11 September 2023

PREFU as a Best-Case Scenario

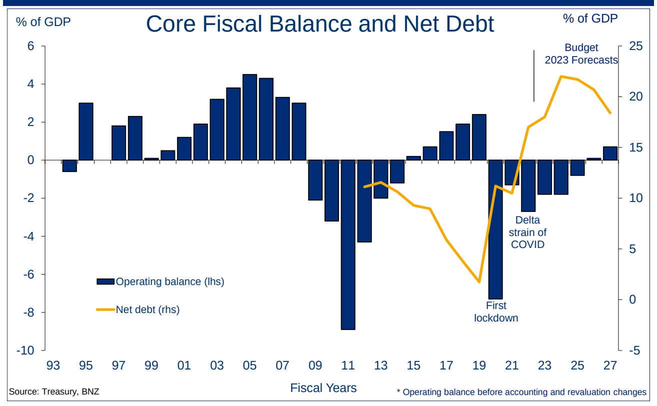
- **PREFU to show bigger struggle to escape deficits**
- **As cooling tax revenue conflicts with high spending**
- **Pointing to sizable upgrade to the bond programme**
- **We expect Q2 GDP increased 0.6% (v RBNZ 0.5%)**
- **Much data this week to inform on Q3 GDP/CPI**
- **KangaNews conference full of market/political speakers**

Tuesday's Pre-Election Economic and Fiscal Update (PREFU) is the big event for the coming week. However, there is also a decent run of monthly data to take account of, relevant to Q3 activity and inflation. And Wednesday's KangaNews conference is worth knowing about, with its range of high-profile financial-market and political speakers.

For the PREFU, due 1:00pm, it's uncontentious to say the government's financial accounts are going to project much worse than they did in May's Budget. This is even with the savings the government has proclaimed over recent weeks. It's just a matter of scoring the degree of overall deterioration.

While EFU projections are always very difficult to second guess, we wouldn't be surprised if this latest set shows a run into core operating deficits that is cumulatively $10-15b worse than the Budget envisaged, over the 4 years to June 2027. Applying ready reckoners to our nominal GDP forecasts certainly generates something of this order.

If only



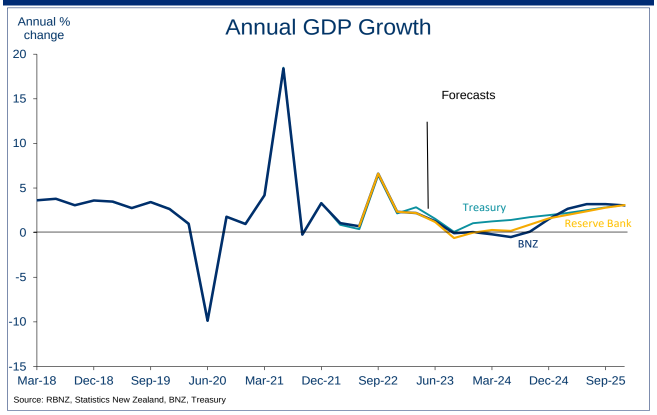
As an aside, while the year to June 2023 Crown financial accounts have not been officially published yet, Treasury seems likely to show the unaudited outcome in the PREFU. This will help gauge whether the shortfall that had crept into the monthly accounts in April, and May, compared to Budget baselines, continued in June. And starting points can be crucial in forecasting these accounts.

With all the red ink, near and far, there would seem to be significant upside pressure on the bond programme. This, on top of the chunkier issuance forecast at the time of the Budget. Having said this, NZDM could also lean on some alternate funding methods, such as its short-term borrowing facilities. We don't presume it will tap into the Crown's cash settlement balance any further, however, noting that is already forecast to decline over time, integral to the present bond programme.

While the government has watered down its fiscal rules, compared to pre-COVID times, it is still required to achieve operating surpluses on average over the cycle. We would thus be surprised if PREFU didn't forecast a surplus by 2026/27, although it might not be until that very last year of the projections (rather than a surplus appearing for 2025/26, as the Budget had it).

What about the debt targets? Well, the government has enlarged these so much, post COVID, that they hardly serve as any sort of meaningful discipline (as a ceiling) now. Sure, there is a rule to keep public debt at "prudent" levels, but that word is very wide open to interpretation.

Room for reservation



We'll certainly be running a ruler over the macro-economic basis of the PREFU though. This is mindful that the Budget did not forecast the economy going into recession – at least not in a headline GDP sense – just a period of mild growth, before picking up in 2024 and beyond. We expect the PREFU will continue to forecast a relatively soft landing for the economy.

We should also expect the document to include a decent downside scenario, of a pronounced recession, and how that would pan out in terms of bigger and longer fiscal deficits. That would certainly be a prudent exercise to run, especially when material upside to the PREFU projections might seem much harder to imagine. In this, the PREFU's central projections, pruned as they probably are, might still be thought of as a best-case scenario.

To be fair, while Treasury's projections back at the Budget likely over-forecast the nominal economy and, more surely, tax revenue, it doesn't look to have overestimated the current level of real GDP. Sure, it estimated a 0.2% increase in Q1 GDP, whereas it printed a 0.1% decline. However, May's BEFU also forecast a 0.3% expansion in Q2 GDP. And we think it will be more like 0.6%. This would give a level of real GDP very much in line with the Budget.

