1 November 2021

To the Extent It's Unsustainable

- **The NZ labour market is tightening, inflating**
- **Q3 reports to corroborate this (data quirks and all)**
- **Orr talking (tough on?) housing Tuesday morning**
- **As an overture to Wednesday's RBNZ FSR**
- **Also: commodity and housing/consents updates**

We don't need Wednesday's Q3 labour market reports to tell us that things are extremely tight, and increasingly inflationary. But they will probably do so all the same. And the robustness of the results will be all the more remarkable, in that they will come to pass amid the latest COVID-19 lockdowns, which began mid-August (and continue).

To be sure, there are some statistical features of the September quarter data that will muffle the impact of the latest COVID-related restrictions.

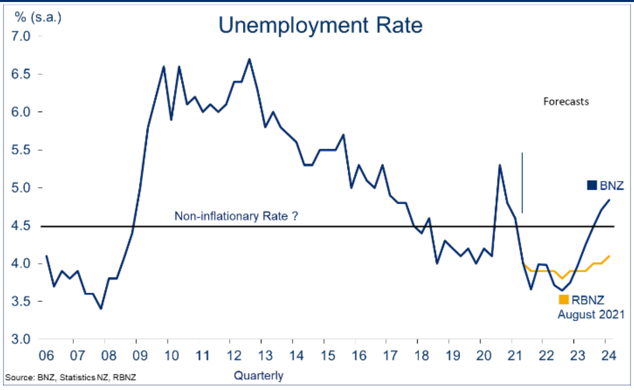
In the case of the Household Labour Force Survey (HLFS) it's sampled weekly. Thus, half of its September-quarter average will pre-date the latest lockdowns. And for the second half of the quarter, we are conscious of the downward impact the lockdowns will have on participation (and, by consequence, the unemployment rate). We learnt about this phenomenon from the Q2 2020 results (when, for one week, New Zealand's official unemployment rate sank to around 1.0%!).

Bearing all this in mind, we expect the unemployment rate to drop to 3.7% in Q3, from the 4.0% level it subsided to in Q2. This is predicated on the participation rate dipping to 70.2%, from 70.5%, and employment increasing 0.2% (2.5% y/y). The latter could easily be stronger, judging by the range of high-frequency jobs indicators through the quarter.

Labour market results such as these would normally tell of above-trend expansion in GDP. But this is not really the pattern at present. Job market outcomes, which are proving resilient, are becoming disengaged from GDP, which has been hit hard and is losing its recovery mojo by the week. The missing link is the government support measures, which are starting to tot up, lessening the hit to business profitability. It's important to disentangle all of this, to properly understand the trajectory the economy is on.

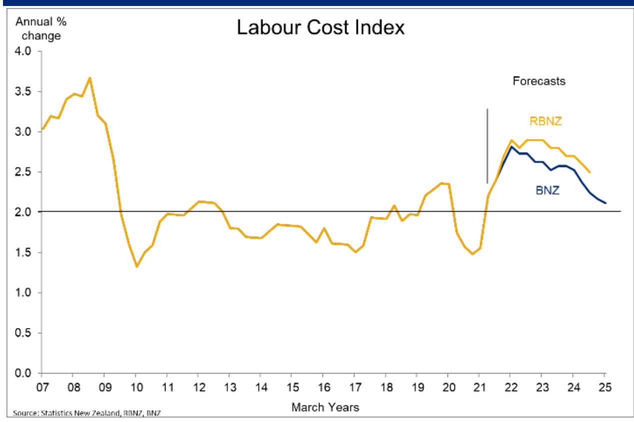
As for what the RBNZ was forecasting for Wednesday's labour market data, it's not fair to use its August Monetary Policy Statement (MPS) as a reference point, as this was finalised before the mid-August lockdowns began. Still, its expectations might end up in the ballpark. The August MPS was picking HLFS employment growth of 0.3% and an unemployment rate of 3.9% for Q3 (based off the participation rate holding up at 70.5%). More to the point, it projected the jobless rate to largely go sideways at that level for the next year or two.

Tighter Up Front



The August MPS also anticipated the private-sector Labour Cost Index to rise 0.6% in Q3, after the 0.9% spike it posted in Q2. We are in line with this, which would boost its annual rate of inflation at 2.4%, from 2.2%. As a unit labour cost proxy, it's another sign that core inflation is rising into the top half of the Bank's 1.0 to 3.0% band.

