

13 December 2021



## Hold Your Horses

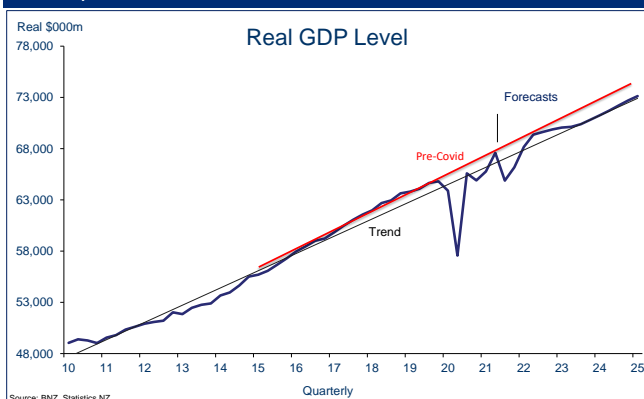
- Q3 GDP likely fell 4%; RBNZ expected 7% drop
- PMI (50.6)/PSI (46.5) temper rebound expectations
- ANZ business/consumer surveys instructive Friday
- REINZ housing report not weak but more mixed
- External deficit to be confirmed wider Wednesday
- HYEFU likely to keep its (formidable) powder dry
- Auckland held at Red for the summer?

New Zealand's customarily mad week of economic reports, just before Xmas, is upon us. It's hard to wrap a common theme around all of them. Each of them will be interesting in their own right.

It's hard to know quite where to start, but we'll do so with Thursday's Q3 GDP. We expect a decline of "just" 4% for this, after last week's run of "partials" proved not as weak as we anticipated, on average. We summarised this in our note last week entitled "Q3 GDP Nowhere Near as Weak as Anticipated?"

By comparison, the RBNZ estimated a drop of 7% (as per its November Monetary Policy Statement) – which is where we were pitched this time last week. Still, we are not alone in picking a decline in Q3 GDP much greater than the November MPS did. Analysts expectations are for a 4.5% fall. So, it's likely to be baked into market pricing already. And the result with high tolerance for deviation, given the disruptions from the COVID-related restrictions that began mid-August.

### In Perspective



As an aside, on Thursday's GDP accounts, note that these will also institute the annual revisions. These look set to upwardly revise the level of GDP over recent years, on net – emphasising the likely message from Q3 GDP, that the economy is stronger than previously judged.



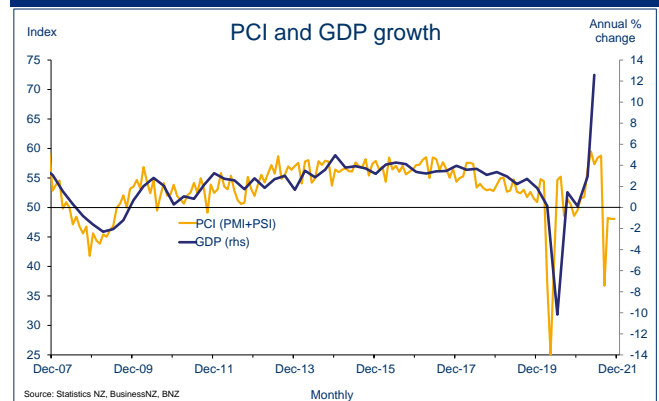
**Happy Holidays!** This is our last BNZ Markets Outlook for the year, we will resume again mid-January. Until then, we wish you all a safe and happy holiday season.

In any case, the salient question is how well (or otherwise?) the economy is bouncing back from its Q3 dip, and what inflation is doing besides.

Regarding economic activity, the latest Performance of Manufacturing, and Services, Indices, sounded a clear note of caution. The PMI softened to a barely expansive 50.6 in November, while this morning's PSI remained contractionary, with 46.5. This is even with the COVID restrictions having been relaxed over recent months.

We can imagine December's PMI and, especially, PSI readings will show improvement, given the move into the traffic light COVID system early this month. It will be important to see how they print over the next few months.

### Hold Your Horses



In terms of looking farther ahead on the economy, Friday's ANZ business survey will be instructive, especially now the traffic light COVID system is in place. Its final edition for November managed to get a grip, after a falling trend in its own-activity expectations index. However, the survey's inflation gauges remained as strong as ever.

Friday's business survey will tie in nicely with the ANZ Roy Morgan consumer confidence report for December, which is scheduled for the morning. It's already fallen to a relatively soft level, so any further fall would start to be a genuine worry. There are a lot of things about household spending that don't look entirely sustainable, in being far stronger

than recent consumer sentiment readings would ordinarily suggest.

That said, for the meantime, electronic card transactions have been showing a nice bounce. Their 9.5% increase for November essentially repeated the degree of recovery they posted in October, to be comparable to the level they were at in November last year. Just bear in mind this will be aided by price inflation. Even so, on the back of November's ECT, we have upgraded our view on Q4 retail volume growth, which is relevant to our GDP view.

Turning to housing, we are detecting more and more signs of reservation in the market, though nothing untoward has shown up in prices to date. Indeed, this morning's REINZ residential report for November showed a further 1.9% increase in its composition-controlled House Price Index. That said, it was interesting to see Auckland's index jumped 3.1% while Wellington's dipped 1.5%. The housing market remains important to monitor, including for its potential to influence home-building activity ahead.

