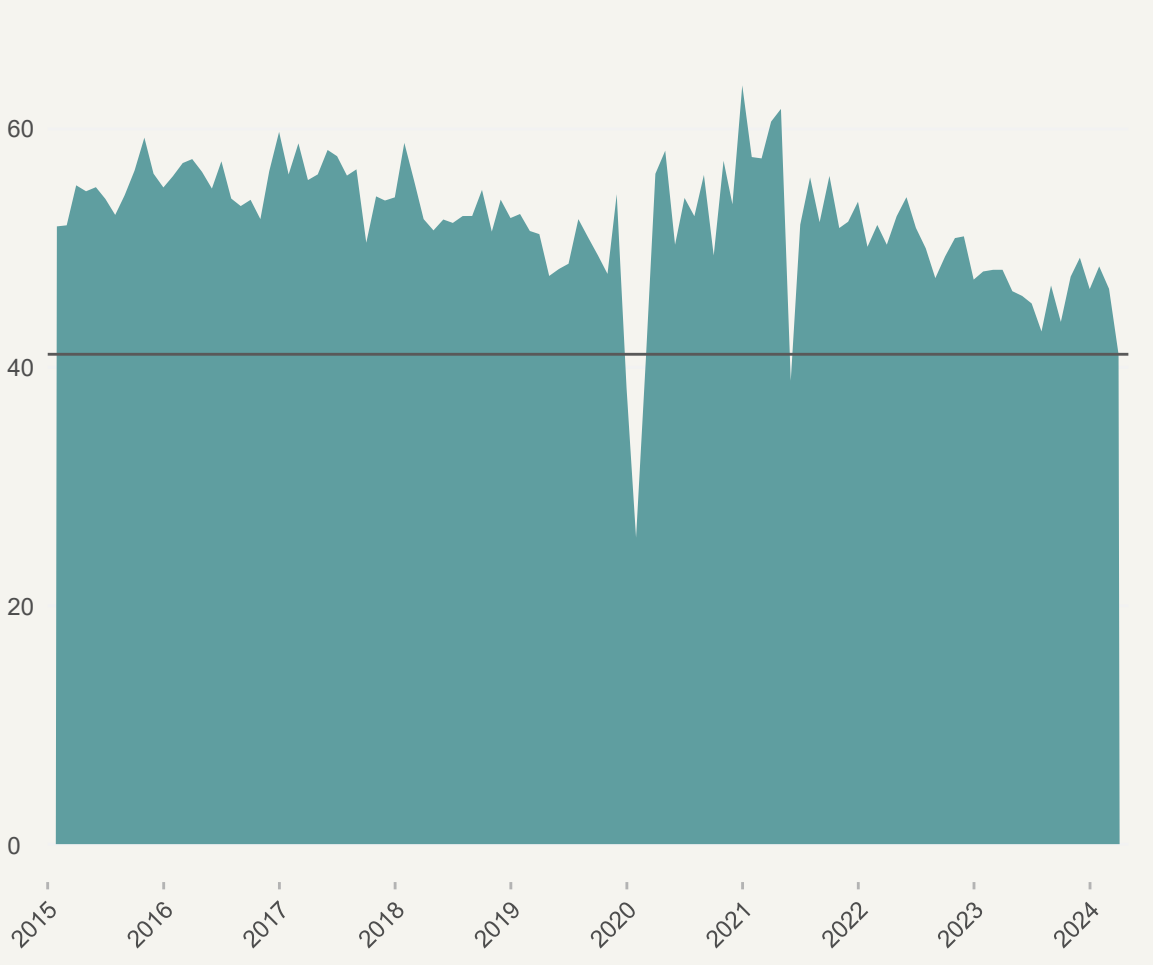
- Scheduled mortgage repayments were \$7.2b in Jun 24, this annualizes to \$87.6b.
- For context, Core Crown tax revenue was \$112B (YE Jun 23), making mortgage repayments on-par with tax revenue.



