Research

# Rural Wrap

9 June 2023

## Food Prices and Other Big Movers

- **Domestic fruit and vegetable prices elevated**
- **Food prices higher locally, despite softening offshore**
- **Trade deficit hits record**
- **Farm input prices have lifted, but dynamics changing**
- **Migration inflows rip higher, some labour relief**
- **OCR hits 5.50%: it looks like a peak**
- **Lots for folk to talk about at National Fieldays in June**

There remain many influences, pressures, and risks facing the primary sector at present. We don't pretend to cover them all here – that would certainly take more than a few pages! Rather we present some charts, with bite sized comment, on some indicators and figures that have caught our eye recently.

### 1. Weather past

Fruit and vegetable prices are significantly higher than a year ago. Try nearly 20% for fruit and a bit over 24% for vegetables over the year to April. There are likely multiple drivers of this inflation. A long period of labour shortages and difficult logistics haven't helped, nor has general cost pressures. The weather extremes of Cyclone Gabrielle and Auckland flooding events earlier this year amplified an already poor run of weather dating back well into 2022.

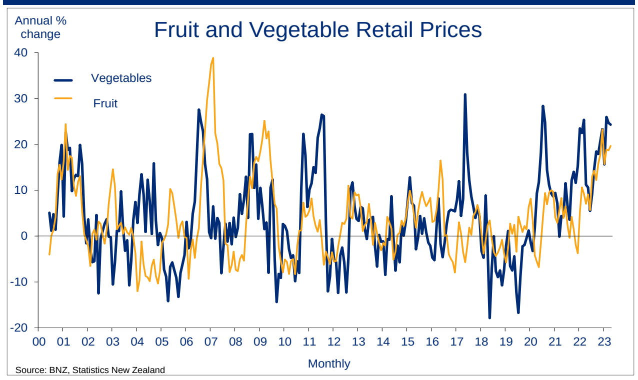
It is always difficult to isolate individual influences on any price movement and we don't attempt to do that here. But it is interesting to note that NZ's fruit and vegetable prices have increased considerably, relative to those in Australia over the six months to March 2023 compared to what is normal for the time of year. It suggests some domestically-sourced driver over that six-month period and the degree of NZ price lift relative to Australia suggests a decent size shock at that – we see NZ weather suspect numero uno.

As much as some fresh produce prices rose after the recent extreme weather events, it is notable that the Reserve Bank, in its May Monetary Policy Statement, said that the immediate inflationary impact of the severe weather was less material than it had previously assumed.

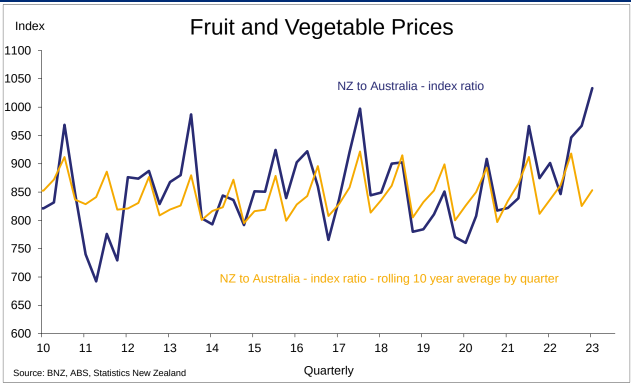
The cost of damage from Cyclone Gabrielle and Auckland flooding events earlier this year continues to be totted up. Official estimates currently put it within a range of $9b to $14.5b with approximate portions of around half related to general public infrastructure, a quarter related to households, and a quarter related to business including the primary sector.

Regards output, officials assess a hit of between $400m to $600m over the first half of 2023, driven by losses of agricultural and horticultural crops. Industry estimates suggest Hawke's Bay apple crop will be down by around third this season. There will be multi season impacts. Officials see losses of around $100m per annum over coming years reflecting the loss of capital assets such as orchards. Recovery will take some time. Higher prices are not welcomed by consumers. But they also do nothing for producers with nothing to sell.

Higher Fruit And Vegetable Prices



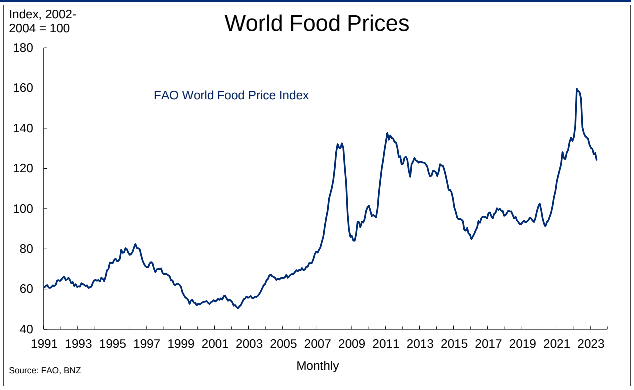

NZ Fruit And Vegetable Prices Rise Relative to Australia's




### 2. Global food prices

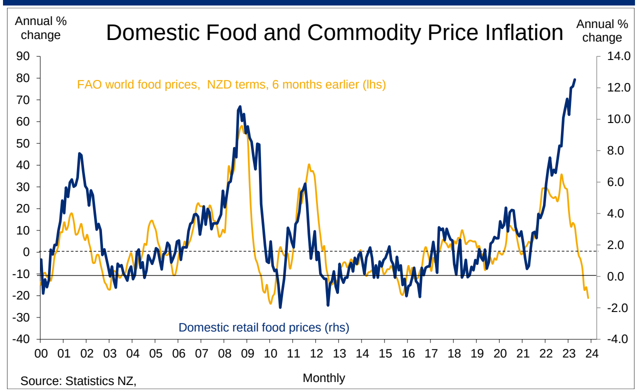
Global food prices generally rose during the pandemic and initially spiked even higher as war broke out in Ukraine in early 2022. But from mid-last year global food prices have been in retreat to the point that the FAO-UN food price index was more than 21% lower than a year ago in May. This unwind in global food prices will be a headwind for NZ exports this year, especially if the NZD does not continue its recent push lower.

**World Food Prices In Retreat**




NZ retail food price inflation tends to follow these offshore food price trends adjusted for movement in the NZD – all with a lag. There are obvious differences between these two measures. For a start, one represents NZ retail food prices overall while the other reflects a select number of major food categories in offshore wholesale markets. Despite the differences, there has been a reasonably close relationship between the movement in the two series over time – until a major divergence over recent times. This suggests other factors have been in play. There are many contenders.

