15 November 2021

November MPS preview

- **Rates headed higher**
- **Targeting neutral (2.0%) or above**
- **How fast, and where\when does it all end are the big questions**
- **However, markets will focus on 50 or 25 on the day?**
- **This week's data to confirm strong inflationary pulse**

When the Reserve Bank Monetary Policy Committee meets ahead of its Monetary Policy Statement on November 24 there will be almost no discussion about whether the cash rate should be lifted. Instead the debate will be over how much and how fast?

The current, and prospective, economic picture is so far away from one characterizing price stability, and/or maximum sustainable unemployment that, in normal times, rates would be being hiked in at least 50 basis point licks in a bid to get settings to significantly tighter than neutral as fast as possible.

On the inflation front:

- Headline inflation is at 4.9%
- It will soon push through 5.0% or even 6.0%
- All measures of core inflation are headed outside the RBNZ's target range
- With capacity constraints abounding, global inflationary pressures rising, the labour market exceptionally tight and interest rate settings ultra-stimulatory, above target inflation is here to stay without a central bank response.

As for maximum sustainable employment:

- The sustainable bit is now ancient history
- The unemployment rate is 3.4% when the NAIRU is probably north of 4.5%
- Businesses are reporting record high levels of difficulty in finding labour
- The participation rate is at a record high and could be dented if COVID fears keep folk at home
- Hiring intentions remain lofty
- Reported labour turnover is at a record high
- It is unlikely net migration will solve labour supply issues any time soon
- Wages are accelerating.

Any macro-economic model that one might run will just say: PANIC!

But much of the last decade or two has not been a great time for macro models. They have been sideswiped by a plethora of factors that they don't really cope with very well. Amongst other things there has been: the attack on the World Trade Centre; the Global Financial Crisis; in New Zealand's case a series of earthquakes; and now the COVID pandemic. What models struggle to cope with most is how people react to the unknown. This remains the RBNZ's biggest problem as it now casts its eye to the future.

We've said it before, and we will say it again and again: the single biggest unknown facing the New Zealand economy is how folk will respond to operating in a COVID-endemic environment. Our concern is that fear will ensure demand does not bounce back in the way many expect, resulting in the failure of a significant number of small businesses especially in retail and hospitality where labour force flexibility and digital capability is weakest.

Additionally, it has been a very long time since New Zealanders have had to grapple with rising inflation, and rising interest rates, accompanied by falling asset prices.

With this as a backdrop the RBNZ may feel it has to adopt a tactical approach to rate movements as an overlay to what the economic models are telling it.

If we were in charge of the reins we would want to raise the cash rate, send a clear message that there would be a series of future rate increases, and indicate the need to get monetary settings to above neutral with relative haste. At the same time, we would not want to appear oblivious to the economic pain that was being felt by many and would like to keep open the option to change course if the economic reaction function demanded it.

Accordingly, we think the best course of action would be:

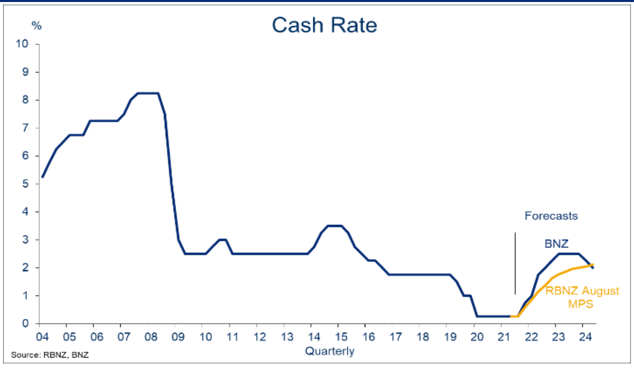
- To hike the cash rate 0.25%, taking it to 0.75%, on November 24 and
- Publish a rate track which sees the cash rate move to a smidgen above neutral (2.0%) by mid to late next year.

With this in mind, we have added a further 25 basis point hike, at next July's meeting, into our rate track to complement all the other rate hikes that are already there.

One could not be heavily critical of the RBNZ if it felt the need to adopt the nuclear option and raise rates 50 basis points but we think this option is unnecessary given that a published aggressive rate track would continue to put solid upward pressure on the current mortgage rate curve anyway.

Many point to the Reserve Bank's speech "A least regrets approach to uncertainty" as the reason why the RBNZ can only raise rates by 25 basis points. We'd like to do so as well, as it would fit with our views on the appropriate response but, alas, there are multiple ways of interpreting this speech, which ultimately leaves us with more questions than answers about how the Bank might respond.

Up, up and away



The problem with the least regrets approach, as portrayed, is that certainty, or the lack thereof, will determine the Bank's actions. We would argue that general uncertainty is climbing to unprecedented levels as we consider the COVID-sentiment-driven-possibilities; the chance of a major correction in house prices, as a heavily indebted household sector faces into rising mortgage rates; and, more generally, the possibility of a correction in global asset prices as central banks elsewhere tighten policy. If that's not enough throw in the possibility that the Chinese economy may grow more slowly than expected and the risk that geopolitical tensions could mount.

The RBNZ also makes a big deal of certainty around the starting point but where exactly does the starting point start. If we are talking the September and December quarters for economic activity there is massive uncertainty as to how deep and long lasting the COVID-lockdown-induced slump in activity is.

But on the flip side, the latest published starting point data (much higher CPI inflation than expected, much lower unemployment than expected and higher house prices than desired) provides much greater certainty that the economy is breaching its speed limit. And there must surely be far greater certainty that the Reserve Bank will not achieve its mandated targets, without much tighter settings, than there was at the time of the last RBNZ meeting.

In short then, the least regrets approach leaves us with substantially heightened uncertainty about the uncertainties that the RBNZ might be uncertain about.