Our 0.6% expectation of Q2 GDP growth, from 0.3% previously, has come about from last week's swathe of Q2 "partials". It wasn't last Monday's international trade indexes. Nor was it Wednesday's Building Work Put in Place figures, which confirmed broad stability in activity.

The reason we've upgraded our estimate on Q2 GDP growth is principally to do with the much-rebounded results we saw on manufacturing activity in last Thursday's Business Financial Data (BFD). This was after a rough couple of quarters for the industry, in Q4 and Q1.

While the boost from food processing in the quarter was about as much as we anticipated, it was the ex-food and beverage part of manufacturing that surprised us on the top side. Evidence of a bounce-back in forestry-related activity played into this.

There was also a better tone coming through services that we had figured on, aided by strong-looking results in arts and recreation, healthcare and social services, and other (miscellaneous) services.

However, it wasn't all positive news in the BFD. Wholesale sales implied a fall in that industry's output. There was also a big drop in accommodation and food services sales in Q2. This further questioned the performance of the tourism industry in the quarter, after last Monday's trade indexes around services implied a lack of follow-though, even a backpedalling, in Q2.

If we're right on Q2 GDP, then it won't be out of line with what the RBNZ anticipated. The Bank, in its August Monetary Policy Statement, forecast a 0.5% increase in Q2 GDP. That said, this involved a view on export growth far higher than we have, and a fall in private consumption greater than we are assuming.

Turning to the regular economic data for the coming week, it begins with tomorrow morning's electronic card transactions for August. Unless they rebound significantly, from the 0.9% dip they took in July, we'll be left with some decidedly soggy arithmetic around Q3 retail trade.

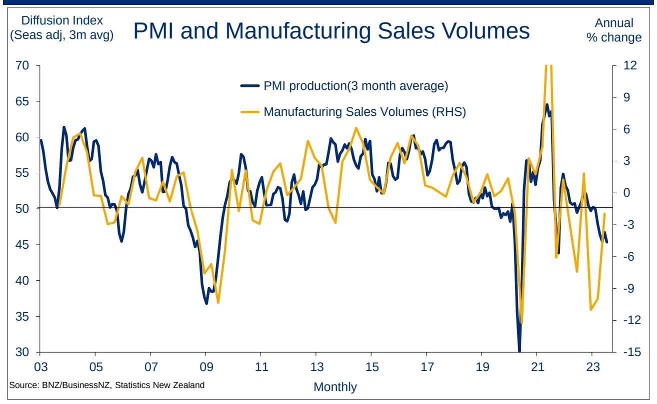
At (exactly) the same time, Stats NZ publishes the international travel and migration statistics. Dating back to July, they will give us a feel for how New Zealand's co-hosting of the FIFA Women's World Cup – which kicked off 20 July – boosted short-term visitor arrivals. In terms of the migration data, we will look for confirmation the huge net inward flows early in the year have since settled down (albeit to a still-strong level).

For Wednesday's Food Price Index (FPI) for August, we have factored in a 0.6% rise, after it fell 0.5% in July. On this basis, we anticipate the Q3 CPI to increase 2.2%, which would lift its annual rate of inflation to 6.1%, from 6.0% in Q2. This accounts, also, for the latest nudge higher in fuel prices.

Along with the FPI, Stats NZ will publish its rents data for August. We expect these to be consistent with a 1.2% rise in the corresponding component in the Q3 CPI.

The week's local data are officially rounded out by Friday's Performance of Manufacturing Index, covering the month of August. If it sustains its weak undercurrents, it will be further warning that the big increase that seems to have occurred in manufacturing activity in Q2 was mainly catch-up from weak spots in Q4/Q1, rather than a sign of momentum.

Question marks



Also keep an eye out for the Real Estate Institute releasing its housing report for August at some stage during the week. This will help gauge the degree of pick-up that's now occurring (and unusually so, with the General Election little more than a month away now).

In terms of Wednesday's KangaNews Debt Market conference, to be held in Auckland, it opens with an address by RBNZ Deputy Governor, Karen Silk, on liquidity. Political participants include Finance Minister, Grant Robertson, shadow Finance Minister, Nicola Willis, Green party co-leader, James Shaw, and ACT party leader, David Seymour. There will also be panel discussions amongst economists, and bank treasurers. All at a time when there is a lot to talk about.

craig_ebert@bnz.co.nz

Global Watch

- **ECB rate decision looks closer call than market prices**
- **US CPI seen boosted by gasoline, core inflation easing**
- **US retail sales growth expectations minimal in August**
- **China aggregate financing data seen lifting in August**
- **AU employment expected to bounce back in August**

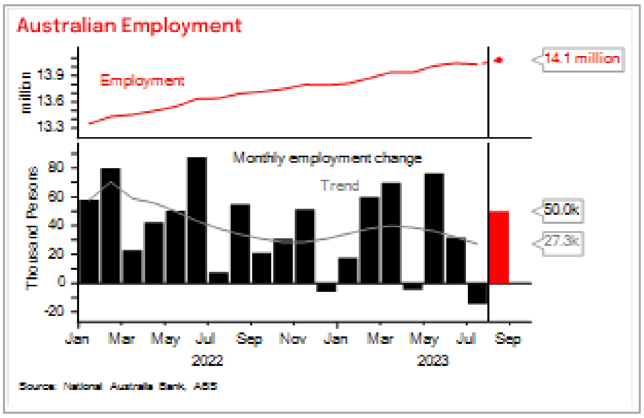
Australia

Data focus this week will be on Thursday's employment report from the ABS, while NAB publishes its August Business Survey results on Tuesday. The Westpac-Melbourne Institute Consumer Confidence Index is also released on Tuesday.

