RESEARCH

Markets Outlook

17 January 2022

2022: Wary of an Inflationary Outbreak

- **Omicron threatens…to intensify staff shortages**
- **Tuesday's QSBO to highlight existing capacity headaches**
- **Local data (since break for Xmas) reasonably robust**
- **This week's Dec. ECT, FPI, PMI will add to the mix**
- **Our base case of persistent OCR hikes remains**

As we start off 2022, the threat of Omicron is obviously front of mind. It seems just a matter of time before it gets a toehold in the NZ community. Meantime, the populace is lining up to get booster shots, to best brace for this new strain. And that's not to forget Delta has been in the community since August, albeit that case numbers have petered out to very low levels for now.

Around the threat of COVID, we can imagine the government will err on the side of caution with its "traffic light" settings (with these set to be reviewed today). The course of the virus will also influence decisions around the border, which is, for all intents and purposes, closed until at least the end of February.

To be sure, the traffic light system of COVID management that New Zealand transitioned to in early December is more permissive and flexible of activity, compared to the previous Alert Level 1-4 system. Still, if Omicron spreads here, as much as it has overseas, then the possibility of Alert-style restrictions cannot be ruled out.

Around this, we'll also need to know what government support measures might kick in under different scenarios (conscious that the Wage Subsidy, and Resurgence Support Payment, schemes effectively finished late last year).

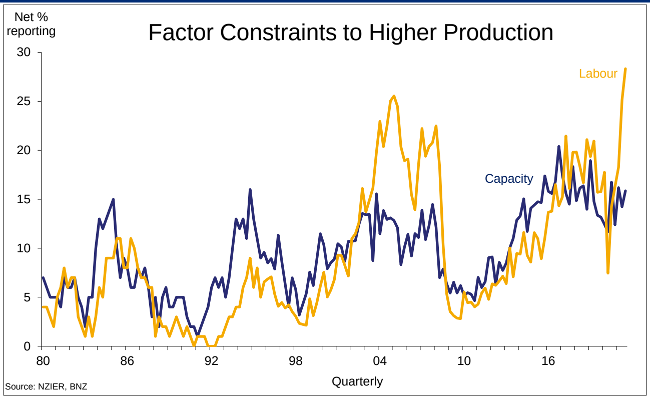
With all of this in prospect, who'd want to forecast the economy with any assurance (as if this task was ever possible, even in settled times)?

But while the impact of COVID on GDP is hard to gauge it seems reasonably clear that Omicron, by dint of its transmissibility, has the potential to have a significant impact on the availability of staff. We know this from what other developed countries have been going through over the last month or two, including Australia. Brace for a rash of absent workers, in other words.

This would presumably bring into play the government's existing Short-Term Absence Payment, and Leave Support, schemes.

Of course, there is already a severe shortage of workers in the New Zealand economy. Tomorrow's Quarterly Survey of Business Opinion (QSBO) will make this clear. Indeed, this NZIER survey will surely highlight a relative lack of supply in the economy more broadly, like we've hardly ever seen before, not just for staff.

Extreme Already

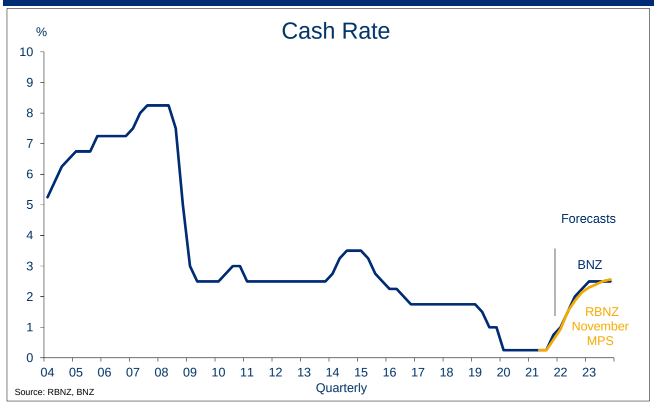


And don't underplay the role that overcooked demand is playing in the relative lack of capacity firms are experiencing. It's not just the obvious impediments on the supply side. After all, monetary and fiscal policies have been stimulating to the extreme.

Still, it's all relative. And so, with its wealth of capacity-constraint metrics, tomorrow's QSBO will be a salient pointer to why we envisage elevation in core inflation for a while yet.

And ongoing rate hikes from the Reserve Bank. For the record, we still expect 25 basis point increases in the Official Cash Rate (OCR) at the successive meetings of 23 February, 13 April, 25 May, 13 July and 17 August – taking it to a neutral-like 2.00%. We forecast a peak of 2.50% by early 2023. As it happens, our base case on the OCR is close to current market pricing.