**Domestic Food Prices Take Different Path**




Possibly the lag time between offshore price movements and domestic price movements has lengthened. We are not convinced that is the catalyst here because the issue appears much more one of magnitude rather than timing.

There are many candidates for the additional strength in domestic retail price increases over the past year or so with many likely operating together. This include things like: the weather effects noted earlier; labour shortages and supply challenges; rising wages; higher costs through the supply chain – including rising NZ international freight costs in the first instance – and then those costs not falling as soon as some international equivalents; potential changes in margins within the supply chain, as well as idiosyncratic factors.

A lot of this reflects supply challenges in some shape or form. Whatever the drivers, one thing is for sure: high retail food price inflation and deflating wholesale food prices offshore present issues for NZ consumers and NZ primary exporters alike.

Disentangling that lot is a project in and of itself. Suffice to say here that the starting point of domestic retail prices relative to offshore wholesale prices alone suggests meaningful scope for domestic food price inflation to ease over the year or so ahead if the above potential drivers dissipate. And, of course, absent more shocks. That does not mean that domestic food prices will fall necessarily, rather the pace of increase is expected to slow. We have already seen signs of inflation cooling with outright price declines in some areas (like international freight costs so far through this year).

### 3. Trade balances

New Zealand's current account deficit has ballooned out to 8.9% of GDP. That's the biggest it has been since the mid-1970s. The big deficit is a symptom of the degree of overheat that has been in the economy over the past year or so. It is consistent with demand outstripping supply and suggests a lift in economic vulnerability.

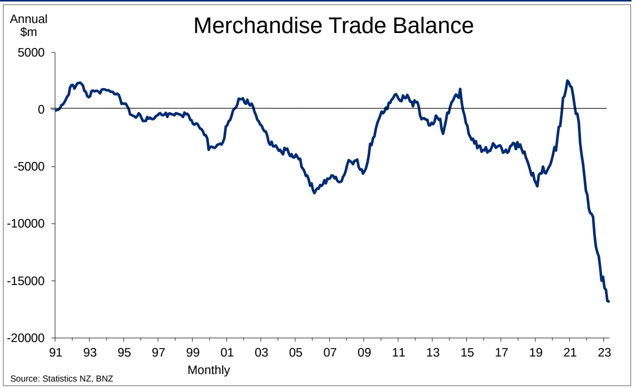
There are many parts to, and influences on, the current account deficit. For a start, there has been huge amounts going on with services trade given the disruption and now advancing recovery in travel flows over recent years as well as the ups and now retreat in international freight costs. At the same time, higher interest rates see the nation's debt servicing costs increasing.

For goods, the annual trade deficit has expanded rapidly to hit a record $16.8b in the year to April 2023. This is not for the lack of exports – which were up 10% on the previous year – but the combination of that with imports growing that much faster, near 19%, over the period. Some of the latter reflects a much bigger petroleum bill. More generally higher import values reflect a period of generally strong domestic demand and higher global inflation.

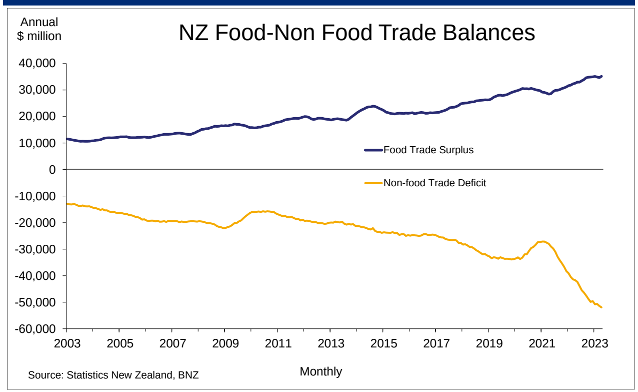
From an agriculture point of view, it is interesting to split the annual goods trade deficit into its food and non-food components. The overall $16.8b annual trade deficit is the result of a $35.1b food trade surplus and a $51.9b non-food trade deficit. This highlights agriculture's contribution to NZ's export receipts over and above the nation's food imports. It also shows the extent of deficit expansion in the non-food category which includes some components of the primary production process itself like fertiliser and tractors along with all other goods whether they be of a capital, intermediate, or consumption nature.

One thing is clear. NZ's trade deficits have got rather large, rather quickly. They have caught the attention of some global rating agencies and perhaps the foreign exchange market too judging by the recent push lower in the NZD.

## Record Trade Deficit




## Trade Balances: Food and Non-Food

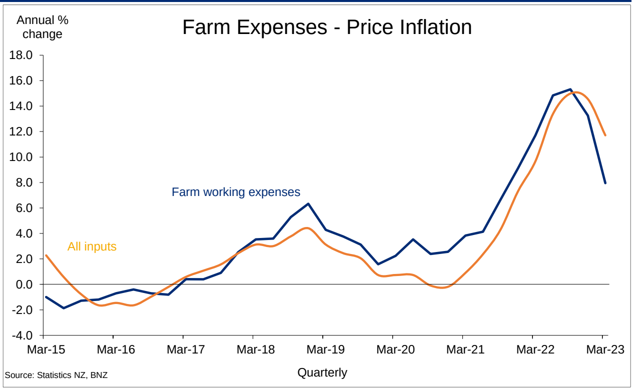



### 4. Costs

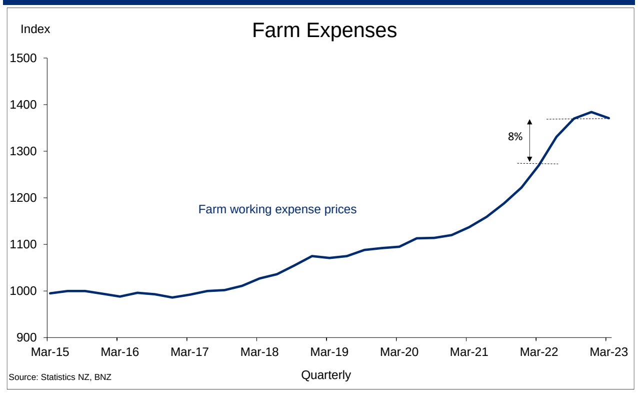
Looking across all farm types for the whole year to March 2023, farm input prices averaged 13.6% higher than they did over the year to March 2022. Chunky increases by any measure. Over this period, there has been strong input price inflation across all major farm types. A recent Beef+LambNZ report noted its sector's on-farm inflation clocked in at 16.3% – its highest rate since 1981. All these input price measures include the influence of significant increases in interest rates.

