

8 November 2021



## Days of Reckoning Fast Approach

- **Consumer and business sentiment the key**
- **As New Zealand becomes COVID endemic**
- **Q3 GDP bounceback modest**
- **Inflation not so moderate**
- **Labour constraints to intensify**

New Zealand is rapidly headed towards its days of reckoning. In our opinion, the single biggest uncertainty facing the economy over the next twelve months is how business and consumer sentiment responds to endemic COVID.

There are many ways this can go. At the extremes we could:

- collectively accept the risks of operating in such an environment, relish our freedoms and push ahead with economic expansion; or
- fear could rise aggressively, domestic spending on services could collapse, labour supply could drop and the economy could retrench.

In reality, there will be a mix of both. And we really have little idea as to what the end game will look like. All we know for sure is that we are in a transition phase and transitions are disruptive.

In our opinion, there is still a significant chunk of the population which is still not prepared for operating in a world with COVID. For most, it is great news the economy will never go back to Level 4 lockdown again. Indeed Level 3 looks unlikely as we move into the new traffic light environment. But the flip side of this is that, for the foreseeable future, we will not be in Level 1 settings either.

In our opinion, the major changes that need to be considered by business are:

- The demand for labour will increase, particularly in public-facing businesses as cover will be required for those who can't come to work because of the direct, or indirect, impacts of COVID.
- The supply of labour will be reduced by those who are simply too fearful of coming to work.
- New Zealand will no longer feel safer than the rest of the world so domestic labour will again be attracted offshore.
- On balance, then, the costs of labour will rise.
- There will be a sustained shift towards online purchasing.
- Hospitality sales are unlikely to return to pre-COVID levels in the foreseeable future.

- The international tourism sector will re-emerge but at a relatively glacial pace.

From a macro economy perspective this all means that:

- Capacity constraints will remain elevated.
- Labour costs will continue to rise.
- There will be heightened demand for capital/labour substitution.
- Potential growth will be lowered.
- So inflationary pressure will occur at lower levels of activity than previously assumed.
- Meaning that upward pressure on interest rates will remain for some time.

This afternoon Prime Minister Ardern will update the nation on COVID restrictions. Everyone expects Auckland's restrictions to be eased further so that the majority of retail outlets and public facilities can reopen and outdoor gatherings can be larger. It is expected Auckland will stay with these new settings for one to three weeks before further easing will then occur.

Everything is broadly on track for the economy to move to the new traffic light system sometime in December and the PM has "promised" Aucklanders they will be able to travel for Christmas. It is at this point in time that the rest of New Zealand, nationwide, will experience the spread of COVID and the transition will rapidly gain momentum.

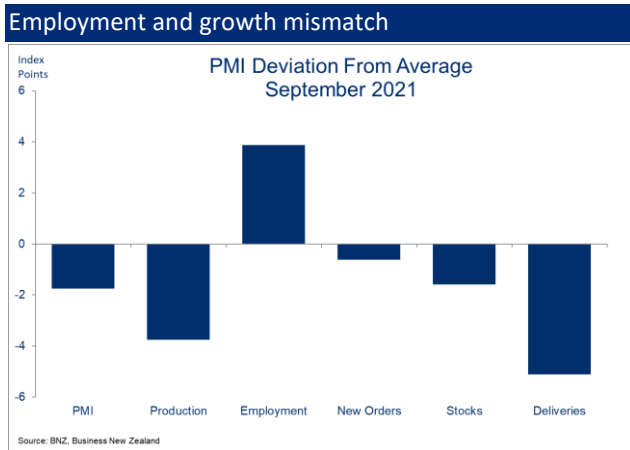
For most of the world endemic COVID is now situation normal. New Zealand is yet to experience this phenomenon. We will soon be thrust headlong into a very different world.

Meanwhile the data keep flowing. In large part it is all irrelevant because it is what happens next that is critical. But we will continue to peruse the numbers for information on the economy's starting point going into this new phase.

Perhaps providing greatest insight will be the release of the ANZ's latest update of its business survey (on Thursday) and Friday's Business New Zealand – BNZ PMI on Friday.