Aligned…With The Market Too



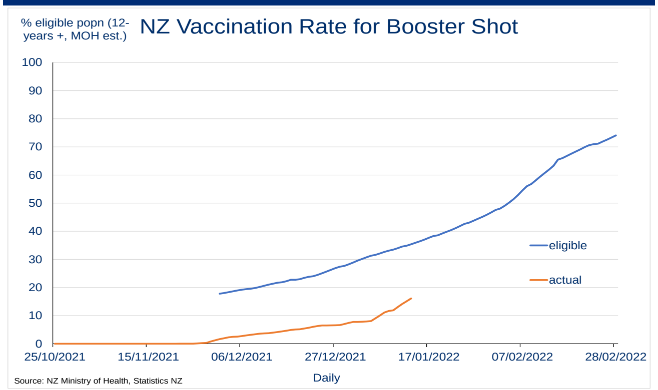
Certainly, little in the local data, since we adjourned for Xmas, has put us off our step.

- The weekly spending figures to early January have been OK.
- Filled-job numbers for November rose a rosy 0.4%. This, in conjunction with the very slow growth reported for Q4 working-age population, sets the scene for ongoing downside bias in the unemployment rate at next print.
- November's building consents stayed strong.
- Credit aggregates for November sustained recent trends, including steady growth in mortgage lending.
- Housing market reports for December held firm, although a lift in listings was starting to alleviate the worst of the inventory shortage.
- Commodity export prices retained strength in December – consistent with around-record highs in New Zealand's terms of trade – although fortunes have become mixed by commodity type over the last few months.

The only exception to the solid looking news has been consumer confidence, which has sagged to below par levels over the last month or two. With the jobs market exceptionally strong we can imagine the lift in inflation has been a significant negative bearing in this. With weak consumer confidence (and potential for the housing market to cool off), we need to be wary of spending trends ahead.

As for New Zealand's vaccination progress, while the nation has reached 93% of the eligible population double-dosed (76% of total population, 23rd in the world), it's the booster rate that's taking on importance. This recently nudged above 16%, albeit that 36% have been eligible to do so (based on a 4-month gap from receiving one's second dose of the primary vaccine). 47% will be eligible to have had their booster jab by the end of this month and 74% by the end of February.

The Race is On



As for where the actual rate of booster shots gets to, we'll just have to wait and see. Still, this seems ultimately a race to mitigate a potentially overwhelming spread of Omicron rather than keeping this variant at bay forever.

But it's also worth bearing in mind that, as much as New Zealand faces potentially severe disruption from Omicron over coming weeks and months, the rest of the world could well be getting out the other side of it by then. This includes Australia, which is charting a different course to NZ anyway, with a firmer commitment to reconnecting to the wider world. This could prove important for assessing trans-Tasman economic relativities.

Another country to note is China, whose zero-tolerance approach to COVID could entail some material economic (and financial market?) consequences, in the event Omicron takes root in the country.

As for the local economic data in view for this week, we've already mentioned tomorrow's QSBO. What else?

We'll also be attentive to Wednesday's electronic card transaction results for December. Following the solid rebounds reported for October (+9.4%) and November (+9.1%) – after a Delta-derived 22% slump back in August – we expect a modest increase for the final month of the calendar year.

Thursday's vehicle registrations will provide further insight into December's spending.

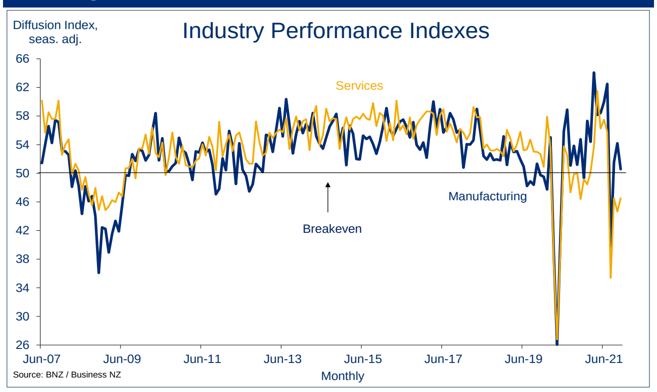
December's REINZ housing report, scheduled for tomorrow, looks unlikely to exhibit weakness, if other housing market data already at hand are any guide. But the market is certainly one to keep a close eye on, lest it cools off more than expected this year.

Wednesday morning's dairy auction will be a test of international commodity markets to start the year. A positive one, we reckon. We expect a moderate increase in the GDT-weighted price index – call it 2% – aided by powders, as local milk production continues to recede on an annual basis.

For Thursday's Food Price Index, we are looking for a December month increment of +0.1%. This forms part of the 1.2% increase we judge for the Q4 CPI, which would lift its annual rate of inflation to 5.7%, from 4.9% in Q3.