There is nothing of note from the RBA this week, though keep an eye out for RBA personnel news. Treasurer Chalmers has been interviewing candidates for the Deputy Governor role to be vacated when Michele Bullock steps into the governorship on 18 September, and there is a vacancy in both the Deputy Governor and Assistant Governor (Economics) positions.

For August employment, NAB expects a significant reversal from the soft July outturn and has pencilled in a gain of 50k in employment, the unemployment rate to tick down to 3.6%, and the participation rate to return to 66.8%. Consensus is for a 25k employment gain and an unemployment rate of 3.6%.

Employment expected to bounce in August



The ABS pointed out that "*July includes the school holidays, and we continue to see some changes around when people take their leave and start or leave a job.*" Note, the only other month in 2023 to record a decline in employment was April, also a school holiday period. Employment growth in April was -5k (about 40k below trend) which was approximately fully balanced by a strong 76k gain in May (about 40k above trend).

More broadly, while the labour market has shown some easing from late 2022, including some moderation in the pace of hiring, although indicators of labour demand remain reasonably healthy.

NAB expects the unemployment rate to move higher only gradually over coming months and expect July to reflect something of a false start in a nascent underlying trend higher. The RBA forecasts unemployment to average 3.9% in Q4.

Population growth estimates in the labour force survey are very strong currently, annualising at 2.8% or 608k people for the 15+ civilian population. That means that employment growth of around 33k is needed each month to keep the key ratios (the unemployment rate and participation rate) stable. Some gradual lift in the unemployment rate is possible without a sharp lift in layoffs. As a rule of thumb, with population growth as strong as it is, trend employment growth of around 20k would see the unemployment rate lift by almost 0.1ppt a month.

US

The remaining two important readings on the US economy in the lead up to the 20 September FOMC Meeting – the August CPI and Retail Sales reports – are out this week. The CPI is on Wednesday, while Retail Sales are due Thursday. Headline inflation is forecast to kick up from 3.2% to 3.6%, thanks to the higher oil price-induced acceleration in gas prices through August. Most analysts look for core CPI to rise another muted 0.2% m/m, annual growth lower at 4.3% from 4.7% in July, thanks to base effects. More signs of moderating inflation would add to expectations of an unchanged Fed funds rate as would some expected softening in retail sales growth in August. Retail sales are expected to lift a minimal 0.1% m/m, while the core control and ex auto and gas measures are both seen easing 0.1% m/m.

China

Aggregate financing data are expected over the course of the week, in focus for the extent they can rebound from the depressed July read as rate cuts and target loan support feed through. The PBOC sets the MLF rate on Friday, with most analysts expecting no change. Also on Friday are the usual suite of activity data for August, where the consensus looks for some policy-supported stabilisation in manufacturing, but question marks remain over the health of retail sales. Property investment is expected to be well down, to the tune of 9.0% y/y ytd.

Eurozone

The ECB unveils its latest interest rate decision on Thursday, with markets pricing a bit of a third of a chance of a 25bps hike. We believe the decision is much more finely balanced than that and that the ECB will decide to opt for what will turn out to be one last rate rise in this cycle, taking the Deposit Rate to 4%. Economic activity and GDP growth numbers emanating from Europe do look weak, with recent PMI data pointing to a contraction in both manufacturing and services activity and GDP over H1 tracking 0.2ppts below the ECB's last (June) forecasts after recent revisions. Indeed, new ECB staff economic growth forecasts are likely to be downgraded in our view. The unfavourable comparison to strength in the US is magnifying Europe's weak outlook but in doing so leading to markets perhaps overstating a little the degree of slowdown in Europe.

Despite the downside risks, the ECB has so far argued it sees no sign of a deep or prolonged recession and inflation forecasts to 2024 are unlikely to give enough space for the ECB to pause this month. Progress on disinflation is being made, but not likely enough yet to satisfy the hawks, who have gained ammunition from the latest wage data.

UK

Markets have been dialling back UK rate hike pricing in the wake of a more meaningful decline in headline inflation and comments from the BoE, including Governor Bailey and Chief Economist Pill. Pill speaks again on Monday, while his, likely still more hawkish, colleague Catherine Mann speaks on Tuesday. BoE speakers go quiet from next week ahead of the 21 September rate decision. Markets price a rate hike on 21 September at just over 80%. We believe the decision is more finely balanced and while a line ball call, will see the BoE stick at 5.25%.