On a more positive note, farm working expense dynamics appear to be changing. After a very strong ramp up, there are signs that at least the pace of input price increases has slowed materially over recent quarters. Indeed, some input prices for the likes of fuel, fertiliser, and feed have even eased back a bit from their recent highs. These are steps in the right direction. Long may it continue. This will help take some pressure off at the margin. While prices for farm working expenses in the first quarter of 2023 were still up 8% on the same quarter a year earlier, the quarter-to-quarter price progression is showing signs of levelling off. Another quarter or two of that and measures of annual inflation will reduce rapidly, albeit with prices themselves still at an elevated level. Farmers are likely responding to generally elevated costs by reducing input volumes where and when they can.

## Costs Dynamics Are Changing




## Farm Working Expense Price Index Level



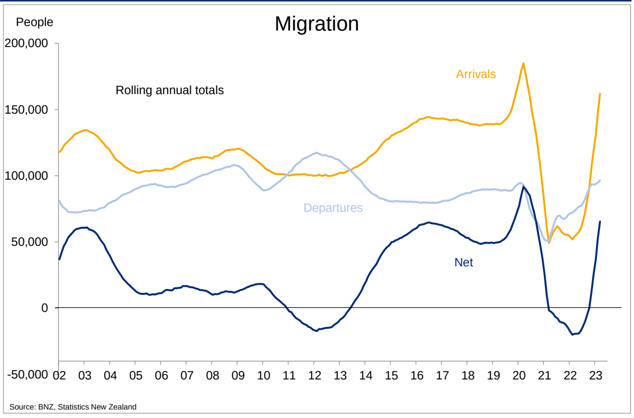

### 5. Net migration

Another hot topic of conversation is net migration into New Zealand. After the re-opening of the borders last year then a loosening of the government's immigration rules, there has been a very large and rapid net inflow of people into New Zealand. That is the balance of significant movement of people – both inwards and outwards.

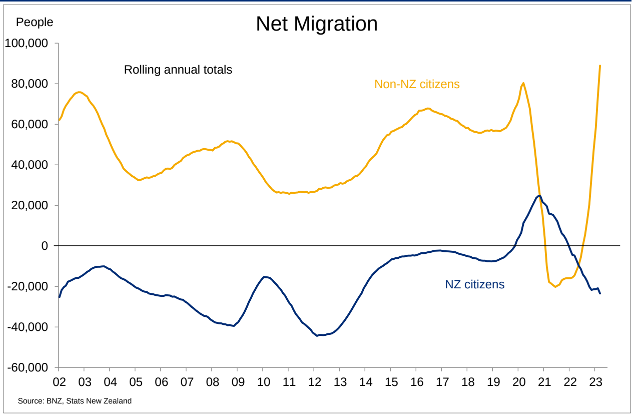
In the year to March 2023, current estimates show nearly 162,000 migrant arrivals into the country (made up of around 133,500 non-NZ citizens and 28,500 NZ citizens). Meanwhile, current estimates show near 96,500 migrant departures over that period (made up of about 44,500 non-NZ citizens and 51,900 NZ citizens).

This gives a net migrant inflow of around 65,400 people over this period (made up of a net loss of about 23,500 NZ-citizens and a net gain of approximately 88,900 non-NZ citizens). The total net inflow compares to a net migrant outflow of nearly 19,500 a year earlier and is already near levels before the pandemic induced spike and collapse. Recent trends suggest the annual net inflows could well exceed 100,000 later this year, which we think it will, before easing back.

## Huge Turnaround In Net Migration




## Distinct Net Flows




By country of citizenship, the five biggest positive influences on net migrant inflows over the year to March 2023 has been India (16,913), Philippines (16,289), China (11,917), South Africa (6,777), and Fiji (4,840).

The return of very strong net migrant inflows has both demand and supply implications for the economy. More people unequivocally underpin more activity (although not necessarily on a per capita basis). In contrast, the influence of net migration on inflation via the balance of supply and demand is not clear overall.

On the demand side, there are already signs of at least stabilisation in the housing market judging by the latest sales and prices figures. And there has been a clear pick up in (new) rent values over recent months in Auckland (which has been a key destination for migrant arrivals in the past).

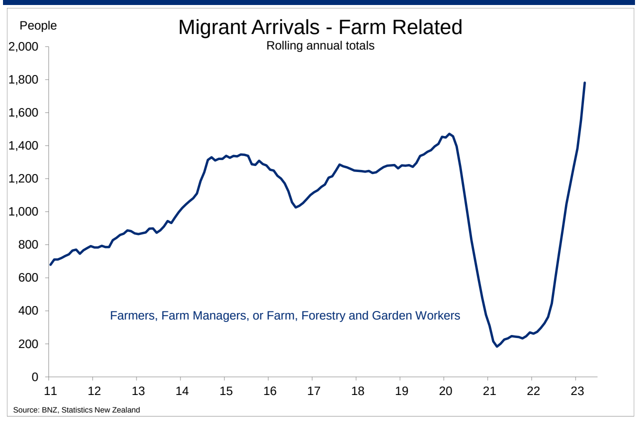
On the supply side, strong net migration inflows are helping satisfy a labour market that has been chronically short of people. The latter is something many in the primary sector will relate to. Economy wide indicators of firms' difficulty in finding labour have eased back from extreme levels. That is not to say it is easy to find staff now, but it is at least a little less difficult than say during last year.

We are hearing plenty of anecdote from people within the agriculture sector that there has been material movement on labour availability via the migration turnaround. That certainly seems to be case judging by a quick glance at migrant arrivals by occupation.

Migrant arrivals over the 12 months to March 2023 with occupations listed as either farmers, farm managers, or farm, forestry and garden workers totalled 1,782. That flow is now more than was occurring pre-pandemic but if the goal is to make up for the substantial shortfall during the pandemic years it will take quite some time at the current rate. Of course, that doesn't stop other migrants (or more locals for that matter) turning their hand to agriculture.

That may well be one topic of conversation among attendees at this year's National Fieldays, scheduled for 14-17 June at Mystery Creek. However, there is plenty of competition for that front of mind space.