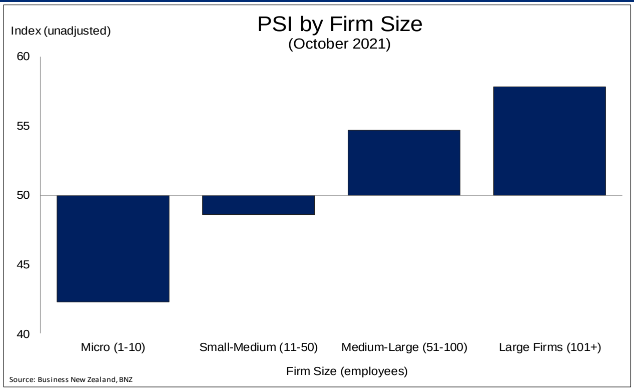
For the average householder, and business-person, what exactly happens on November 24 doesn't really matter. The message will be rates have gone up, get used to more of the same. It will only be those in financial market land, who will be going round and round in ever-decreasing circles trying to work out where they should be placing their bets, for whom the outcome really matters.

If we have to get off the fence, we'll go with a 25 point hike. In reality, we see the odds of 25 or 50 being around 40:60 which is about the same as the 10 basis points currently priced in by the market.

It won't be deal breaking, but we are sure the RBNZ will have been interested by this morning's PSI release.

Not surprisingly, the service sector is faring much worse than manufacturing with the country's Northern regions and Otago/Southland (read Queenstown) being afflicted most by current COVID restrictions.

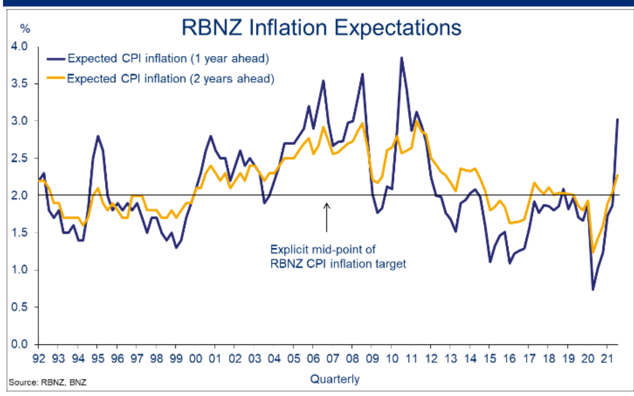
Bigger the better



The data provide further support to our view that the bounce back in GDP through Q4 will be limited. The data also confirm our fears that it is small businesses who are struggling to cope most in the current environment. Not only are they suffering from the broader economic downturn but they are also least able to cope with rampant rising cost pressures and have less flexibility to deal with COVID than their bigger counterparts. It is almost certain in this environment that larger businesses are capturing market share and this theme is likely to be sustained for a while.

While the PSI confirms the weakness in the economy, Thursday's RBNZ Survey of Expectations should confirm the inflationary pulse. Last quarter the two-year expectation climbed to 2.27%, its highest reading since June 2014. It should go even higher in light of the recent CPI inflation print. The RBNZ won't be overly concerned by this but would be aggravated in the unlikely event longer term inflation expectations were to move significantly above 2.0%.

Inflation expectations rising



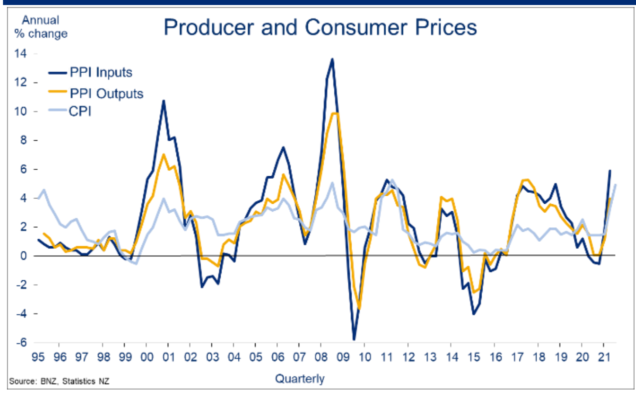
Wednesday's dairy auction will be worth keeping an eye on. All the signs are that we will get another solid price increase which will put further upward pressure on already buoyant expectations for Fonterra's 2021/22 milk price payout.

The remaining data for the week will largely pass by unnoticed.

Monday sees the release of international travel and migration data for September. It will simply reveal that there wasn't much of either.

On Wednesday we see the September quarter Business Price Indices. As these data come out after the CPI, and they tend to be coincident indicators of it, they don't get a great deal of following. Nonetheless, they should further emphasise the degree of inflationary pressure in the economy with business output prices likely to be inflating at over 5.0% for the year while input price inflation exceeds 6.0%.

Inflation everywhere



On Friday we get National Accounts data for the year ended March 2021. This will provide more detailed information about our economic past but won't set the world on fire. Also, on Friday, are credit card billings for October, which should bounce strongly if the 9.5% recovery in electronic card transactions for the month is any guide.

And lest we forget, there will be (at least) two updates this week on the Government's plans for moving the country towards the new traffic light system. This afternoon's post cabinet announcement (around 4.00pm) should see a slight easing in the restrictions imposed on those living in the Waikato. Information on booster shots will also be made available.

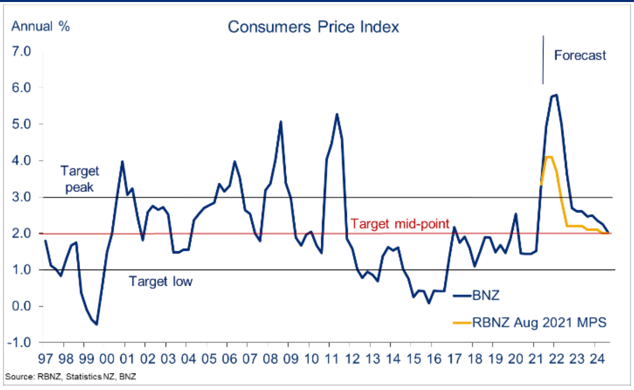
Wednesday afternoon the Government is expected to announce when it will open the Auckland border to allow vaccinated Aucklanders to move freely around the country. There may also be further details on the progress being made towards adopting the traffic light system. The final decision on this will not be made until November 29. Prime Minister Ardern has said November 29 will "not be Freedom day for Auckland" so one can only assume the Government is intending buying itself another week or so to get vaccination rates up further.

