2 August 2021

Labour Market Stretched to Breaking

- **Unemployment rate plummeting**
- **Businesses screaming out for staff**
- **Wage inflation surprisingly low**
- **But true labour cost inflation ain't**
- **Houses for sale slump**

Every leading indicator we monitor tells us we are being too conservative in our expectations for the tightness in the labour market that will be revealed by Statistics New Zealand on Wednesday morning. And, yet, we are already forecasting plummeting unemployment such that the unemployment rate is expected to be sub 4.0% within twelve months. Whichever way you look at it, it is almost certain the Reserve Bank has already achieved its maximum sustainable employment target. In fact, so tight is the market that its current and prospective state seems far from sustainable to us.

While the published data are of high interest, the fact of the matter is that our talks with business over the last few months have been revealing a labour market that is stretched to breaking for many months now. And with the supply of labour constrained, alongside growing demand, the situation is only getting worse.

Importantly, labour shortages are widespread across skill sets and industries. Who would have thought that, adding to an already difficult environment, even those in the hospitality sector are struggling to find staff?

Survey data show businesses are screaming out for people:

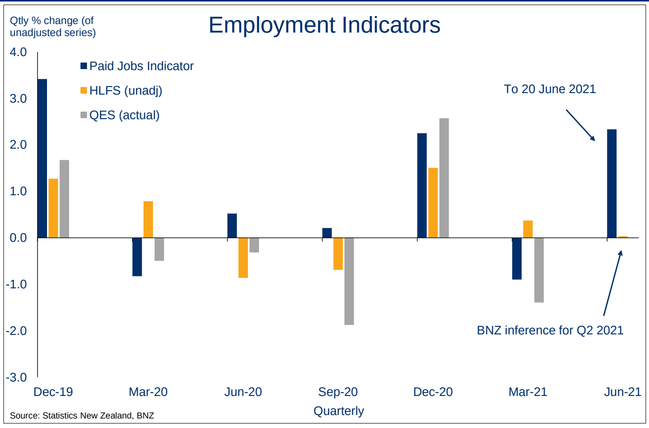
- one in four businesses report the biggest constraint to increasing output is labour;
- labour turnover, both expected and reported, is at a record high; and
- businesses are reporting record levels of difficulty in finding both skilled and unskilled staff.

In addition:

- hiring intentions are very elevated; and
- job ads are going ballistic

And to cap things off, the supply of labour continues to dry up with the borders effectively closed. Moreover, an already high participation rate means there are not a lot of disenfranchised people available to encourage into the work place if needs be.

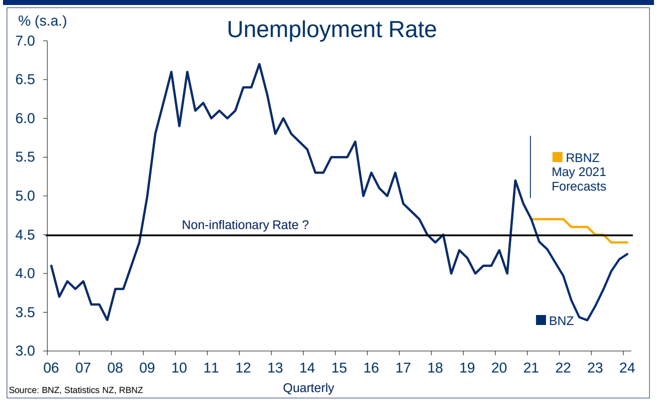
Can this be so?



For the record, we are picking that employment rose 0.7% in the June quarter driving the unemployment rate down to just 4.4%. But growth in employment could well be a lot higher than this. For example, Statistics New Zealand's Weekly Employment Indicator says that total paid jobs rose 2.3% across the quarter. If the Household Labour Force Survey printed anything like this, the unemployment rate would start with a "3"!

One thing's for sure, the general trajectory for the labour market is now way tighter than when the RBNZ produced its last set of full forecasts back in May.

Full employment?



Strangely, however, there is little sign of wage inflation in the published data so far. Central banks around the world are concluding that if wage growth remains depressed any current inflationary pressure will prove to be transitory. We are not so sure. Nonetheless, we will thus be looking closely for signs that wage pressure really is there.

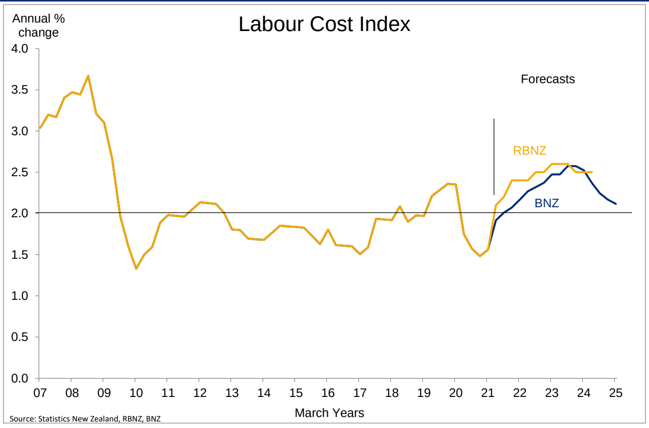
However, we are also concerned that the wage indicators may, in many cases, not accurately reflect the wage growth that already exists.

Anecdotally, we have copious feedback that businesses are having to pay up for labour. It is happening in multiple ways:

- Businesses are moving proactively to ensure they do not lose key staff
- New hires are coming in with higher salaries than would normally have been the case
- People are being "promoted" in order to push them into higher wage brackets.