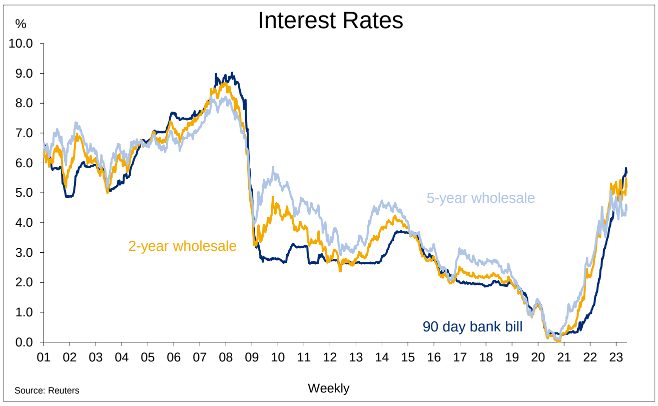
## Farm Help




doug_steel@bnz.co.nz

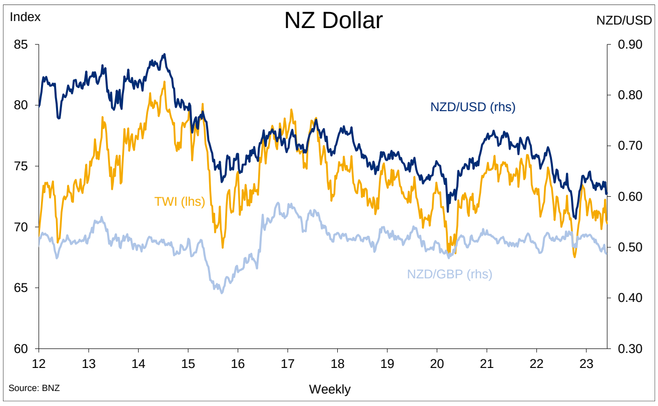
# Key Macro Drivers for Commodity Producers

## Interest Rates



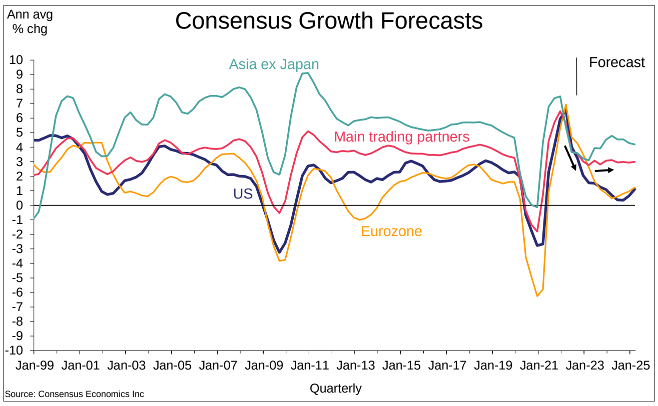

The RBNZ lifted the Official Cash Rate (OCR) by 25 basis points on 24 May to 5.50%. A hike was expected. But the market was surprised by the RBNZ signal that the policy rate has likely peaked for the cycle due to the subdued growth outlook, easing labour market pressures, and moderating inflation. The market currently retains some chance that the OCR may yet need to go higher this year, despite the RBNZ suggesting the hurdle to lift rates again is relatively high. We expect the OCR to now be on hold for some time. We see the RBNZ beginning to reduce the OCR around mid-2024, a bit earlier than RBNZ projections that show the OCR starting to edge down late in 2024. All that is a long time away. Actual outcomes will depend a lot on developments regards inflation and the labour market. Offshore, central banks are nearing the end of their tightening cycles, but some are not yet done.

## Foreign Exchange




The RBNZ signalling it is on hold with its OCR saw the NZD/USD briefly dip below 0.60 before bouncing back. Despite the recent dip we still anticipate some increase ahead. While we see the hurdle for another Fed hike as much lower compared to the RBNZ, our central view remains that both central banks are done hiking rates for the cycle. We don't see NZ-US rate spreads as a key driver of the NZD. Over the medium term we see a generally weaker USD, with the NZD higher as a result. Domestically, the 'twin' fiscal and external deficits are headwinds for the NZD. We see more downward pressure on the NZD against other majors like the AUD, JPY, GBP, and EUR. The RBA is still hiking rates and there are likely more hikes coming in the UK and Europe.

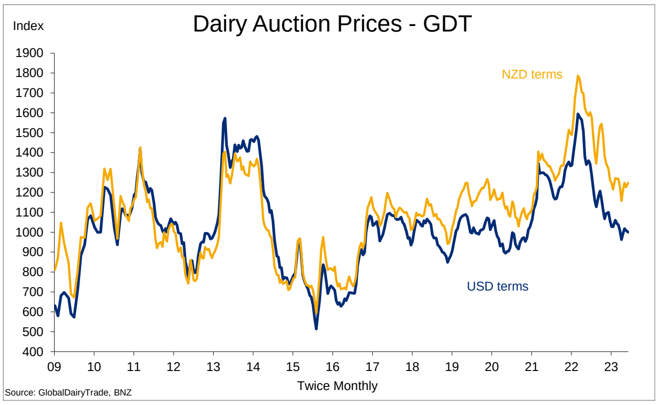
## Global Growth




The global economic growth outlook is subdued. Global manufacturing indicators remain contractionary, while there remain expansionary signals within service industries. It is consistent with a rotation away from spending on goods towards services, post pandemic. But the balance suggests subdued growth overall. The latest OECD economic outlook notes the US, Eurozone, and China will all see the same relative sluggishness in their recoveries. None of that is a helpful backdrop for primary product prices. Neither is a recent run of China growth indicators easing back after a bounce out of zero Covid policy conditions. Meanwhile, global inflation is easing but remains high.