Ardern has also intimated she would be keen to see the whole country adopt the new system at the same time. In effect this will be the last rights for New Zealand's COVID elimination plan and will fire the starting gun for the nationwide spread of COVID-19, taking New Zealand and New Zealanders into territory never before experienced.

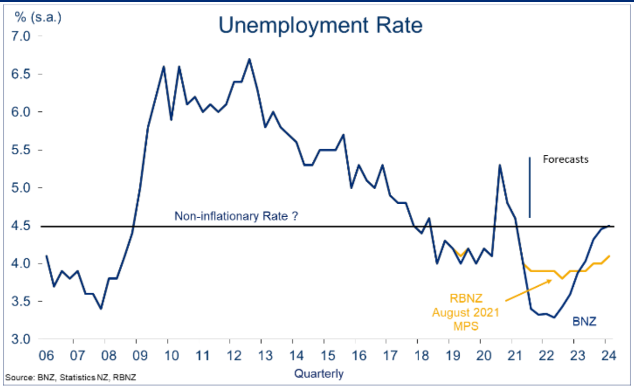
See charts next page.

Tighter Policy Demanded

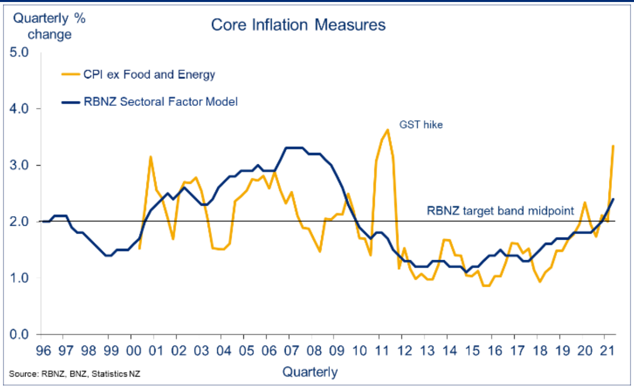
Inflation soars



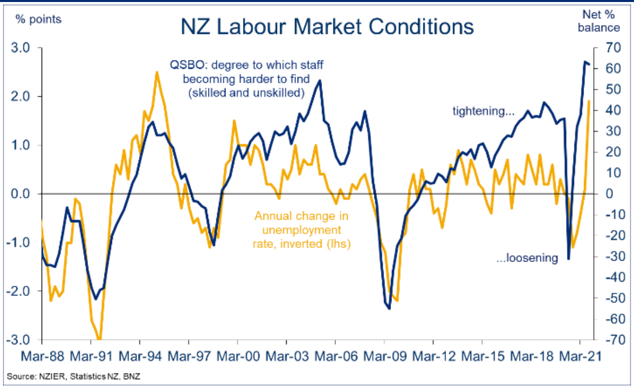
Unemployment plummets



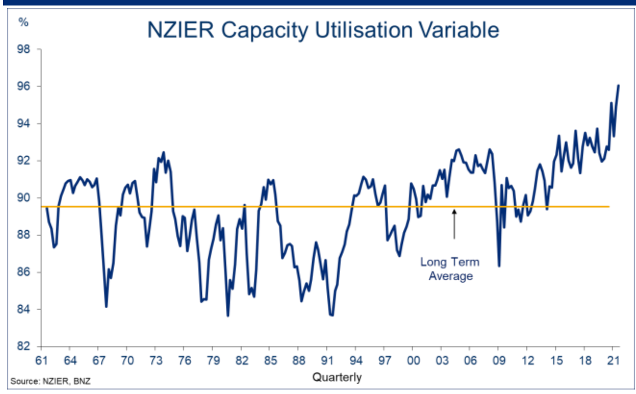
Rotten to the core



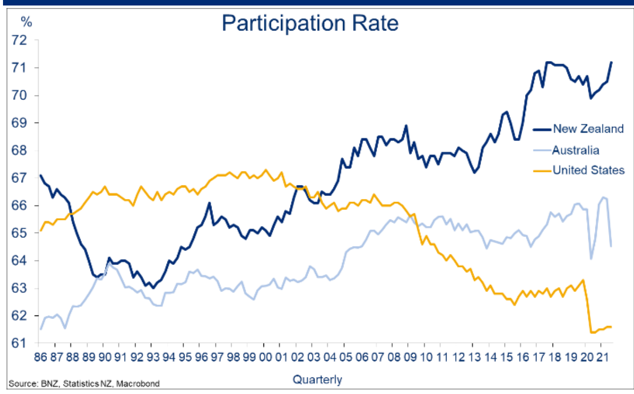
Labour impossible to find



Capacity utilisation at record high



Nothing left to draw on



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Global Watch

- **China activity growth stabilising in October?**
- **Many Fed speakers due, but not Powell**
- **US retail sales seen firm in October**
- **UK employment and inflation data due**
- **AU wages seen higher in Q3**

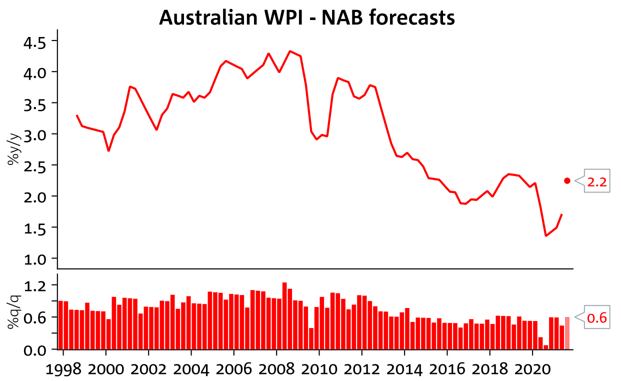
Australia

The RBA Minutes on Tuesday are unlikely to be market moving given Lowe's remarks and Q&A after the meeting last Tuesday and the RBA SoMP on Friday. Also on Tuesday is Governor Lowe's remarks at an Australian Business Economists Webinar. The Governor is speaking on *Recent Trends in Inflation,* with characterisation of the near-term risks and how the RBA might respond key to watch. Assistant Governor (Economic) Ellis is speaking on Thursday. RBA's Ellis and Jones are also before the House Standing Committee on Tax and Revenue today.