Direction Clear



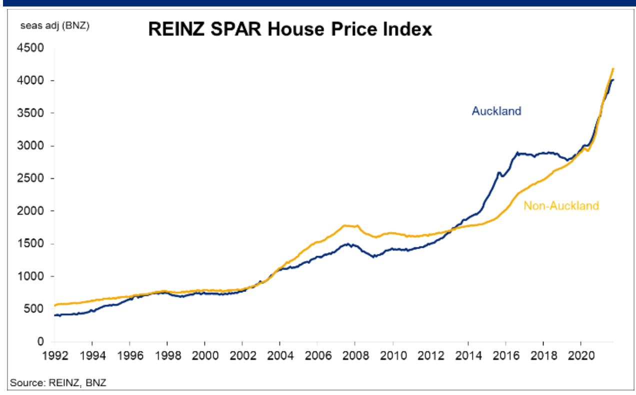
We are certainly wary of major upside potential to nominal wage inflation in the period ahead. This is fundamentally because the jobs market is so tight. But there is an important overlay to this in that households – who are clearly getting grumpy about rising price inflation – will push hard for cost of living adjustments, armed, as they will be, with CPI inflation running around 5% per annum.

This helps explain our forecasts of the private-sector average hourly earnings measure of the Quarterly Employment Survey to pushing 5% per annum over the coming year (although "only" 3.5% y/y for Wednesday's release, as a technical issue). Note: the QES is surveyed at a point in time, namely mid-quarter. Its Q3 2021 information would therefore have straddled the country going into level 4 lockdown.

Wednesday's (9:00am) RBNZ Financial Stability Report (FSR) will also be on the markets' radar this week. While this should be focussed on the ever-evolving area of macro-prudential policy, there is always the potential for the Reserve Bank officials to drift into the area of monetary policy. Interest rates are integral to financial stability, after all. Mindful of this, also note the FSR press conference scheduled to begin 11:00am and the RBNZ's testimony to Parliament's Finance and Expenditure Committee from 2:10pm onwards.

Then again, one of the important messages of the FSR will be broached by RBNZ Governor, Adrian Orr, in a speech he is due to give 9:30am Tuesday. Entitled "Housing Matters" this will underscore the Bank's view that house prices (as distinct to house price inflation) are too high, and how this relates back to interest rates and macro-prudential policy (including the debt to income lending restrictions that appear to be in the pipeline). Consider ourselves warned.

Orr Says Too High

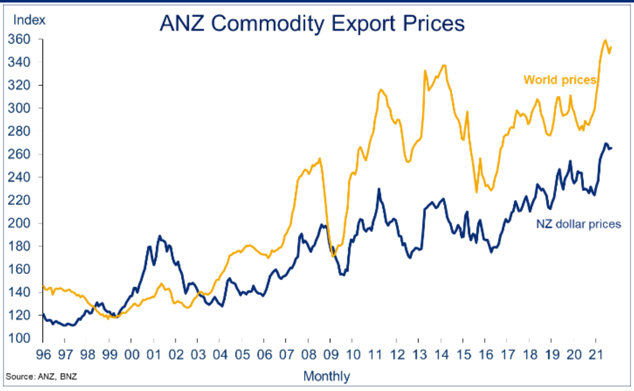


With this, who can ignore the various early-bird housing market reports for October expected throughout the week? Relatedly, building consents have been very strong of late, and September's data on these are scheduled for tomorrow.

In respect of commodity prices, we are going for another moderate increase in dairy prices at Wednesday morning's auction on the GDT platform. While demand conditions are being monitored carefully – especially with respect to China – a relative lack of supply in international dairy markets is holding sway for the meantime. This was underlined by news that milk-solids production in New Zealand in September (close to the heart of the season) was down 4% y/y.

As for Thursday's ANZ commodity export price index for October, we estimate a gain of around 1.5%, in world-price terms, with increases for meat and aluminium accompanying those for dairy. It's another point of strength for NZ, for now.