# Key Commodities

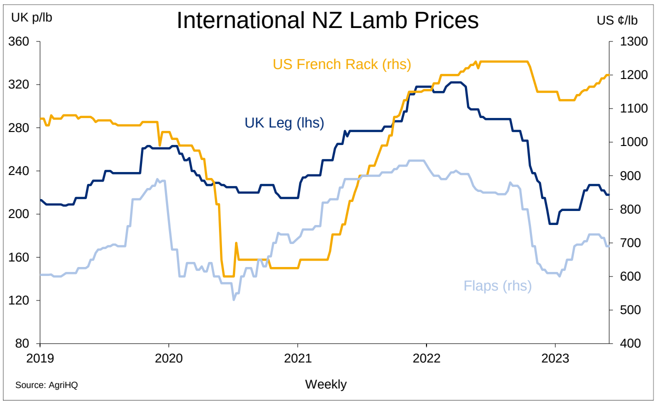
## Dairy




The new dairy season kicks off with prices much lower than a year ago. And while milk prices around the $8 mark might look ok at face value, they don't look so good when cost or inflation adjusted. Fonterra's opening 2023/24 milk price forecast midpoint sits at $8 within a range of $7.25 to $8.75. A wide but realistic range. We'd judge a touch more downside risk to the midpoint than upside risk given current global prices, higher WMP inventories in China and soft growth indicators. Milk production is still increasing in the Northern Hemisphere but is expected to slow. We think global prices need to lift a bit or the NZD ease a bit to achieve $8. El Nino is a risk to NZ production ahead.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Whole milk powder (US $/t) | 3170 | 3250 | 4100 | ↑ |

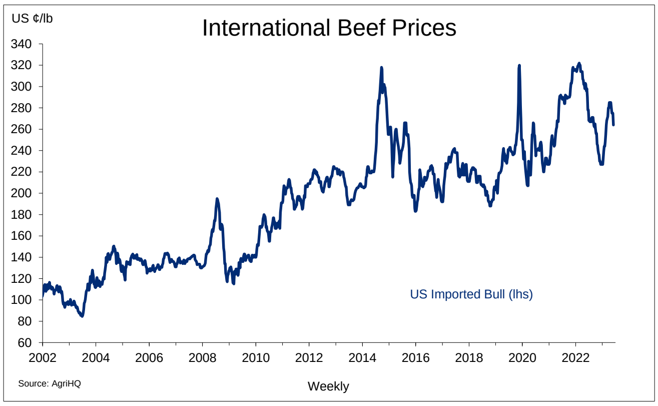
## Lamb




A bounce in international lamb prices earlier in the year has lost steam. Some product prices have fallen over the past month and remain well below year earlier levels. Prior optimism around stronger demand from China has faded, amid wider growth concerns. Meanwhile, more supply from Australia following flock rebuilding is adding to competition. An El Nino weather pattern would lift the risk of even more supply from Australia (and NZ). A softer NZD against the GBP and EUR is a support to domestic pricing. This season's average lamb price is tracking around 11% below a year ago. We see next season's pricing close to this season's.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Lamb leg (UK p/lb) | 218 | 227 | 290 | → |

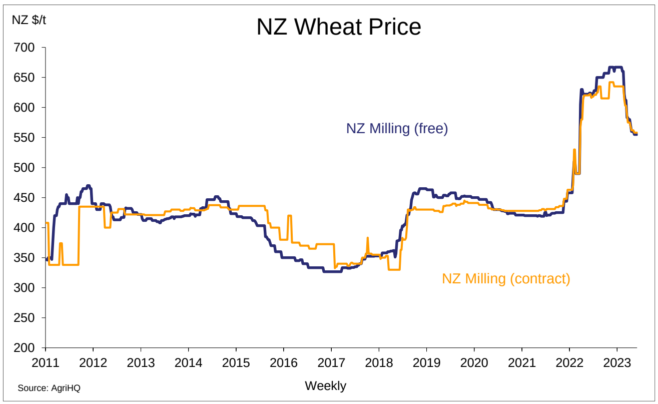
## Beef




Offshore beef markets have lost altitude. US beef prices have about turned after an aggressive lift earlier in the year. Demand from China appears to have softened. Much more Australian product has entered the market following a lengthy period of herd rebuilding. More can be expected with the risk of additional product if an El Nino weather pattern develops and restricts pasture growth. On the positive side, the NZ-UK FTA now in force increases market access and will continue to do so in the years ahead. All up, we see next season's average prices near this season's.

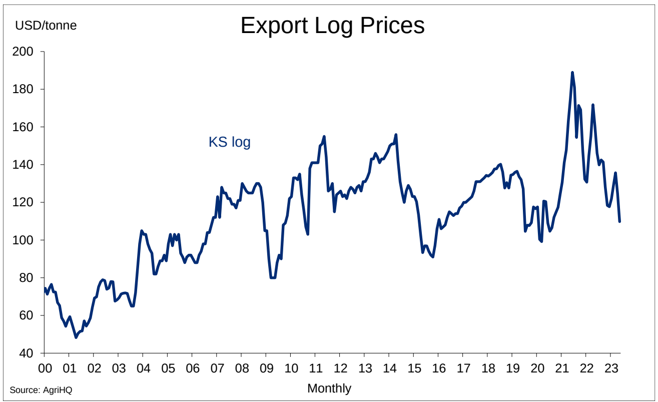
| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Imported bull (US ¢/lb) | 264 | 280 | 298 | → |

## Grains




Domestic milling wheat prices have recently been about the $550/t mark; feed wheat recently around $500/t or a touch under. Demand has been generally slow for most grains given the current cashflow squeeze some farmers are experiencing and good supplies have generated no urgency to buy. Demand from dairy continues to be hindered by lower milk price forecasts. Offshore, Australian wheat prices have seen little change recently, with east coast futures in a high $300s range. Ideal conditions greeted the start of planting, although the long-range outlook is more challenging. ABARE's latest forecast sees Australian 2023/24 wheat production at 26.2mMT, which would be a drop of 34% from last year's record and slightly below the 10-year average.