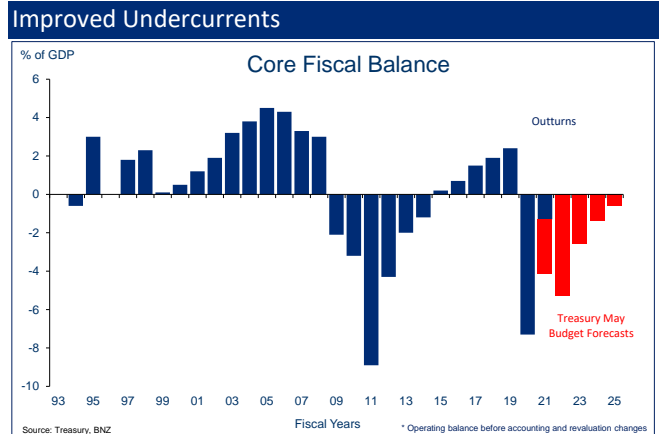
In this vein, we found it notable that this morning's migration figures, while modestly positive for October, were net negative over the trailing 12 months. This is poleaxing population growth, particularly amongst the working-age population.

If housing inflation is prone to cool off at some stage – even go negative – CPI inflation promises to be more nettlesome to bring under control. Yes, we anticipate annual CPI inflation to hit its peak this quarter – Q4 2021 – with 5.8% (capturing the seasonal 0.3% fall we anticipate for tomorrow's Food Price Index for November). And, yes, annual CPI inflation is likely to fall away a lot over the course of 2022. However, core inflation measures will likely keep grinding higher, along with nominal wage inflation, to keep pressure on the RBNZ.

This week's economic data calendar will also take in Wednesday's Balance of Payments for Q3. In this, the re-expansion of the current account deficit, which we've long forecast, will become more evident. We estimate a year to September 2021 current account deficit equivalent to 4.7% of GDP, from 3.3% in the year to June.

We'll also use the exports and imports figures in the BOP report to cross-check our SNA versions re Q3 GDP.

As for Wednesday's (1:00pm) Half-year Economic and Fiscal Update (HYEFU), this has obviously run into the grit of the COVID restrictions that began mid-August. However, the HYEFU's baselines are surely stronger than the May Budget had, considering how massively the tax data were running ahead of Budget, pre-August.



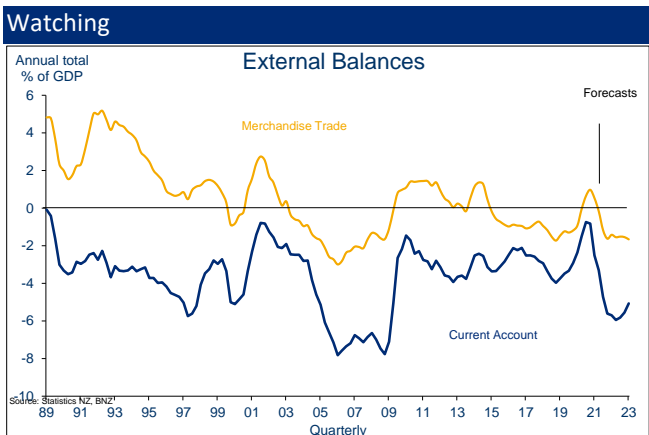
With this, there appears room for NZ Debt Management to tone down its bond programme at the HYEFU. However, we don't think it will elect to do this for what remains of the 2021/22 programme. And looking further out, we can imagine the government will want to keep a lot of its powder dry, given the trickiness of COVID-19 (and its variants) along with the potential costs of climate policies.

As for this afternoon's government review of the nation's COVID traffic light settings, the chances of Auckland joining the bulk of the rest of country in Orange are looking touch and go. At least that's the latest body language from the politicians (even with the falling trend in COVID cases in the region). What's already confirmed, of course, is that Auckland's border control will be relaxed from 11:59pm Tuesday, to allow fully vaccinated (or negative-tested) Aucklanders to leave the region.

With this being our last Weekly for the year, we should mention that, after this busy week, the dataflow goes to its usual dribs and drabs (albeit with the Q4 WMM consumer confidence report scheduled for 20 December). The border with Australia opens to New Zealand (vaccinated) returnees from 17 January, and the next big data report is the NZIER Quarterly Survey of Business Opinion, due 18 January. The Q4 CPI is scheduled for 27 January and the next RBNZ meeting is for the 23 February MPS.

**Catch you all again in the New Year. Keep safe.**

[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@bnz.co.nz)



# Global Watch

- FOMC expected to detail faster taper; eyes on the dots
- BoE expected to delay hike again
- ECB changes to asset purchase programs expected
- China’s activity data seen stabilising
- AU massive employment growth anticipated
- RBA’s Lowe speaks
- AU MYEFO expected to show smaller deficit

## Australia

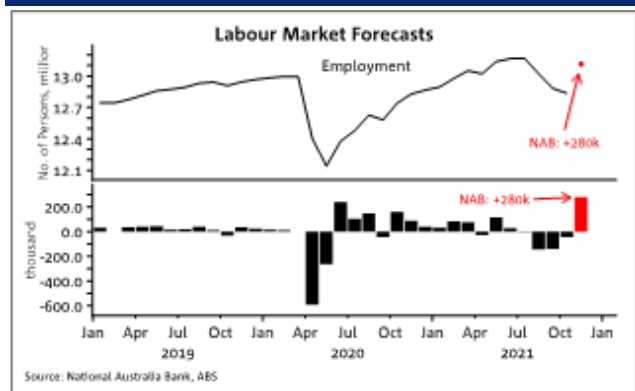
November employment numbers on Thursday are the key data for the week and are expected to be a blockbuster. They are expected to confirm the rapid rebound in employment suggested by other, more timely indicators and add to the list of evidence that the impact of recent lockdowns has been short-lived. Since the October survey, NSW, VIC and the ACT all removed stay at home orders.

NAB expects a record 280k gain in employment and for the unemployment rate to fall three tenths to 4.9% (consensus 200k/5.0%). NAB expects the participation rate to rise 1.2ppts to 65.8% (consensus 65.5%). Seek job ads and payroll jobs indicate a sharp employment recovery, although there is always some uncertainty around timing. A clear signal from the level of the unemployment rate will be clouded in the near-term by large participation flows.