Many of the above cost increases will not be included in the RBNZ's preferred Labour Cost Index (LCI) measure, though they should start to reveal themselves in the Quarterly Employment Survey. From a Reserve Bank perspective, there is only a small chance of an upside surprise in the wage data because the RBNZ already has a fairly hefty LCI increase built into its projections. It is forecasting a 0.8% increase in the private sector LCI for the quarter, which takes the annual reading to 2.1%. Importantly, though, surprise or no surprise, the LCI is headed to levels that would appear inconsistent with the 2.0% mid-point of the RBNZ's CPI target band.

Price target consistent?



Wage pressure may show up better in the unadjusted Labour Cost Index and the Quarterly Employment Survey's (QES) average hourly earnings data. However, in the case of the QES, the annual outcomes will remain affected by the somewhat bizarre decline in wages recorded in the March quarter.

Perhaps more importantly, the overall cost of labour to businesses appears to be rising far more aggressively than wage growth. In addition to pure wage inflation, businesses need to take into consideration:

- the "Mondayisation" of statutory holidays that fall in weekends;
- the extra statutory holiday that will be introduced in 2022;
- the doubling in sick leave entitlements;
- COVID related health and safety requirements;
- labour supply mismatches; and
- the drop in productivity as labour supply shortages encourage businesses to take on lesser skilled/educated individuals.

It is the total increase in labour costs that will drive selling price inflation, read CPI inflation, not just wages, albeit that they too are expected to play a part.

The other key data for the week will be a further swathe of reports on the state of the housing market. While there is some evidence of moderation, it would appear housing is still on fire. The most notable response of the market, so far, is a reduction in supply. Indicative of this realestate.co.nz this morning reported that new listings in July were 11% lower than a year ago, which meant actual listings were a record low for a series that began in 2007.

The stock of houses for sale dropped 35% on year earlier levels such that inventory would now only cover eight weeks of sales at their current pace. The average for this series is 27 weeks.

We will get further news on the housing front when Barfoots releases its latest data sometime this week as will CoreLogic.

To round the week out, Wednesday sees the latest dairy auction, which is expected to reveal some stabilization in prices, and July's ANZ Commodity Price Index, for which we anticipate a modest decline.

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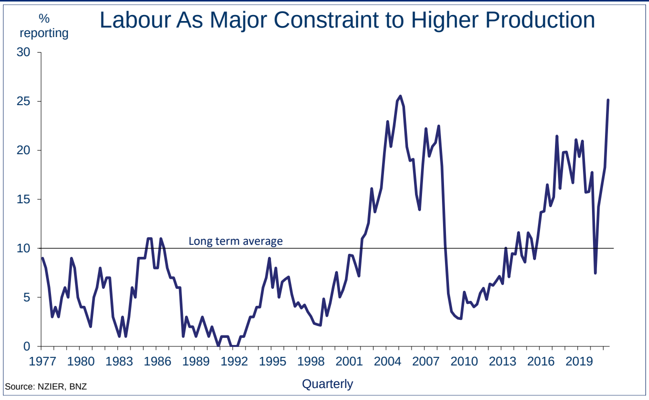
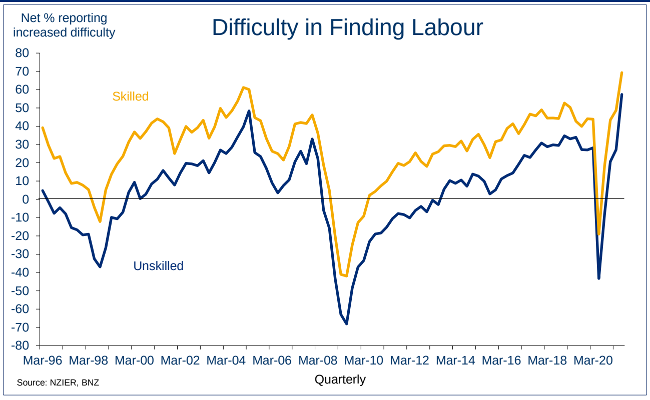
Labour Shortages Severe