Tuesday also sees ONS labour market data Following June's unexpected further push higher. expectations are for settlements to have moderated in July as inflation eases, foreshadowed by the latest BoE Decision Makers Panel survey. Markets will also be looking for any signs that unemployment, which has risen from a low of 3.5% to 4.2%, has risen further with the consensus at 4.3% for July. On Wednesday July monthly GDP is due, as is trade data for the same month.

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

Fixed Interest Market

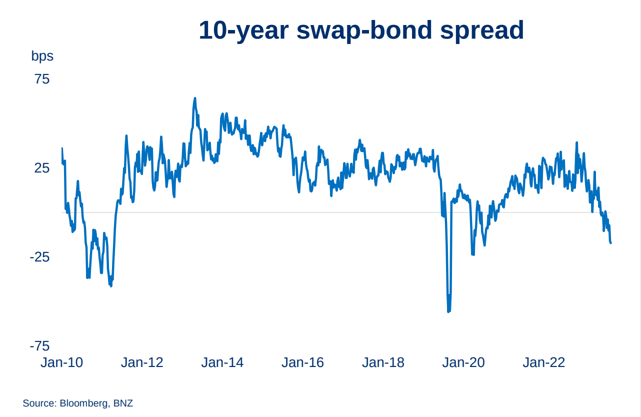
Reuters: BNZL, BNZM Bloomberg:BNZ

In the absence of first-tier domestic data, the NZ fixed interest market took its direction from offshore and moved higher in yield over the past week. 10-year government bonds briefly traded back above 5%, a 20bps move from the early September lows, before partially retracing. Higher US treasury yields was the main catalyst aligned with further evidence of resilience in the US economy. The services sector expanded at the fastest pace since February according to the ISM survey. Despite longer maturity NZ yields increasing towards the recent highs, we think a period of consolidation is likely rather than a further extension of the upward move that began in May.

New Zealand Government Bonds (NZGB) have underperformed relative to interest rate swaps across the yield curve since the Budget Economic and Fiscal Update (BEFU) in May. The BEFU's NZ$20 billion increase in the borrowing programme, out to June 2027, has required a premium to take down the additional supply.

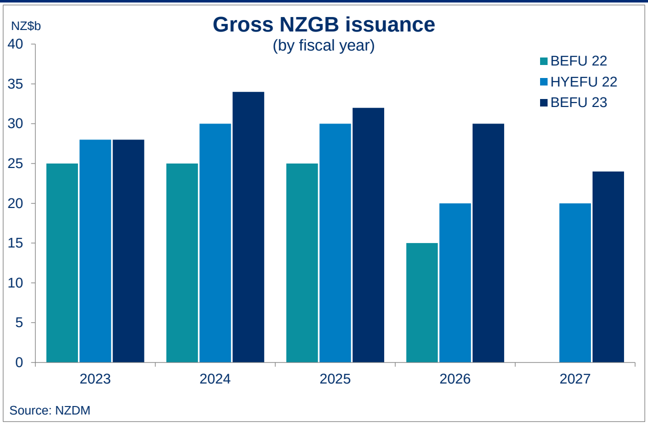
The spread between the April 2033 government bond and the equivalent maturity swap has recently fallen to -20bps. There have only been a few occasions where swap spreads have been this negative. They occurred when bond supply increased following the Canterbury earthquakes and more recently during the pandemic.

Swap spreads negative



In an election year, New Zealand Debt Management (NZDM) provides an update on the government borrowing programme alongside the Pre-election Economic and Fiscal Update (PREFU) which will be released on Tuesday. The economic backdrop points towards an increase in funding requirements relative to BEFU forecasts. While noting wide confidence intervals, we estimate core operating deficits in the PREFU being a cumulative $10-15b worse than Budget, over the four years to June 2027. This suggests an upward revision to the 2023/24 bond programme and to future fiscal years. The NZ$34 billion 2023/24 programme is already large relative to history and a further increase will test market sentiment and likely contribute to a further cheapening in bonds relative to swaps.

Upward revisions to the bond programme



There is clearly ongoing demand for NZGBs. NZDM has already issued NZ$10 billion in 2023/24, which incorporates the NZ$5 billion tap syndication of the April 2033 maturity in early July. The NZ$500 million of nominal bonds tendered last week were more than 3-times covered by incoming bids illustrating underlying demand. But weekly tenders of NZ$500 million require a continual recycling of the supply, largely to non-resident investors, which have a range of objectives for entering the NZ market. This demand can be time-varying leading to the market maintaining a premium.

In the event funding requirements rise further, NZDM may consider increasing syndication volumes as a proportion of total issuance. Syndications provide a liquidity event where the NZDM has control over the trade-off between volumes and price alongside the benefit of larger transaction volumes. Although weekly tender performance has been decent, supported by the updated flexible tender process, an increase to the NZ$500 million weekly volumes could test market capacity.

As an alternative, NZDM could increase short-term borrowing – made up of Treasury Bills (T-bills) and European Commercial Paper (ECP) – in the place of NZGBs. At BEFU, NZDM outlined short-term borrowing could vary up to 'NZ$15 billion during normal market conditions'. This provides the headroom to absorb an increase in funding requirements. Alongside the programme size and composition, the market will be watching for any announcement on the next syndicated transaction at the PREFU release.

