

# Monthly Insights Brief

July 2024

On-the-pulse analysis delivered monthly, providing insight into the Christchurch & Canterbury economies.





# Key economic trends during June

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## Cost of living

Inflation is getting closer to the 1-3% target band, but cost pressures remain strong for households and are continuing to limit housing market activity.

CPI data for the June quarter indicates that annual inflation has continued to slow, falling to 3.3% (down from 4.0% in the previous quarter). This is the lowest annual inflation rate since mid-2021 and indicates that the CPI is almost back within the 1-3% target band.

The slowdown in inflationary pressure continues to be led by lower international prices, with annual tradeable inflation falling to 0.3%. There is also some evidence emerging that weaker domestic demand is flowing through to impact prices at the local level, with annual non-tradeable (domestic) inflation recording a slight reduction to 5.4% (down from 5.8% in March).

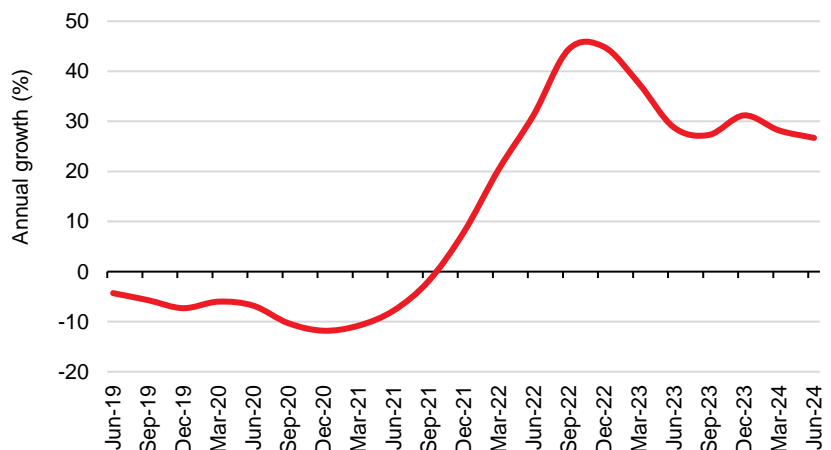
Domestic inflation was largely driven by increases in the cost of housing and household utilities, due to the rising cost of rents, construction of new homes, and rates. The rising cost of insurance was also a primary contributor to domestic inflation, with insurance prices increasing 14% over the year to June- the largest ever annual increase for insurance.

On the other hand, reductions in inflationary pressure across categories like second-hand cars, accommodation and some other recreation and cultural products helped to offset some of this impact.

CPI inflation is expected to fall back inside the target band in the second half of this year. An easing in inflationary pressure will come as a welcome development for Kiwi households.

When the cost of mortgage payments are taken into account, the average New Zealand household has experienced a 5.4% increase in their overall cost of living in the year to June. This increase includes a hefty 26.7% increase in the average cost of interest payments over the same period, which is not captured in CPI measures of inflation.

**Annual growth in cost of interest payments**  
(average NZ household)



Source: Statistics NZ



The good news for borrowers is that the interest rate cycle is thought to have reached its peak. The July Monetary Policy Review saw the RBNZ holding the OCR at 5.5% for the ninth time in a row, in line with expectations. Comment from the RBNZ indicated that forward-looking indicators of business activity and growth are weaker than previously expected for this stage in the rate cycle.

Business and consumer sentiment, spending data, and weakening labour market dynamics all point to declining activity over the near-term, which will increase the amount of excess capacity in the economy. This will in turn reduce domestic inflationary pressure and therefore the need for the RBNZ to keep the OCR at a more restrictive level.

Recent economic data (including the June CPI) and this softening in tone from the RBNZ have seen expectations for an OCR cut brought forward. The major banks are now expecting a 25 basis-point cut in November this year, rather than in February 2025 as previously forecast.