Friday's Performance of Manufacturing will provide useful direction, after its near-flat result of 50.6 in November. Friday's international travel and migration figures date back to November and will surely still be next to nothing.

Challenged



Finally, note that our next BNZ Markets Outlook will appear Tuesday next week, given Wellington's regional holiday next Monday. This means the Performance of Services Index will be released Tuesday next week.

craig_ebert@bnz.co.nz

Global Watch

- **China December activity data to show slower growth**
- **China GDP stronger quarter; slower annual growth**
- **US business survey, housing expectations mixed**
- **UK, EZ annual CPI inflation seen high, but stabilising**
- **Omicron disruptions intensify in AU; case peak soon?**
- **AU unemployment rate expected to fall further**

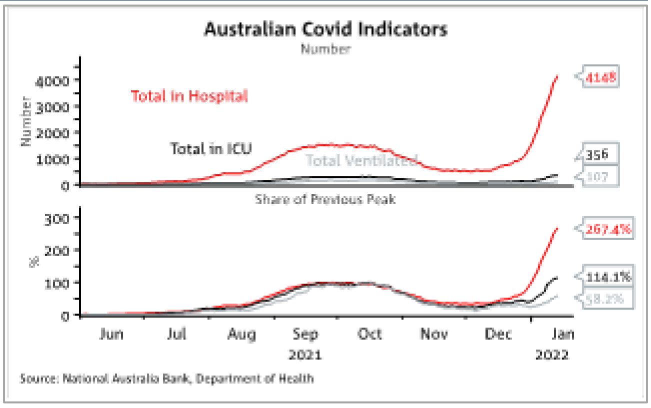
Australia

The Omicron wave continues and while disruptions have intensified over the past week, tentative signs are emerging that the wave may peak this month. NSW's Chief Health Officer expects Omicron to peak this week and up to 50% of the state could be infected during the current wave. How high and long the tail is after the peak is passed remains uncertain.

Australia's Chief Medical Officer said NSW "*are close to peaking, if not already would be my suggestion*", and "the other states are a little bit further behind that, but I think end of January, early February is probably where we will start to see a change." He noted that that was consistent with the other parts of the world, that have had "*a very rapid rise in cases, a peak and then a decrease in some places.*"

Hospitalisation numbers will be closely watched over the next couple of weeks to see if peak expectations from Health officials are borne out.

Hospitalisations continue to increase



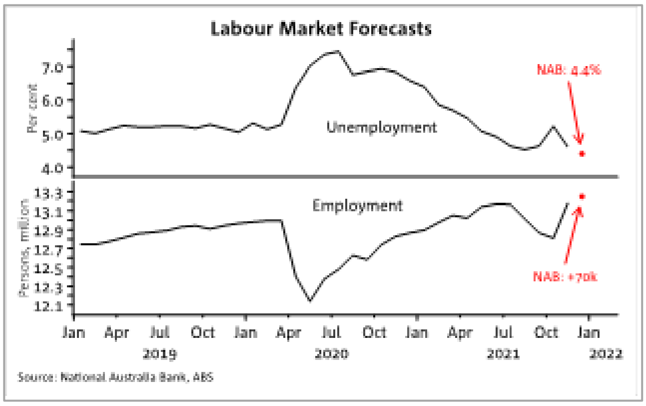
Source: National Australia Bank, Department of Health

Outside of the virus developments, the December Employment data looms large on Thursday. NAB expects the data to confirm the strength seen in the blockbuster November print that saw the unemployment rate fall to 4.6%, back below pre-lockdown levels and re-capturing its downward trend.

Specifically, NAB looks for further improvement in December, pencilling in a rise of 70k for employment and for the unemployment rate to fall to 4.4% from 4.6%. If realised, that would put the unemployment rate comfortably below anything reached in the post-GFC period. Note that the December data reflects the employment situation in the two weeks to 11 December, prior to any Omicron disruptions.

The large-scale Omicron disruptions will be reflected in labour market data into early 2022. The January figures reflect the first two weeks of January, where Omicron disruptions to workforces are widespread. That adds uncertainty to the measured labour market outcome. But NAB are not expecting any enduring drag on labour demand. Instead, the Omicron impacts are likely to be most pronounced in hours worked, which would affirm the upside surprise relative to the RBA's November SoMP outlook.

Unemployment rate expected to fall further



Source: National Australia Bank, ABS

China

The growth momentum has undoubtfully slowed with President Xi tilting policy back towards stimulus, noting recently "Ensuring stability is the top priority for the economy" while policy is set to keep growth in a "reasonable range" according to the recent Central Economic Work Conference. Expect the stimulus taps to be opened with possible policy announcements. This week's dump of December activity data (industrial production, fixed investment, and retail sales) is expected to show annual growth slowing. Q4 GDP figures are expected to show stronger quarterly growth of 1.2% (compared to Q3's 0.2%), although this will see annual growth slow to 3.3% from 4.9%.