Reduced consumer spend and demand for housing will have flow on effects to employment if the current environment persists.

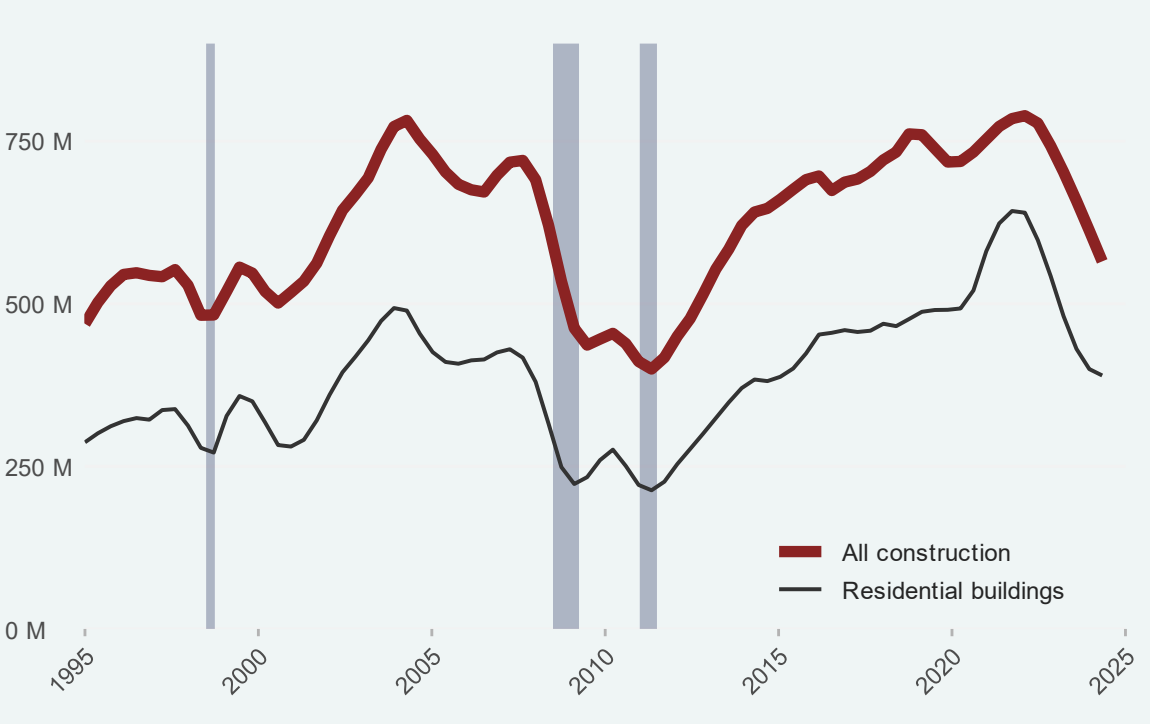
BNZ Manufacturing index – Jun 24

BNZ Business NZ performance of manufacturing index – seasonally adjusted



Value of building consents– Jun 24

StatsNZ monthly building consents by \$ value (unadjusted)