Generally speaking business surveys are reporting concern about future activity set against a backdrop of heightened demand for labour and rising inflation. The combination of these factors intimating downward pressure on profitability. We expect this week's surveys to provide further supporting evidence of these.

It will be of particular interest to us whether the PMI backs up September’s findings of activity below average but employment above average. This would lend further weight to our concerns about the transitional changes we can expect as voiced above.



On the real economy front, we get a further glimpse into consumer spending and building activity with the release of October’s Electronic Card Transactions (ECT) data on Tuesday and Q3 Concrete Production on Wednesday.

We are expecting a double-digit increase in card transactions thanks largely to Auckland’s emergence from

Level 4 lockdown. This is consistent with our expectation that real retail sales will have risen 6.0% across Q4 which, in turn, is a major driver of our expected 2.2% increase in real GDP for the quarter.

Q3 was when the economy was under most duress from COVID restrictions. We should get further confirmation of our expectation that activity for this quarter contracted 7.0% when we see the concrete production data for the quarter.

We get more inflation data on Thursday with the release of food and rent prices for October. We are expecting a small drop in food prices for the month due to the normal seasonal drop in fresh fruit and vegetable prices. Food prices typically drop across the December quarter and we are assuming this will again be the case this year. Nonetheless, inflationary pressures are so great elsewhere that we still see the CPI increasing 1.3% over Q4 taking annual inflation to a whopping 5.8%.

Rents will continue to escalate. We expect rents rose 0.3% in October on their way to a 0.8% quarterly increase. The risk is that this number surprises to the upside.

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# Global Watch

- US CPI inflation expected to push higher
- Fed speakers aplenty, including Chair Powell
- China loan growth seen slowing; inflation rising
- UK Q3 GDP growth positive, but slower than Q2
- ECB, BoE speakers galore
- AU employment gains expected

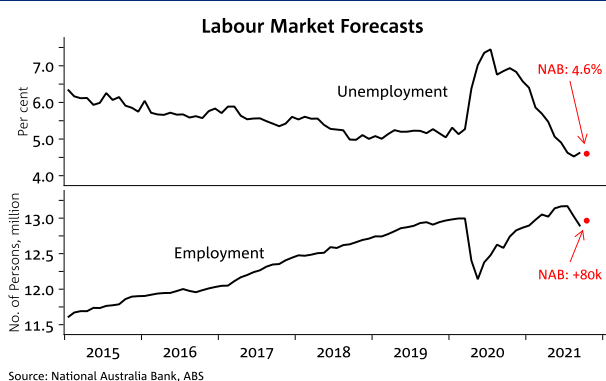
## Australia

October’s employment figures are due on Thursday. Leading indicators suggest employment will rebound sharply over the next few months. For example, SEEK job ads for October showed a second consecutive surge in NSW, and a sharp reversal higher in the ACT and Victoria as employers looked to hire alongside reopening. NAB sees aggregate employment back above the levels before the recent lockdowns by the end of the year.

But the timing of improvement in the official labour force data is much less clear. NAB expects initial signs to appear in October in NSW, while Victoria may remain weak. NAB has pencilled in an employment gain of +80k, and for the unemployment rate to be unchanged at 4.6%. A downside surprise would not derail NAB’s central expectation, rather it would push some of the measured rebound into the November and December surveys. Reflecting the uncertainty on employment in October, the range of market forecasts traverses -50k to 120k.

Also out during the week are the NAB business Survey on Tuesday (no hints here) and W-MI consumer confidence on Wednesday. Melbourne Institute inflation and wage expectations data are due on Thursday.

### Start of the employment rebound likely in Oct



Ahead of next week’s wage data, the latest read of the Melbourne Institute Survey is out this Thursday. A further uptick would bolster the outlook for a pickup in wages growth in the next few quarters.