The much-anticipated wages data for Q3 is on Wednesday. NAB expects to see a pick-up in wages growth with 0.6% q/q, lifting the y/y rate to 2.2%. That's supported by a normalisation in quarterly public sector wages growth, which had been weighed by freezes and deferrals over FY21, and a pick-up in private sector growth alongside the tightening in labour market conditions.

The RBA has been clear that it wants to see materially higher wages growth to ensure inflation remains sustainably at target. Unsurprisingly, that has markets laser focused on the Q3 wages print for signs of faster wage rises. Anecdotes of strong wage pressures in certain pockets are loud, but are yet to appear in the data.

WPI expected to rise in Q3

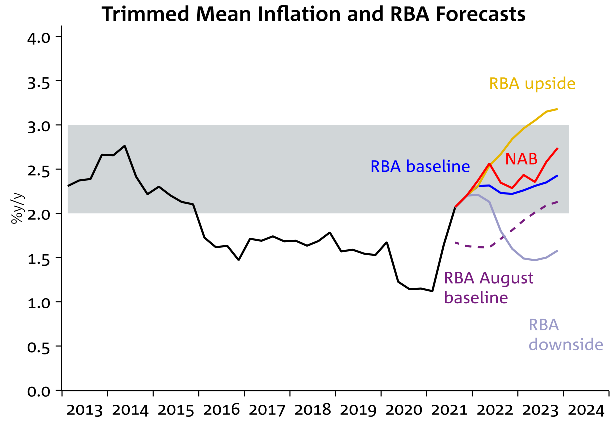


Source: National Australia Bank, ABS

There are risks that private sector wages growth rises faster, with widespread anecdotes of wage increases. A large share of wage increases ordinarily occurs in the September quarter, meaning that for many employees the Q3 data will reflect the first wage review after the initial pandemic-affected Q3 2020 wage outcomes. Catch up payments from overdone constraint last year are a risk, though the RBA indicated their liaison program suggests most firms are reverting to pre-pandemic norms with few instances of catch up growth.

Likely to weigh on wages growth in Q3 are the wages determination for the 20% or so of employees covered by award (minimum) wage rates, and the increase in the super guarantee. Award wages will increase 2.5% in FY2022. That ordinarily takes effect on July 1. As was the case last year, for some pandemic-affected industries including retail, hospitality and tourism, that increase has been delayed into Q4. The superannuation guarantee rose from 9.5% to 10% on July 1. Some employees may have had this increase in non-wage remuneration offset against base wages, while others may have had increases in base wages adjusted down to compensate.

Inflation track revised higher



Source: National Australia Bank, ABS, RBA

China

October readings for activity are the key data of note, after several headwinds hit Q3. Market expectations are generally for further loss of growth momentum. Industrial Production is seen at 3.0% y/y from 3.1% and Retail Sales at 3.7%y/y from 4.4%. Virus developments are also a key focus given China's ongoing zero-COVID strategy.

US

Retail Sales on Tuesday is likely the most market-sensitive data event for markets with expectations of a 1.3% m/m gain. Industrial Production is also on Tuesday, with a bounce expected. There are two more regional manufacturing readings (Philly Fed and NY Empire) through the week. It's a big week for Fed speak with 13 events scheduled, though notably absent from the roster is Powell and Brainard. Sometime between now and Thanksgiving we should learn whether Chair Powell is re-appointed as Fed Chair or whether Brainard is set to get the nod. Finally, the earnings season also continues with reports from Wal Mart and Home Depot on Tuesday watched for inflation anecdotes.

UK

Wednesday brings the October CPI with annual inflation seen rising to 3.9% from 3.1%. Ahead of that on Tuesday average earnings for September and the jobless rate (last 4.5%) will be closely monitored. BoE dove Haskell speaks on Monday, with chief economist Huw Pill speaking on Friday. The government could announce a triggering of Article 16 of the N. Ireland protocol any day before the end of November.

Eurozone

Not a major week for market-moving Eurozone reports. Attention instead will be on various ECB speakers, who are likely to remain on message. Knot and Holzmann offering a more open-ended outlook on inflation risks, Lagarde and Lane continuing to talk down any tilt back to assuming the ECB will hike next year.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ rates were higher again last week, taking their cues from the US bond market. NZ rates across the curve remain within touching distance of their recently set multi-year highs, with the market continuing to price a significant risk of a 50bps OCR rate hike later this month.

The main event last week was a much stronger-than-expected US CPI release, with headline inflation hitting 6.2% and core inflation (ex food and energy) 4.6%, both their highest levels since the early 1990s. Inflation pressures are becoming broader based and less obviously concentrated in 'transitory' factors related to supply chain disruptions and the reopening of the economy. Alternative core inflation measures tell a similar story of increasing inflation momentum which seriously call into question the Fed's 'transitory' inflation narrative on which its dovish monetary policy stance rests.

Fed rate hike expectations reset following the CPI release, with the market bringing forward the expected timing of the first hike to July next year and a cumulative 150bps now priced in by the end of 2023. The market is starting to contemplate the risk that the Fed could more quickly taper its QE bond purchases, which would open the door to rate hikes earlier than July. Our view is still that long-end rates have further room to move higher as offshore central banks move closer to raising interest rates.

Curve flattening remains a theme across all markets, with investors bringing forward the expected timing of rate hikes and, in the case of New Zealand, increasing the amount of tightening expected over the next few years. The US 5-year rate hit its highest level since early 2020 on Friday, at 1.26%, while the 10-year rate remains well within its trading range over the past nine months, at around 1.56%. In New Zealand, the 2-year swap rate was 9bps higher last week, to 2.31%, while the 10-year rate was 5bps higher, to 2.72%.