US

With the FOMC having already turned hawkish and pencilling in 3 hikes in 2022, markets will be focused on whether the fallout from the Omicron variant slows the economy and/or intensifies inflation pressures. This week, the Empire manufacturing survey is expected to ease to 25 while the market expects the Philadelphia Fed business survey to lift to 19.8. Housing starts and building permits for December are both expected to dip, while the NAHB housing index for January is seen steady at an historically very high 84.

UK

The BoE turned hawkish and surprised markets with a 15bps rate hike at the December meeting. Given the Omicron variant, markets will be watching closely whether this slows the growth momentum and whether this starts to alleviate or intensify inflation pressures. This week, CPI annual inflation for December is expected to nudge higher to 5.2% while core inflation is expected to ease a tick to 3.9%. November's unemployment rate is seen steady at 4.2%, while annual wage growth is seen easing further to a still high 4.2% (from 4.9%). December's core retail sales are seen dipping 0.6%, reversing some of last month's 1.4% gain.

Eurozone

The December's final CPI reading is unlikely to move markets with core inflation seen the same as the preliminary reading of 2.6%. January's ZEW survey and consumer confidence will provide a pulse check in the New Year, with the latter expected to ease to -9.0 from -8.3.

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

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

2022 has started off with sharply higher US rates as the market brings forward the expecting timing of the Fed's rate cycle. This has seen NZ rates move higher and the curve steeper to start the year.

Against a backdrop of extremely high inflation and a tight labour market, the Fed continues to move in a more hawkish direction. The minutes to the Fed's December meeting, which were released earlier this month, stated that policy tightening could come "*sooner or at a faster pace than participants had earlier anticipated*", which investors took as a cue to bring forward the expected timing of the initial Fed rate hike to March (currently over 90% priced). The minutes also signalled that the Fed will likely start balance sheet reduction (whereby it allows some of its bond holdings to mature, rather than reinvesting the proceeds) shortly after the first hike. Powell told the Senate this process of balance sheet reduction, also sometimes referred to as 'Quantitative Tightening', would happen "*sooner and faster*" than the last cycle. Even some of the most traditionally dovish voices on the committee, such as Chicago Fed President Evans, are on board with a three-hike baseline for 2022, with the risk of more hikes were inflation to remain elevated. The market now prices 95bps of rate hikes by the Fed this year, up from around 75bps at the end of 2021.

In shades of early 2021, US rates have started the year with a surge higher. The US 10-year rate, which finished last year around 1.50%, is up to 1.78%, having reached a two-year high of 1.80% last week. But, in contrast to early 2021, the move has been entirely led by real yields, rather than inflation expectations, which may be a sign of increased market confidence in the economic outlook (similar to the signals coming from higher commodity prices and cyclical stocks). Ahead of the Fed's anticipated tightening cycle, the 10-year real yield remains extremely low, at -0.70%, so we should expect further increases in US rates – and, by extension, global rates – this year, although this trade already appears well populated. Outside the US, global 10-year bond rates are higher, by around 14bps in Germany (with the 10-year bund yield nearing 0%) and 20bps in Australia.

New Zealand long-term rates have followed these global trends, with the 10-year bond rate 14bps higher this year, at 2.53%. Shorter-term rates and OCR expectations have been more stable with, for instance, the 2-year swap rate just 5bps higher this year, at 2.22%. The market prices around a 10% chance of a 50bps hike at the RBNZ's upcoming February meeting and the OCR to be around 2.25% by the end of the year.

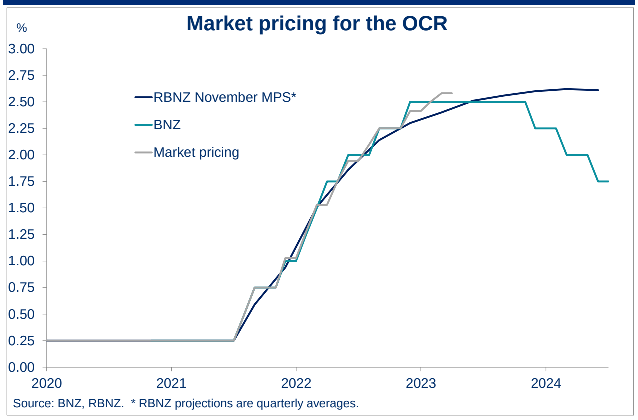
Where to for NZ rates this year? There is still a significant amount of RBNZ tightening priced in, with six 25bps hikes priced in for the seven meetings in 2022 and the terminal OCR priced at around 2.60%, similar to the RBNZ's most recent projections. The NZ housing market is showing more signs of slowing and it appears only a matter of time before Omicron makes its way into the community, bringing with it more disruption (although not necessary less inflationary pressure).