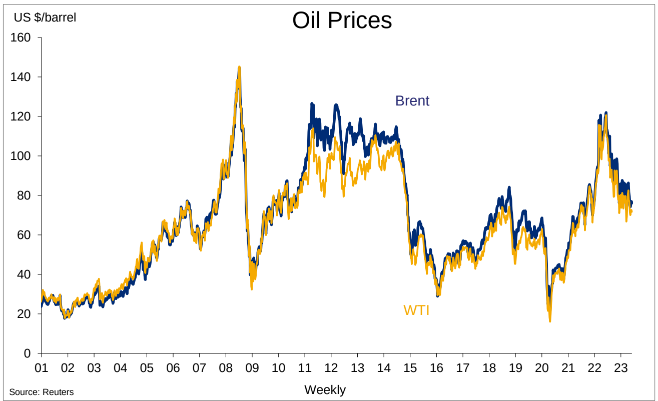
## Forestry




Previous signs of life in export log prices, as China reopened post Covid, have vanished – replaced with hefty falls over recent months as China's recent economic indicators underwhelmed, including in the property market. Export log prices are nearly a third lower than a year ago and outright weak. Lower shipping costs and a dip in the NZD are positives but small relative to market price declines. Export weakness has resulted in reduced NZ harvesting and local mill activity. Domestic demand indicators are generally pointing downward, including a negative trend in building consents. We think it will take time for the likes of what looks like an end to interest rate hikes, some bounce in existing house sales, and a very strong net inflow of migrants to materially turn the demand side around.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| S1/S2 log price (NZ $/t) | 132 | 132 | 135 | ↓ |

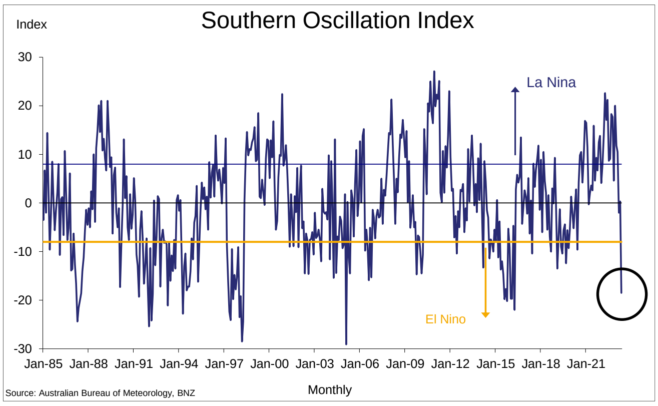
## Oil




Crude oil prices have remained under downward pressure over recent months. Global economic growth concerns have kept demand question marks front of the market's mind, albeit punctuated with some push back from OPEC+ including a recent pledge by Saudi Arabia to cut more production. Brent crude prices are down about 10% over the past two months, down more than a third on a year ago, and back at levels seen pre the conflict in Ukraine. All this has pulled down domestic fuel costs over recent months, although there will be a sizeable step up when the Government stops some transport subsidies at end June.

| | Current | Month ago | Year ago | Next 12 months |
|---|---|---|---|---|
| Brent Crude (US $/b) | 76 | 75 | 120 | → |

## Weather – El Nino Risk Increasing




The rain this year has been well documented, amplified by warm oceans and a third consecutive La Nina. Weather extremes continue. May was NZ's warmest on record. At 13.1 degrees it was 2.0 degrees above the 30-year average to 2020. Looking ahead an El Nino weather pattern is brewing. Indicators suggest a 70% chance of El Nino forming this year which is about three times the normal probability. If an El Nino develops, it will be a distinct change from the previous three seasons. All El Ninos are different, but they typically bring more winds from the west which can generate drier conditions in the East and wetter conditions in the West. El Nino brings a couple of clear downside risks. One is to NZ primary production if grass growth falters. The other is to red meat prices if an El Nino dries out the East Coast of Australia (as it often does) encouraging some unwind of the very strong flock and herd rebuilding that has taken place during the recent series of La Nina events.

# Quarterly Forecasts

**Forecasts as at 8 June 2023**

## Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

| | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (production s.a.)** | 3.5 | -0.5 | 1.6 | 1.7 | -0.6 | -0.2 | 0.3 | -0.2 | -0.3 | 0.1 |
| **Retail trade (real s.a.)** | 8.8 | -1.1 | -2.4 | 0.5 | -1.0 | -1.4 | 0.2 | 0.2 | 0.0 | 0.4 |
| **Current account (ytd, % GDP)** | -6.0 | -6.8 | -8.0 | -8.5 | -8.9 | -9.1 | -9.0 | -9.1 | -8.8 | -8.1 |
| **CPI (q/q)** | 1.4 | 1.8 | 1.7 | 2.2 | 1.4 | 1.2 | 1.0 | 1.9 | 0.3 | 0.4 |
| **Employment** | 0.1 | 0.0 | -0.1 | 1.2 | 0.5 | 0.8 | 0.4 | 0.2 | 0.1 | 0.0 |
| **Unemployment rate %** | 3.2 | 3.2 | 3.3 | 3.3 | 3.4 | 3.4 | 3.5 | 3.7 | 4.2 | 4.6 |
| **Avg hourly earnings (ann %)** | 4.1 | 5.3 | 7.0 | 8.6 | 8.1 | 8.2 | 7.7 | 6.4 | 6.6 | 5.8 |
| **Trading partner GDP (ann %)** | 4.4 | 3.9 | 2.2 | 3.8 | 2.2 | 2.8 | 3.6 | 2.7 | 3.2 | 2.9 |
| **CPI (y/y)** | 5.9 | 6.9 | 7.3 | 7.2 | 7.2 | 6.7 | 5.9 | 5.6 | 4.5 | 3.6 |
| **GDP (production s.a., y/y))** | 3.3 | 0.9 | 0.4 | 6.4 | 2.2 | 2.5 | 1.2 | -0.8 | -0.4 | -0.1 |