Mortgage data clearly shows that borrowing activity remains subdued in the face of current debt-servicing costs. The number of mortgages issued in June was -37% below average levels for the month and was also the lowest number recorded for June since the series began in 2015. Mortgages issued to investors have taken the biggest hit, down -44% from average levels.

The number of mortgages issued to first-home buyers were more in line with an average number for June, although high debt-servicing costs continue to constrain affordability for this group.



Source: RBNZ





## Small business insights

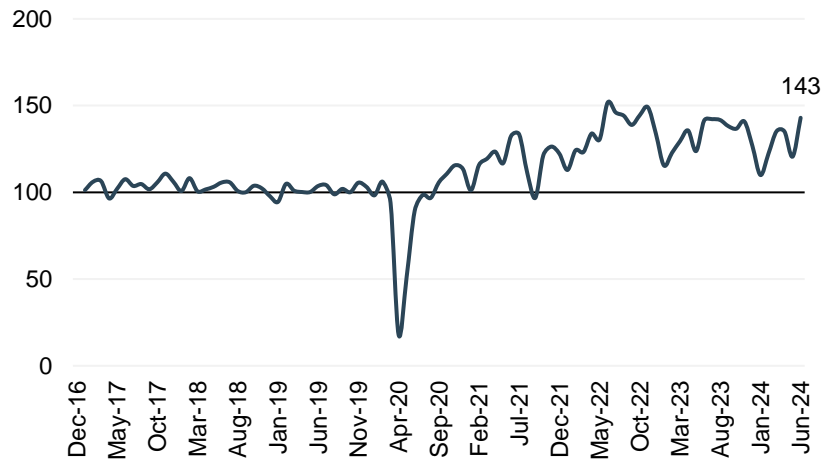
Xero's small business index shows a slight improvement in overall small business performance in New Zealand over the June quarter compared to the previous three months.

Small businesses make up the majority of New Zealand businesses, representing 97% of all firms and accounting for 29% of employment and over a quarter of the country's GDP.

Xero's [Small Business Index](#) tracks how the small business economy is performing month-to-month by pulling anonymised and aggregated data from their customer base.

The latest index shows a slight improvement in overall small business performance in New Zealand over the June quarter compared to the previous three months, with ongoing growth in hiring and wages being partially offset by declines in sales and longer payment times.

**Xero Small Business Index (NZ)**



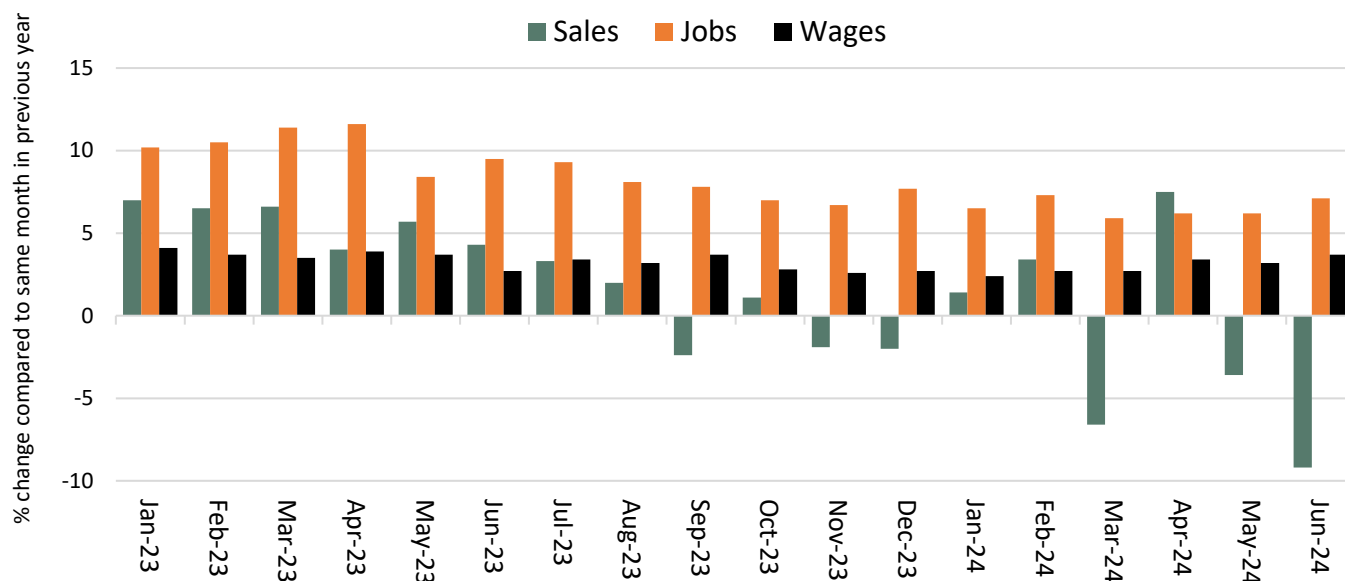
Small businesses in Canterbury performed at similar levels to the rest of New Zealand during the June quarter. Canterbury businesses recorded a slightly higher year-on-year decline in sales, with sales falling -1.8% from the same time last year compared to -1.5% nationally. Monthly sales growth showed a clear worsening as the quarter progressed, with sales in Canterbury dropping from +7.5% (year-on-year) in April to -9.2% in June.