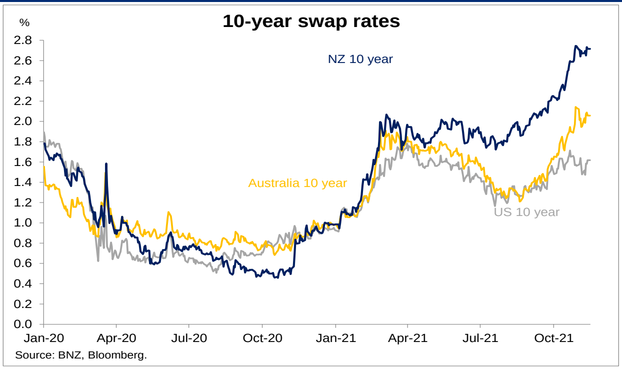
Following the change in our OCR forecast track we have revised our wholesale interest rate forecasts. Our new forecasts have wholesale rates across the curve peaking slightly higher than before but, in the case of the 2-year swap rate, still below what is priced in by the market. The market prices the 2-year swap rate to be above 3% in a year's time.

That said, we don't expect any significant correction in NZ short-end rates until the RBNZ November MPS is out of the way and there is greater clarity around the RBNZ's policy intentions. The market is torn between a 25bps OCR hike and a 50bps move and we agree the latter is a significant risk, albeit not our central case. Assuming the RBNZ does hike by 25bps in November, it might remove some of the risk premia that has built up at the short end of the NZ curve. A 50bps hike would see a big flattening of the curve, with the market likely to view such a move as increasing the chances of a recession and eventually a reversal of rate hikes. The market already prices 30bps of rate cuts between 2- and 5-years' time.

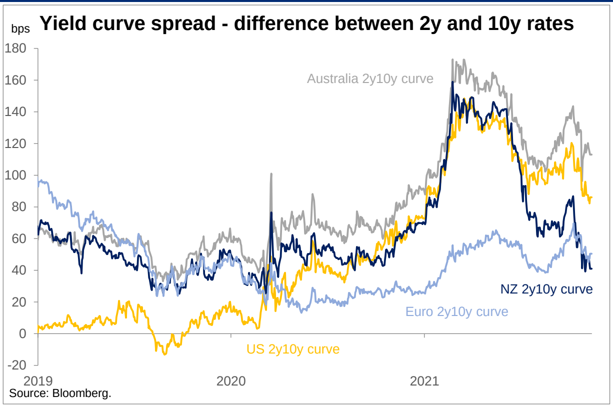
With the market on edge over the risk of a 50bps OCR hike at the MPS, the main local event this week is the RBNZ's inflation expectations survey. In Australia the Q3 wage price index has the potential to be market moving, given the emphasis the RBA has placed on wage growth, while Governor Lowe speaks on the inflation outlook. In the US, the focus will be on Fed speak to gauge the reaction to last week's CPI surprise. Biden is also expected to announce his choice for Fed chair this week or next.

Finally, in an exciting development for NZ's capital markets, the government announced that it plans to issue an inaugural sovereign 'green' bond late next year. The proceeds from green bond issuance are dedicated to specific environmental or climate initiatives, in NZ's case funding the transition to a low carbon economy. NZ will join the growing list of sovereigns which have gone down this avenue, including the UK, Germany, and France. International experience has been that sovereigns have often been able to issue green bonds at lower interest rates than conventional bonds, given the fast growing pools of money managed by sustainable funds and those that explicitly incorporate ESG (environmental, social and sustainability) factors into their investment decisions. The UK has issued its first two green bonds over the past few months, with the so-called 'greenium' at new issue estimated at around 2-3bps.

US 10-year rate still rangebound, for now



Yield curves flattening as markets bring forward rate hikes



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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The USD showed broad strength last week after another monster CPI print that sent US rates and the USD higher. NZD/USD fell 1% to 0.7040 and briefly went sub-0.70. NZD crosses were flat to modestly lower.

Inflation remains a key focus for the market. The US CPI surprised to the upside again, as it has for five of the past six months, with the annual increase surging to 6.2%. Core measures were much stronger as well, with most at their highest rates for thirty years. Fed policy assumes that elevated inflation is "transitory" but this is looking more mistaken by the day and the market built in an earlier and more aggressive tightening of US monetary policy into the rates curve. The curve shows higher rates from about July next year and more than two hikes priced by the end of 2022, still a fairly slow and modest beginning to the tightening cycle considering the inflationary pulse.

The inflation data and rates response triggered a re-rating of the USD, seeing the BBDXY and DXY dollar indices break up to fresh highs for the year. Recall that in early October we downgraded our outlook for the NZD, noting "headwinds galore", one of which was the reasonable risk of US inflation proving less transitory than the Fed expects, leading to a bringing forward of rate hikes next year. That risk is playing out and the next FOMC update on 16 December is shaping up to be a key event.

In that meeting the Fed will provide an update of its forecasts for the economy, including inflation and the dotplot of FOMC members' rate projections. The new median is now almost certain to show at least one hike for 2022, possibly two. The November FOMC update allowed for a review of the timeline for tapering its QE programme, and a faster taper through early next year could see market expectations for short term rates increase further, adding to USD strength.

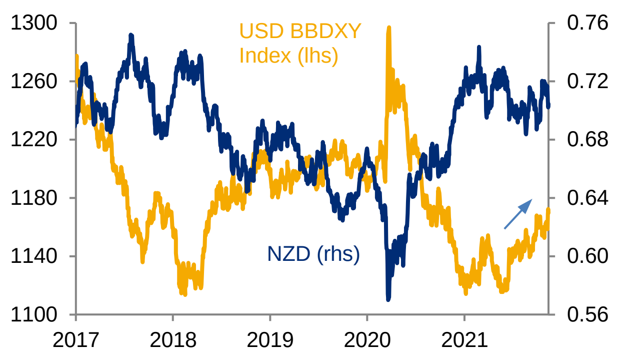
Another headwind for the NZD we have previously noted included the outlook for China's economy under its property crackdown and zero-COVID19 strategy. Last week there were various media reports that Chinese regulators might look to ease some rules to let struggling property developers sell off assets to new buyers without affecting their own debt ratios, amongst other policies designed to reduce the contagion risk of collapsing developers.

At face value, this is a risk-positive (and therefore NZD-positive) move, but only at the margin. More importantly, China's near-term growth outlook remains fairly grim in our view and an ongoing headwind for NZD performance over coming months. China monthly economic data due this afternoon are expected to show further weakness in growth momentum.