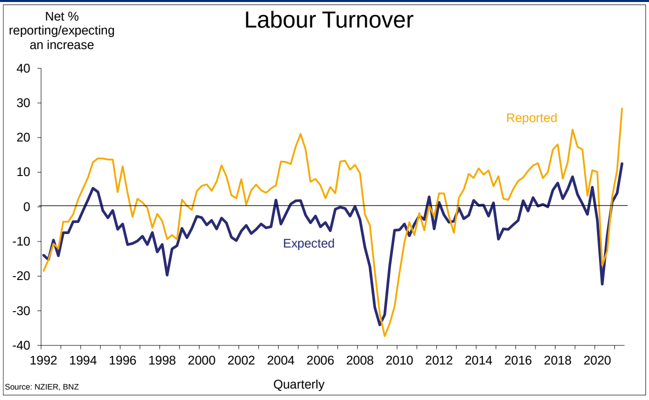
Labour constrains production



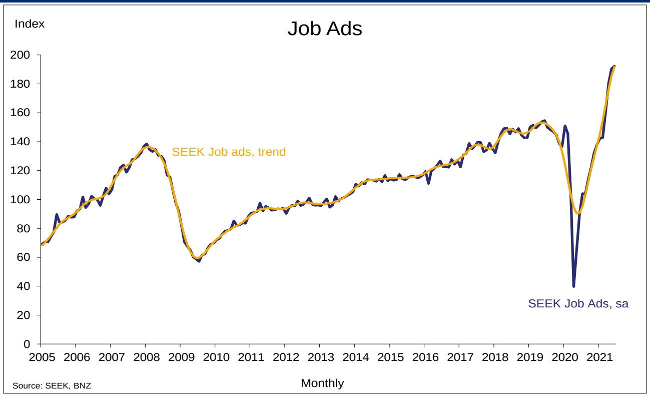
Difficulty finding labour surges



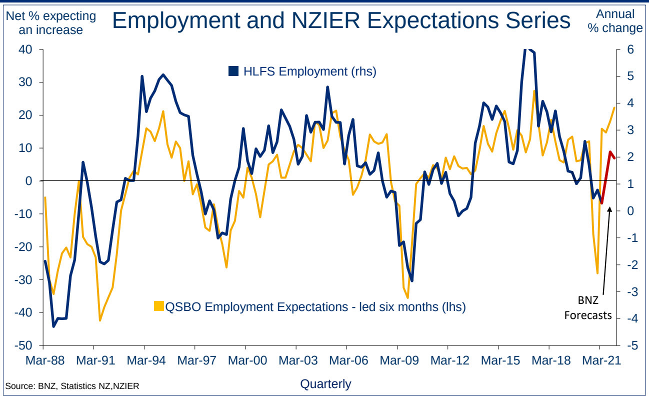
Turnover hits record high



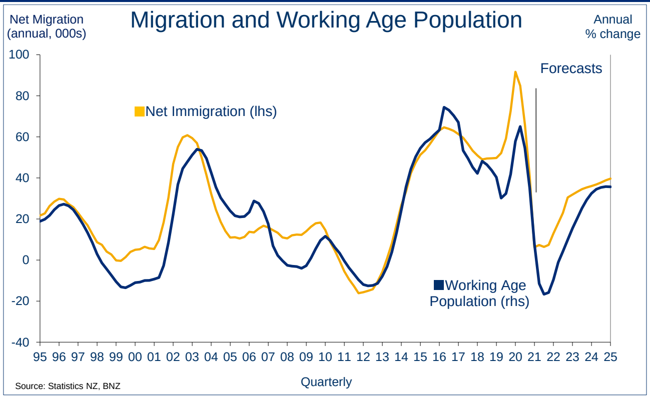
Job ads soar



Hiring intentions elevated



Labour supply dries up



Global Watch

- **Australia has RBA meeting Tuesday**
- **And Quarterly Statement/Lowe testimony Friday**
- **Friday's US payrolls; enough to support taper plan?**

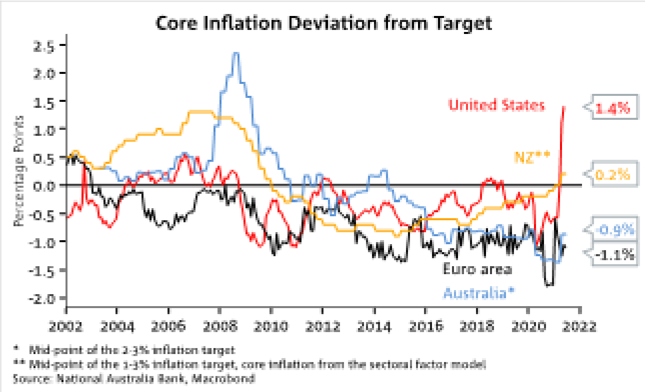
Australia

All focus is on the RBA Board Meeting on Tuesday amid expectations that they will back flip on their recent decision to taper asset purchases. NAB's view is the RBA will reverse their decision to taper, with purchases kept at $5bn a week until Feb 2022 when it is likely the vaccination rate has lifted sufficiently enough for Australia to start to live with the virus.

Updated RBA forecasts are also published in Friday's SoMP, but in many respects these will be quickly dated given the uncertainty around the virus. Of more interest will be Governor Lowe's Parliamentary Testimony (also Friday), with questions likely on what more the RBA could do, as well as the potential for tighter macro-prudential policies.

Datawise it is a heavy week, but again most numbers will take a backseat to virus/vaccine developments. For the record we get Housing Finance and Building Approvals on Tuesday, Retail Sales on Wednesday, and the Trade Balance on Friday. ANZ Job Ads are also out, which may be the first indicator for how the lockdown is impacting on labour demand. Also note it is a Bank Holiday in NSW on Monday.

RBA's focus still on lifting inflation to target



RBA Meeting, Governor Lowe and the SOMP

Tuesday's Board meeting will be closely watched with expectations that the RBA will backtrack on their recent decision to taper asset purchases to $4bn a week, starting from September. Instead the consensus is that the RBA will keep purchases unchanged at $5bn a week, which NAB expects to continue until February 2022.

The protracted Sydney lockdown which has been going since late June and is currently scheduled to run until the end of August, is expected to delay progress towards the RBA's goals of full employment and inflation being sustainably at target. There is likely to be a significant hit to activity in Q3 and a reversal of some of the recent gains in the labour market in the near term. Beyond that, elevated uncertainty due to the risk of the delta variant and snap lockdowns has the potential to delay progress to the goals of full employment and inflation at target.

The RBA Minutes also highlight that while the RBA did announce a QE taper at the July meeting, the Bank saw a case to maintain weekly purchases at $5bn – if anything that case has now strengthened.

We pencil in the next QE taper in February 2022, which would also align with enough supply to fully vaccinate 80% of adults by mid-November, paving the way for Australia to start to live with the virus instead of relying on snap lockdowns to aggressively suppress the virus. That could then see a more aggressive QE taper in 2022 and we expect the total QE program from September to total around $150bn with tapering to occur progressively before ending in mid-to-late 2022.

As for the cash rate, NAB continues to see the RBA on hold until early 2024. We see the first move as lifting the cash rate target by 40bps to 0.50%; this is to allow normalisation of the ES rate corridor and would see the actual cash rate trade close to 25bp (i.e. it would effectively be a 25bp rate hike). Following this, we see increases of around 25 points per quarter – a fairly rapid normalisation as the RBA again becomes forward looking. By mid-to-late 2025 we expect the cash rate to trade around 1.75-2.00% depending on the degree of excess liquidity in the cash market. While we see the risk that the RBA could move in late 2023, we do not see the RBA moving as early as 2022 and the recent outbreaks support that assessment.