National sales growth charted a similar path, falling from +6.1% YOY growth in April to an -8.3% contraction in June. As described by Xero, sales are a core measure of financial performance and overall economic activity in the small business economy. The annual declines in sales during June are the largest drops recorded for both Canterbury and New Zealand since May 2020, when COVID restrictions were in place.

The slightly larger decline in sales in Canterbury is likely to reflect the different industry mix within the region. Xero's national data for the June quarter shows that the largest annual declines in sales took place in hospitality (-3.7%), construction (-3.4%), retail trade (-3.3%) and manufacturing (-2.8%). Together these industries make up a slightly higher share of businesses and GDP output in Canterbury than they do nationally.

Although the index indicates that the rate of job growth has been slowing from the highs of 2022 and 2023, job growth remains positive compared to the same quarter last year. National job growth averaged at 6.7% over the June quarter, and at 6.5% in Canterbury. Job growth data is pulled from businesses using the Xero Payroll product and is measured by the number of employees who are issued a payslip during a month. As noted by Xero, the ongoing growth in small business jobs may highlight that business owners are wanting to hold onto staff to avoid future staff shortages, despite weaker sales performance over the last year.

## Year-on-year % growth by indicator, Canterbury Xero Small Business Index



Xero's research also captures data around the average length of time that small businesses are waiting to be paid after issuing invoices. This provides insight into both business cash flow and the financial health of their customers. On average, New Zealand businesses were waiting 23.9 days to be paid over the June quarter, with this number coming in slightly lower in Canterbury specifically at 23.6 days.

The average length of late payments (i.e., the length of time between the due date for each invoice and when it was fully paid) was also lower in Canterbury at 5.5 days compared to 6.1 days nationally. National data indicates that businesses in the manufacturing sector are waiting the longest to be paid, with an average payment time of 31.1 days and late payments coming at an average of 8 days overdue.

Average time to be paid	
Auckland	25.2
Hawke's Bay	25.0
New Zealand	23.9
Canterbury	23.6
Manawatu-Whanganui	23.3
Bay of Plenty	23.2
Waikato	23.2
Wellington	22.8
Taranaki	22.5
Otago	22.3
Northland	21.2

Late payments (average days overdue)	
Auckland	7.8
New Zealand	6.1
Waikato	5.7
Hawke's Bay	5.6
Bay of Plenty	5.6
Canterbury	5.5
Otago	5.4
Wellington	5.2
Taranaki	5.0
Northland	5.0
Manawatu-Whanganui	4.3

Source: Xero

For queries related to ChristchurchNZ's economic insights, please contact:  
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