On the other hand, labour market and inflation indicators point to very strong CPI and HLFS data releases over the coming few weeks, with the potential for the unemployment rate to drop below 3% this year. And US rates are now trending higher as the market anticipates the Fed to start tightening soon, with some spill over likely to the NZ rates curve (albeit more so at the long end).

Our core view is that NZ long-term rates will likely head higher this year, albeit by less than the likes of US and Australia (NZ-US and NZ-Australian 10-year rate spreads remain relatively wide). At the short end of the curve, the market prices slightly more tightening than our forecast OCR path, although the difference is not large. While the Fed is tightening, and in the absence of a major downturn in NZ data, we suspect short-end NZ rates will struggle to fall too far from here.

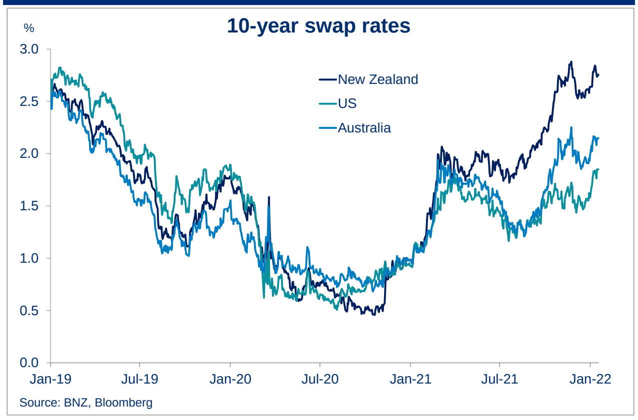
Domestically, the week ahead sees the QSBO survey, which is likely to highlight an extremely capacity constrained economy, but the market's focus is on CPI data next week and labour market data the week after. NZ government bond supply resumes this week at a lower $200m per week pace.

Market pricing of the OCR is close to our forecasts



Source: BNZ, RBNZ. * RBNZ projections are quarterly averages.

US rates surge higher to start 2022



Source: BNZ, Bloomberg

nick.smyth@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Since we left the office for holiday just before Xmas, the NZD has continued to languish alongside the AUD, both currencies being the worst performers of the key majors since 23 December and for the year to date.

On rounded figures, the NZD has traded a range of 0.6730 to 0.6890 over the past few weeks and closed last week around 0.68, a similar level to where it traded just before Xmas. NZD/AUD has largely tracked sideways as well, dipping a number of times below 0.94, but that level providing some key support, and only briefly nudging above 0.9450 a few times. On the other crosses, the NZD closed last week near the bottom of its range over the past few weeks.

Year to date performance isn't much different from the performance since just before Christmas, with nothing much happening over the last week of December. The underperformance of the NZD and AUD can be explained by the fall in risk appetite, with market nerves evident as expectations for US Fed rate hikes have been brought forward.

Fed speakers haven't been shy about expressing their concerns about inflation and the likely need for a series of rate hikes this year. The FOMC minutes of the December meeting, released early January, showed that members thought a faster pace of rate hikes was appropriate (as revealed in the dotplot projection of the Fed Funds rate) and some members thought that it could be appropriate to reduce the size of the Fed's balance sheet soon after rate hikes begin. This nod to "quantitative tightening" was a surprise to the market and has supported a sharp increase in US rates so far this year across the curve. A March hike of 25bps is fully priced and almost four full rate hikes are now priced for 2022.

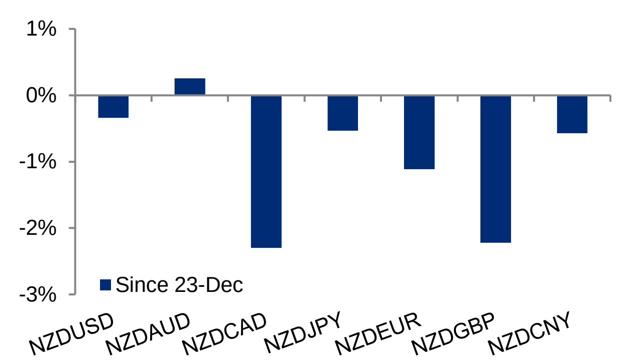
The USD has actually weakened this year (apart from against the NZD and AUD) despite higher US rates and weaker risk appetite (both normally USD-positive), perhaps reflecting the very long USD positioning of late. This suggests that it'll take more than higher US rates to drive further USD appreciation, given current positioning. US CPI inflation printed at 7% y/y for December and purchasing power parity theory suggests that countries with high inflation rates generally find downward pressure on their currencies.