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the USD showed broadly-based strength yet again, seeing the USD DXY index up for an eighth consecutive week. The NZD fell 1% to 0.5885 after trading at a fresh ten-month low of 0.5859. Net NZD cross rate movements were small, with little change against the AUD, JPY or GBP, a modest 0.3% fall against EUR and a 0.7% fall against CAD.

The run of USD strength since mid-July continued for another week with the NZD, AUD, JPY, CNY all trading at fresh lows for the year and EUR and GBP falling to three-month lows. Relative US economic strength is a key factor underpinning USD support. The August ISM services index increased to 54.5 from 52.7 – its highest level since February – easily beating consensus and underscoring the resilience in the US economy. Initial jobless claims fell to their lowest level since February, painting a picture of a still-robust labour market. While there remains a strong consensus that the Fed will not hike at its meeting next week, the data kept alive the possibility of another hike later in the year, with the November meeting priced near an even chance.

The focus remained on China's economic woes and the Caixin services PMI fell to 51.8, its lowest level this year. It was a bigger fall than showed by the official PMI series released the previous week and was a reminder that China's economic momentum is slowing, with lower interest rates and other support measures to date not doing enough. The onshore yuan traded down to a 16-year low, with the heavy hand of the PBoC only serving to reduce the rate of depreciation than preventing weakness. Japan's Finance Minister reiterated he was watching the currency market with a heightened sense of urgency, highlighting official disdain with the weaker yen path.

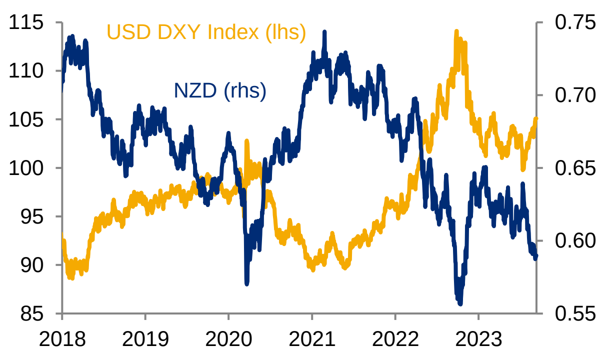
For the first time in a year, the USD DXY relative strength technical indicator has breached the 70 mark, highlighting that it might now be in overbought territory. This would suit our view that the NZD is due for some consolidation around the 0.59 mark. We've previously noted that two conditions are required for a sustained NZD recovery – much less pessimism on China and more confidence by the market that the Fed hike cycle is over. Neither condition is currently being met. We continue to see two-sided risks around the NZD and remain open to the view that a further short-sharp sell-off is possible, even if our medium-term view is more constructive.

The week ahead is a busy one with some top-tier releases on the economic calendar. The key release for the market will be the US CPI on Wednesday night where the market sees higher gasoline prices pushing up headline inflation to 0.6% m/m. That won't matter as long as core inflation remains well behaved, with the consensus at 0.2% m/m and 4.3% y/y. An upside surprise to that would be USD-positive by increasing the chance of another Fed hike. US PPI and retail sales data are the other key US releases.

Economists are evenly split on whether the ECB will hike by 25bps on Thursday night while the market is about 40% priced for a hike. So, either way, the decision will cause a market reaction but any negative impact on EUR from a no-change decision could be limited if the central bank maintains a hawkish stance on inflation and keeps alive the chance of a hike at the October or December meetings.

Other key global releases this week include China monthly activity indicators, Australian employment and UK labour market data. Domestically, the focus will be on the government's pre-election economic and fiscal update. This wouldn't ordinarily cause any NZD reaction but the accounts will show further deterioration in NZ's fiscal accounts, highlighting NZ's poor "twin deficits" situation.

USD recovers since mid-July; NZD languishing



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5898	0.5860 - 0.6020
NZD/AUD	0.9231	0.9180 - 0.9280
NZD/GBP	0.4724	0.4630 - 0.4740
NZD/EUR	0.5503	0.5420 - 0.5530
NZD/JPY	86.68	85.80 - 87.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6230	-5%
NZD/AUD	0.9030	2%

Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Downside risk
ST Resistance: 0.60 (ahead of 0.62)
ST Support: 0.5840 (ahead of 0.55)

Recent signs of consolidation with prior support of 0.60 now indicatively looking to be a level of resistance. Looking at 0.5840 as a possible support level.


NZD/USD – Daily
Source: Bloomberg

NZD/AUD

Outlook: Trading range
ST Resistance: 0.94 (ahead of 0.9450)
ST Support: 0.90 (ahead of 0.8890)

No change. Technicals remain consistent with the cross in a broad 0.90-0.94 trading range.