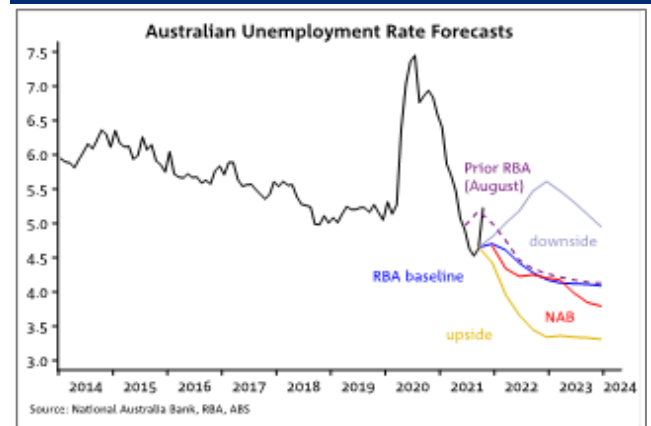
An hour ahead of the employment data release, RBA Governor Lowe speaks in Wagga Wagga. At the time of writing, there has been no title given for the speech. The RBA gave little away at its December meeting statement, so any hints on the QE program ahead of the February meeting, where the program will be reviewed, will be closely watched. NAB expects QE purchases to end in February.

The government is to hand down their Mid-year Financial and Economic Outlook (MYEFO), expected on Thursday. The headline deficit will come alongside updated near-term forecasts which should be upgraded. The 2021/22 deficit is likely to be tracking closer to \$70bn, much better than the \$106.6bn initially projected. The Budget is only a little over 3 months away, having been brought forward to March 29, ahead of expectations for a May election.

### NAB expect a record monthly employment gain



### Trend decline in unemployment to resume



The government is to hand down their Mid-year Financial and Economic Outlook (MYEFO), expected on Thursday. The headline deficit will come alongside updated near-term forecasts which should be upgraded. The 2021/22 deficit is likely to be tracking closer to \$70bn, much better than the \$106.6bn initially projected. The Budget is only a little over 3 months away, having been brought forward to March 29, ahead of expectations for a May election.

## China

More hints at the strength (or lack thereof) for Chinese activity on Wednesday with November Retail Sales, Industrial Production and Fixed Asset Investment. Consensus sees some stabilisation, with retail sales seen at 4.8% y/y from 4.9%, industrial production at 3.8% y/y, and fixed asset investment expected to be 5.4% y/y. Evergrande news will continued to be followed given the flagging of a need for debt restructure last week.

## US

The FOMC meeting dominates the US calendar. Chair Powell has retired the word ‘transitory’ and has signalled a faster taper could be appropriate. Expect an accelerated taper timeline to be announced this week with the Fed set to finish asset purchases by March, and thereby opening up ‘optionality’ for multiple rate hikes in 2022. The December meeting will also see updated economic projections with the dot plot closely watched to see whether the consensus is for one or two hikes in 2022 and whether anyone has pencilled in three or more hikes (at the last meeting they were evenly split on one hike in 2022). Also out during the week is November Retail Sales, with the control group expected to show another strong monthly read of 0.8% m/m.

## UK

The BoE meets on Thursday. After something of a head-fake from the BoE on rate rises for two consecutive meetings now, markets have pared bets on a rate hike,

with a lift at the December meeting less than a quarter priced. That's helped by uncertainty around the Omicron variant, which has been pointed to recently by various MPC members as increasing uncertainty, and hence the value of waiting. Before the BoE, we get October Employment on Tuesday and November CPI in Wednesday.

**Eurozone**

Continuing the Central Bank theme, the ECB also meets Thursday. A change to its asset purchase policies is in play, with an end to its Pandemic Purchase Program, but an extension to the Asset Purchase Program likely. The German IFO is due on Friday.

[taylor.nugent@nab.com.au](mailto:taylor.nugent@nab.com.au) / [doug\\_steel@bnz.co.nz](mailto:doug_steel@bnz.co.nz)

# Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Last week saw some consolidation in the NZ swap curve, even as US rates increased ahead of the Fed’s all-important policy meeting this week.

It’s a big week ahead both domestically and (especially) offshore, before trading activity really winds down heading into the Christmas break. At its meeting this week, the Fed is expected to announce a doubling in its tapering pace, from \$15b per month to \$30b per month, which would see its bond buying stop in March rather than June. An earlier end to QE would open the door to Fed rate hikes as soon as Q2 next year and Fed officials have signalled they want this option given elevated inflation pressures and a very tight labour market. Fed officials are set to bring forward the forecast timing of ‘lift off’ into 2022, with the market focus likely to be on how many rate hikes officials project for next year. The market fully prices the first 25bps rate hike by June next year with close to three hikes priced in by year end.

There are other key central bank meetings this week as well, including the Bank of England and ECB. The market has lost conviction the BoE will start its tightening cycle this week given the emergence of Omicron and now prices only around a 35% chance of a 15bps rate hike. The ECB is expected to confirm that its pandemic bond buying programme will finish in March, with the market expecting it will beef up another of its bond buying programmes to soften the adjustment for the vulnerable peripheral government bond markets, like Italy.

Last week saw higher US rates across the curve as market conviction in Fed rate hikes next year firmed and investors seemingly took a more optimistic view of Omicron developments, with initial indications suggesting it might result in milder illness than Delta. The US 10-year rate was 14bps higher, at 1.48%, while the 2-year rate was 7bps higher, at 0.65%, having reached a fresh 18-month high mid-week.