The point is that the outlook for the USD this year looks very cloudy at the moment, with multiple drivers to consider. Our prevailing view on the USD towards the end of last year was that it would ultimately weaken sometime this year, but with more chance of that being later in the year than earlier. This formed the basis for our ongoing cautious NZD outlook, with Q1 and Q2 targets of 0.68-0.69, consistent with a view that the NZD would languish roughly in a 0.66-0.71 range over the first half of the year. Nothing has happened in the past few weeks to change our mind, but the beginning of the year is a good time to reflect on our core views for the year ahead and we'll be doing that over the next couple of weeks.

The spread of the Omicron variant over recent weeks hasn't played much of a role in driving currency markets, or other markets, or the Fed's outlook. It is widely seen to have a short, sharp impact on economies, as consumers behave more cautiously and restrictions to prevent its spread are put in place. In NZ we await the spread of Omicron and the government's plan to avoid the pressure on the hospital system seen elsewhere.

An interesting development is China's ongoing policy to stamp out the virus, resulting in more widespread lockdowns and a more severe economic impact. This is one risk we are keeping a close eye on, as it could ultimately have some spillover impact for the NZD and AUD. Chinese activity data due this afternoon are expected to show further economic slippage, with GDP growth down to 3.3% y/y in Q4, weak by China's standards. NZ's QSBO and Australian employment data are the other key releases this week.

NZD mainly weaker since just before Christmas



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6814	0.6730 - 0.6890
NZD/AUD	0.9447	0.9380 - 0.9460
NZD/GBP	0.4982	0.4970 - 0.5100
NZD/EUR	0.5970	0.5950 - 0.6060
NZD/JPY	77.80	77.50 - 79.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7090	-4%
NZD/AUD	0.9070	4%

Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook:	Downside risk
ST Resistance:	0.7000 (ahead of 0.7125)
ST Support:	0.6700 (ahead of 0.6630)

The currency has been in a downward channel for almost a year. Support at the bottom of the channel is at 0.6630, but ahead of that, last year's low near 0.6700 is the next support level. First level of resistance is around 0.70.

NZD/AUD

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

The cross has broken below 0.94 a few times since late last year, but has yet to close below that level, suggesting some support there. No obvious resistance levels ahead of 0.97.

jason.k.wong@bnz.co.nz

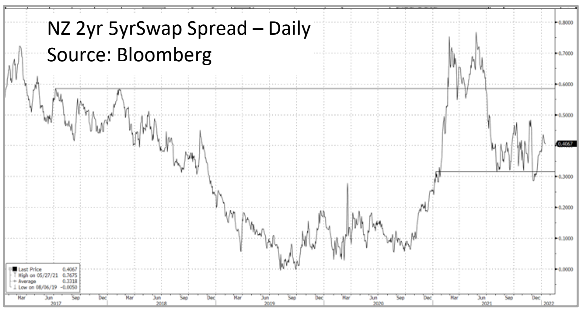
NZ 5-year Swap Rate

Outlook: Neutral
MT resistance: 3.09
ST support: 2.48

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: 0.58
MT support: 0.28



Put the steepener on at +31 now targeting 0.51 en-route 0.58.

pete_mason@bnz.co.nz

Quarterly Forecasts

Forecasts as at 17 January 2022

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts: Dec-21 to Dec-22

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
GDP (production s.a.)	13.9	-0.4	1.5	2.4	-3.7	2.0	3.0	1.8	0.4	0.4
Retail trade (real s.a.)	28.4	-2.3	2.3	3.3	-8.1	5.0	5.0	0.8	0.6	0.4
Current account (ytd, % GDP)	-0.7	-0.8	-2.5	-3.3	-4.6	-5.6	-5.7	-6.0	-6.0	-5.7
CPI (q/q)	0.7	0.5	0.8	1.3	2.2	1.2	0.9	0.5	0.9	0.3
Employment	-0.7	0.7	0.5	1.0	2.0	0.4	0.0	0.2	0.2	0.2
Unemployment rate %	5.3	4.8	4.6	4.0	3.4	3.2	3.0	3.0	3.1	3.1
Avg hourly earnings (ann %)	3.7	4.6	4.1	4.5	3.6	3.8	4.3	4.8	4.8	4.8
Trading partner GDP (ann %)	-0.9	0.8	6.7	9.7	4.2	3.2	3.9	4.0	4.9	4.5
CPI (y/y)	1.4	1.4	1.5	3.3	4.9	5.7	5.7	4.9	3.5	2.7
GDP (production s.a., y/y))	1.2	0.5	3.3	17.9	-0.3	2.1	3.7	3.0	7.4	5.6

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
2020 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
Dec	0.65	0.85	2.05	2.25	2.10	2.25	2.40	0.15	1.80	0.75
Forecasts										
2022 Mar	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
2023 Mar	2.50	2.65	2.85	3.20	2.80	2.95	3.30	0.15	2.50	0.70
Jun	2.50	2.65	2.85	3.20	2.80	2.95	3.30	0.15	2.50	0.70
Sep	2.50	2.65	2.75	3.20	2.70	2.85	3.30	0.15	2.50	0.70