Construction led downturn

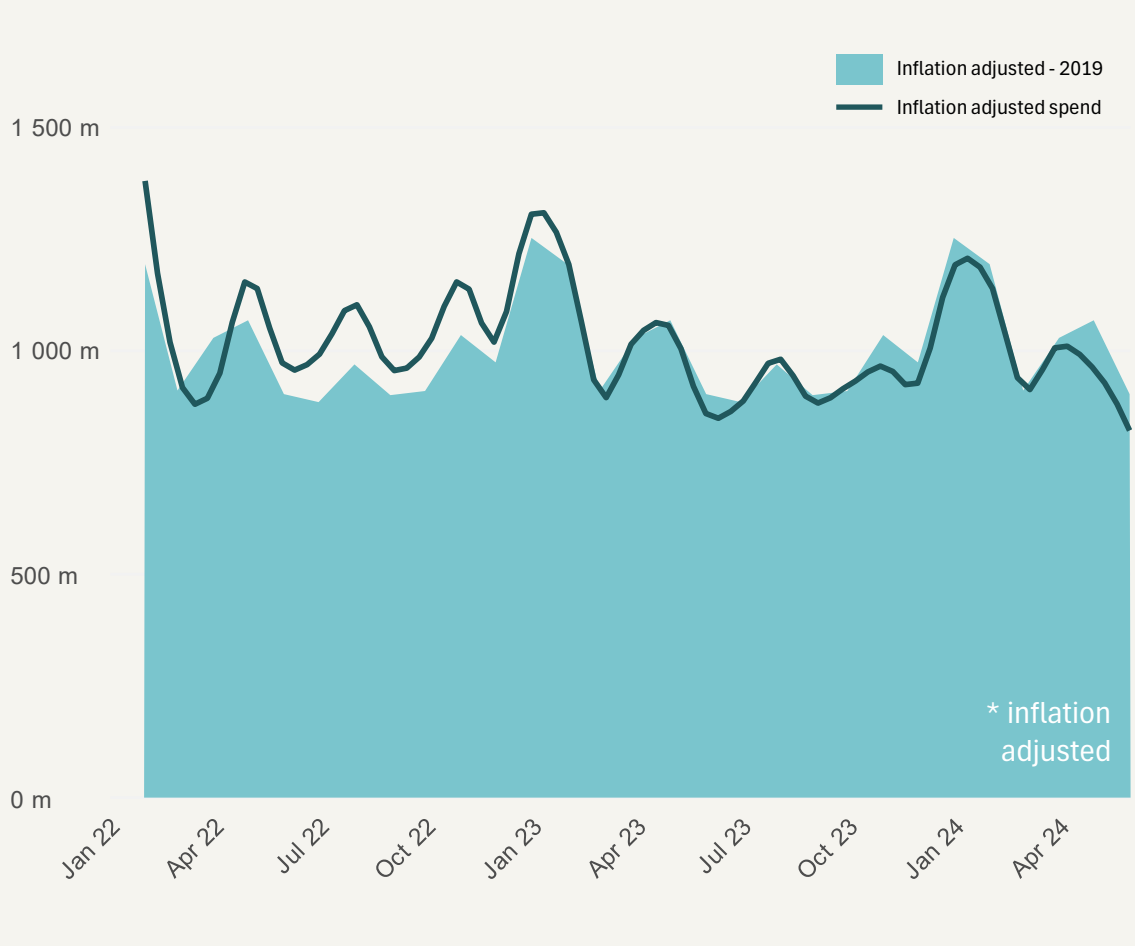
- Given New Zealand's dependence on the housing sector, the downturn in consents is an extremely dire signal.
- Less consents means less future demand for construction workers and harder times to come.



Both Domestic and Tasman tourism are taking a hit. Luckily, a high USD and available aircraft have supercharged US tourism.