## Interest Rates

| Historical data - qtr average<br>Forecast data - end quarter | Cash | Government Stock<br>90 Day Bank Bills | 5 Year | 10 Year | Swaps<br>2 Year | 5 Year | 10 Year | US Rates<br>Libor 3 month | US 10 yr | Spread<br>NZ-US Ten year |
|---|---|---|---|---|---|---|---|---|---|---|
| **2021 Dec** | 0.65 | 0.80 | 2.15 | 2.40 | 2.10 | 2.45 | 2.60 | 0.15 | 1.55 | 0.87 |
| **2022 Mar** | 0.90 | 1.25 | 2.60 | 2.75 | 2.65 | 2.95 | 3.00 | 0.50 | 1.95 | 0.83 |
| **Jun** | 1.83 | 2.24 | 3.55 | 3.68 | 3.83 | 3.92 | 3.95 | 1.50 | 2.90 | 0.76 |
| **Sep** | 2.83 | 3.33 | 3.65 | 3.77 | 4.12 | 3.95 | 3.95 | 3.00 | 3.10 | 0.67 |
| **Dec** | 4.00 | 4.27 | 4.34 | 4.31 | 5.10 | 4.67 | 4.55 | 4.50 | 3.80 | 0.49 |
| **2023 Mar** | 4.58 | 4.99 | 4.27 | 4.26 | 5.11 | 4.51 | 4.40 | 5.05 | 3.65 | 0.68 |
| Forecasts | | | | | | | | | | |
| **Jun** | 5.50 | 5.60 | 4.39 | 4.15 | 5.14 | 4.59 | 4.35 | 5.65 | 3.75 | 0.40 |
| **Sep** | 5.50 | 5.60 | 4.31 | 4.10 | 5.00 | 4.51 | 4.30 | 5.65 | 3.70 | 0.40 |
| **Dec** | 5.50 | 5.50 | 4.09 | 3.90 | 4.73 | 4.29 | 4.10 | 5.15 | 3.50 | 0.40 |
| **2024 Mar** | 5.50 | 5.35 | 4.01 | 3.90 | 4.45 | 4.21 | 4.10 | 4.65 | 3.50 | 0.40 |
| **Jun** | 5.25 | 5.00 | 3.89 | 3.90 | 4.06 | 4.09 | 4.10 | 4.15 | 3.50 | 0.40 |
| **Sep** | 4.75 | 4.50 | 3.62 | 3.65 | 3.76 | 3.82 | 3.85 | 3.65 | 3.25 | 0.40 |
| **Dec** | 4.25 | 4.25 | 3.51 | 3.65 | 3.39 | 3.71 | 3.85 | 3.40 | 3.25 | 0.40 |
| **2025 Mar** | 4.00 | 3.75 | 3.40 | 3.65 | 3.02 | 3.60 | 3.85 | 3.15 | 3.25 | 0.40 |

## Exchange Rates (End Period)

| | USD Forecasts<br>NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY | NZD Forecasts<br>NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current** | 0.61 | 0.66 | 1.07 | 1.24 | 140 | 0.61 | 0.92 | 0.57 | 0.49 | 84.9 | 70.3 |
| **Jun-23** | 0.63 | 0.70 | 1.12 | 1.27 | 127 | 0.63 | 0.90 | 0.56 | 0.50 | 80.0 | 69.9 |
| **Sep-23** | 0.64 | 0.73 | 1.15 | 1.28 | 124 | 0.64 | 0.88 | 0.56 | 0.50 | 79.9 | 70.2 |
| **Dec-23** | 0.66 | 0.74 | 1.17 | 1.31 | 120 | 0.66 | 0.89 | 0.56 | 0.50 | 79.2 | 71.2 |
| **Mar-24** | 0.66 | 0.74 | 1.20 | 1.35 | 118 | 0.66 | 0.89 | 0.55 | 0.49 | 77.9 | 71.0 |
| **Jun-24** | 0.65 | 0.73 | 1.19 | 1.33 | 115 | 0.65 | 0.89 | 0.55 | 0.49 | 74.8 | 70.2 |
| **Sep-24** | 0.63 | 0.71 | 1.17 | 1.32 | 113 | 0.63 | 0.89 | 0.54 | 0.48 | 71.2 | 68.8 |
| **Dec-24** | 0.65 | 0.73 | 1.19 | 1.34 | 111 | 0.65 | 0.89 | 0.55 | 0.49 | 72.2 | 70.2 |
| **Mar-25** | 0.67 | 0.75 | 1.21 | 1.36 | 108 | 0.67 | 0.89 | 0.55 | 0.49 | 72.4 | 71.5 |
| **Jun-25** | 0.69 | 0.77 | 1.22 | 1.38 | 106 | 0.69 | 0.90 | 0.57 | 0.50 | 73.1 | 72.8 |
| **Sep-25** | 0.71 | 0.78 | 1.23 | 1.39 | 105 | 0.71 | 0.91 | 0.58 | 0.51 | 74.6 | 74.5 |
| **TWI Weights** | | | | | | 13.8% | 16.5% | 9.8% | 3.1% | 6.1% | |