High Also



craig_ebert@bnz.co.nz

Global Watch

- **FOMC taper announcements expected**
- **US payrolls seen stronger**
- **US ISMs seen firm, but with supply issues**
- **China Caixin PMIs due**
- **BoE expected to lift rates this week**
- **COP26 meeting underway**
- **RBA expected to formally scrap YCC tomorrow**

Australia

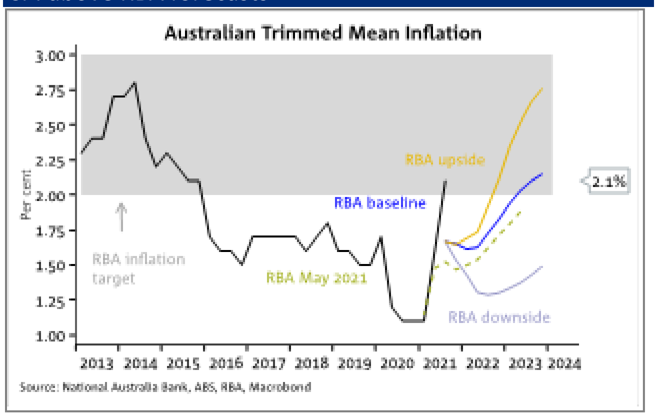
All eyes on the RBA this week for a belated explanation of its apparent unannounced policy shift on its Yield Curve Control (YCC) policy. The lack of commitment to the target means the RBA has likely scrapped the YCC target. Scrapping YCC will see the RBA pivot to fully outcomes-based forward guidance. Forward guidance will be updated, along with an update of headline forecasts, which will be elaborated upon further in Friday's SoMP. NAB recently updated its monetary policy call, bringing forward hikes to mid-2023, seeing YCC ending at this meeting and QE ending in February 2022.

The RBA tried to kick the can to February at the September meeting by extending QE purchases until February 2022. Evidently since then, the CPI data has seemingly changed that with the RBA declining to intervene and show commitment to its April 2024 YCC target of 0.10% - the April 2024 bond currently has a yield of around 0.80%.

A key question for markets is whether the RBA sticks to its central case for the conditions for a rate hike being 2024, or whether it sees the conditions for an earlier rate hike. The two key benchmarks previously laid down by the RBA are actual inflation sustainably in the target, which entails “several” quarters of at target inflation and wages growth at 3% plus.

A more detailed explanation of the RBA’s forecasts will be contained in Friday’s SoMP. Deputy Governor Debelle speaks on a panel later Tuesday night, but the next scheduled appearance by the Governor is not until 16 November (after the November Minutes are released).

CPI above RBA forecasts



On the data side, a smattering of second tier releases will garner little interest. Housing Finance Approvals and Building Approvals are expected to fall 2% and 5% respectively in September. The September Trade surplus is expected to fall back to $12b from the record $15.1b set in August. For Q3 retail trade volumes on Thursday, NAB forecasts a 4.8% decline, close to the consensus 5% drop.

RBA declined to defend their “target”

China

This week sees the Caixin PMIs. This follows weaker official PMI readings over the weekend including faster contraction in manufacturing as the zero-COVID strategy continues to disrupt activity, a regulatory crackdown and uncertainty over the property sector weigh, along with the negative influences of a power crisis. Renewed COVID restrictions will also be watched closely, with a third city reportedly placed under stay-at-home orders recently.

US

The FOMC is on Thursday morning (NZT). It is expected to announce a QE taper with an intent to finish QE by the middle of 2022. Given this is well expected, more interest is likely to be in Chair Powell’s press conference and whether this hints at the Fed becoming less comfortable with the inflation picture and whether they are starting to see the case for multiple hikes in 2022 as the market is pricing. Note the September dot plot had the FOMC evenly split on a 2022 rate hike. Payrolls are on Friday with some pick up in the pace of job gains expected with the consensus seeing 450K after last month’s lowish 194K reading. The ISMs are likely to convey messages of supply chain pressures with the Manufacturing ISM on Monday and Services on Wednesday.

Eurozone

Minimal data, with German Factory Orders and Industrial Production on Thursday/Friday and French industrial production of some interest. Final PMIs also out in the week.