The RBA will also publish updated forecasts on Friday in its SoMP, but in many respects these will be quickly dated depending on the path of the virus. Instead we will be focusing on Governor Lowe's Parliamentary Testimony (also Friday). No doubt he will be asked questions on what else the RBA could do to support the recovery, why Australia's policy path is diverging with that of New Zealand, and what are the chances of

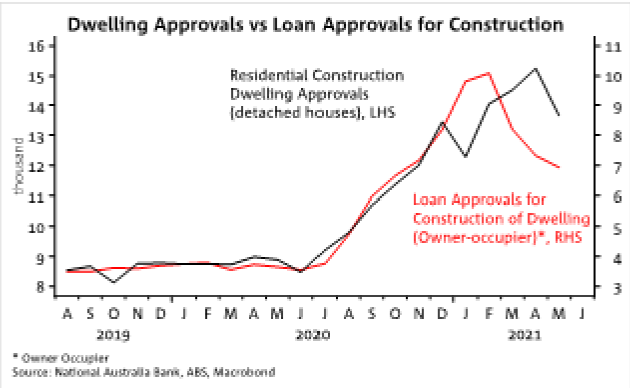
Retail Sales, Building Approvals and Trade Balance

While data is likely to take a back seat, it is a heavy week for data with Housing Finance and Building Approvals on Tuesday, Retail Sales on Wednesday and the Trade Balance also on Thursday. Weekly Payrolls to July 17 are also out, though given their tendency to be heavily revised should be confronted with other day.

Retail Sales are a final measure with NAB and consensus at -1.8% m/m. The June figure also rounds out the month with the quarterly volumes measure expected to be around 0.9% q/q. The Trade Balance is the other notable one to watch with the preliminary merchandise figures pointing to a record high trade balance of around $12bn (consensus $10bn).

As for Housing Finance and Building Approvals, we think these will show an ongoing unwind of the HomeBuilder effect and look for declines in both – Housing Finance -2.0% m/m (consensus +1.5) and Building Approvals -5.0% m/m (consensus -4.5%).

Homebuilder unwind has started



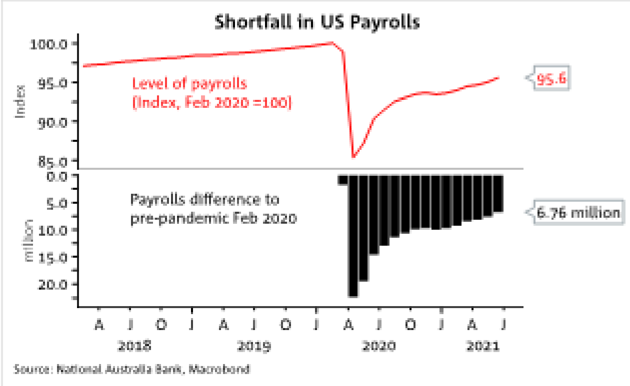
China

PMIs continue with the Caixin versions on Monday and Wednesday. Consensus looks for a similar pace to last month amid ongoing concerns around the growth outlook following the recent RRR cut.

US

Payrolls dominate the week given how tied the decision to taper is to making substantial further progress on the labour market. Payrolls are currently 6.8m below their pre-pandemic levels. Consensus is for 900k jobs, a little faster than June's 850k. Should payrolls print around 1 million that would cement expectations for a taper announcement within a few meetings while a disappointment would see expectations pushed further out. Unemployment is expected to tick down three tenths to 5.6% from 5.9%. Before Friday we get the ISM Manufacturing (Monday) and ISM Services (Wednesday). Services is probably the one to watch given the flash Services PMI disappointed sharply last week. The prices paid sub-indexes will also be closely watched to see whether inflationary pressures remain or are starting to abate.

US Payrolls still 6.8m below pre-pandemic



Eurozone

Retail Sales for June are released on Wednesday, with the ECB Economic Bulletin on Thursday. Final July PMIs for Manufacturing and Services are due Monday and Wednesday. Here European numbers had held up better than the US or UK.

UK

The BoE meets on Thursday. So far two MPC members have suggested they are open to curtailing QE early, but we look for no change at this meeting given the government's winding down of various support schemes in coming months, including the job furlough scheme in September. That places the November meeting as the one to watch for the MPC. Final July PMIs will be released on Monday and Wednesday. The flash data have already forewarned of a hit to activity from supply constraints.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Interest rates markets, both here and offshore, spent last week consolidating. The Fed meeting solidified expectations it is unlikely to announce a tapering of its bond buying until late in the year but the reaction in interest rate markets was reasonably muted, with the US 10-year rate already extremely low, at around 1.25%. The NZ 10-year swap rate, which has been rangebound since March, was little changed last week, at around 1.80%.

The US 10-year real rate (i.e. the interest rate on the 10-year US inflation-protected bond) made headlines last week by reaching a record low level of -1.20%. Real rates are sometimes thought to provide a guide to the market's future growth expectations and, if that were the case, the message would be a depressing one. We would be hesitant to jump to that conclusion though. For one, US real rates have been consistently below GDP growth for over a decade, with other factors, including high demand for savings from ageing populations, having been found to be influential. To our mind, the extremely low level of real rates more reflects the market's expectation the Fed will be slow to increase rates (to only around 1.5% in 5-10 years' time) even with inflation at or above the 2% target.

The ongoing lockdowns in Australia, including now parts of Queensland, have seen the market push back the expected timing of RBA policy normalisation. At its meeting this week, the RBA is expected to reverse its recent decision to taper its bond purchase pace, from $5b to $4b per week, from September. Some economists are even calling for the RBA to increase, rather than simply maintain, the pace of bond buying. Markets have pushed back the timing of the first RBA hike from late-2022 into 2023.