## China

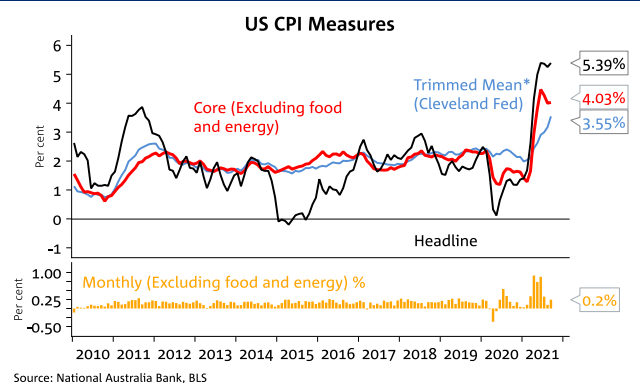
Aggregate Financing figures are due this week, with new loan growth expected to slow, weighed by real estate

lending. Wednesday brings October’s inflation numbers. The CPI is expected to increase to 1.4% y/y, with producer prices seen up 12.5%y/y. The Singles day shopping festival is Thursday.

## US

CPI is on Wednesday with core inflation expected to be uncomfortably high pushing up to 4.3% y/y from 4.0%. Monthly inflation is seen at 0.4% m/m. Over the past couple of months price increases have become more broad-based amongst the CPI basket. Friday’s preliminary November UoM Consumer Sentiment survey will also be closely watched to see whether confidence bounces after having fallen since August. Focus will also be on inflation expectations that have been trending higher. Fed speakers are aplenty this week, headlined by Powell opening the Fed’s Diversity Conference on Monday, a further opportunity to call out the benefits of pursuing the Fed’s maximum employment mandate. Other speakers include Harker, Evans, Daly, and Williams.

### US CPI on Thursday



## UK

After intense focus on the BoE, interest switches back to geopolitics with the UK-EU seeking a path to re-negotiating the Northern Ireland Protocol. The main data focus comes on Thursday with Q3 GDP that’s expected to have slowed to 1.5% after Q2’s heady 5.5% rebound as restrictions on service sector activity were lifted. The BoE’s Governor Bailey and Broadbent both speak on Tuesday.

## 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 finally showed signs of stabilising last week after their sharp increases in October. The key influence last week was the pullback in global rates which followed dovish messaging from the RBA, the Bank of England’s shock decision not to hike rates, and Fed Chair Powell’s claim that the Fed could be “patient” when it comes to raising rates.

Even a strong nonfarm payrolls report on Friday, which showed an above-consensus 531k job gain in October, wasn’t enough to arrest the pullback in global rates on the week. It appears like the Bank of England’s decision to keep its cash rate on hold, against market expectations of a rate rise, has caused investors to reassess how other central banks might respond to above-target inflation.

The Fed formally announced it would begin tapering its QE bond purchases, to commence at \$15b per month from the middle of November, leaving it on track to finish in June 2022. The Fed said that current inflation pressures were “expected to be” transitory, a sign that its confidence in the transitory inflation thesis had diminished, but Powell said that the Fed still thought it could afford to be “patient” when it comes to raising rates. Assuming the Fed finishes its tapering process in June next year, the initial rate hike is unlikely before July.

In Australia, the RBA ditched its Yield Curve Control policy, where it had previously targeted the April 2024 bond yield at 0.1%, but stuck to its dovish messaging, with Governor Lowe claiming that rate hikes were “extremely unlikely” in 2022. Market expectations of rate hikes in Australia were pared back, with now around 3½ hikes priced in by the end of next year, compared to almost 5 rate hikes expected at one stage.

Global 10-year rates were lower on the week by 10bps in the US, 19bps in the UK and 27bps in Australia, with the moves likely exacerbated by investors unwinding ‘short’ positioning (i.e. bets on higher interest rates). In NZ, the 10-year swap rate pulled back 7bps, to 2.67%, although it remains close to its recent 3-year high. At the short end, the 2-year NZ swap rate dropped 6bps, to 2.20%.

Market expectations for RBNZ rate hikes remain elevated. The market prices around a one-in-three chance of a 50bps OCR hike later this month with a peak in the OCR of around 2.75% seen in 2023 (the terminal OCR was priced above 3% at one stage earlier last week). A very strong HLFS labour market report, which showed a 14-year low in the unemployment rate, of 3.4%, helped maintain OCR expectations last week, even as the market pared back offshore rate hike expectations.

Market pricing for the OCR remains significantly above our forecasts, which have the cash rate getting to 2.25% by early 2023. To be clear, we see upside risks to our OCR forecasts, given the extent of inflation pressures at present. But we think some consolidation in NZ short end rates might be appropriate after the big run-up in October.

