NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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Weekly Global Economic Round-up

A MARKET INTELLIGENCE REPORT

Highlights

- New Zealand moved a step closer to ratifying its free trade agreement (FTA) with the European Union (EU), with the first reading of legislation to bring the FTA into force taking place in parliament last Wednesday (31 January). According to Minister for Trade, Todd McClay, the Government intends to have the legislation passed through parliament by May this year, with the FTA then coming into force at an agreed date with the EU. It is expected that the FTA will provide an annual boost to the economy of $1.4 billion, and increase exports to the EU by up to $1.8 billion by 2035. It is also expected to save New Zealand businesses $100 million in tariffs per year.

Regional updates

Domestic

- The International Monetary Fund (IMF) delivered a largely optimistic (and somewhat contrarian) view of the global economic outlook in its January update. The IMF projects the global economy to expand by 3.1 percent in 2024 (in line with its final projection for 2023) before rising at a modestly faster pace of 3.2 percent in 2025. While this is lower than the pre-COVID (2000-2019) average of 3.8 percent, this is significantly higher than forecasts from other major institutions such as the United Nations and the World Bank which both project that the global economy will grow at a rate of just 2.4 percent.

- The IMF's relatively upbeat forecast noted that greater-than-expected resilience in the United States and several large emerging markets and developing economies as the key factors in their forecast. The IMF also noted that inflation was falling faster than expected in most regions, resulting in what economists have termed "a soft landing", where inflation declines without a sharp contraction in growth.

- Among New Zealand's major trading partners, China's economy is projected to expand at a rate of 4.6 percent and 4.1 percent in 2024 and 2025 respectively. This represents an increase from the IMF's October forecast (up 0.4 percent), but represents a modest deceleration from the 2023 rate of expansion of 5.2 percent. Growth in Australia is expected to be subdued, with growth of 1.4 percent in 2024 before a slight recovery in 2025 with growth increasing to 2.1 percent.

- Looking further afield, the United States will continue to be the outlier among advanced economies, with the IMF forecasting growth of 2.1 percent in 2024 before a moderate deceleration to 1.7 percent in 2025 as the lagged effects of tight monetary policy and gradual fiscal consolidation decrease aggregate demand. The Eurozone will slowly show signs of recovery, with modest growth of 0.9 percent in 2024 rising to 1.7 percent in 2025 off the back of increases in household consumption as inflation continues to subside. A similar story will take place in the United Kingdom, with falling inflation meaning that growth will increase from 0.6 percent in 2024 to 1.6 percent in 2025. This will allow real incomes to show some recovery in an economy that has struggled with significantly elevated prices.

Australia

- Inflation pressure continued to ease in the final quarter of 2023 in Australia, with prices rising by 4.1 percent (on an annual basis). This was lower than market expectations and well below the 5.4 percent in the September quarter.

Americas

- Employment data released last week shows that the United States economy entered 2024 on firm footing. The United States labour market added 353,000 jobs in January, well above market expectations of an increase of around 180,000. Wage growth was also strong, with average hourly earnings increasing by 0.6 percent (or 4.5 percent on an annual basis). Revisions to previous releases also showed that November and December job gains were in fact stronger than first thought, with 182,000 jobs created in November (up 9,000 on the last estimate) and 333,000 created in December (an upward revision of 117,000).

- In continuing evidence of the underlying strength in the United States economy, labour productivity advanced at a rapid pace in the fourth quarter of 2023. The Bureau of Economic Analysis' preliminary estimate showed that non-farm employee output per hour rose at an annualised rate of 3.2 percent in the final quarter of 2023 – above the long-term average. This strong growth comes after productivity surged by 4.9 percent in the third quarter. Labour productivity measures whether people and businesses can create more output with the same level of labour inputs. Recent strong labour productivity performance in the United States is helping to reconcile - what on the surface appears a contradiction - why economic growth is outperforming while at the same time inflationary pressures continue to subside.

- In the first open market committee meeting of 2024, policy makers at the United States Federal Reserve (Fed) kept interest rates unchanged last week. Some in financial markets are picking that the Fed will move as soon as next month to start cutting interest rates. However, Fed Chair Jerome Powell poured cold water on a move as early as March, with the Fed unlikely to have enough evidence by then to warrant a cut.

Europe

- The Eurozone and the European Union (EU) managed to (just) avoid a technical recession in the fourth quarter, registering growth of 0.1 and 0.2 percent respectively on an annual basis. Of greater concern for the continent, however, is the continuing weakness of the German and French economies. Though inflation continued to decline in Germany (coming in at 2.9 percent in January), Europe's largest economy suffered a turbulent year in 2023. Growth in the fourth quarter registered a decline of 0.2 percent (on an annual basis) and for the year as a whole, the German economy contracted by 0.3 percent. In France, the picture is only slightly better, with growth in the fourth quarter stagnant (0 percent growth). This follows 0 percent growth in the third quarter and the French economy grew by just 0.9 percent for the whole of 2023.

North Asia

- China's economy got off to a soft start for the year with the official purchasing manufacturing managers' index (PMI) posting a reading of 49.2. While this was an increase from the December reading of 49, this still showed weakness in the sector as a PMI reading above 50 indicates an expansion in activity while a reading below indicates a contraction.

External links

The following links may provide useful information to businesses:

- NZTE has a website focused on providing COVID-19 information for exporters. They've also launched myNZTE, an interactive digital portal of insights and tools available to all New Zealand exporters.
- The Treasury releases a weekly economic update every Friday. Stats NZ has published a data portal with near real-time economic indicators.
- MBIE publishes a sector reports series which provides regularly updated reports on all industry sectors that make up the New Zealand economy. These include official economic data and the challenges and opportunities that face New Zealand's industry sectors.
- Business.govt.nz provides tools and advice from across government to save small businesses' time and help make the business a success.
- MFAT has created a tariff finder which is designed to help goods exporters and importers maximise benefits from New Zealand's Free Trade Agreements and compare tariffs in 136 other markets.
- The all of government Trade Barriers website can be used to register any trade barriers experienced or issues exporting to an offshore market. Queries can be sent via the website or through the MFAT Exporter Helpline 0800 824 605. Enquiries will be sent to the government agency best placed to answer.
- Tatauranga Aotearoa Stats NZ provides official data on the value of New Zealand's exports and imports of both goods and services, by commodity type via the New Zealand Trade Dashboard. This interactive dashboard is updated every quarter and allows for filtering by country and by commodity type.

More info

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

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