Exchange Rates (End Period)

	USD Forecasts NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.68	0.72	1.14	1.37	114	0.68	0.94	0.60	0.50	77.8	72.8
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	73.1
Mar-24	0.70	0.76	1.25	1.43	107	0.70	0.92	0.56	0.49	74.9	72.3
Jun-24	0.70	0.76	1.24	1.42	106	0.70	0.91	0.56	0.49	73.7	71.8
TWI Weights						13.6%	18.7%	10.4%	4.1%	6.1%	

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

Annual Forecasts

Forecasts as at 17 January 2022	March Years Actuals 2020	2021	Forecasts 2022	2023	2024	December Years Actuals 2019	2020	Forecasts 2021	2022	2023
GDP - annual average % change										
Private Consumption	2.5	0.4	3.4	4.1	2.0	3.1	-1.1	5.8	3.0	2.2
Government Consumption	5.4	7.5	8.1	2.1	0.9	4.6	6.9	9.0	3.2	1.0
Total Investment	2.6	-4.8	6.9	6.3	-0.8	4.4	-7.0	8.3	6.3	-0.1
Stocks - ppts cont'n to growth	-0.2	-0.3	1.1	-0.4	-0.1	-0.5	-0.9	1.7	-0.4	-0.2
GNE	2.8	0.2	6.3	3.6	1.0	3.1	-1.9	8.8	3.2	1.2
Exports	0.3	-17.8	6.0	10.2	6.8	2.4	-12.7	-2.9	7.3	10.7
Imports	1.1	-16.1	18.5	8.8	4.7	2.1	-16.1	15.2	8.8	6.6
Real Expenditure GDP	2.6	-0.3	3.8	3.8	1.3	3.2	-1.0	4.5	3.3	1.7
GDP (production)	**2.2**	**-1.3**	**5.4**	**4.7**	**1.3**	**2.8**	**-1.9**	**5.3**	**4.9**	**1.5**
GDP - annual % change (q/q)	*0.6*	*3.3*	*3.7*	*2.8*	*1.7*	*2.3*	*0.5*	*2.1*	*5.6*	*1.2*
Output Gap (ann avg, % dev)	1.3	-1.8	0.7	2.1	0.6	1.7	-2.0	0.4	2.1	0.9
Nominal Expenditure GDP - $bn	324	327	355	379	393	320	324	349	374	389
Prices and Employment - annual % change										
CPI	2.5	1.5	5.7	2.6	2.3	1.9	1.4	5.7	2.7	2.5
Employment	2.5	0.2	3.4	0.6	0.6	1.2	0.6	4.0	0.6	0.3
Unemployment Rate %	4.2	4.6	3.0	3.1	3.8	4.0	4.8	3.2	3.1	3.7
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 %)	0.2	-1.8	2.1	3.5	0.9	0.9	-3.1	3.0	2.9	1.1
Unit Labour Costs (ann av %)	2.9	4.4	4.0	1.0	2.4	2.1	5.6	2.8	1.7	2.6
House Prices	7.8	24.1	11.2	-5.9	0.0	4.6	17.0	21.0	-3.2	-2.5
External Balance										
Current Account - $bn	-7.6	-8.2	-20.3	-19.3	-18.1	-9.3	-2.7	-19.4	-21.4	-19.0
Current Account - % of GDP	-2.3	-2.5	-5.7	-5.1	-4.6	-2.9	-0.8	-5.6	-5.7	-4.9
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-7.3	-1.3	-5.7	-1.0	0.0					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	30.1	38.0	41.0	41.0					
Bond Programme - $bn (Treasury forecasts)	29.0	45.0	30.0	25.0	25.0					
Bond Programme - % of GDP	9.0	13.8	8.5	6.6	6.4					
Financial Variables (1)										
NZD/USD	0.60	0.71	0.68	0.72	0.70	0.66	0.71	0.68	0.72	0.71
USD/JPY	108	109	113	112	107	109	104	114	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	0.49	0.50	0.53	0.51	0.53	0.50
NZD/EUR	0.55	0.60	0.62	0.61	0.56	0.59	0.58	0.60	0.61	0.57
NZD/YEN	65.1	77.5	76.5	80.6	74.9	72.0	73.6	77.4	80.8	76.7
TWI	68.9	74.8	73.0	75.4	72.3	72.8	74.3	73.0	75.4	73.1
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