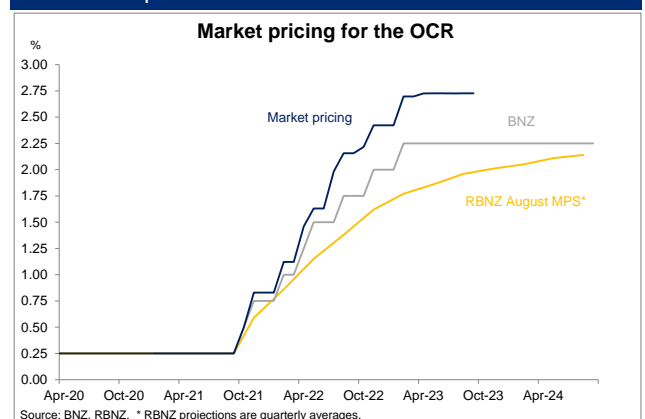
Further out the curve, we still think the likely direction for long-term global interest rates is higher, despite the recent pullback. Inflation pressures continue to mount globally, and we ultimately expect major central banks, like the Fed, to raise rates by more than what is priced in. The market prices the Fed to raise its cash rate to only 1.5% this cycle (in around 5 years’ time no less), well below the 2.5% peak in the most recent tightening cycle. Higher long-term global rates should drag NZ long-term interest rates higher, notwithstanding the fact that there is a lot more tightening priced in for the RBNZ than other central banks.

The US CPI release is the key event offshore this week. Recent CPI releases have shown a broadening in underlying inflation pressures, including in the ‘sticky’ shelter category, with a range of core inflation measures now clearly trending higher. In Australia, our NAB colleagues expect an above-consensus 80k increase in jobs in October, the month NSW started loosening Covid-19 restrictions. Market attention is more focused on the Australian wage data released next week given the emphasis the RBA has placed on higher wage growth as one of the criteria for rate hikes.

Long-term rates pull back last week



The market prices the OCR to reach 2.75% in 2023



Source: BNZ, RBNZ. \* RBNZ projections are quarterly averages.  
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## Foreign Exchange Market

Reuters pg BNZFWDS Bloomberg pg BNZ9

Despite steady risk appetite, safe haven currencies outperformed and commodity currencies underperformed last week. Furthermore, the NZD was dragged lower after a dovish RBA policy update drove a weaker AUD. The NZD fell by 0.8% to 0.7120, while the AUD fell by 1.6% to 0.7400, seeing NZD/AUD up nearly 1% to 0.9620. GBP was also particularly weak, after the BoE passed on raising rates, driving rates and the currency lower. NZD/GBP was up ½% to 0.5275.

Last week contained plenty of event risk and some market volatility. Early in the week, 0.72 proved to be a key resistance level for the NZD, before events conspired to drag the currency down, but it found some support just below 0.71. The Fed began the process of normalising monetary policy, with a well-telegraphed \$15b per month taper of its QE programme that will see a June 2022 end date. Of note, the statement suggested less confidence that current elevated inflation would prove to be transitory. However, Chair Powell gave nothing away in terms of when we can expect the Fed to hike rates. By the end of the week, the market had priced less tightening into the curve (even with a solid non-farm payrolls report on Friday) but still a good chance that the tightening cycle begins in the second half of next year.

A fading of tightening priced into global rate curves was influenced by dovish policy updates by the RBA and Bank of England. As expected, the RBA abandoned its yield-curve-control policy, a key part of its forward guidance that rate hikes wouldn't be needed until 2024. Remarkably, the Bank still sees that timeframe as its central view, even if it admitted there was a chance that the rate hike cycle might need to begin in 2023. Thus, the RBA remains overtly dovish and that drove lower Australian rates and a weaker AUD. Still, the market isn't convinced that the RBA is right, and a series of hikes from next year is still well priced, even if toned down a little from a week ago.

The BoE shocked the market, by standing pat on rates even though a rate hike was well-priced. This drove UK rates and GBP lower. ECB President Lagarde also pushed back on market pricing for a possible hike next year, after only giving a half-hearted attempt at this the previous week.