UK

NAB expects the BoE to lift rates from 0.10% to 0.25% at Thursday meeting, a move already firmly priced by the market. Note there could be up to three dissenters to such a move. NAB also expects the BoE to signal further increases at subsequent meetings towards 0.50-0.75%. Meanwhile the COP26 in Glasgow (31 October – 12 November) is also a key focus for investors, the conference about “Uniting the world to tackle climate change” and accelerate actions toward the Paris Agreement. A light week for key data.

taylor.nugent@nab.com.au / doug_steel@bnz.co.nz

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Last week saw huge moves again in NZ rates, with the 2-year swap rate 28bps higher on the week, even after a 9bps retracement on Friday. The key driver behind the increase in NZ rates last week was offshore developments and particularly the repricing of RBA rate hike expectations.

Last week capped off an extraordinary one for the NZ rates market. Over the month, the 2-year swap rate increased a staggering 83bps, its biggest monthly increase since June 1994, when the global bond market was in the midst of a famous sell-off (the Fed increased its cash rate by 3% in little over 12 months, starting in early 1994). NZ rates were sharply higher across the curve in October, but a notable flattening bias was evident, with the 5-year rate up 76bps and the 10-year rate 'only' 49bps higher. Indeed, the market prices the best part of a rate *cut* in NZ between the end of 2023 and late 2026. Yield curve flattening was also seen in offshore markets as the market has brought forward the expected timing of rate hikes in all the major markets.

In Australia, yields surged after a stronger than expected core inflation number (2.1% y/y, now within the RBA's 2-3% target range for the first time since 2015). The RBA then decided not to enforce its Yield Curve Control policy, sending the yield on the April 2024 target bond to almost 0.80%, well above the RBA's 0.1% target. The RBA's inaction signals that it will drop both its Yield Curve Control policy and its 2024 interest rate guidance at its meeting tomorrow and instead adopt more realistic, outcomes-based forward guidance. The market now prices almost five RBA rate hikes by the end of next year. In Canada, the Bank of Canada unexpectedly stopped its QE bond buying programme and signalled rate hikes by the middle of next year, causing similar violent increases in short-term Canadian interest rates.

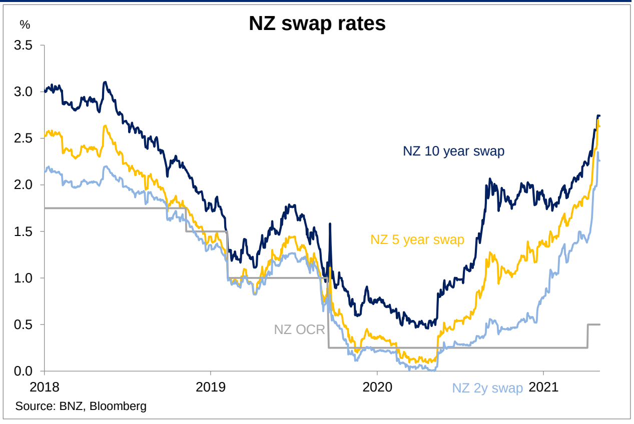
Inflation remains very strong globally, with the US recording its highest quarterly wage growth (on the ECI measure) in almost 40 years and European core inflation breaching the ECB's 2% target for the first time since 2002. With wage pressures on the rise globally and indications that supply chain disruptions will likely be an issue well into next year, and possibly longer, central banks are belatedly recognising that there are upside risks to inflation and their 'transitory' inflation hypothesis. Against this backdrop, we still think the path of least resistance is for higher global long-term rates and we think this is likely to drag up NZ long-term rates as well, notwithstanding the sizeable moves that have already taken place.

The Fed meets on Thursday morning, with the market expecting it to formally announce tapering, likely to commence mid-November and finish by mid-2022. The market prices an almost 80% chance of a Fed rate hike by June next year. US short-term rates have been on the rise, but they haven't seen the kind of dramatic increases in places like Australia, New Zealand, and Canada. Any suggestion from the Fed that it might consider a faster tapering and/or earlier rate hikes would likely trigger a sharp upward move in US short-end rates, which would likely spill over into other markets.

The NZ market now has a lot priced in for the RBNZ. At face value, the market expects the OCR to reach around 3% by the middle of 2023, well above our 2.25% forecast. While there is certainly a fundamental rationale for the repricing of OCR expectations, namely the increase in inflationary pressures both in NZ and overseas, the repricing has been exacerbated by investors unwinding loss-making bets on lower interest rates and by ongoing mortgage-related paying in the swap market. In our view, NZ interest rates now embed some 'risk premia', to entice investors to take the other side of the mortgage-related paying, which implies wholesale rates likely overstate the market's 'true' OCR expectations.