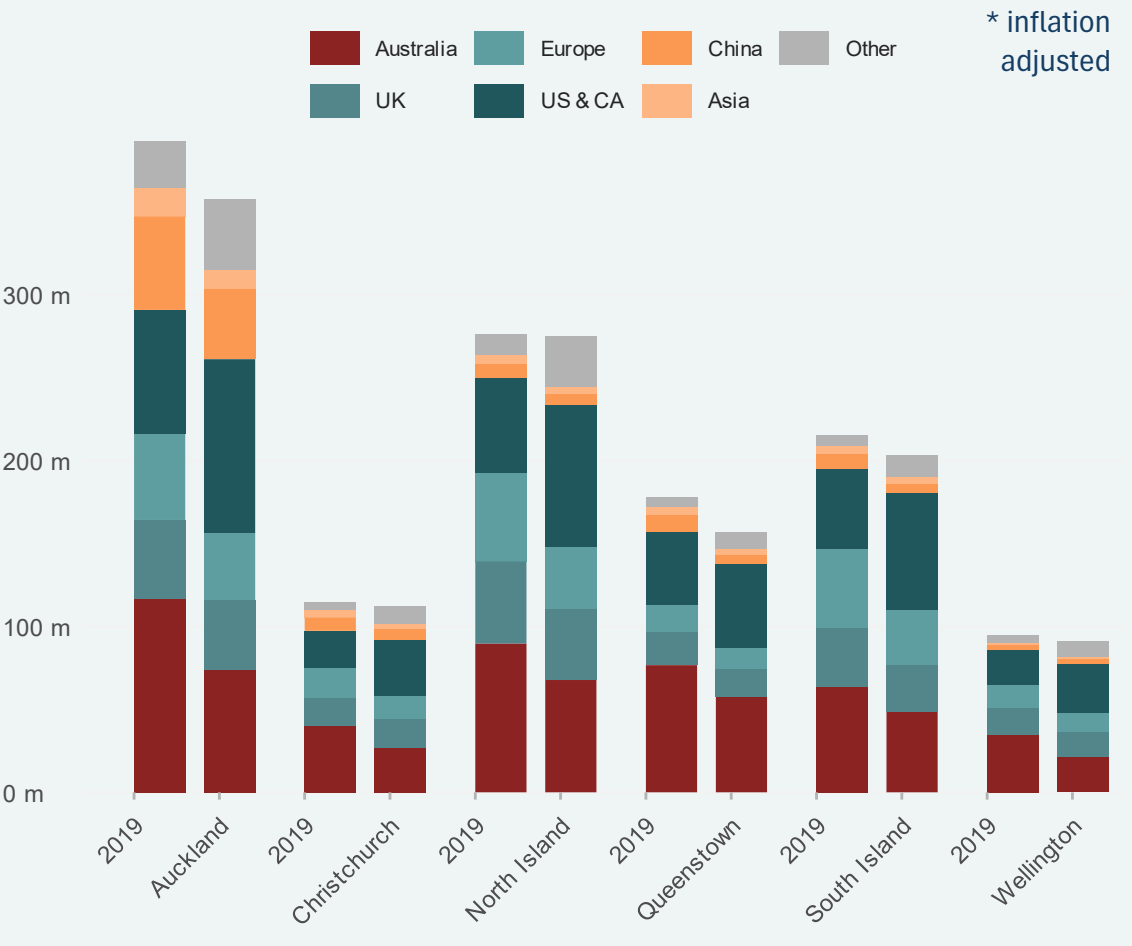
Electronic spend on tourism – Domestic – Jun 24