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

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

Key Upcoming Events

All times and dates NZT

	Median	Fcast	Last
Monday 17 January			
UK Rightmove House Prices YoY Jan			6.30%
CH Industrial Production YoY Dec	3.70%		3.80%
CH Fixed Assets Ex Rural YTD YoY Dec	4.80%		5.20%
CH GDP SA QoQ 4Q	1.20%		0.20%
CH Retail Sales YoY Dec	3.80%		3.90%
CH Surveyed Jobless Rate Dec	5.00%		5.00%
NZ Govt reviews traffic-light settings			
Tuesday 18 January			
NZ NZIER Business Opinion Survey Q4			
NZ REINZ housing Dec			
UK ILO Unemployment Rate 3Mths Nov	4.20%		4.20%
GE ZEW Survey Expectations Jan	32		29.9
JN BOJ Policy Balance Rate Jan-18	-0.10%		-0.10%
JN BOJ 10-Yr Yield Target Jan-18	0.00%		0.00%
Wednesday 19 January			
NZ GDT dairy auction			0.30%
US Empire Manufacturing Jan	25		31.9
US NAHB Housing Market Index Jan	84		84
EC ECB's Villeroy speaks			
NZ Card Spending Total MoM Dec			9.10%
UK CPI YoY Dec	5.20%		5.10%
GE CPI YoY Dec F	5.30%		5.30%
CA CPI NSA MoM Dec	-0.10%		0.20%
US Housing Starts Dec	1650k		1679k

	Median	Fcast	Last
Wednesday (continued)			
NZ Vehicle registrations Dec			
NZ ANZ Truckometer Heavy MoM Dec			4.60%
NZ Food Prices MoM Dec			-0.60%
NZ Benefit fact sheets Q4			
JN Trade Balance Dec	-¥785.2b		-¥954.8b
AU Employment Change Dec	60.0k		366.1k
AU Unemployment Rate Dec	4.50%		4.60%
EC CPI MoM Dec F	0.40%		0.40%
Thursday 20 January			
EC ECB Account of Policy Meeting			
US Initial Jobless Claims Jan-15	220k		230k
US Philadelphia Fed Business Outlook Jan	19.8		15.4
US Continuing Claims Jan-08	1521k		1559k
US Existing Home Sales Dec	6.41m		6.46m
NZ BusinessNZ Manufacturing PMI Dec			50.6
NZ Net Migration SA Nov			814
JN Natl CPI YoY Dec	0.90%		0.60%
JN BOJ Minutes of Dec. Meeting			
UK GfK Consumer Confidence Jan	-15		-15
Friday 21 January			
EC ECB's Lagarde at virtual panel			
UK BOE's Catherine Mann speaks on economy and monetary policy			
EC Consumer Confidence Jan A	-9		-8.3

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.75	0.75	0.75	0.25
1mth	0.80	0.80	0.80	0.26
2mth	0.89	0.88	0.87	0.27
3mth	0.97	0.96	0.94	0.29
6mth	1.22	1.22	1.22	0.29
GOVERNMENT STOCK				
04/23	1.54	1.54	1.54	0.20
04/25	2.14	2.21	2.11	0.37
04/27	2.28	2.35	2.16	0.56
04/29	2.41	2.47	2.21	0.82
05/31	2.45	2.51	2.22	1.01
04/33	2.55	2.63	2.32	1.19
04/37	2.72	2.81	2.48	1.50
05/41	2.89	2.98	2.65	1.81
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	53	53	53	52
Europe 5Y	52	52	52	51

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.23	2.26	2.21	0.27
3 years	2.47	2.50	2.45	0.35
4 years	2.58	2.63	2.52	0.46
5 years	2.63	2.69	2.53	0.57
10 years	2.76	2.84	2.54	1.08
FOREIGN EXCHANGE				
NZD/USD	0.6814	0.6762	0.6713	0.7110
NZD/AUD	0.9448	0.9432	0.9441	0.9257
NZD/JPY	77.78	77.91	76.28	73.73
NZD/EUR	0.5970	0.5969	0.5953	0.5886
NZD/GBP	0.4982	0.4980	0.5084	0.5234
NZD/CAD	0.8540	0.8574	0.8688	0.9071
TWI	72.9	72.7	72.4	74.1

Contact Details

BNZ Research

Stephen Toplis	Craig Ebert	Doug Steel	Jason Wong	Nick Smyth
Head of Research	Senior Economist	Senior Economist	Senior Markets Strategist	Senior Interest Rates Strategist
+64 4 474 6905	+64 4 474 6799	+64 4 474 6923	+64 4 924 7652	+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	Alan Oster	Ray Attrill	Skye Masters
Global Head of Research	Group Chief Economist	Head of FX Strategy	Head of Fixed Income Research
+61 2 9237 1836	+61 3 8634 2927	+61 2 9237 1848	+61 2 9295 1196

Wellington

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

Sydney

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

London

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

New York

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

Hong Kong

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