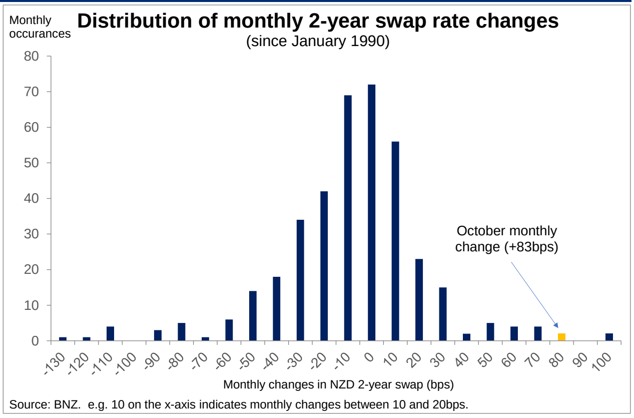
We think NZ short-term interest rates might have overshot to the topside here although we expect the market to remain volatile in the interim and it is likely to require some stabilisation in offshore interest rate markets for NZ rates to find some stability.

NZ rates continue to soar



Source: BNZ, Bloomberg

Biggest monthly change in 2-year since June 1994



Source: BNZ. e.g. 10 on the x-axis indicates monthly changes between 10 and 20bps.

nick.smyth@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD showed further signs of consolidation last week, trading in a range of less than one cent (about 0.7130-0.7215), to close up 0.2% at 0.7170. The AUD was the best performing, up 0.7% to 0.7520, after the RBA failed to defend its yield-curve-control target, after higher than expected inflation, seeing NZD/AUD nudge down ½% to 0.9540. Other key NZD crosses for the week were modestly higher, with gains against CAD and EUR despite more hawkish than expected policy updates from the Bank of Canada and ECB.

Inflation and the outlook for global monetary policy were the key themes last week. The Bank of Canada shocked the market with an immediate end to QE and bringing forward rate hikes next year into the "middle quarters", sending Canadian short rates higher. Core inflation in Australia surprised to the high side, sending rates higher and resulting in the RBA effectively abandoning its yield curve control policy, evidenced by the Bank not stepping into the market to keep the April-2024 bond at the targeted 0.1%.

These effects spilled over into the NZ rates market, with the 2-year swap rate surging 27bps to 2.26%, with the market pricing in a more aggressive tightening path for the RBNZ over the next couple of years, with a steady-state OCR of almost 3% priced in 2023.

ECB President Lagarde didn't push back on market pricing that sees some chance of a rate hike next year, interpreted by the market as a lack of conviction in the ECB's policy guidance on key policy rates remaining unchanged (or lower) until inflation projections settle near 2% (some years away on its current forecasts). Euro area core inflation hit 2.1% y/y, the first time it has been above the ECB's target since 2002.

Inflation concerns continued in the US, with the employment cost index showing a massive 1.5% q/q lift in wages and salaries in Q3, a near-40 year high, providing further confirmation of a very tight US labour market.

Despite this new information on inflation and turmoil in rates markets, the currency market was well behaved last week. As we've encountered as a theme all year, the ramp up in NZ rates and NZ-global rate spreads hasn't had a significant impact on the NZD, with NZD/USD down slightly this year and the NZ TWI up less than 1%.

The broader backdrop of risk sentiment remains a key source of NZ volatility, with the correlation of the NZD with our risk appetite index remaining above-average through 2021 (see chart). This leaves us cautious about the NZD outlook through the rest of the year, with uncertainty rising about the economic outlook, against the backdrop of rising global inflation pressure and global policy tightening ahead.