Inflation adjusted spend on card – Last 12 months v 2019



Electronic Spend on Tourism – International – By RTO

Inflation adjusted spend on card – 12 month to May 24 v 2019



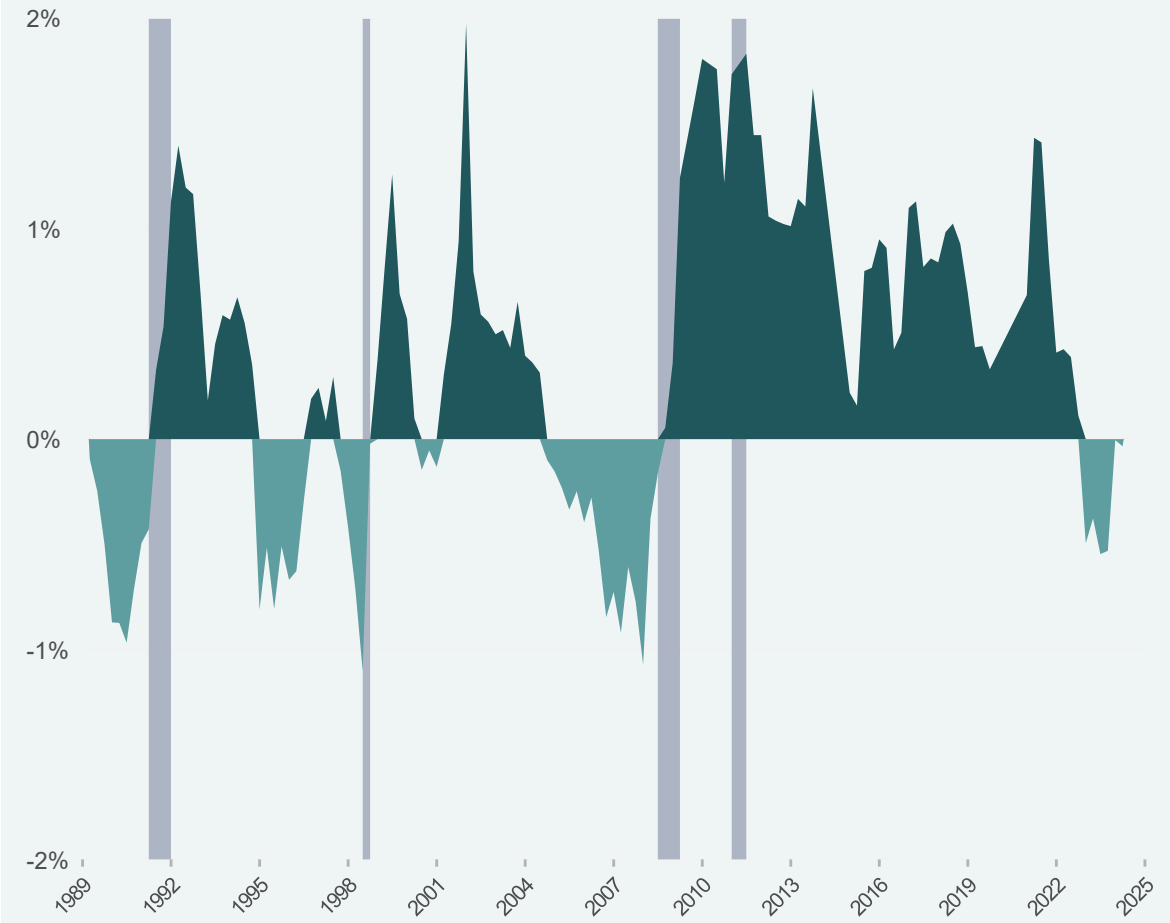
An inverted yield curve is a strong signal that investors expect a downturn. New Zealand's inverted in June 2023 suggesting the peak of the downturn should be happening now.

Inverted yield curve suggests a downturn

- An inverted yield curve has historically preceded a recession.
- Long-term interest rates are typically higher than short-term rates as investors demand a higher return for locking money up for a longer period due to risks like inflation. When this inverts, i.e. the 2Y has a higher return than the 10Y, it suggests investors are moving to safer assets perceiving an incoming downturn.
- The peak of the inversion normally happens a year or two before the recession.
- New Zealand's yield curve inverted around June 2023, suggesting a downturn in the back end of 2024 into 2025.

10Y-2Y spread

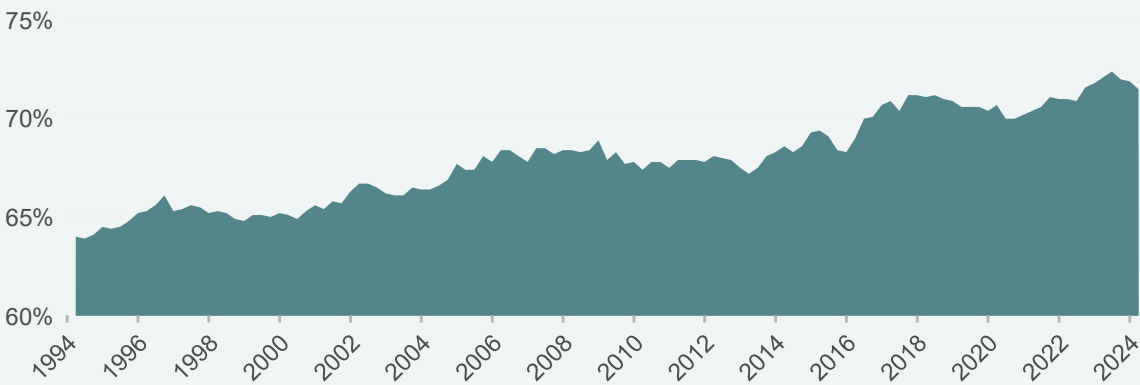
Secondary market government bond yields - 10 year minus 2 year. Recessions in grey.