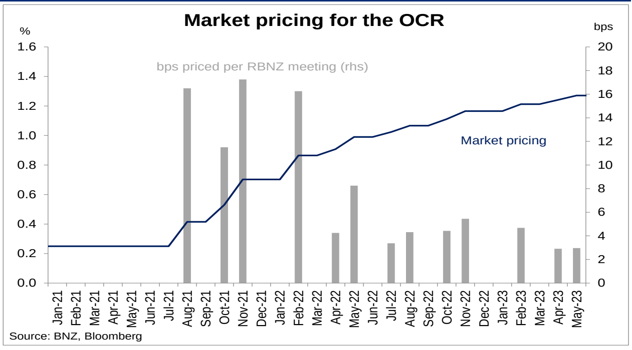
The lockdowns in Australia and the shift in RBA expectations have been a restraining influence on NZ interest rates, more so at the longer end of the curve. Market expectations for the OCR have been reasonably stable, with August priced as around a 65% chance and close to two hikes priced by year-end. Beyond mid-2022, at which point the market thinks the OCR will be around 1%, market pricing for the OCR really tails off, with around one hike a year priced thereafter.

Market pricing may be put to the test this week with the HLFS labour market report released. We are in-line with consensus in looking for employment growth of 0.7% and a fall in the unemployment rate to 4.4% (RBNZ: +0.2% and 4.7%). The HLFS can be notoriously volatile but we think the risks are probably skewed to an even stronger result given the scale and breadth of improvement in leading indicators and anecdotes emerging from businesses. On our economists' forecasts that the OCR will reach 2% by early 2023, the market is underestimating the likely extent of RBNZ rate hikes over the next few years. But, given lingering concerns around how the NZ economy will react to OCR hikes and with markets only pricing modest tightening paths for the RBA and Fed, it may take some time for the market to become convinced that the OCR needs to get as high as 2%.

Last week was the first week with no RBNZ bond buying but the bond market showed no ill effects. NZ government bonds remain in high demand, as illustrated by the wide gap between bond yields and swap rates (the so-called swap spread), which is likely related to NZ's interest rate advantage to other developed country bond markets.

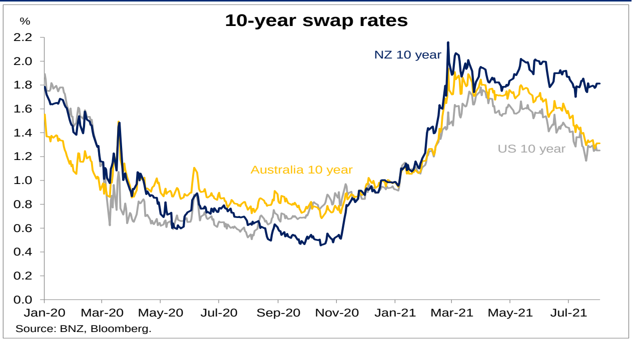
Nonfarm payrolls is the other major event this week, given the Fed has tied its tapering decision to labour market developments. Our core view remains that global rates will head higher later this year, flowing through to NZ, but market positioning remains a short-term headwind.

Market pricing for the OCR is front loaded



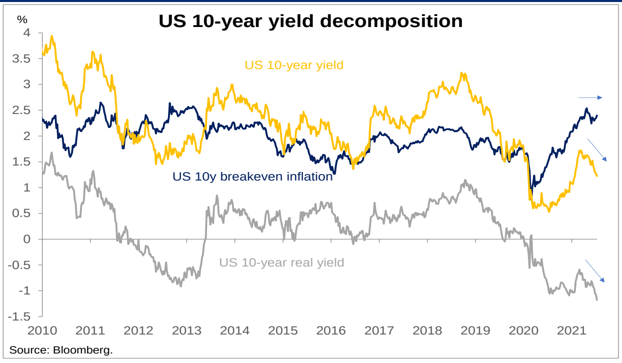
Source: BNZ, Bloomberg

NZ 10-year rate still rangebound



Source: BNZ, Bloomberg.

US 10-year real rate hits all-time low



Source: Bloomberg.

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the USD was broadly weaker but the NZD and AUD underperformed, with the NZD flat around 0.6970 and the AUD down slightly, seeing NZD/AUD close the week just under 0.95, an eight-month high. The NZD was down about ½-1% on the other crosses.

The USD came under pressure last week following a dovish press conference by US Fed Chair Powell. At its policy update, the Fed tweaked policy guidance, suggesting that progress had been made towards its goals, but not meeting the "substantial further progress" threshold previously alluded to as a requirement before tapering its $120b per month QE programme. Chair Powell remained dovish, suggesting "we're some ways away" from substantial progress on employment and "nowhere near considering raising rates". The weaker USD reaction suggests that the market wasn't expecting Powell to be so overtly dovish. But overall, market expectations of some tapering of bond purchases from late this year or early next year haven't changed and US rate hikes, which won't begin until after QE has ended, remain a distant prospect.

Last week, the NZD and AUD also looked to have got in the cross-winds of concern about China's regulatory reform, which has hither-to been directed at Chinese technology companies. The crackdown was widely seen as a form of social policy to rein in companies taking advantage of the middle-income class and investors became concerned that increased control would spillover into other industries. The NZD and AUD weakened alongside CNY as investors bailed out of Chinese-listed companies, before State media tried to calm markets, resulting in some reversal.