US rates still look puzzlingly low considering the extremely high level of inflation (headline inflation is at its highest level since 1982) and growing expectations that the Fed will start raising rates next year. The market doesn’t think the Fed will raise its cash rate beyond 1.5% this cycle, which would be a historically low peak in the cash rate. Likewise, the US 10-year real yield continues to trade at ultra-low levels, around -1%. While there remains significant uncertainty around Omicron, we think the risks are firmly skewed towards US rates increasing next year, with the market likely to eventually price in greater tightening. Higher long-term rates in the US should filter through to NZ 10-year rates next year, although with NZ-US rate spreads already at multi-year highs, we don’t expect NZ rates to rise to the same extent as those in the US.

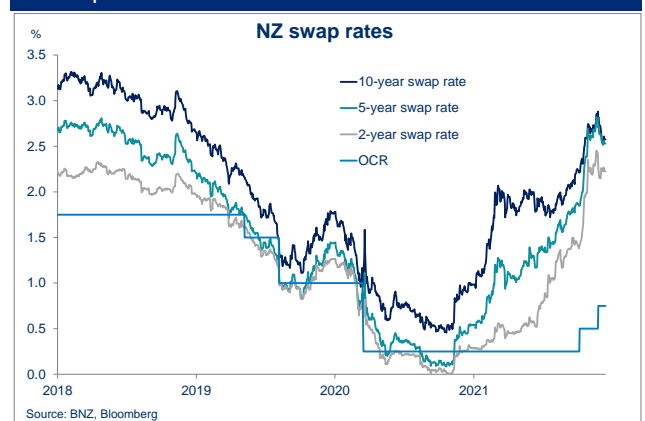
The short end of the NZ curve appears to have found some stability for the time being, with the 2-year swap rate down 3bps, to 2.23%. Market pricing of the terminal OCR has been relatively stable the past few weeks, around 2.75%, which is still above our 2.5% forecast peak in the cash rate. With six

rate hikes priced in for next year and growing signs that the local housing market has stalled, we think the risk is that short-end swap rates don’t increase by as much as the market is pricing in.

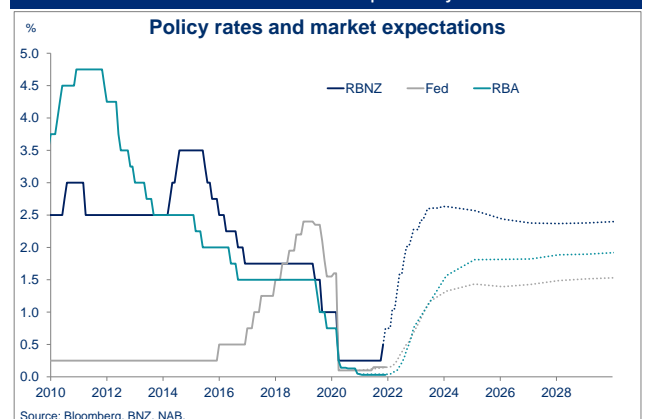
At the HYEPU this week, we think New Zealand Debt Management (NZDM) is likely to keep the current fiscal year’s bond programme, which has six months to run, at \$30b. Future fiscal years could see some reduction to forecast issuance given the recently stronger fiscal baselines. Longer-term forecasts of bond issuance should always be taken with a grain of salt, given the uncertainty around the economic outlook, but this is especially so in the coming years given the RBNZ has alluded to the possibility that it might sell back some of its bond holdings to NZDM (which, in turn, could lead to greater bond issuance than otherwise). Separately, we also think NZDM might announce plans for a new inflation-indexed bond syndication before the end of June.

The NZ GDP release is the other major focus locally this week. We’re pencilling in a 4% reduction in GDP in Q3, which would represent a big upside surprise to the RBNZ’s MPS forecast of -7%. That said, it’s likely that growth doesn’t bounce back quite as strongly in Q4 and Q1 as had previously been expected, and we think the market reaction is likely to be limited unless it is a major surprise.

NZ swap rates consolidate last week



The market thinks Fed cash rate will peak at just 1.5%



Source: Bloomberg, BNZ, NAB.  
nick.smyth@bnz.co.nz



# Foreign Exchange Market

Reuters pg BNZFWDS Bloomberg pg BNZ9

Commodity currencies outperformed last week as risk appetite recovered strongly. The NZD lagged the bounce-back in the AUD and CAD, rising only 0.7%, continuing to show some stickiness around 0.6800, after printing a fresh year-to-date low of 0.6737 early in the week. The strong 2.4% lift in the AUD dragged NZD/AUD down 1.8% to 0.9480. The NZD was up ½ to 1% on the other key crosses.

Risk appetite improved markedly last week, with our index up from 44% to 60%, as the market became less concerned about the Omicron variant of COVID19. Pfizer published results of lab tests done on Omicron, which suggested a significant reduction in vaccine efficacy from two-doses, but a third booster shot would fully restore the effectiveness of the current vaccine. Furthermore, a two-dose regimen may still induce protection against severe disease. Similar results have been seen in other studies.

CNY strengthened to a three-year high, with USD/CNY trading down to 6.34, before the PBoC stepped in and signalled discomfort, reversing that move. More importantly, the market became more comfortable with China’s economic outlook, following some policy easing, incorporating a reduction in the RRR for banks, signs that the government was looking to ease curbs on the property market and attempts to reduce contagion risk from the imminent restructuring of Evergrande debt. These measures supported the AUD and NZD and we are now less concerned about the risks overhanging China, with the government clearly looking to support the economy.

On Friday night, US CPI figures were massive, including a 4.9% y/y gain for the core figure, but no worse than expected. The USD showed further signs of consolidation last week, after its recent strength.

The economic calendar in the week ahead is very heavy. There are a number of domestic releases, but compared to the bigger events on the global calendar, they shouldn’t perturb the market. We significantly revised up our Q3 GDP estimate, but this is still expected to show a large lockdown-affected contraction in the order of 3-4%, and a smaller contraction in Q3 just means a weaker bounce-back in Q4 and Q1. The government’s half-year fiscal update and business and consumer confidence surveys will also be of interest.