NZ labour market data were much stronger than expected, with the unemployment rate down to a 14-year low of 3.4%. RBNZ Governor Orr noted that labour market data are highly volatile at present. This was code for not reading too much into the data, particularly with the survey period capturing a period of significant lockdown restrictions.

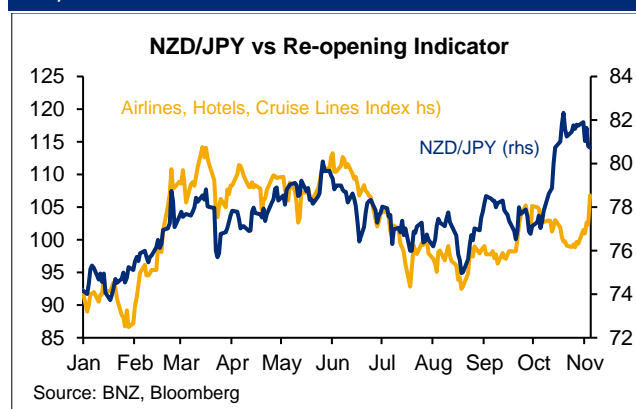
So, it was a week in which central banks were happy to push against market expectations on monetary policy and this kept risk appetite elevated, with fresh highs in equity markets. But currency movements were more consistent with a risk-off theme, with JPY and CHF outperforming.

After downgrading our outlook for the NZD about a month ago, we don't have any regrets so far. There remain "headwinds galore" for the NZD. Risk appetite is vulnerable to deteriorate as global inflation continues and, despite last week's rhetoric, global monetary policy is set to tighten. China remains an ongoing source of concern, particularly as it continues with its COVID19 elimination strategy that is resulting in more widespread lockdowns – a source of weaker China domestic demand and a handbrake on the global economic recovery.

Our near-term 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.

In the week ahead, the key global release will be US CPI data, with annual inflation expected to show another push higher to 5.9% on the headline rate while the core rate pushes up to 4.3%. Market reaction should be limited to the extent that, for now, the Fed is more focused on the employment situation.

### NZD/JPY looks over-cooked on this indicator



### Cross Rates and Model Estimates

|         | Current | Last 3-weeks range* |          |
|---------|---------|---------------------|----------|
| NZD/USD | 0.7109  | 0.7070              | - 0.7220 |
| NZD/AUD | 0.9616  | 0.9500              | - 0.9630 |
| NZD/GBP | 0.5273  | 0.5160              | - 0.5280 |
| NZD/EUR | 0.6152  | 0.6100              | - 0.6220 |
| NZD/JPY | 80.61   | 80.40               | - 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                          | 0.9250     | 4%        |

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# Technicals

## NZD/USD

Outlook: Trading range  
 ST Resistance: 0.7220 (ahead of 0.7315)  
 ST Support: 0.7075 (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. On the downside, 0.71 was broken but we still see 0.70-0.71 as a near-term support zone.



## NZD/AUD

Outlook: Trading range  
 ST Resistance: 0.9625 (ahead of 0.9730)  
 ST Support: 0.9400 (ahead of 0.9240)

We've nudged up resistance to 0.9625 after 0.96 broke last week, but 0.9730 is a stronger level of resistance. Support remains at 0.94.

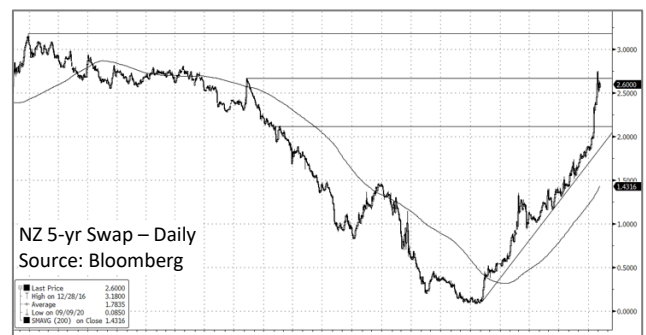
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## NZ 5-year Swap Rate

Outlook: Neutral  
 ST resistance: 2.74  
 ST support: 2.11

Neutral here looks like consolidation before the next move.



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

Outlook: steeper  
 MT resistance: 0.51  
 MT support: 0.31

Looks like a range trade take profit 45-50 area.