Last week we reiterated our cautious outlook for the NZD, with another potential test of levels just below 0.70 before the end of 2021. As it happened, the 0.70 level broke within the week and we maintain a cautious stance. In our early October revision, recall that we downgraded our year-end target to 0.69, consistent with a 0.67-0.72 trading range for the months ahead. The bounce from levels just below 0.70 late last week makes 0.70 a near-term technical support level.

In the week ahead, there are only second tier domestic indicators on the calendar. After China data today, noted above, on the global calendar US retail sales data (Tuesday night) and UK and Canadian CPI data will be of some interest. In Australia, Governor Lowe speaks tomorrow on inflation trends and wages data on Wednesday are expected to show a modest lift. A number of Fed speakers will be on the circuit this week, and the market will be watching to see their reaction to the very strong inflation data last week, and whether it changes their view on the speed of tapering of QE and timing of future rate hikes.

Upward momentum in USD a key headwind for NZD



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.7041	0.7000 - 0.7220
NZD/AUD	0.9616	0.9500 - 0.9680
NZD/GBP	0.5247	0.5190 - 0.5300
NZD/EUR	0.6150	0.6120 - 0.6220
NZD/JPY	80.20	79.90 - 82.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7350	-4%
NZD/AUD	0.9250	4%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.7220 (ahead of 0.7315)
ST Support: 0.7000 (ahead of 0.6900)

A minor dip below 0.70 still sees 0.70-0.71 as a near-term support zone, although a more decisive break lower brings 0.69 into the picture. Resistance remains just over 0.72.


NZD/USD – Daily
Source: Bloomberg

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9700 (ahead of 0.9730)
ST Support: 0.9400 (ahead of 0.9240)

Resistance is around 0.97-0.9730, support not a current threat down at 0.94.

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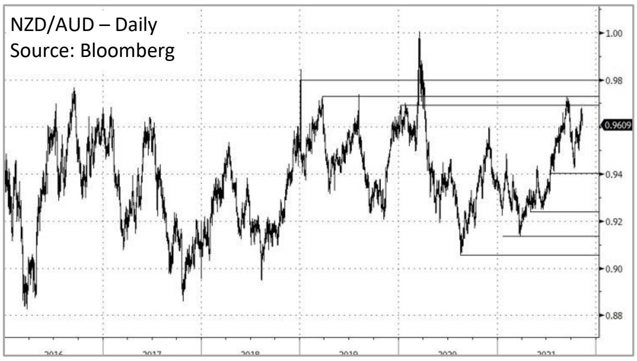
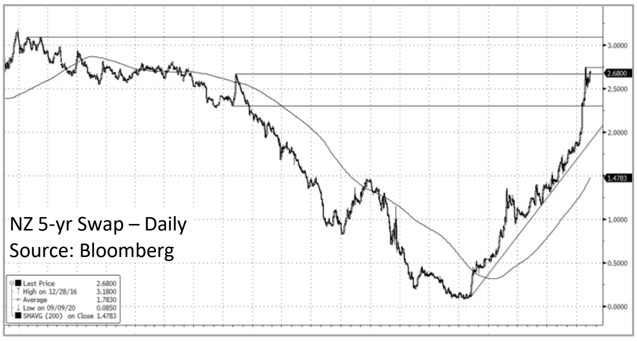

NZD/AUD – Daily
Source: Bloomberg

NZ 5-year Swap Rate

Outlook: Neutral
MT resistance: 3.10
ST support: 2.30

Market is still in consolidation phase. Staying neutral until we get a new strong technical signal.


NZ 5-yr Swap – Daily
Source: Bloomberg

NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: neutral
MT resistance: 0.51
MT support: 0.31

Took profit last week still looks like a range trade near term. Put steepener on around 0.31 area.

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NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

Quarterly Forecasts

Forecasts as at 15 November 2021

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded)

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
GDP (production s.a.)	-9.9	13.9	-1.0	1.4	2.8	-7.0	2.2	5.2	1.8	0.4
Retail trade (real s.a.)	-15.5	27.8	-2.2	2.8	3.3	-12.0	6.0	7.0	0.8	0.6
Current account (ytd, % GDP)	-1.5	-0.7	-0.8	-2.5	-3.3	-4.6	-5.4	-5.6	-6.0	-6.0
CPI (q/q)	-0.5	0.7	0.5	0.8	1.3	2.2	1.3	0.9	0.5	0.9
Employment	-0.4	-0.7	0.7	0.5	1.0	2.0	0.4	0.0	0.2	0.2
Unemployment rate %	4.1	5.3	4.8	4.6	4.0	3.4	3.3	3.3	3.3	3.4
Avg hourly earnings (ann %)	2.4	3.7	4.6	4.1	4.5	3.6	3.8	4.3	4.8	4.8
Trading partner GDP (ann %)	-5.3	-0.9	0.8	6.7	9.8	4.2	3.6	4.2	4.3	5.1
CPI (y/y)	1.5	1.4	1.4	1.5	3.3	4.9	5.8	5.8	5.0	3.6
GDP (production s.a., y/y))	-10.2	1.4	0.1	2.9	17.4	-4.2	-1.0	2.7	1.7	9.8

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
2020 Mar	0.75	1.05	1.00	1.35	1.00	1.10	1.40	1.55	1.40	-0.03
Jun	0.25	0.30	0.40	0.85	0.25	0.40	0.80	0.60	0.70	0.15
Sep	0.25	0.30	0.25	0.65	0.15	0.25	0.60	0.25	0.65	0.02
Dec	0.25	0.25	0.25	0.70	0.15	0.30	0.75	0.20	0.85	-0.15
2021 Mar	0.25	0.30	0.75	1.40	0.40	0.85	1.50	0.20	1.30	0.09
Jun	0.25	0.35	1.00	1.75	0.55	1.20	1.90	0.15	1.60	0.17
Sep	0.25	0.50	1.35	1.75	1.20	1.60	1.95	0.15	1.30	0.41
Forecasts										
Dec	0.75	0.95	2.50	2.55	2.25	2.60	2.65	0.15	1.80	0.75
2022 Mar	1.00	1.35	2.65	2.80	2.45	2.75	2.90	0.15	2.00	0.80
Jun	1.75	1.95	2.75	3.05	2.65	2.85	3.15	0.15	2.20	0.85
Sep	2.00	2.25	2.80	3.15	2.75	2.90	3.25	0.15	2.35	0.80
Dec	2.25	2.50	2.85	3.20	2.80	2.95	3.30	0.15	2.50	0.70
2023 Mar	2.50	2.65	2.85	3.20	2.80	2.95	3.30	0.15	2.50	0.70
Jun	2.50	2.65	2.85	3.20	2.80	2.95	3.30	0.15	2.50	0.70