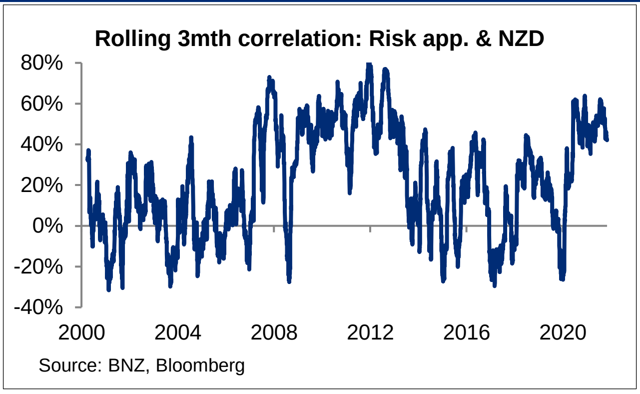
Our projections are consistent with a view that the 0.72 level is close to the top of the expected trading range, with another potential test of levels just below 0.70 before the end of 2021.

The week ahead is filled with plenty of event risk that could sway currency markets, including policy updates from the US Fed, the RBA and Bank of England. The Fed is widely expected to announce a tapering of its asset purchases to begin soon, with QE likely to end by mid-2022. Chair Powell's Q&A post-meeting will be more interesting if it comes down to questions about his view on the market pricing rate hikes as soon as next year.

The RBA should formally abandon its yield-curve-control policy after ramping up its inflation projections, but it likely won't be ready to sanction the market's view that rate hikes could come as soon as the first half of next year. The Bank of England is expected to kick off its tightening cycle, with a 15bps lift in its policy rate to 0.25%, and signal further modest hikes ahead.

Domestically, RBNZ's Orr speaks tomorrow on the unsustainably high level of house prices, perhaps preempting further macro prudential policy tools a day ahead of the Financial Stability Report.

NZD correlation with risk appetite higher than usual



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.7154	0.6910 - 0.7220
NZD/AUD	0.9526	0.9420 - 0.9600
NZD/GBP	0.5230	0.5090 - 0.5240
NZD/EUR	0.6192	0.5990 - 0.6200
NZD/JPY	81.62	78.40 - 82.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7270	-2%
NZD/AUD	0.9290	3%

Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.7220 (ahead of 0.7315)
ST Support: 0.7100 (ahead of 0.7000)

The currency has consolidated for the past two weeks, and hasn't broken above 0.7220, which we peg as a key resistance level. We see 0.70-0.71 as a near-term support zone.

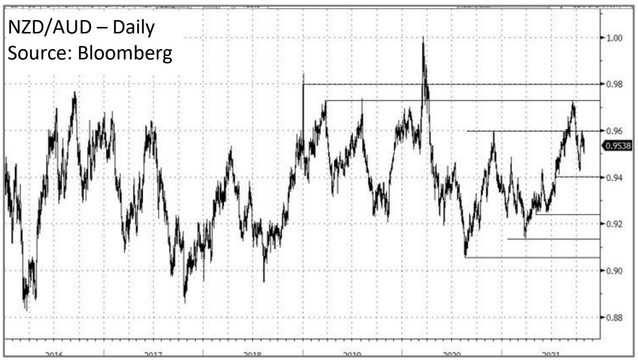

NZD/USD – Daily
Source: Bloomberg

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9600 (ahead of 0.9730)
ST Support: 0.9400 (ahead of 0.9240)

Resistance of 0.96 held last week while support remains at 0.94.

jason.k.wong@bnz.co.nz


NZD/AUD – Daily
Source: Bloomberg

NZ 5-year Swap Rate

Outlook: Neutral
MT resistance: 3.11
MT support: 2.11

Took profit at 2.67 last week. Although still trending looks a little extended here. Await new tech signal to initiate new position.

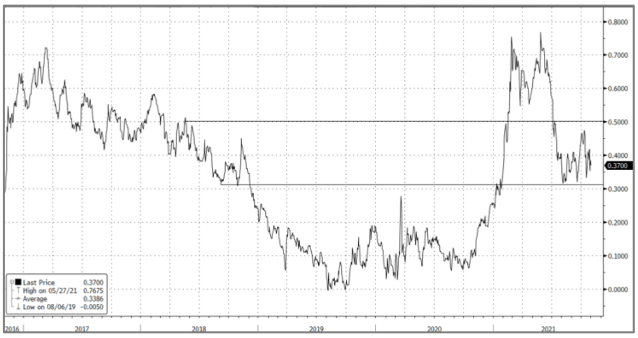

NZ 5-yr Swap – Daily
Source: Bloomberg

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

Outlook: Neutral
MT resistance: 0.51
MT support: 0.31

Curve range trading play the 31/51 range and stop on a break.