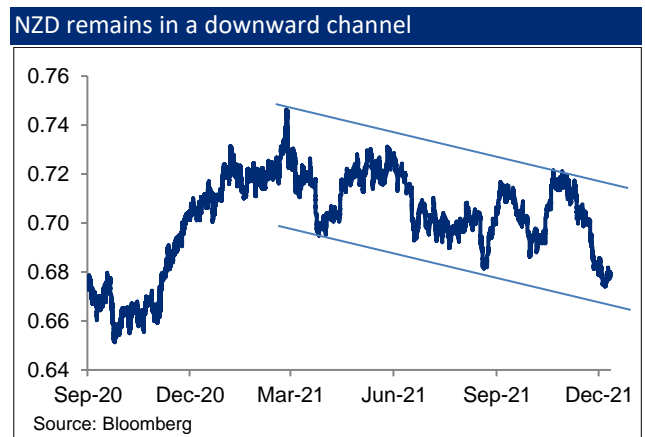
The key global event will be the US Fed’s update of policy and economic projections on Thursday morning. The USD was driven higher after the June and September FOMC updates, and the risk is that the USD gains further support after this quarter’s forecast update. Recent inflation surprises and the ever-tighter labour market are likely to prompt a more aggressive taper of the Fed’s QE programme, seeing it end in March rather than June next

year, and a bringing forward of interest rate projections illustrated by the “dotplot” of FOMC member views.

The Bank of England and ECB also give policy updates. The market has become less confident recently in the idea that the BoE makes its first hike for the cycle at this meeting. Still, with rampant inflation a series of hikes next year looks inevitable. The ECB is expected to announce the end of the Pandemic Emergency Purchase Programme but we’re more interested in the details of the ongoing Asset Purchase Programme, and the Bank can delay a decision on the size of that programme until next year.

China monthly activity data, US retail sales and a mammoth bounce-back in Australian employment round out the economic calendar.

The bottom line is that there is plenty of event risk this week that could sway currency markets. We remain cautious about the outlook for the NZD, given the Fed’s hawkish pivot, although policy actions out of China make us less concerned about China’s outlook. While the NZD is showing some stickiness around 0.68, the Fed’s update could determine whether a fresh low for the year is printed.



**Cross Rates and Model Estimates**

|         | Current | Last 3-weeks range* |
|---------|---------|---------------------|
| NZD/USD | 0.6800  | 0.6740 - 0.6960     |
| NZD/AUD | 0.9496  | 0.9470 - 0.9680     |
| NZD/GBP | 0.5138  | 0.5080 - 0.5210     |
| NZD/EUR | 0.6010  | 0.5960 - 0.6210     |
| NZD/JPY | 77.02   | 76.00 - 80.20       |

\*Indicative range over last 3 weeks, rounded figures

**BNZ Short-term Fair Value Models**

|         | Model Est. | Actual/FV |
|---------|------------|-----------|
| NZD/USD | 0.7120     | -4%       |
| NZD/AUD | 0.9180     | 3%        |

Jason.k.wong@bnz.co.nz

# Technicals

## NZD/USD

Outlook: Downside risk  
 ST Resistance: 0.70 (ahead of 0.7220)  
 ST Support: 0.6670 (ahead of 0.65)

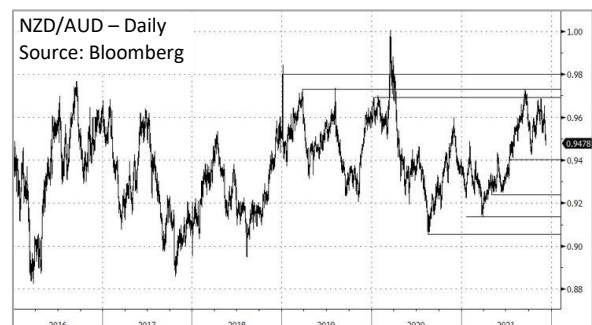
Although the currency made a new low of 0.6737 last week, there appears to be lingering support around 0.68. Bottom of downward channel is about 0.6670.



## NZD/AUD

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

Still in a range-trading environment, with resistance around 0.97-0.9730, and support at 0.94.

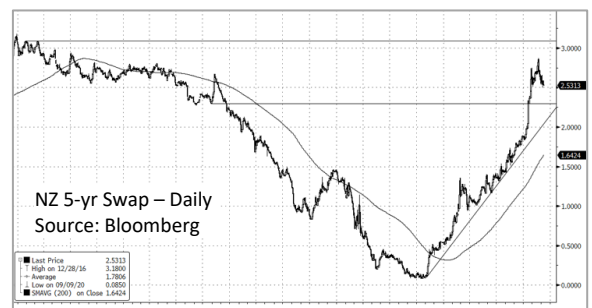


[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## NZ 5-year Swap Rate

Outlook: Neutral  
 MT resistance: 3.10  
 ST support: 2.30

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

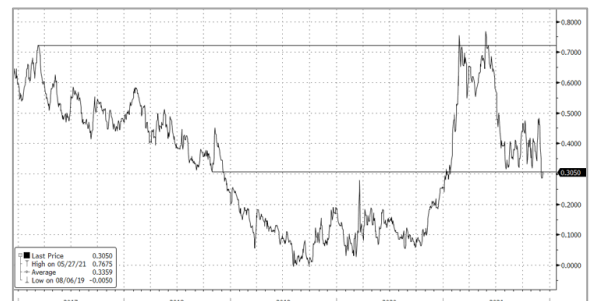


## NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: steeper  
 MT resistance: 0.51  
 MT support: 0.31

We put the steepener on at +31 stop on a close below +27.5.