Exchange Rates (End Period)

USD Forecasts / **NZD Forecasts**

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.70	0.73	1.14	1.34	114	0.70	0.96	0.61	0.52	80.2	75.1
Dec-21	0.69	0.72	1.15	1.32	112	0.69	0.95	0.60	0.52	77.0	73.7
Mar-22	0.70	0.73	1.16	1.33	111	0.70	0.95	0.60	0.52	77.4	74.1
Jun-22	0.70	0.74	1.17	1.35	112	0.70	0.94	0.60	0.52	78.4	74.0
Sep-22	0.71	0.76	1.19	1.36	111	0.71	0.94	0.60	0.52	79.1	74.6
Dec-22	0.72	0.78	1.20	1.38	111	0.72	0.93	0.60	0.52	79.9	75.2
Mar-23	0.72	0.78	1.22	1.39	110	0.72	0.93	0.59	0.52	79.2	75.3
Jun-23	0.72	0.78	1.24	1.40	109	0.72	0.92	0.58	0.51	78.5	74.9
Sep-23	0.72	0.78	1.24	1.42	108	0.72	0.92	0.58	0.51	77.8	74.7
Dec-23	0.71	0.77	1.25	1.43	108	0.71	0.92	0.57	0.50	76.7	73.6
Mar-24	0.70	0.76	1.25	1.43	107	0.70	0.92	0.56	0.49	74.9	72.6
TWI Weights						13.6%	18.7%	10.4%	4.1%	6.1%	

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

Annual Forecasts

Forecasts as at 15 November 2021	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023
GDP - annual average % change										
Private Consumption	2.7	0.2	3.9	5.9	1.9	3.4	-1.3	5.8	5.3	2.2
Government Consumption	6.1	6.5	7.7	1.9	1.3	5.4	6.3	8.3	2.9	1.2
Total Investment	1.3	-4.4	5.7	6.0	-0.9	3.2	-7.0	7.5	6.0	-0.4
Stocks - ppts cont'n to growth	-0.5	-0.1	0.4	0.3	-0.1	-0.7	-0.8	1.0	0.3	-0.2
GNE	2.4	0.2	6.0	5.4	1.1	2.9	-2.0	8.2	5.4	1.3
Exports	0.3	-17.8	6.3	12.3	5.6	2.5	-12.6	-3.3	10.4	9.1
Imports	1.2	-16.1	17.7	11.0	3.9	2.1	-16.0	14.4	10.8	5.9
Real Expenditure GDP	2.1	-0.3	2.7	5.2	1.3	3.0	-1.1	3.2	5.0	1.6
GDP (production)	**1.7**	**-1.4**	**3.2**	**5.5**	**1.3**	**2.4**	**-2.1**	**3.3**	**5.5**	**1.6**
GDP - annual % change (q/q)	*0.1*	*2.9*	*2.7*	*2.8*	*1.7*	*1.8*	*0.1*	*-1.0*	*7.8*	*1.3*
Output Gap (ann avg, % dev)	1.4	-1.5	0.6	1.6	0.4	1.9	-1.7	0.5	1.6	0.6
Nominal Expenditure GDP - $bn	322	325	347	370	384	319	322	342	366	380
Prices and Employment - annual % change										
CPI	2.5	1.5	5.8	2.6	2.3	1.9	1.4	5.8	2.7	2.5
Employment	2.5	0.2	3.4	0.7	1.0	1.2	0.6	4.0	0.6	0.7
Unemployment Rate %	4.2	4.6	3.3	3.9	4.5	4.0	4.8	3.3	3.6	4.5
Wages - ahote	3.2	4.1	4.3	4.5	2.8	3.8	2.6	4.6	3.8	4.8
Productivity (ann av %)	-0.3	-1.9	0.0	4.2	0.6	0.5	-3.3	1.0	3.4	0.9
Unit Labour Costs (ann av %)	3.3	4.5	6.5	0.0	2.7	2.5	5.7	5.0	1.0	2.6
House Prices	7.8	22.0	10.1	1.3	2.0	4.6	17.0	17.7	1.5	2.0
External Balance										
Current Account - $bn	-7.6	-8.2	-19.4	-19.1	-16.8	-9.3	-2.7	-18.4	-21.1	-17.7
Current Account - % of GDP	-2.4	-2.5	-5.6	-5.2	-4.4	-2.9	-0.8	-5.4	-5.8	-4.7
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-7.3	-1.3	-5.5	-1.8	-0.2					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	30.1	42.0	45.0	42.0					
Bond Programme - $bn (Treasury forecasts)	29.0	45.0	30.0	25.0	25.0					
Bond Programme - % of GDP	9.0	13.8	8.6	6.8	6.5					
Financial Variables (1)										
NZD/USD	0.60	0.71	0.70	0.72	0.71	0.66	0.71	0.69	0.72	0.71
USD/JPY	108	109	111	110	108	109	104	112	111	108
EUR/USD	1.11	1.19	1.16	1.22	1.25	1.11	1.22	1.15	1.20	1.25
NZD/AUD	0.97	0.93	0.95	0.93	0.92	0.96	0.94	0.95	0.93	0.92
NZD/GBP	0.49	0.51	0.52	0.52	0.50	0.50	0.53	0.52	0.52	0.50
NZD/EUR	0.55	0.60	0.60	0.59	0.57	0.59	0.58	0.60	0.60	0.57
NZD/YEN	65.1	77.5	77.4	79.2	76.7	72.0	73.6	77.0	79.9	76.7
TWI	68.9	74.8	74.1	75.3	73.6	72.8	74.3	73.7	75.2	73.6
Overnight Cash Rate (end qtr)	0.25	0.25	1.00	2.25	2.25	1.00	0.25	0.75	2.00	2.25
90-day Bank Bill Rate	0.71	0.33	1.35	2.40	2.40	1.23	0.26	0.95	2.25	2.40
5-year Govt Bond	0.80	1.00	2.60	2.80	2.80	1.25	0.40	2.45	2.80	2.80
10-year Govt Bond	1.15	1.75	2.75	3.10	3.10	1.60	0.90	2.55	3.10	3.10
2-year Swap	0.65	0.50	2.40	2.65	2.65	1.25	0.28	2.25	2.65	2.65
5-year Swap	0.80	1.15	2.70	2.90	2.90	1.40	0.49	2.55	2.90	2.90
US 10-year Bonds	0.90	1.60	2.00	2.50	2.50	1.85	0.90	1.80	2.50	2.50
NZ-US 10-year Spread	0.25	0.15	0.75	0.60	0.60	-0.25	0.00	0.75	0.60	0.60