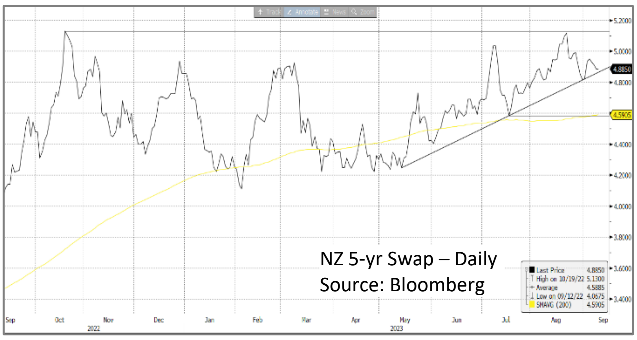
jason.k.wong@bnz.co.nz


NZD/AUD – Daily
Source: Bloomberg

NZ 5-year Swap Rate

Outlook: Higher
MT Resistance: 5.18
MT Support: 4.57

Raise stop to 4.80


NZ 5-yr Swap – Daily
Source: Bloomberg

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

Outlook: less inverted
MT Resistance: -0.51
MT Support: -0.88

No change here a slow grind toward -51 resistance.

pete_mason@bnz.co.nz


NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

Quarterly Forecasts

Forecasts as at 11 September 2023

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
GDP (production s.a.)	0.1	1.5	1.4	-0.7	-0.1	0.6	0.1	-0.6	-0.3	0.3
Retail trade (real s.a.)	-1.2	-1.9	0.2	-1.1	-1.6	-1.0	-1.0	-0.5	0.2	0.6
Current account (ytd, % GDP)	-6.8	-8.0	-8.5	-9.0	-8.5	-7.9	-7.7	-7.4	-7.2	-7.4
CPI (q/q)	1.8	1.7	2.2	1.4	1.2	1.1	2.2	0.9	0.5	0.5
Employment	-0.1	-0.1	1.2	0.7	1.1	1.0	0.5	0.3	0.1	0.0
Unemployment rate %	3.2	3.3	3.3	3.4	3.4	3.6	3.8	4.0	4.4	4.8
Avg hourly earnings (ann %)	5.3	7.0	8.6	8.1	8.2	7.7	6.8	6.6	5.8	5.1
Trading partner GDP (ann %)	3.9	2.2	3.8	2.1	2.8	3.4	2.9	3.2	2.8	2.6
CPI (y/y)	6.9	7.3	7.2	7.2	6.7	6.0	6.1	5.5	4.7	4.1
GDP (production s.a., y/y))	1.1	0.7	6.6	2.3	2.2	1.3	-0.1	0.1	-0.2	-0.5

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
2022 Mar	0.90	1.25	2.60	2.75	2.65	2.95	3.00	0.50	1.95	0.83
Jun	1.83	2.24	3.55	3.68	3.83	3.92	3.95	1.50	2.90	0.76
Sep	2.83	3.33	3.65	3.77	4.12	3.95	3.95	3.00	3.10	0.67
Dec	4.00	4.27	4.34	4.31	5.10	4.67	4.55	4.50	3.80	0.49
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.55	3.75	0.75
Forecasts										
Sep	5.50	5.60	4.90	4.85	5.25	5.05	4.95	5.80	4.25	0.60
Dec	5.50	5.60	4.70	4.70	4.95	4.85	4.80	5.80	4.10	0.60
2024 Mar	5.50	5.45	4.40	4.50	4.55	4.60	4.65	5.55	3.90	0.60
Jun	5.25	5.00	4.20	4.35	4.15	4.40	4.50	5.05	3.75	0.60
Sep	4.75	4.50	3.95	4.10	3.95	4.20	4.30	4.55	3.50	0.60
Dec	4.25	4.25	3.80	4.10	3.45	4.05	4.30	4.05	3.50	0.60
2025 Mar	4.00	3.75	3.70	4.10	3.10	3.95	4.30	3.55	3.50	0.60
Jun	3.50	3.65	3.60	4.10	2.80	3.85	4.30	3.30	3.50	0.60

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	0.59	0.64	1.07	1.25	147	0.59	0.92	0.55	0.47	86.8	69.8
Dec-23	0.60	0.66	1.13	1.31	138	0.60	0.91	0.53	0.46	82.8	69.1
Mar-24	0.62	0.69	1.16	1.35	135	0.62	0.90	0.53	0.46	83.7	70.3
Jun-24	0.64	0.71	1.17	1.34	130	0.64	0.90	0.55	0.48	83.2	71.3
Sep-24	0.64	0.72	1.18	1.35	125	0.64	0.89	0.54	0.47	80.0	70.4
Dec-24	0.65	0.73	1.19	1.35	120	0.65	0.89	0.55	0.48	78.0	70.4
Mar-25	0.67	0.75	1.21	1.37	118	0.67	0.89	0.55	0.49	79.1	71.8
Jun-25	0.69	0.77	1.22	1.37	116	0.69	0.90	0.57	0.50	80.0	73.4
Sep-25	0.71	0.78	1.23	1.38	115	0.71	0.91	0.58	0.51	81.7	75.2
Dec-25	0.71	0.78	1.23	1.38	114	0.71	0.91	0.58	0.51	80.9	75.2
Mar-26	0.69	0.76	1.21	1.37	112	0.69	0.91	0.57	0.50	77.3	73.8
TWI Weights						13.8%	16.5%	9.8%	3.1%	6.1%	