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# Quarterly Forecasts

Forecasts as at 8 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  | 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  |        |         | Swaps  |        |         | US Rates      |          | Spread         |
|-----------|------|-------------------|--------|---------|--------|--------|---------|---------------|----------|----------------|
|           |      | 90 Day Bank Bills | 5 Year | 10 Year | 2 Year | 5 Year | 10 Year | Libor 3 month | US 10 yr | 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              | 2.45   | 2.55    | 2.25   | 2.55   | 2.65    | 0.15          | 1.80     | 0.75           |
| 2022 Mar  | 1.00 | 1.35              | 2.60   | 2.75    | 2.40   | 2.70   | 2.85    | 0.15          | 2.00     | 0.75           |
| Jun       | 1.50 | 1.70              | 2.70   | 2.95    | 2.55   | 2.80   | 3.05    | 0.15          | 2.20     | 0.75           |
| Sep       | 1.75 | 2.00              | 2.80   | 3.05    | 2.65   | 2.90   | 3.15    | 0.15          | 2.35     | 0.70           |
| Dec       | 2.00 | 2.25              | 2.80   | 3.10    | 2.65   | 2.90   | 3.20    | 0.15          | 2.50     | 0.60           |
| 2023 Mar  | 2.25 | 2.40              | 2.80   | 3.10    | 2.65   | 2.90   | 3.20    | 0.15          | 2.50     | 0.60           |
| Jun       | 2.25 | 2.40              | 2.80   | 3.10    | 2.65   | 2.90   | 3.20    | 0.15          | 2.50     | 0.60           |

## Exchange Rates (End Period)

### USD Forecasts

|         | NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY |
|---------|---------|---------|---------|---------|---------|
| Current | 0.71    | 0.74    | 1.16    | 1.35    | 113     |
| Dec-21  | 0.69    | 0.72    | 1.15    | 1.32    | 112     |
| Mar-22  | 0.70    | 0.73    | 1.16    | 1.33    | 111     |
| Jun-22  | 0.70    | 0.74    | 1.17    | 1.35    | 112     |
| Sep-22  | 0.71    | 0.76    | 1.19    | 1.36    | 111     |
| Dec-22  | 0.72    | 0.78    | 1.20    | 1.38    | 111     |
| Mar-23  | 0.72    | 0.78    | 1.22    | 1.39    | 110     |
| Jun-23  | 0.72    | 0.78    | 1.24    | 1.40    | 109     |
| Sep-23  | 0.72    | 0.78    | 1.24    | 1.42    | 108     |
| Dec-23  | 0.71    | 0.77    | 1.25    | 1.43    | 108     |
| Mar-24  | 0.70    | 0.76    | 1.25    | 1.43    | 107     |