However, the underlying economy looks stable. New Zealand continues to remain near full employment. The wheels are not falling off.

Labor participation rate – Jun 24

% of working-age people who are employed or are actively seeking work



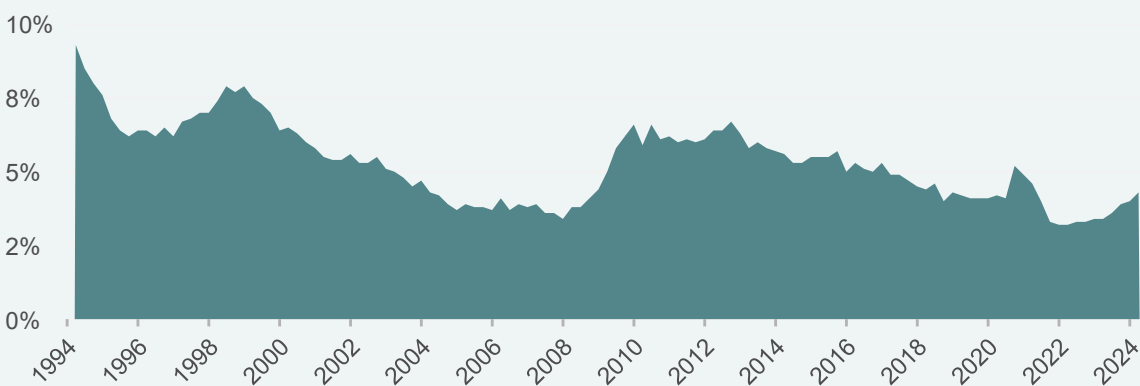
Labor cost index – Jun 24

% changes in wages and salaries over time, excluding changes in job mix or quality



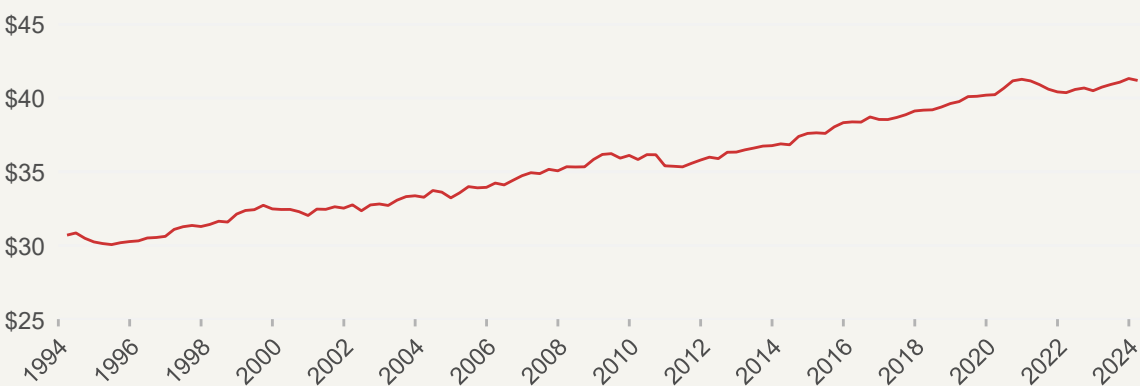
Unemployment rate - Jun 24

% of the labor force that is without jobs.



Wages – Inflation adjusted to today – Jun 24

Average hourly earnings (ordinary time and overtime)



Forecasts suggest a sluggish year as central banks ‘wait and see’, looking for confirmation that inflation is under control. It might be harder to find a job, but wide-spread layoffs look unlikely. (RBNZ Survey expectations)

GDP – Expectations next year

Expectation of what the GDP growth rate will be in one years' time.