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

Annual Forecasts

Forecasts	March Years					December Years				
as at 11 September 2023	Actuals		Forecasts			Actuals		Forecasts		
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
DP - annual average % change										
Private Consumption	6.0	2.4	0.9	0.8	2.0	7.5	3.0	1.1	0.2	1.9
Government Consumption	8.0	2.0	-2.5	-3.3	1.4	8.2	4.5	-2.1	-4.3	1.4
Total Investment	10.6	3.5	-1.0	-1.0	4.2	12.5	3.9	0.4	-2.2	3.3
Stocks - ppts cont'n to growth	0.6	-0.2	-0.3	0.3	0.0	1.3	0.0	-0.9	0.6	0.0
GNE	8.1	2.4	-0.2	-0.1	2.4	10.2	3.5	-0.2	-0.7	2.2
Exports	2.4	6.2	6.1	4.3	5.3	-2.7	0.0	8.8	4.9	5.4
Imports	17.6	4.9	1.9	0.2	2.7	15.1	5.3	2.4	0.5	2.1
Real Expenditure GDP	4.8	2.6	0.0	1.0	3.1	6.0	2.3	0.5	0.2	3.0
GDP (production)	**5.2**	**2.9**	**0.3**	**1.0**	**3.1**	**6.0**	**2.7**	**0.8**	**0.3**	**3.0**
GDP - annual % change (q/q)	*1.1*	*2.2*	*-0.2*	*2.7*	*2.9*	*3.3*	*2.3*	*0.1*	*1.5*	*3.1*
Output Gap (ann avg, % dev)	1.4	1.9	-0.4	-1.2	-0.2	1.5	2.0	0.2	-1.3	-0.4
Nominal Expenditure GDP - $bn	358	387	401	416	438	352	380	399	410	433
rices and Employment - annual % change										
CPI	6.9	6.7	4.7	2.3	2.1	5.9	7.2	5.5	2.3	2.2
Employment	2.5	2.9	1.9	0.9	2.0	3.3	1.7	2.9	0.5	2.0
Unemployment Rate %	3.2	3.4	4.4	5.3	5.3	3.2	3.4	4.0	5.2	5.3
Wages - ahote (private sector)	5.3	8.2	5.8	3.6	2.8	4.1	8.1	6.6	4.0	2.9
Productivity (ann av %)	2.3	0.8	-2.6	0.3	1.3	3.9	0.5	-2.3	-0.6	1.5
Unit Labour Costs (ann av %)	4.0	6.3	8.3	4.0	1.5	2.0	6.2	8.4	5.5	1.5
House Prices	13.8	-12.8	3.4	8.6	10.9	27.2	-10.9	-1.9	6.7	12.5
External Balance										
Current Account - $bn	-24.2	-33.0	-29.0	-24.7	-18.0	-21.1	-34.4	-29.4	-27.5	-19.3
Current Account - % of GDP	-6.8	-8.5	-7.2	-5.9	-4.1	-6.0	-9.0	-7.4	-6.7	-4.5
overnment Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-3.4	-2.4	-2.8	-1.7	-0.8					
Net Core Crown Debt (excl NZS Fund Assets)	17.0	18.0	22.0	21.7	20.7					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	34.0	32.0	30.0					
Bond Programme - % of GDP	5.6	7.2	8.5	7.7	6.9					
inancial Variables (1)										
NZD/USD	0.69	0.62	0.62	0.67	0.69	0.68	0.63	0.60	0.65	0.71
USD/JPY	119	134	135	118	112	114	135	138	120	114
EUR/USD	1.10	1.07	1.16	1.21	1.21	1.13	1.06	1.13	1.19	1.23
NZD/AUD	0.93	0.93	0.90	0.89	0.91	0.95	0.94	0.91	0.89	0.91
NZD/GBP	0.52	0.51	0.46	0.49	0.50	0.51	0.52	0.46	0.48	0.51
NZD/EUR	0.62	0.58	0.53	0.55	0.57	0.60	0.60	0.53	0.55	0.58
NZD/YEN	81.5	83.0	83.7	79.1	77.3	77.4	85.6	82.8	78.0	80.9
TWI	73.9	71.0	70.3	71.8	73.8	73.0	72.9	69.1	70.4	75.2
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	4.00	2.50	0.75	4.25	5.50	4.25	2.50
90-day Bank Bill Rate	1.45	5.16	5.45	3.75	2.65	0.92	4.55	5.60	4.25	2.65
5-year Govt Bond	2.90	4.40	4.40	3.70	3.60	2.20	4.30	4.70	3.80	3.60
10-year Govt Bond	3.20	4.35	4.50	4.10	4.10	2.35	4.25	4.70	4.10	4.10
2-year Swap	3.00	5.15	4.55	3.10	2.75	2.22	5.21	4.95	3.45	2.75
5-year Swap	3.20	4.50	4.60	3.95	3.85	2.56	4.62	4.85	4.05	3.85
US 10-year Bonds	2.10	3.65	3.90	3.50	3.50	1.45	3.60	4.10	3.50	3.50
NZ-US 10-year Spread	1.10	0.70	0.60	0.60	0.60	0.90	0.65	0.60	0.60	0.60