### NZD Forecasts

|         | NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|---------|---------|---------|---------|---------|---------|--------|
| Current | 0.71    | 0.96    | 0.62    | 0.53    | 80.7    | 75.7   |
| Dec-21  | 0.69    | 0.95    | 0.60    | 0.52    | 77.0    | 73.7   |
| Mar-22  | 0.70    | 0.95    | 0.60    | 0.52    | 77.4    | 74.1   |
| Jun-22  | 0.70    | 0.94    | 0.60    | 0.52    | 78.4    | 74.0   |
| Sep-22  | 0.71    | 0.94    | 0.60    | 0.52    | 79.1    | 74.6   |
| Dec-22  | 0.72    | 0.93    | 0.60    | 0.52    | 79.9    | 75.2   |
| Mar-23  | 0.72    | 0.93    | 0.59    | 0.52    | 79.2    | 75.3   |
| Jun-23  | 0.72    | 0.92    | 0.58    | 0.51    | 78.5    | 74.9   |
| Sep-23  | 0.72    | 0.92    | 0.58    | 0.51    | 77.8    | 74.7   |
| Dec-23  | 0.71    | 0.92    | 0.57    | 0.50    | 76.7    | 73.6   |
| Mar-24  | 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<br>as at 8 November 2021             | March Years |             |            |            |            | December Years |             |             |            |            |
|--|-------------|-------------|------------|------------|------------|----------------|-------------|-------------|------------|------------|
|  | Actuals     |             | Forecasts  |            |            | Actuals        |             | Forecasts   |            |            |
|  | 2020        | 2021        | 2022       | 2023       | 2024       | 2019           | 2020        | 2021        | 2022       | 2023       |
| <b>GDP - annual average % change</b>           |             |             |            |            |            |                |             |             |            |            |
| 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        |
| <b>GDP (production)</b>                        | <b>1.7</b>  | <b>-1.4</b> | <b>3.2</b> | <b>5.5</b> | <b>1.3</b> | <b>2.4</b>     | <b>-2.1</b> | <b>3.3</b>  | <b>5.5</b> | <b>1.6</b> |
| <i>GDP - annual % change (q/q)</i>             | <i>0.1</i>  | <i>2.9</i>  | <i>2.7</i> | <i>2.8</i> | <i>1.7</i> | <i>1.8</i>     | <i>0.1</i>  | <i>-1.0</i> | <i>7.8</i> | <i>1.3</i> |
| 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        |
| <b>Prices and Employment - annual % change</b> |             |             |            |            |            |                |             |             |            |            |
| 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        |
| <b>External Balance</b>                        |             |             |            |            |            |                |             |             |            |            |
| 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       |
| <b>Government Accounts - June Yr, % of GDP</b> |             |             |            |            |            |                |             |             |            |            |
| 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        |                |             |             |            |            |
| <b>Financial Variables <sup>(1)</sup></b>      |             |             |            |            |            |                |             |             |            |            |
| 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       |

<sup>(1)</sup> 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    |   | Forecast | Median | Last    |
|--|----------|--------|---------|---|----------|--------|---------|
| <b>Monday 8 November</b>                   |          |        |         | <b>Thursday (continued)</b>             |          |        |         |
| UK, BRC Retail Sales Monitor, Oct y/y      |          |        | -0.6%   | Aus, Employment, October                | +50k     |        | -138k   |
| <b>Tuesday 9 November</b>                  |          |        |         | Aus, Unemployment Rate, October         | 4.8%     |        | 4.6%    |
| NZ, ANZ Truckometer Index, October         |          |        | +13.4%  | Euro, ECB Economic Bulletin             |          |        |         |
| NZ, Electronic Card Transactions, October  | +10.0%   |        | +1.6%   | UK, Industrial Production, September    |          |        | +0.8%   |
| Aus, NAB Business Survey, October          |          |        |         | UK, GDP, Q3 1st est                     | +1.5%    |        | +5.5%   |
| Jpn, Eco Watchers Survey, Oct (Outlook)    |          | 57.0   | 56.6    | UK, Trade Balance, September            |          |        | −£3.7b  |
| Germ, ZEW Sentiment, November              |          | +20.0  | +22.3   | UK, GDP monthly, September              |          |        | +0.4%   |
| Germ, Trade Balance, September             |          |        | +€10.7b | US, Jobless Claims, week ended 06/11    |          |        | 269k    |
| US, PPI ex-food/energy, Oct y/y            |          | +6.8%  | +6.8%   | <b>Friday 12 November</b>               |          |        |         |
| US, Powell Speaks, Diversity Conference    |          |        |         | NZ, BNZ PMI (Manufacturing), October    |          |        | 51.4    |
| US, NFIB Small Business Optimism, October  |          | 99.5   | 99.1    | Euro, Industrial Production, September  |          | -0.5%  | -1.6%   |
| <b>Wednesday 10 November</b>               |          |        |         | US, Mich Cons Confidence, Nov 1st est   |          | 72.5   | 71.7    |
| NZ, Concrete Production, Q3 vol s.a.       |          |        | +1.7%   | US, JOLTS Job Openings, September       |          |        | 10,439k |
| Aus, Westpac Consumer Confidence, November |          |        | 104.6   | <b>Monday 15 November</b>               |          |        |         |
| China, PPI, Oct y/y                        |          | +12.5% | +10.7%  | NZ, International Migration, Sep s.a.   |          |        | +353    |
| China, CPI, Oct y/y                        |          | +1.4%  | +0.7%   | NZ, BNZ PSI (Services), October         |          |        | 46.9    |
| Germ, CPI, Oct y/y 2nd est                 |          | +4.5%  | +4.5%P  | NZ, International Travel, September     |          |        |         |
| US, CPI ex food/energy, Oct y/y            |          | +4.3%  | +4.0%   | China, Retail Sales, Oct y/y            |          |        | +4.4%   |
| US, Budget Statement, October              |          |        | −\$61b  | China, Fixed Assets (ex rural), Oct ytd |          |        | +7.3%   |
| US, Wholesale Trade Sales, September       |          |        | -1.1%   | China, Industrial Production, Oct y/y   |          |        | +3.1%   |
| <b>Thursday 11 November</b>                |          |        |         | Jpn, GDP, Q2 2nd est                    |          |        | +0.5%   |
| NZ, Food Price Index, October              |          | -0.5%  | +0.5%   | Jpn, Industrial Production, Sep 2nd est |          |        | -5.4%P  |
| NZ, Rental Price Indexes, October          |          |        |         | Euro, Trade Balance, Sep s.a.           |          |        | +€11.1b |
| NZ, ANZ Business Survey, Nov prelim        |          |        | -13.4   | US, Empire Manufacturing, November      |          |        | +19.8   |