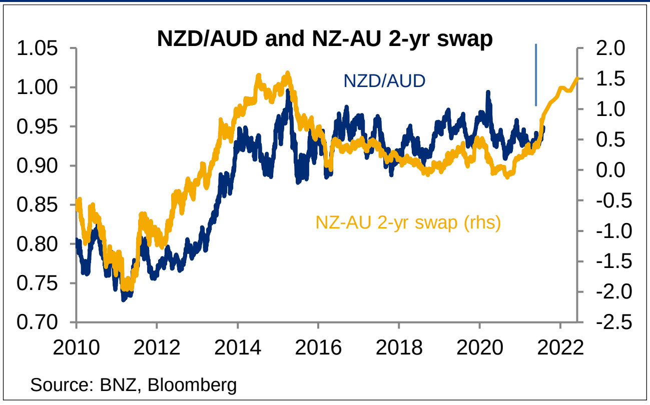
An added source of weakness for the AUD, which likely spilled over into the NZD, was the lack of turnaround in COVID19 cases in NSW. The NSW lockdown has already been extended three times and, at the current rate, there is a risk that the lockdown won't be lifted as currently scheduled on 28 August. The outbreak of COVID19 in Australia and the dichotomy between RBNZ and RBA monetary policy was one reason we recently lifted our NZD/AUD forecasts. The next key resistance level is 0.96, which is where our central forecast lies through the next few months.

In the week ahead, domestic factors return to the fore, with NZ labour market data on Wednesday expected to show further signs of a strong labour market and the unemployment rate falling further. There is some skepticism from the offshore investor community that the RBNZ will raise the OCR as soon as this month, but the labour market should help seal the deal, as long as NZ can escape a major COVID19 outbreak over the next two weeks. A strong labour market print should help provide some support to the NZD, although as we saw in July with the trifecta of a strong QSBO, the hawkish RBNZ MPR and much stronger CPI print, NZD strength only proved temporary, with global forces ultimately seeing the currency reverse course.

Key US economic data this week include the manufacturing and services PMIs and non-farm payrolls at the end of the week, with the consensus expecting a print of just under 1 million. This would represent further progress towards the Fed meeting its employment objective, but still considered not enough to trigger a decision to taper bond purchases. On the policy front, tomorrow the majority expects the RBA to backtrack on its decision to taper bond purchases from $5b to $4b, with growth now expected to lunge into negative territory for Q3. The BoE meets later in the week, but little change in policy is expected.

For NZD/USD, over the coming week two-way directional forces are likely to be in play, with positive domestic forces likely offset by ongoing global headwinds. On round numbers, 0.69-0.71 should cover the range while the crosses could easily push higher.

NZD/AUD bias remains higher on RBNZ-RBA policy gap



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6971	0.6880 - 0.7050
NZD/AUD	0.9504	0.9310 - 0.9510
NZD/GBP	0.5014	0.4980 - 0.5100
NZD/EUR	0.5875	0.5850 - 0.5960
NZD/JPY	76.46	75.30 - 77.70

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7220	-3%
NZD/AUD	0.9090	5%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.7100 (ahead of 0.7315)
ST Support: 0.6880 (ahead of 0.6800)

The sideways movement in the NZD last week means that support and resistance remained unchanged at 0.6880-0.7100.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9600 (ahead of 0.9700)
ST Support: 0.9300 (ahead of 0.9135)

Resistance at the February high near 0.9485 was broken last week. We might see a little resistance around 0.9500 but we see stronger resistance at 0.9600. Support near 0.93 isn't a current threat.

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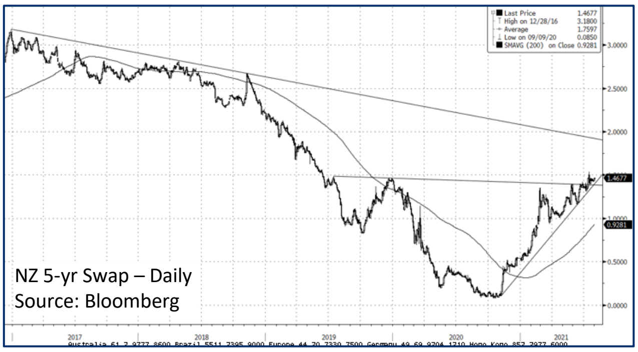
NZ 5-year Swap Rate

Outlook: Higher
MT resistance 1.92
MT support 1.39

Break higher opens up topside target 1.92. Trendline support at 1.39 now stop on a close through that.



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

Outlook: Neutral
MT resistance 0.45
MT support 0.31

Support at 0.31. Neutral at present and will see if 0.31 holds.

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Quarterly Forecasts

Forecasts as at 2 August 2021

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Jun-21 to Jun-22)

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
GDP (production s.a.)	-1.5	-10.8	14.1	-1.0	1.6	0.7	0.6	0.7	0.5	1.1
Retail trade (real s.a.)	-1.3	-14.8	27.7	-2.6	2.5	2.5	0.6	0.5	0.6	0.8
Current account (ytd, % GDP)	-2.8	-1.8	-0.8	-0.8	-2.2	-3.2	-3.8	-4.0	-3.8	-4.1
CPI (q/q)	0.8	-0.5	0.7	0.5	0.8	1.3	1.3	0.5	0.5	0.3
Employment	1.0	-0.2	-0.7	0.6	0.5	0.7	0.3	0.4	0.5	0.7
Unemployment rate %	4.3	4.0	5.2	4.9	4.7	4.5	4.4	4.3	4.1	3.8
Avg hourly earnings (ann %)	3.7	2.9	3.9	4.6	3.0	3.5	2.7	2.9	4.0	4.3
Trading partner GDP (ann %)	-2.4	-5.3	-0.9	0.7	6.3	9.8	5.4	4.6	4.8	4.9
CPI (y/y)	2.5	1.5	1.4	1.4	1.5	3.3	4.0	4.1	3.7	2.7
GDP (production s.a., y/y))	0.0	-11.2	0.4	-0.8	2.4	15.6	2.0	3.7	2.5	2.9