pete_mason@bnz.co.nz


NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

Quarterly Forecasts

Forecasts as at 1 November 2021

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	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	7.0	6.0	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	1.1	0.8	0.5	0.8
Employment	-0.4	-0.6	0.7	0.6	1.1	0.2	0.0	0.3	0.6	0.5
Unemployment rate %	4.1	5.3	4.8	4.6	4.0	3.7	4.0	4.0	3.7	3.6
Avg hourly earnings (ann %)	2.4	3.7	4.6	4.1	4.5	3.5	3.7	4.2	4.7	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	5.6	5.5	4.7	3.3
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	2.15	2.35	1.95	2.25	2.45	0.15	1.80	0.55
2022	**Mar**	1.00	1.35	2.45	2.60	2.25	2.55	2.70	0.15	2.00	0.60
	Jun	1.50	1.70	2.70	2.85	2.55	2.80	2.95	0.15	2.20	0.65
	Sep	1.75	2.00	2.85	3.05	2.65	2.95	3.15	0.15	2.35	0.70
	Dec	2.00	2.25	2.95	3.20	2.65	3.05	3.30	0.15	2.50	0.70
2023	**Mar**	2.25	2.40	3.00	3.25	2.65	3.10	3.35	0.15	2.65	0.60
	Jun	2.25	2.40	3.00	3.30	2.65	3.10	3.40	0.15	2.80	0.50

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	0.72	0.75	1.16	1.37	114	0.72	0.95	0.62	0.52	81.9	76.0
Dec-21	0.69	0.72	1.15	1.31	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 1 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	5.6	1.9	3.4	-1.3	5.9	4.8	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	0.3	0.3	-0.1	-0.7	-0.8	1.0	0.3	-0.2
GNE	2.4	0.2	6.0	5.2	1.1	2.9	-2.0	8.3	5.1	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	17.8	11.1	3.9	2.1	-16.0	14.4	11.2	5.8
Real Expenditure GDP	2.1	-0.3	2.7	4.9	1.3	3.0	-1.1	3.3	4.5	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	5.5	2.5	2.6	1.9	1.4	5.6	2.6	2.6
Employment	2.5	0.3	1.6	1.8	1.1	1.2	0.7	1.8	1.8	1.0
Unemployment Rate %	4.2	4.6	4.0	4.0	4.8	4.0	4.8	4.0	3.7	4.7
Wages - ahote	3.2	4.1	4.2	4.5	2.8	3.8	2.6	4.6	3.7	4.8
Productivity (ann av %)	-0.3	-1.9	1.5	3.8	0.1	0.5	-3.3	2.0	3.9	0.2
Unit Labour Costs (ann av %)	3.3	4.5	4.9	0.3	3.1	2.5	5.7	4.0	0.7	3.3
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	2.45	3.00	3.00	1.25	0.40	2.15	2.95	3.00
10-year Govt Bond	1.15	1.75	2.60	3.25	3.30	1.60	0.90	2.35	3.20	3.30
2-year Swap	0.65	0.50	2.25	2.65	2.65	1.25	0.28	1.95	2.65	2.65
5-year Swap	0.80	1.15	2.55	3.05	3.10	1.40	0.49	2.25	3.05	3.10
US 10-year Bonds	0.90	1.60	2.00	2.65	3.00	1.85	0.90	1.80	2.50	3.00
NZ-US 10-year Spread	0.25	0.15	0.60	0.60	0.30	-0.25	0.00	0.55	0.70	0.30