[pete\\_mason@bnz.co.nz](mailto:pete_mason@bnz.co.nz)



# Quarterly Forecasts

Forecasts as at 13 December 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    | -4.0   | 2.0    | 3.0    | 1.8    | 0.4    |
| Retail trade (real s.a.)     | -15.6  | 28.4   | -2.3   | 2.3    | 3.3    | -8.1   | 5.0    | 5.0    | 0.8    | 0.6    |
| Current account (ytd, % GDP) | -1.5   | -0.7   | -0.8   | -2.5   | -3.3   | -4.7   | -5.6   | -5.7   | -5.9   | -5.8   |
| CPI (q/q)                    | -0.5   | 0.7    | 0.5    | 0.8    | 1.3    | 2.2    | 1.3    | 0.8    | 0.6    | 0.8    |
| 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    | 5.7    | 5.0    | 3.5    |
| GDP (production s.a., y/y)   | -10.2  | 1.4    | 0.1    | 2.9    | 17.4   | -1.1   | 2.0    | 3.6    | 2.6    | 7.3    |

## 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 |
| <b>2020 Mar</b>  | 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          |
| <b>2021 Mar</b>  | 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           |
| <b>Forecasts</b> |      |                   |        |         |        |        |         |               |          |                |
| Dec              | 0.75 | 0.95              | 2.50   | 2.55    | 2.25   | 2.60   | 2.65    | 0.15          | 1.80     | 0.75           |
| <b>2022 Mar</b>  | 1.00 | 1.35              | 2.65   | 2.80    | 2.45   | 2.75   | 2.90    | 0.15          | 2.00     | 0.80           |
| Jun              | 1.50 | 1.95              | 2.75   | 3.05    | 2.65   | 2.85   | 3.15    | 0.15          | 2.20     | 0.85           |
| Sep              | 2.00 | 2.25              | 2.80   | 3.15    | 2.75   | 2.90   | 3.25    | 0.15          | 2.35     | 0.80           |
| Dec              | 2.25 | 2.50              | 2.85   | 3.20    | 2.80   | 2.95   | 3.30    | 0.15          | 2.50     | 0.70           |
| <b>2023 Mar</b>  | 2.50 | 2.65              | 2.85   | 3.20    | 2.80   | 2.95   | 3.30    | 0.15          | 2.50     | 0.70           |
| Jun              | 2.50 | 2.65              | 2.85   | 3.20    | 2.80   | 2.95   | 3.30    | 0.15          | 2.50     | 0.70           |

## Exchange Rates (End Period)

### USD Forecasts

### NZD Forecasts

|         | NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY | NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|
| Current | 0.68    | 0.72    | 1.13    | 1.32    | 113     | 0.68    | 0.95    | 0.60    | 0.51    | 77.1    | 73.1   |
| Dec-21  | 0.69    | 0.72    | 1.13    | 1.32    | 112     | 0.69    | 0.95    | 0.61    | 0.52    | 77.0    | 73.5   |
| Mar-22  | 0.68    | 0.72    | 1.10    | 1.29    | 113     | 0.68    | 0.95    | 0.62    | 0.53    | 76.5    | 73.0   |
| Jun-22  | 0.69    | 0.73    | 1.12    | 1.30    | 113     | 0.69    | 0.95    | 0.62    | 0.53    | 78.0    | 74.0   |
| Sep-22  | 0.70    | 0.75    | 1.15    | 1.32    | 113     | 0.70    | 0.93    | 0.61    | 0.53    | 79.1    | 74.5   |
| Dec-22  | 0.72    | 0.77    | 1.17    | 1.34    | 113     | 0.72    | 0.92    | 0.61    | 0.53    | 80.8    | 75.4   |
| Mar-23  | 0.72    | 0.78    | 1.19    | 1.35    | 112     | 0.72    | 0.92    | 0.61    | 0.53    | 80.6    | 75.4   |
| Jun-23  | 0.72    | 0.78    | 1.20    | 1.36    | 111     | 0.72    | 0.92    | 0.60    | 0.53    | 79.9    | 75.2   |
| Sep-23  | 0.72    | 0.78    | 1.24    | 1.42    | 108     | 0.72    | 0.92    | 0.58    | 0.51    | 77.8    | 73.9   |
| Dec-23  | 0.71    | 0.77    | 1.25    | 1.43    | 108     | 0.71    | 0.92    | 0.57    | 0.50    | 76.7    | 73.0   |
| Mar-24  | 0.70    | 0.76    | 1.25    | 1.43    | 107     | 0.70    | 0.92    | 0.56    | 0.49    | 74.9    | 72.3   |