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
2019 Dec	1.00	1.15	1.05	1.40	1.10	1.20	1.50	1.95	1.80	-0.40
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
Forecasts										
Sep	0.50	0.35	1.60	1.95	1.35	1.70	2.05	0.15	1.50	0.45
Dec	0.75	0.35	1.95	2.30	1.65	2.05	2.40	0.15	1.80	0.50
2022 Mar	1.00	0.45	2.25	2.60	1.90	2.35	2.70	0.15	2.00	0.60
Jun	1.25	0.70	2.50	2.80	2.15	2.60	2.90	0.15	2.20	0.60
Sep	1.50	1.00	2.70	3.00	2.35	2.80	3.10	0.15	2.35	0.65
Dec	1.75	1.25	2.85	3.15	2.50	2.95	3.25	0.15	2.50	0.65
2023 Mar	2.00	1.50	2.90	3.30	2.50	3.00	3.40	0.15	2.65	0.65

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	1.19	1.39	110	0.70	0.95	0.59	0.50	76.5	74.0
Sep-21	0.72	0.76	1.21	1.41	109	0.72	0.96	0.60	0.51	78.8	75.2
Dec-21	0.75	0.78	1.23	1.43	109	0.75	0.95	0.61	0.52	81.5	76.6
Mar-22	0.76	0.80	1.24	1.46	109	0.76	0.95	0.61	0.52	82.8	77.3
Jun-22	0.75	0.80	1.26	1.48	109	0.75	0.94	0.60	0.51	82.0	76.4
Sep-22	0.75	0.80	1.28	1.52	109	0.75	0.94	0.59	0.50	82.0	76.3
Dec-22	0.74	0.80	1.30	1.54	109	0.74	0.93	0.57	0.48	80.7	75.1
Mar-23	0.73	0.79	1.28	1.52	108	0.73	0.92	0.57	0.48	78.8	74.5
Jun-23	0.72	0.77	1.26	1.50	108	0.72	0.93	0.57	0.48	77.5	74.0
Sep-23	0.71	0.76	1.25	1.47	107	0.71	0.93	0.57	0.48	76.0	73.6
Dec-23	0.69	0.75	1.24	1.47	107	0.69	0.92	0.56	0.47	73.8	71.8
TWI Weights						13.3%	19.2%	10.5%	4.1%	6.4%	