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

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

Key Upcoming Events

		Survey	Actual	Prior
Monday 15 November				
NZ	Performance Services Index Oct		44.6	46.9
NZ	Net Migration SA Sep		653	353
JN	GDP SA QoQ 3Q P	-0.20%		0.50%
AU	RBA's Ellis, Jones Appear at Parliament Committee			
CH	New Home Prices MoM Oct			-0.08%
CH	Retail Sales YoY Oct	3.70%		4.40%
CH	Industrial Production YoY Oct	3.00%		3.10%
CH	Fixed Assets Ex Rural YTD YoY Oct	6.20%		7.30%
EC	ECB's Lagarde Speaks in European Parliament			
CH	1-Yr Medium-Term Lending Facility Rate 42309			2.95%
Tuesday 16 November				
US	Empire Manufacturing Nov	22		19.8
UK	BOE's Bailey, Pill, Mann and Saunders testify			
AU	RBA Minutes of Nov. Policy Meeting			
AU	RBA Governor Lowe speaks			
UK	ILO Unemployment Rate 3Mths Sep	4.40%		4.50%
EC	Employment QoQ 3Q P			0.70%
EC	GDP SA QoQ 3Q P	2.20%		2.20%
Wednesday 17 November				
US	Retail Sales Advance MoM Oct	1.30%		0.70%
US	Industrial Production MoM Oct	0.80%		-1.30%
NZ	GDT dairy auction			4.30%
US	Business Inventories Sep	0.60%		0.60%
US	NAHB Housing Market Index Nov	80		80
EC	ECB's Lagarde Speaks			
US	Fed's Daly speaks			
NZ	PPI Output QoQ 3Q			2.60%
AU	Westpac Leading Index MoM Oct			-0.02%

		Survey	Actual	Prior
Wednesday 17 November				-0
JN	Trade Balance Oct	¥290.		¥622.
JN	Core Machine Orders MoM Sep	0.017		-0.02
AU	Wage Price Index QoQ 3Q	0.006		0.004
UK	CPI YoY Oct	0.039		0.031
EC	CPI YoY Oct F	0.041		0.034
EC	ECB Publishes Financial Stability Review			
Thursday 18 November				
US	Building Permits MoM Oct	0.028		-0.08
US	Housing Starts Oct	1580k		1555k
UK	BOE's Catherine Mann speaks at JP Morgan event			
US	Fed's Williams speaks			
US	Fed's Mester, Waller speak			
US	Fed's Daly speaks			
NZ	2Yr Inflation Expectation 4Q			0.023
AU	RBA's Ellis speaks			
Friday 19 November				
US	Fed's Bostic Discusses Regional Outlook			
US	Initial Jobless Claims 41579	260k		267k
US	Philadelphia Fed Business Outlook Nov	24		23.8
US	Fed's Williams speaks			
US	Kansas City Fed Manf. Activity Nov	30		31
US	Fed's Evans Takes Part in Moderated Q&A			
JN	Natl CPI YoY Oct	0.002		0.002
NZ	Credit Card Spending MoM Oct			-0.03
UK	Retail Sales Inc Auto Fuel MoM Oct	0.005		-0
EC	ECB's Lagarde Speaks in Frankfurt			
UK	BOE Chief Economist Huw Pill speaks			
US	Fed's Clarida Discusses Global Monetary Policy Coordination			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.50	0.50	0.50	0.25
1mth	0.73	0.70	0.62	0.27
2mth	0.79	0.76	0.70	0.26
3mth	0.85	0.82	0.77	0.25
6mth	1.08	1.04	0.97	0.25
GOVERNMENT STOCK				
04/23	1.63	1.59	1.31	0.18
04/25	2.23	2.15	1.82	0.28
04/27	2.38	2.30	2.02	0.46
04/29	2.52	2.42	2.20	0.67
05/31	2.60	2.51	2.33	0.84
04/33	2.70	2.59	2.43	0.99
04/37	2.88	2.75	2.64	1.28
05/41	2.94	2.82	2.81	1.56
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	51	49	52	52
Europe 5Y	49	48	51	50

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.31	2.19	1.93	0.20
3 years	2.56	2.46	2.13	0.23
4 years	2.65	2.56	2.22	0.30
5 years	2.68	2.60	2.27	0.38
10 years	2.72	2.67	2.49	0.80
FOREIGN EXCHANGE				
NZD/USD	0.7041	0.7167	0.7086	0.6904
NZD/AUD	0.9614	0.9655	0.9561	0.9433
NZD/JPY	80.20	81.15	81.00	72.21
NZD/EUR	0.6150	0.6183	0.6102	0.5825
NZD/GBP	0.5248	0.5283	0.5162	0.5230
NZD/CAD	0.8833	0.8918	0.8771	0.9027
TWI	75.1	76.0	75.2	73.0

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