Average for the last month in the quarter

Source: Statistics NZ, BNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Monday 11 September			
CH	Aggregate Financing CNY Aug	2730.0b		528.2b
CH	New Yuan Loans CNY Aug	1275.0b		345.9b
EC	OECD Publishes Economic Outlook			
	Tuesday 12 September			
US	NY Fed 1-Yr Inflation Expectations Aug			3.55%
NZ	Card Spending Total MoM Aug			-0.90%
NZ	Net Migration SA Jul			5033
NZ	Pre-Election Economic and Fiscal Update			
AU	NAB Business Confidence Aug			2
UK	Payrolled Employees Mthly Chng Aug	29k		97k
UK	ILO Unemployment Rate 3Mths Jul	4.30%		4.20%
GE	ZEW Survey Expectations Sep	-15		-12.3
US	NFIB Small Business Optimism Aug	91.5		91.9
	Wednesday 13 September			
UK	BOE's Catherine Mann speaks			
NZ	RBNZ Assistant Governor Silk speaks on Liquidity			
NZ	Food Prices MoM Aug		0.60%	-0.50%
AU	CBA Household Spending MoM Aug			0.00%
UK	Monthly GDP (MoM) Jul	-0.20%		0.50%
UK	Industrial Production MoM Jul	-0.60%		1.80%
UK	Trade Balance GBP/Mn Jul	-£4500m		-£4787m
EC	Industrial Production SA MoM Jul	-0.90%		0.50%
	Thursday 14 September			
US	CPI Ex Food and Energy YoY Aug	4.30%		4.70%
JN	Core Machine Orders MoM Jul	-0.70%		2.70%
AU	Employment Change Aug	25.5k	50k	-14.6k
AU	Unemployment Rate Aug	3.70%	3.60%	3.70%

		Median	Fcast	Last
JN	Industrial Production MoM Jul F			-2.00%
	Friday 15 September			
EC	ECB Main Refinancing Rate Sep-14	4.25%		4.25%
EC	ECB Marginal Lending Facility Sep-14	4.50%		4.50%
EC	ECB Deposit Facility Rate Sep-14	3.75%		3.75%
US	Retail Sales Advance MoM Aug	0.10%		0.70%
US	Retail Sales Ex Auto MoM Aug	0.40%		1.00%
US	Retail Sales Ex Auto and Gas Aug	-0.10%		1.00%
US	Initial Jobless Claims Sep-09	227k		216k
US	Retail Sales Control Group Aug	-0.10%		1.00%
US	Continuing Claims Sep-02	1695k		1679k
US	PPI Ex Food and Energy YoY Aug	2.20%		2.40%
US	Business Inventories Jul	0.10%		0.00%
NZ	BusinessNZ Manufacturing PMI Aug			46.3
CH	Industrial Production YoY Aug	3.90%		3.70%
CH	Retail Sales YoY Aug	3.00%		2.50%
CH	Fixed Assets Ex Rural YTD YoY Aug	3.30%		3.40%
CH	Surveyed Jobless Rate Aug	5.30%		5.30%
EC	ECB's Villeroy speaks			
UK	BoE/Ipsos Inflation Next 12 Mths Aug			3.50%
EC	Trade Balance SA Jul			12.5b
EC	Labour Costs YoY 2Q			5.00%
EC	ECB's Lagarde Speaks			
GE	Germany Sovereign Rating to be reviewed by Fitch			
	Saturday 16 September			
US	Empire Manufacturing Sep	-10		-19
US	Manufacturing (SIC) Production Aug	0.10%		0.50%
US	U. of Mich. Sentiment Sep P	69.2		69.5

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	3.00
1mth	5.60	5.60	5.61	3.21
2mth	5.63	5.63	5.63	3.40
3mth	5.66	5.65	5.64	3.58
6mth	5.71	5.71	5.73	3.87
GOVERNMENT STOCK				
04/25	5.49	5.47	5.45	3.81
04/27	5.07	5.03	4.96	3.83
04/29	4.94	4.91	4.85	3.88
05/31	4.93	4.91	4.87	3.91
04/33	4.93	4.91	4.89	3.99
04/37	5.06	5.04	5.05	4.17
05/41	5.12	5.10	5.13	4.26
05/51	5.11	5.09	5.09	4.23
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	64	63	66	79
Europe 5Y	71	69	72	104

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.47	5.48	5.52	4.19
3 years	5.19	5.20	5.22	4.14
4 years	5.00	5.01	5.03	4.10
5 years	4.89	4.89	4.92	4.07
10 years	4.76	4.77	4.81	4.11
FOREIGN EXCHANGE				
NZD/USD	0.5894	0.5939	0.5976	0.6137
NZD/AUD	0.9232	0.9190	0.9211	0.8910
NZD/JPY	86.55	86.98	86.97	87.66
NZD/EUR	0.5504	0.5501	0.5479	0.6062
NZD/GBP	0.4723	0.4704	0.4711	0.5253
NZD/CAD	0.8036	0.8072	0.8044	0.7970
TWI	69.8	69.8	70.0	71.1

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

Stuart Ritson
Senior Interest Rate Strategist
+64 9 9248601

Mike Jones
BNZ Chief Economist
+64 9-956 0795

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