(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

	Forecast	Median	Last
Monday 1 November			
NZ, CoreLogic House Prices, Oct y/y			+27.8%
Aus, Inflation Gauge (Melbourne Institute), Oct y/y			+2.7%
Aus, Housing Finance, Sep $		-2.0%	-4.3%
Aus, ANZ Job Ads, October			-2.8%
Aus, CoreLogic HPI, October			+1.5%
China, PMI (Caixin), October		50.0	50.0
Germ, Retail Sales, September		+0.4%	+1.1%
US, ISM Manufacturing, October		60.5	61.1
US, Construction Spending, September		+0.4%	flat
Tuesday 2 November			
NZ, Orr Speaks, Housing Matters			
NZ, Building Consents, Sep (res, #)			+3.8%
Aus, RBA's Debelle Speaks, Panel Discussant			
Aus, RBA Policy Announcement	0.10%	0.10%	0.10%
Wednesday 3 November			
NZ, HLFS Unemployment Rate, Q3	3.7%	3.9%	4.0%
NZ, LCI Priv Ord Wages, Q3	+0.4%	+0.8%	+0.9%
NZ, Dairy Auction, GDT Price Index			+2.2%
NZ, HLFS Employment, Q3	+0.2%	+0.4%	+1.0%
NZ, RBNZ Fin. Stability Report			
Aus, Building Approvals, September		-2.0%	+6.8%
China, Services PMI (Caixin), October		53.2	53.4
Euro, Unemployment Rate, September		7.4%	7.5%

	Forecast	Median	Last
Wednesday (continued)			
US, ADP Employment, October		+400k	+568k
US, Markit PSI, Oct 2nd est		58.2	58.2P
US, ISM Non-Manuf, October		62.0	61.9
US, Factory Orders, September		flat	+1.2%
US, FOMC Policy Announcement		0.25%	0.25%
Thursday 4 November			
NZ, ANZ Commodity Prices (world), October			+1.5%
Aus, International Trade, September		+$12.4b	+$15.1b
Aus, Retail Trade, Q3		-5.0%	+0.8%
Germ, Factory Orders, September		+2.0%	-7.7%
UK, BOE Policy Announcement		0.10%	0.10%
US, Jobless Claims, week ended 30/10		275k	281k
US, Productivity (non-farm), Q3 saar 1st est		-3.2%	+2.1%
US, International Trade, September		-$79.9b	-$73.3b
Friday 5 November			
Aus, Qtly Monetary Statement			
Jpn, Household Spending, Sep y/y (real)		-3.5%	-3.0%
Euro, Retail Sales, September		+0.2%	+0.3%
Germ, Industrial Production, September		+1.0%	-4.0%
US, Unemployment Rate, October		4.7%	4.8%
US, Non-Farm Payrolls, October		+450k	+194k
Sunday 7 November			
China, Trade Balance, October			+¥433b

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.50	0.50	0.25	0.25
1mth	0.59	0.56	0.45	0.27
2mth	0.70	0.65	0.53	0.27
3mth	0.80	0.74	0.61	0.28
6mth	1.01	0.95	0.78	0.21
GOVERNMENT STOCK				
04/23	1.55	1.36	0.98	-0.01
04/25	2.21	1.91	1.33	0.04
04/27	2.35	2.11	1.59	0.20
04/29	2.48	2.29	1.83	0.40
05/31	2.58	2.42	1.98	0.56
04/33	2.64	2.52	2.14	0.72
04/37	2.81	2.72	2.38	1.00
05/41	2.90	2.85	2.59	1.26
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	52	51	53	63
Europe 5Y	51	50	51	62

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.26	1.99	1.38	0.01
3 years	2.51	2.21	1.60	0.02
4 years	2.59	2.32	1.74	0.06
5 years	2.63	2.39	1.85	0.12
10 years	2.74	2.59	2.23	0.54
FOREIGN EXCHANGE				
NZD/USD	0.7162	0.7162	0.6969	0.6632
NZD/AUD	0.9534	0.9561	0.9561	0.9401
NZD/JPY	81.69	81.47	77.30	69.47
NZD/EUR	0.6196	0.6170	0.5996	0.5698
NZD/GBP	0.5232	0.5203	0.5119	0.5136
NZD/CAD	0.8881	0.8872	0.8771	0.8767
TWI	76.0	75.7	74.4	71.6

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

Nick Smyth
Senior Interest Rates Strategist
+64 4 924 7653

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

National Australia Bank

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+61 2 9295 1100
Fixed Income/Derivatives	+61 2 9295 1166

London

Foreign Exchange	+44 20 7796 3091
Fixed Income/Derivatives	+44 20 7796 4761

New York

Foreign Exchange	+1 212 916 9631
Fixed Income/Derivatives	+1 212 916 9677

Hong Kong

Foreign Exchange	+85 2 2526 5891
Fixed Income/Derivatives	+85 2 2526 5891