### 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 13 December 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         | 4.8        | 4.1        | 1.9        | 3.4            | -1.3        | 7.0        | 3.2        | 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        | 6.3        | 6.4        | -1.0       | 3.2            | -7.0        | 8.0        | 6.3        | -0.3       |
| Stocks - ppts cont'n to growth                           | -0.5        | -0.1        | 0.5        | 0.2        | -0.1       | -0.7           | -0.8        | 1.2        | 0.1        | -0.2       |
| GNE                                                      | 2.4         | 0.2         | 6.9        | 4.3        | 1.1        | 2.9            | -2.0        | 9.1        | 4.1        | 1.3        |
| Exports                                                  | 0.3         | -17.8       | 5.7        | 12.2       | 5.6        | 2.5            | -12.6       | -3.4       | 9.7        | 9.2        |
| Imports                                                  | 1.2         | -16.1       | 17.3       | 10.1       | 4.0        | 2.1            | -16.0       | 14.4       | 9.8        | 5.9        |
| Real Expenditure GDP                                     | 2.1         | -0.3        | 3.7        | 4.3        | 1.3        | 3.0            | -1.1        | 4.3        | 3.9        | 1.7        |
| <b>GDP (production)</b>                                  | <b>1.7</b>  | <b>-1.4</b> | <b>5.1</b> | <b>4.6</b> | <b>1.3</b> | <b>2.4</b>     | <b>-2.1</b> | <b>4.9</b> | <b>4.8</b> | <b>1.6</b> |
| <i>GDP - annual % change (q/q)</i>                       | <i>0.1</i>  | <i>2.9</i>  | <i>3.6</i> | <i>2.8</i> | <i>1.7</i> | <i>1.8</i>     | <i>0.1</i>  | <i>2.0</i> | <i>5.6</i> | <i>1.3</i> |
| Output Gap (ann avg, % dev)                              | 1.4         | -1.5        | -0.1       | 2.3        | 1.1        | 1.9            | -1.7        | -0.3       | 2.3        | 1.4        |
| Nominal Expenditure GDP - \$bn                           | 322         | 325         | 348        | 376        | 390        | 319            | 322         | 342        | 372        | 386        |
| <b>Prices and Employment - annual % change</b>           |             |             |            |            |            |                |             |            |            |            |
| CPI                                                      | 2.5         | 1.5         | 5.7        | 2.6        | 2.3        | 1.9            | 1.4         | 5.8        | 2.6        | 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        | 3.6        | 4.1        | 4.0            | 4.8         | 3.3        | 3.5        | 4.0        |
| 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        | 0.2        | 4.2        | 0.6        | 0.5            | -3.3        | 1.1        | 3.4        | 0.9        |
| Unit Labour Costs (ann av %)                             | 3.3         | 4.5         | 6.1        | 0.2        | 2.7        | 2.5            | 5.7         | 4.8        | 1.0        | 2.8        |
| House Prices                                             | 7.8         | 24.1        | 11.2       | -5.9       | 0.0        | 4.6            | 17.0        | 21.0       | -3.2       | -2.5       |
| <b>External Balance</b>                                  |             |             |            |            |            |                |             |            |            |            |
| Current Account - \$bn                                   | -7.6        | -8.2        | -19.8      | -19.1      | -17.7      | -9.3           | -2.7        | -19.2      | -20.6      | -18.6      |
| Current Account - % of GDP                               | -2.4        | -2.5        | -5.7       | -5.1       | -4.5       | -2.9           | -0.8        | -5.6       | -5.6       | -4.8       |
| <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        | 6.6        | 6.4        |                |             |            |            |            |
| <b>Financial Variables <sup>(1)</sup></b>                |             |             |            |            |            |                |             |            |            |            |
| NZD/USD                                                  | 0.60        | 0.71        | 0.68       | 0.72       | 0.71       | 0.66           | 0.71        | 0.69       | 0.72       | 0.71       |
| USD/JPY                                                  | 108         | 109         | 113        | 112        | 108        | 109            | 104         | 112        | 113        | 108        |
| EUR/USD                                                  | 1.11        | 1.19        | 1.10       | 1.19       | 1.25       | 1.11           | 1.22        | 1.13       | 1.17       | 1.25       |
| NZD/AUD                                                  | 0.97        | 0.93        | 0.95       | 0.92       | 0.92       | 0.96           | 0.94        | 0.95       | 0.92       | 0.92       |
| NZD/GBP                                                  | 0.49        | 0.51        | 0.53       | 0.53       | 0.50       | 0.50           | 0.53        | 0.52       | 0.53       | 0.50       |
| NZD/EUR                                                  | 0.55        | 0.60        | 0.62       | 0.61       | 0.57       | 0.59           | 0.58        | 0.61       | 0.61       | 0.57       |
| NZD/YEN                                                  | 65.1        | 77.5        | 76.5       | 80.6       | 76.7       | 72.0           | 73.6        | 77.0       | 80.8       | 76.7       |
| TWI                                                      | 68.9        | 74.8        | 73.0       | 75.4       | 73.0       | 72.8           | 74.3        | 73.5       | 75.4       | 73.0       |
| Overnight Cash Rate (end qtr)                            | 0.25        | 0.25        | 1.00       | 2.50       | 2.25       | 1.00           | 0.25        | 0.75       | 2.25       | 2.50       |
| 90-day Bank Bill Rate                                    | 0.71        | 0.33        | 1.35       | 2.65       | 2.40       | 1.23           | 0.26        | 0.95       | 2.50       | 2.65       |
| 5-year Govt Bond                                         | 0.80        | 1.00        | 2.65       | 2.85       | 2.50       | 1.25           | 0.40        | 2.50       | 2.85       | 2.65       |
| 10-year Govt Bond                                        | 1.15        | 1.75        | 2.80       | 3.20       | 3.05       | 1.60           | 0.90        | 2.55       | 3.20       | 3.15       |
| 2-year Swap                                              | 0.65        | 0.50        | 2.45       | 2.80       | 2.40       | 1.25           | 0.28        | 2.25       | 2.80       | 2.60       |
| 5-year Swap                                              | 0.80        | 1.15        | 2.75       | 2.95       | 2.60       | 1.40           | 0.49        | 2.60       | 2.95       | 2.75       |
| 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        | 0.80       | 0.70       | 0.55       | -0.25          | 0.00        | 0.75       | 0.70       | 0.65       |
| <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