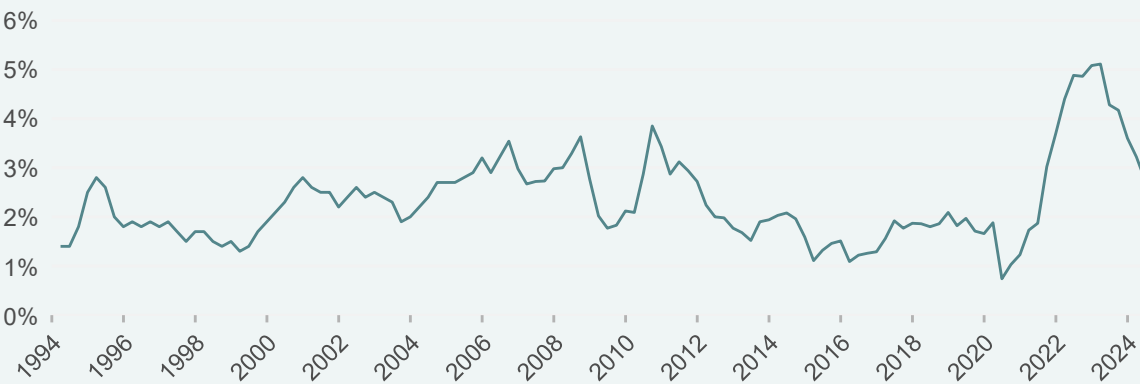
Unemployment – Expectations next year

Expectation of what unemployment will be in one years' time.



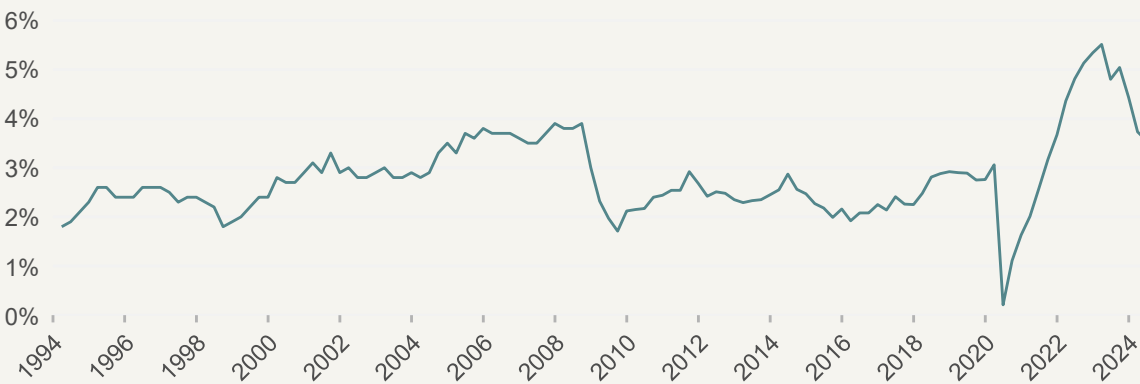
Inflation – Expectations next year

Expectation of what the CPI will be in one years' time.



Wages – Expectations next year

Annual hourly wage growth expectation one year out



About CSV Consulting

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Leveraging extensive experience in aviation and tourism, I provide in-depth insights and analysis to uncover patterns and trends. My expertise transforms complex data into actionable strategies, helping clients make informed decisions.

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Specializing in slot coordination, I optimize airport throughput by aligning operational capacities with demand. My successful implementation of level 3 slot coordination at Queenstown Airport demonstrates my ability to manage peak demand and enhance operational efficiency.

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With a proven track record in regulated aeronautical pricing, I ensure airports achieve fair returns through meticulous financial modeling and stakeholder consultations. My approach aligns with regulatory standards, delivering balanced pricing paths for sustainable growth

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CSV Consulting



Michael Hawley

Mike@csv.co.nz

+64 27 5904045