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

Annual Forecasts

Forecasts as at 2 August 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	2.9	-0.7	9.6	3.3	2.0	3.6	-1.9	10.7	3.2	2.4
Government Consumption	6.1	6.3	4.5	1.8	1.3	5.4	6.4	5.3	2.2	1.2
Total Investment	1.3	-4.7	13.8	4.2	-0.6	3.2	-7.4	14.6	5.0	0.1
Stocks - ppts cont'n to growth	-0.5	-0.2	0.8	-0.1	0.0	-0.7	-0.8	1.6	-0.3	0.0
GNE	2.5	-0.5	10.2	3.1	1.3	3.0	-2.5	11.9	3.1	1.6
Exports	-0.3	-15.9	4.3	10.9	8.2	2.3	-11.8	-4.2	9.7	10.8
Imports	1.2	-16.2	17.8	10.0	5.4	2.2	-16.4	15.0	9.5	7.1
Real Expenditure GDP	2.1	-0.4	5.7	2.8	1.6	3.0	-1.2	6.0	2.7	2.0
GDP (production)	**1.7**	**-2.3**	**5.6**	**3.0**	**1.6**	**2.4**	**-2.9**	**5.6**	**2.9**	**2.0**
GDP - annual % change (q/q)	*0.0*	*2.4*	*2.5*	*3.0*	*1.6*	*1.8*	*-0.8*	*3.7*	*3.1*	*1.4*
Output Gap (ann avg, % dev)	1.6	-2.1	0.9	1.5	0.9	2.0	-2.2	0.8	1.4	1.0
Nominal Expenditure GDP - $bn	322	325	355	371	384	319	322	350	367	380
Prices and Employment - annual % change										
CPI	2.5	1.5	3.7	2.3	2.7	1.9	1.4	4.1	2.1	2.6
Employment	2.6	0.3	1.9	2.0	1.1	1.2	0.8	2.0	2.3	0.9
Unemployment Rate %	4.3	4.7	4.1	3.8	4.4	4.1	4.9	4.3	3.6	4.4
Wages - ahote	3.7	3.0	4.0	4.0	2.8	4.3	2.6	4.6	2.9	4.1
Productivity (ann av %)	-0.3	-2.9	3.9	0.9	0.5	0.5	-4.1	4.4	0.8	0.6
Unit Labour Costs (ann av %)	3.5	5.3	-0.2	2.4	2.3	2.5	6.9	-0.8	2.5	2.3
House Prices	7.8	20.7	9.6	2.3	2.0	4.6	15.5	17.2	2.8	2.0
External Balance										
Current Account - $bn	-9.1	-7.2	-13.3	-16.5	-14.8	-10.6	-2.4	-14.1	-17.4	-15.4
Current Account - % of GDP	-2.8	-2.2	-3.8	-4.4	-3.9	-3.3	-0.8	-4.0	-4.7	-4.0
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-7.3	-2.8	-3.6	-0.9	0.3					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	34.0	43.0	48.0	48.0					
Bond Programme - $bn (Treasury forecasts)	29.0	45.0	30.0	25.0	25.0					
Bond Programme - % of GDP	9.0	13.8	8.4	6.7	6.5					
Financial Variables (1)										
NZD/USD	0.60	0.71	0.76	0.73	0.69	0.66	0.71	0.75	0.74	0.69
USD/JPY	108	109	109	108	107	109	104	109	109	107
EUR/USD	1.11	1.19	1.24	1.28	1.24	1.11	1.22	1.23	1.30	1.24
NZD/AUD	0.97	0.93	0.95	0.92	0.92	0.96	0.94	0.95	0.93	0.92
NZD/GBP	0.49	0.51	0.52	0.48	0.47	0.50	0.53	0.52	0.48	0.47
NZD/EUR	0.55	0.60	0.61	0.57	0.56	0.59	0.58	0.61	0.57	0.56
NZD/YEN	65.1	77.5	82.8	78.8	73.8	72.0	73.6	81.5	80.7	73.8
TWI	68.9	74.8	77.3	74.5	71.8	72.8	74.3	76.6	75.1	71.8
Overnight Cash Rate (end qtr)	0.25	0.25	1.00	2.00	2.00	1.00	0.25	0.75	1.75	2.00
90-day Bank Bill Rate	0.71	0.33	1.20	2.15	2.15	1.23	0.26	0.95	2.00	2.15
5-year Govt Bond	0.80	1.00	2.25	2.90	2.95	1.25	0.40	1.95	2.85	2.95
10-year Govt Bond	1.15	1.75	2.60	3.30	3.30	1.60	0.90	2.30	3.15	3.30
2-year Swap	0.65	0.50	1.90	2.50	2.50	1.25	0.28	1.65	2.50	2.50
5-year Swap	0.80	1.15	2.35	2.95	3.05	1.40	0.49	2.05	2.95	3.05
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	0.65	0.30	-0.25	0.00	0.50	0.65	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 2 August			
Aus, Inflation Gauge (Melbourne Institute), Jul y/y			+3.0%
Aus, ANZ Job Ads, June			+3.0%
China, PMI (Caixin), July		51.0	51.3
Euro, PMI Manufacturing, July 2nd est		62.6	62.6P
Germ, Retail Sales, June		+2.0%	+4.2%
UK, Markit/CIPS Manuf Survey, July 2nd est		60.4	60.4P
US, ISM Manufacturing, July		60.9	60.6
US, Construction Spending, June		+0.5%	-0.3%
Tuesday 3 August			
NZ, CoreLogic House Prices, July y/y			+22.8%
Aus, Housing Finance, June $		+2.0%	+4.9%
Aus, Building Approvals, June		-4.5%	-7.1%
Aus, CoreLogic HPI, July			+1.9%
Aus, RBA Policy Announcement	0.10%	0.10%	0.10%
US, Factory Orders, June		+1.0%	+1.7%
Wednesday 4 August			
NZ, HLFS Unemployment Rate, Q2	4.4%	4.4%	4.7%
NZ, Dairy Auction, GDT Price Index			-2.9%
NZ, ANZ Commodity Prices (world), July			+0.8%
NZ, LCI Priv Ord Wages, Q2	+0.6%	+0.7%	+0.4%
NZ, HLFS Employment, Q2	+0.7%	+0.7%	+0.6%
Aus, Retail Sales, June 2nd est		-1.8%	-1.8%P
Aus, Services PMI (Markit), Jul 2nd est			44.2P
China, Services PMI (Caixin), July		50.5	50.3
Euro, Retail Sales, June		+1.6%	+4.6%
Euro, PMI Services, July 2nd est		60.4	60.4P
UK, Markit/CIPS Services, Jul 2nd est		57.8	57.8P
US, Fed's Clarida Speaks, US Monetary Policy			
US, ISM Non-Manuf, July		60.5	60.1
US, ADP Employment, July		+650k	+692k
Thursday 5 August			
Aus, International Trade, June		+$10.20b	+$9.68b
Germ, Factory Orders, June		+2.0%	-3.7%
UK, BOE Policy Announcement		0.10%	0.10%
US, International Trade, June		-$74.0b	-$71.2b
US, Jobless Claims, week ended 31/07		382k	400k
Friday 6 August			
Aus, Lowe Testifies, Econ Committee			
Aus, Qtly Monetary Statement			
Jpn, Household Spending, Jun y/y (real)		+0.2%	+11.6%
Germ, Industrial Production, June		+0.6%	-0.3%
US, Non-Farm Payrolls, July		+900k	+850k
US, Unemployment Rate, July		5.7%	5.9%
Saturday 7 August			
China, Trade Balance, July			+¥333b

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.25	0.25	0.25	0.25
1mth	0.32	0.32	0.26	0.27
2mth	0.39	0.40	0.30	0.30
3mth	0.46	0.47	0.34	0.30
6mth	0.61	0.62	0.37	0.33
GOVERNMENT STOCK				
04/23	0.74	0.79	0.52	0.32
04/25	1.02	1.08	0.95	0.38
04/27	1.20	1.27	1.27	0.54
04/29	1.40	1.47	1.59	0.71
05/31	1.51	1.61	1.83	0.83
04/33	1.71	1.78	2.01	0.95
04/37	1.99	2.07	2.34	1.20
05/41	2.28	2.36	2.64	1.51
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	48	52	48	70
Europe 5Y	46	49	46	60

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	1.05	1.06	0.79	0.22
3 years	1.21	1.23	1.04	0.23
4 years	1.34	1.36	1.24	0.26
5 years	1.44	1.46	1.41	0.33
10 years	1.79	1.81	1.94	0.69
FOREIGN EXCHANGE				
NZD/USD	0.6978	0.6944	0.7034	0.6684
NZD/AUD	0.9473	0.9453	0.9303	0.9350
NZD/JPY	77.12	76.00	77.84	70.44
NZD/EUR	0.5928	0.5885	0.5901	0.5688
NZD/GBP	0.5072	0.5078	0.5068	0.5189
NZD/CAD	0.8765	0.8854	0.8684	0.8927
TWI	74.3	73.9	74.1	73.0

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