All times and dates NZT

|                                                      | Median | Fcast | Last   |                                            | Median | Fcast  | Last   |
|------------------------------------------------------|--------|-------|--------|--------------------------------------------|--------|--------|--------|
| <b>Monday</b>                                        |        |       |        | US Retail Sales Advance MoM Nov            | 0.80%  |        | 1.70%  |
| NZ Performance Services Index Nov                    |        |       | 44.6   | US Business Inventories Oct                | 1.10%  |        | 0.70%  |
| NZ Net Migration SA Oct                              |        |       | 653    | US NAHB Housing Market Index Dec           | 84     |        | 83     |
| NZ Govt reviews traffic-light settings               |        |       |        | US FOMC Rate Decision (Upper Bound) Dec-15 | 0.25%  |        | 0.25%  |
| JN Tankan Large Mfg Index 4Q                         | 19     |       | 18     | NZ GDP SA QoQ 3Q                           | -4.50% |        | 2.80%  |
| <b>Tuesday</b>                                       |        |       |        | AU RBA Governor Lowe Speaks                |        |        |        |
| CA Bank of Canada Releases Inflation Mandate Details |        |       |        | AU Reserve Bank of Australia Bulletin      |        |        |        |
| NZ Food Prices MoM Nov                               |        |       | -0.90% | AU Employment Change Nov                   | 200.0k | 280.0k | -46.3k |
| AU NAB Business Confidence Nov                       |        |       | 21     | AU Unemployment Rate Nov                   | 5.00%  | 4.90%  | 5.20%  |
| UK ILO Unemployment Rate 3Mths Oct                   | 4.20%  |       | 4.30%  | EC Markit Eurozone Manufacturing PMI Dec P | 57.9   |        | 58.4   |
| EC Industrial Production SA MoM Oct                  | 1.30%  |       | -0.20% | EC Markit Eurozone Services PMI Dec P      | 54.3   |        | 55.9   |
| <b>Wednesday</b>                                     |        |       |        | <b>Friday</b>                              |        |        |        |
| US NFIB Small Business Optimism Nov                  | 98.4   |       | 98.2   | UK Bank of England Bank Rate Dec-16        | 0.10%  |        | 0.10%  |
| US PPI Ex Food and Energy YoY Nov                    | 7.20%  |       | 6.80%  | EC ECB Deposit Facility Rate Dec-16        | -0.50% |        | -0.50% |
| NZ RBNZ Governor at Parliament Committee             |        |       |        | US Initial Jobless Claims Dec-11           | 195k   |        | 184k   |
| NZ Auckland border control relaxes                   |        |       |        | US Continuing Claims Dec-04                | 1938k  |        | 1992k  |
| NZ Current Account GDP Ratio YTD 3Q                  | -4.50% |       | -3.30% | US Housing Starts Nov                      | 1566k  |        | 1520k  |
| NZ Half Year Economic, Fiscal Update                 |        |       |        | US Philadelphia Fed Business Outlook Dec   | 29.6   |        | 39     |
| CH Retail Sales YoY Nov                              | 4.80%  |       | 4.90%  | US Markit US Manufacturing PMI Dec P       | 58.5   |        | 58.3   |
| CH Industrial Production YoY Nov                     | 3.80%  |       | 3.50%  | NZ ANZ Consumer Confidence Index Dec       |        |        | 96.6   |
| CH Fixed Assets Ex Rural YTD YoY Nov                 | 5.40%  |       | 6.10%  | NZ ANZ Business Confidence Dec             |        |        | -16.4  |
| UK CPI YoY Nov                                       | 4.80%  |       | 4.20%  | GE IFO Expectations Dec                    | 93.5   |        | 94.2   |
| <b>Thursday</b>                                      |        |       |        | EC CPI MoM Nov F                           | 0.50%  |        | 0.50%  |
| US Empire Manufacturing Dec                          | 25     |       | 30.9   | JN BOJ Policy Balance Rate Dec-17          |        |        | -0.10% |

## 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                                 | 0.75  | 0.75     | 0.50      | 0.25     | 2 years                 | 2.23   | 2.23     | 2.29      | 0.26     |
| 1mth                                 | 0.79  | 0.78     | 0.81      | 0.26     | 3 years                 | 2.45   | 2.45     | 2.54      | 0.30     |
| 2mth                                 | 0.84  | 0.83     | 0.84      | 0.26     | 4 years                 | 2.51   | 2.51     | 2.63      | 0.36     |
| 3mth                                 | 0.89  | 0.88     | 0.86      | 0.25     | 5 years                 | 2.53   | 2.52     | 2.66      | 0.45     |
| 6mth                                 | 1.14  | 1.13     | 1.15      | 0.27     | 10 years                | 2.58   | 2.53     | 2.70      | 0.90     |
| <b>GOVERNMENT STOCK</b>              |       |          |           |          | <b>FOREIGN EXCHANGE</b> |        |          |           |          |
| 04/23                                | 1.54  | 1.50     | 1.63      | 0.21     | NZD/USD                 | 0.6797 | 0.6753   | 0.7048    | 0.7081   |
| 04/25                                | 2.20  | 2.07     | 2.21      | 0.29     | NZD/AUD                 | 0.9482 | 0.9577   | 0.9593    | 0.9400   |
| 04/27                                | 2.29  | 2.17     | 2.35      | 0.46     | NZD/JPY                 | 77.14  | 76.64    | 80.44     | 73.68    |
| 04/29                                | 2.38  | 2.24     | 2.49      | 0.69     | NZD/EUR                 | 0.6006 | 0.5984   | 0.6199    | 0.5831   |
| 05/31                                | 2.41  | 2.29     | 2.58      | 0.85     | NZD/GBP                 | 0.5126 | 0.5091   | 0.5253    | 0.5312   |
| 04/33                                | 2.50  | 2.38     | 2.68      | 1.02     | NZD/CAD                 | 0.8645 | 0.8615   | 0.8820    | 0.9038   |
| 04/37                                | 2.67  | 2.55     | 2.85      | 1.32     |                         |        |          |           |          |
| 05/41                                | 2.84  | 2.68     | 2.92      | 1.62     | TWI                     | 73.0   | 72.9     | 75.3      | 74.5     |
| <b>GLOBAL CREDIT INDICES (ITRXX)</b> |       |          |           |          |                         |        |          |           |          |
| Nth America 5Y                       | 53    | 56       | 51        | 54       |                         |        |          |           |          |
| Europe 5Y                            | 52    | 57       | 49        | 50       |                         |        |          |           |          |

# 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

### New York

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

### Sydney

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

### Hong Kong

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

### London

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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.