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

# Annual Forecasts

| **Forecasts** as at 8 June 2023 | March Years | | | | | December Years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | | Forecasts | | | Actuals | | Forecasts | | |
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2021 | 2022 | 2023 | 2024 | 2025 |
| ***GDP -*** annual average % change | | | | | | | | | | |
| Private Consumption | -0.4 | 6.0 | 1.7 | -0.1 | 1.2 | 7.5 | 2.9 | -0.7 | 0.8 | 2.0 |
| Government Consumption | 7.6 | 8.0 | 2.3 | -0.5 | -3.3 | 8.2 | 4.5 | -0.1 | -4.1 | 1.4 |
| Total Investment | -1.7 | 10.6 | 2.5 | -0.3 | 0.1 | 12.4 | 3.6 | 0.0 | -0.7 | 3.4 |
| Stocks - ppts cont'n to growth | -0.2 | 0.6 | 0.3 | -0.4 | 0.0 | 1.3 | -0.1 | -0.1 | -0.1 | 0.0 |
| GNE | 0.6 | 8.1 | 2.7 | -0.2 | 0.1 | 10.1 | 3.4 | 0.1 | -0.6 | 2.2 |
| Exports | -18.0 | 2.4 | 5.9 | 7.5 | 5.4 | -2.6 | -1.0 | 10.8 | 6.2 | 4.8 |
| Imports | -16.0 | 17.6 | 5.0 | 5.0 | 0.8 | 15.1 | 4.4 | 6.5 | 1.0 | 2.4 |
| Real Expenditure GDP | 0.0 | 4.8 | 2.7 | -0.1 | 1.2 | 6.0 | 2.2 | 0.5 | 0.5 | 2.8 |
| **GDP (production)** | **-0.7** | **5.2** | **2.8** | **0.0** | **1.3** | **6.0** | **2.4** | **0.6** | **0.6** | **2.6** |
| *GDP - annual % change (q/q)* | *4.2* | *0.9* | *2.5* | *-0.1* | *2.5* | *3.3* | *2.2* | *-0.4* | *1.8* | *2.4* |
| | | | | | | | | | | |
| Output Gap (ann avg, % dev) | -1.3 | 1.5 | 2.0 | 0.3 | -0.4 | 1.6 | 2.0 | 0.9 | -0.5 | 0.2 |
| Nominal Expenditure GDP - $bn | 328 | 358 | 386 | 393 | 406 | 352 | 380 | 392 | 401 | 421 |
| | | | | | | | | | | |
| ***Prices and Employment -*** annual % change | | | | | | | | | | |
| CPI | 1.5 | 6.9 | 6.7 | 3.6 | 2.4 | 5.9 | 7.2 | 4.5 | 2.3 | 2.3 |
| Employment | 0.1 | 2.5 | 2.4 | 0.7 | 1.1 | 3.3 | 1.6 | 1.5 | 0.6 | 2.0 |
| Unemployment Rate % | 4.6 | 3.2 | 3.4 | 4.6 | 5.4 | 3.2 | 3.4 | 4.2 | 5.3 | 5.4 |
| Wages - ahote (private sector) | 4.1 | 5.3 | 8.2 | 5.8 | 3.6 | 4.1 | 8.1 | 6.6 | 4.0 | 2.8 |
| Productivity (ann av %) | -1.2 | 2.3 | 0.9 | -1.5 | 0.7 | 4.0 | 0.3 | -1.3 | 0.2 | 0.9 |
| Unit Labour Costs (ann av %) | 3.8 | 4.0 | 6.1 | 7.3 | 3.6 | 1.9 | 6.3 | 7.5 | 4.7 | 2.1 |
| House Prices | 24.1 | 13.8 | -12.8 | 3.5 | 9.6 | 27.2 | -10.9 | -1.8 | 7.2 | 14.8 |
| | | | | | | | | | | |
| ***External Balance*** | | | | | | | | | | |
| Current Account - $bn | -8.9 | -24.2 | -35.1 | -31.7 | -23.6 | -21.1 | -33.8 | -34.4 | -26.4 | -17.9 |
| Current Account - % of GDP | -2.7 | -6.8 | -9.1 | -8.1 | -5.8 | -6.0 | -8.9 | -8.8 | -6.6 | -4.3 |
| | | | | | | | | | | |
| ***Government Accounts*** - June Yr, % of GDP | | | | | | | | | | |
| OBEGAL (core operating balance) | -1.3 | -2.7 | -1.8 | -1.8 | -0.8 | | | | | |
| Net Core Crown Debt (excl NZS Fund Assets) | 10.5 | 17.0 | 18.0 | 22.0 | 21.7 | | | | | |
| Bond Programme - $bn (Treasury forecasts) | 45.0 | 20.0 | 28.0 | 34.0 | 32.0 | | | | | |
| Bond Programme - % of GDP | 13.7 | 5.6 | 7.3 | 8.7 | 7.9 | | | | | |
| | | | | | | | | | | |
| ***Financial Variables*** (1) | | | | | | | | | | |
| NZD/USD | 0.71 | 0.69 | 0.62 | 0.66 | 0.67 | 0.68 | 0.63 | 0.66 | 0.65 | 0.71 |
| USD/JPY | 109 | 119 | 134 | 118 | 108 | 114 | 135 | 120 | 111 | 105 |
| EUR/USD | 1.19 | 1.10 | 1.07 | 1.20 | 1.21 | 1.13 | 1.06 | 1.17 | 1.19 | 1.23 |
| NZD/AUD | 0.93 | 0.93 | 0.93 | 0.89 | 0.89 | 0.95 | 0.94 | 0.89 | 0.89 | 0.91 |
| NZD/GBP | 0.51 | 0.52 | 0.51 | 0.49 | 0.49 | 0.51 | 0.52 | 0.50 | 0.49 | 0.51 |
| NZD/EUR | 0.60 | 0.62 | 0.58 | 0.55 | 0.55 | 0.60 | 0.60 | 0.56 | 0.55 | 0.58 |
| NZD/YEN | 77.5 | 81.5 | 83.0 | 77.9 | 72.4 | 77.4 | 85.6 | 79.2 | 72.2 | 74.6 |
| TWI | 74.8 | 73.9 | 71.0 | 71.0 | 71.5 | 73.0 | 72.9 | 71.2 | 70.2 | 74.5 |
| Overnight Cash Rate (end qtr) | 0.25 | 1.00 | 4.75 | 5.50 | 4.00 | 0.75 | 4.25 | 5.50 | 4.25 | 2.50 |
| 90-day Bank Bill Rate | 0.33 | 1.45 | 5.16 | 5.35 | 3.75 | 0.92 | 4.55 | 5.50 | 4.25 | 2.65 |
| 5-year Govt Bond | 1.00 | 2.90 | 4.40 | 4.00 | 3.40 | 2.20 | 4.30 | 4.10 | 3.50 | 3.30 |
| 10-year Govt Bond | 1.75 | 3.20 | 4.35 | 3.90 | 3.65 | 2.35 | 4.25 | 3.90 | 3.65 | 3.65 |
| 2-year Swap | 0.50 | 3.00 | 5.15 | 4.45 | 3.02 | 2.22 | 5.21 | 4.73 | 3.39 | 2.65 |
| 5-year Swap | 1.15 | 3.20 | 4.50 | 4.21 | 3.60 | 2.56 | 4.62 | 4.29 | 3.71 | 3.49 |
| US 10-year Bonds | 1.60 | 2.10 | 3.65 | 3.50 | 3.25 | 1.45 | 3.60 | 3.50 | 3.25 | 3.25 |
| NZ-US 10-year Spread | 0.15 | 1.10 | 0.70 | 0.40 | 0.40 | 0.90 | 0.65 | 0.40 | 0.40 | 0.40 |

(1) *Average for the last month in the quarter*

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, NZ Treasury, BNZ

# Contact Details

## BNZ Research

**Stephen Toplis**
Head of Research
+64 4 474 6905

**Craig Ebert**
Senior Economist
+64 4 474 6799

**Doug Steel**
Senior Economist
+64 4 474 6923

**Jason Wong**
Senior Markets Strategist
+64 4 924 7652

**Stuart Ritson**
Senior Interest Rate Strategist
+64 9 9248601

**Mike Jones**
BNZ Chief Economist
+64 9-956 0795

## BNZ Markets

**Blair Willson**
Interest Rate Solutions
+64 6 350 1670

**Phil Townsend**
Interest Rate Solutions
+64 3 353 2219

**Wayne Brill**
Interest Rate Solutions
+64 7 928 0871

**Jeff Yeakley**
Interest Rate Solutions
+64 3 938 5995

## BNZ Partners

**David Handley**
Head of Agribusiness
+64 9 976 5009

## Main Offices

**Wellington**
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

**Auckland**
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

**Christchurch**
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854