## Historical Data

|                                      | Today | Week Ago | Month Ago | Year Ago |                         | Today  | Week Ago | Month Ago | Year Ago |
|--------------------------------------|-------|----------|-----------|----------|-------------------------|--------|----------|-----------|----------|
| <b>CASH AND BANK BILLS</b>           |       |          |           |          | <b>SWAP RATES</b>       |        |          |           |          |
| Call                                 | 0.50  | 0.50     | 0.50      | 0.25     | 2 years                 | 2.20   | 2.22     | 1.49      | 0.05     |
| 1mth                                 | 0.68  | 0.68     | 0.53      | 0.27     | 3 years                 | 2.46   | 2.47     | 1.71      | 0.06     |
| 2mth                                 | 0.74  | 0.74     | 0.60      | 0.28     | 4 years                 | 2.56   | 2.56     | 1.86      | 0.10     |
| 3mth                                 | 0.80  | 0.81     | 0.66      | 0.29     | 5 years                 | 2.60   | 2.60     | 1.96      | 0.16     |
| 6mth                                 | 1.02  | 1.06     | 0.82      | 0.25     | 10 years                | 2.67   | 2.71     | 2.35      | 0.57     |
| <b>GOVERNMENT STOCK</b>              |       |          |           |          | <b>FOREIGN EXCHANGE</b> |        |          |           |          |
| 04/23                                | 1.59  | 1.54     | 1.03      | 0.04     | NZD/USD                 | 0.7105 | 0.7185   | 0.6940    | 0.6818   |
| 04/25                                | 2.15  | 2.17     | 1.42      | 0.08     | NZD/AUD                 | 0.9607 | 0.9554   | 0.9444    | 0.9368   |
| 04/27                                | 2.30  | 2.32     | 1.68      | 0.25     | NZD/JPY                 | 80.57  | 81.91    | 78.62     | 71.98    |
| 04/29                                | 2.42  | 2.44     | 1.93      | 0.45     | NZD/EUR                 | 0.6150 | 0.6192   | 0.6007    | 0.5772   |
| 05/31                                | 2.52  | 2.54     | 2.09      | 0.59     | NZD/GBP                 | 0.5271 | 0.5258   | 0.5104    | 0.5179   |
| 04/33                                | 2.60  | 2.61     | 2.24      | 0.75     | NZD/CAD                 | 0.8868 | 0.8887   | 0.8658    | 0.8871   |
| 04/37                                | 2.77  | 2.77     | 2.47      | 1.02     |                         |        |          |           |          |
| 05/41                                | 2.84  | 2.86     | 2.67      | 1.29     | TWI                     | 75.7   | 76.2     | 74.2      | 72.3     |
| <b>GLOBAL CREDIT INDICES (ITRXX)</b> |       |          |           |          |                         |        |          |           |          |
| Nth America 5Y                       | 49    | 53       | 54        | 52       |                         |        |          |           |          |
| Europe 5Y                            | 48    | 51       | 53        | 50       |                         |        |          |           |          |

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