Research

Markets Outlook

25 September 2023

RBNZ October MPR Preview

- **No change in central bank stance expected**
- **Inflationary pressures are rising**
- **But longer term activity indicators are grim**
- **Business surveys key to decision**
- **Consumers plain miserable**

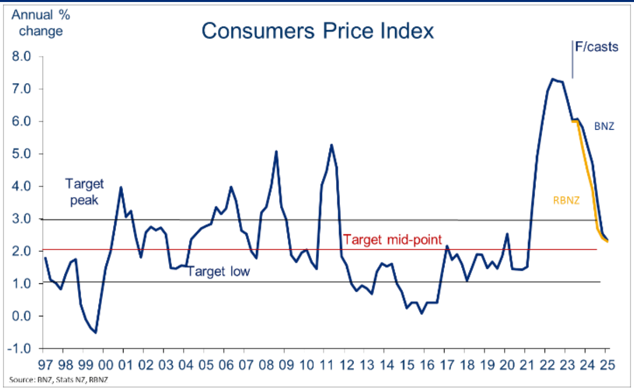
Life is getting no less complicated for the Reserve Bank. On the one hand labour market pressures are dissipating at an accelerating rate and, despite the strong Q2 GDP outturn, the economy looks unlikely to build any momentum for some time. This suggests the Bank should be adopting a more relaxed stance than is currently the case. On the other hand, it appears to us that near term CPI inflation will surprise to the upside, and significantly so. And the housing market appears to be turning more rapidly than the RBNZ expected. This could conceivably argue for a tighter monetary policy stance.

With such competing tensions, and the uncertainties surrounding the upcoming election, we think the Bank would be best advised to play a straight bat, acknowledge the risks that pervade but produce a steady as you go conclusion. The real fun can start in November when the Bank will know the colour of the newly elected Government and it will have the ability to do the complete stock take that a Monetary Policy Statement (as opposed to the "basic" OCR Review delivered on October 4) encourages.

Rising inflation forecasts are certainly front of mind for us. Compared to the Reserve Bank's August Monetary Policy Statement, we now expect near term inflation to be substantially higher than the RBNZ forecast. Some of this is due to the currency being a touch weaker than the Bank was expecting. And some is because non-tradables inflation appears to be proving stickier than hoped for. But the big mover and shaker has been petrol prices that have pushed aggressively higher than anticipated as global oil prices surge. Moreover, there is good reason to believe there is more to come on this front.

Our forecast for Q3 CPI is basically the same as the Bank's. We're at 2.2% for the quarter, the RB at 2.1%. It's Q4 when the proverbial hits the fan. We are forecasting a 1.2% quarterly increase compared to the Bank's 0.7%. By the March year 2024 we are forecasting annual inflation of 5.3%, a whopping 0.8% above the RBNZ's 4.5% pick. While we won't know exactly what the Reserve Bank will take as a CPI forecast into its October meeting, we can be assured it will be closer to our current estimates than the numbers it used back in August.

Inflationary pressure rising



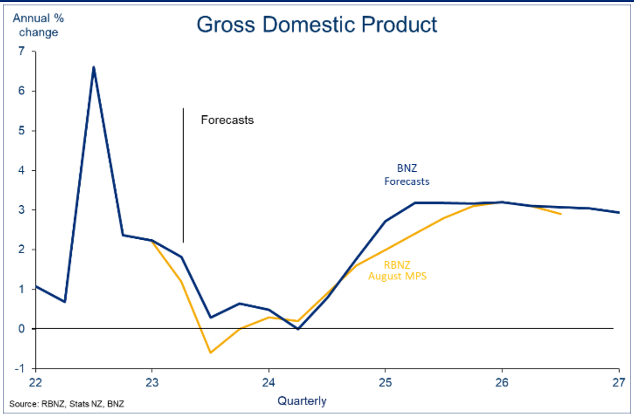
The problem is that we don't know how the RBNZ will view this? To start with, rising fuel prices are like a tax on the household sector. The increase will further curtail consumer spending at a time when it is already under pressure. If this eventually results in a widening negative output gap then medium term inflation forecasts should be lowered.

But what will be the effect on inflation expectations? This will be very important. If higher headline inflation flows through into expectations, as it tends to, then the Bank might feel the need to push against this.

As if all this wasn't problematic enough there is a huge unknown in terms of the fiscal stance of an incoming government. Our suspicion is that policy will be more stimulatory than that currently incorporated into RBNZ forecasts no matter who the new Government is. If this is so it will add to inflationary pressure.

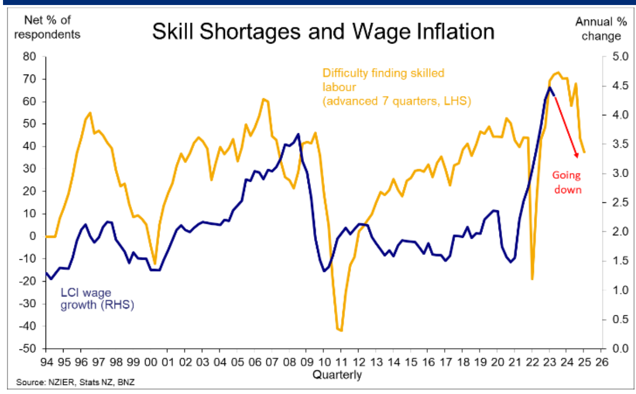
The strength in the economy will be critical in the interest rate decision and we still believe activity will struggle to find any momentum for some time even with the boost provided by net migration and increased tourism. Annual GDP growth fell to just 1.8% in the June quarter, despite the unexpectedly high 0.9% pick up for the quarter. But we then see it sitting at between zero and 1.0% for five consecutive quarters. This should take the pressure off inflation particularly that driven by the labour market.

Growth weak



Wage growth should moderate due to the combination of the migration-driven increase in the working age population and the weakness we expect in domestic demand. Anecdotal evidence suggests this process is already well under way.

Labour pressures easing

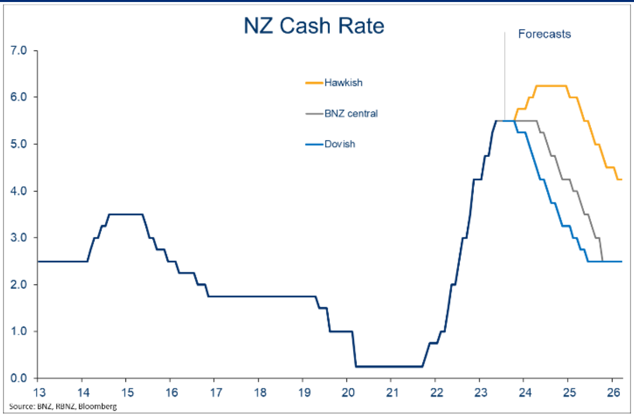


Then there's the question of the weather. It appears to us that all the preconditions are in place for the economy to be affected by drought as we move into summer. El Nino has a habit of drying out the east coast of New Zealand. This would bolster some commodity prices (especially dairy) but the volume impacts could drive an even weaker economy than we are currently forecasting.

On this basis we will stick with our view that rates will remain where they are well into 2024 with the first move being a cut. And even if inflationary pressures do build, bear in mind that lending rates look set to continue drifting higher as Banks' cost of funding continue to push upward thanks to the combination of: raised global rates, increased competition in the deposit market and the end of guaranteed low cost funding by way of the Funding for Lending Programme. In this regard no rate hike does not mean no tightening in monetary conditions.

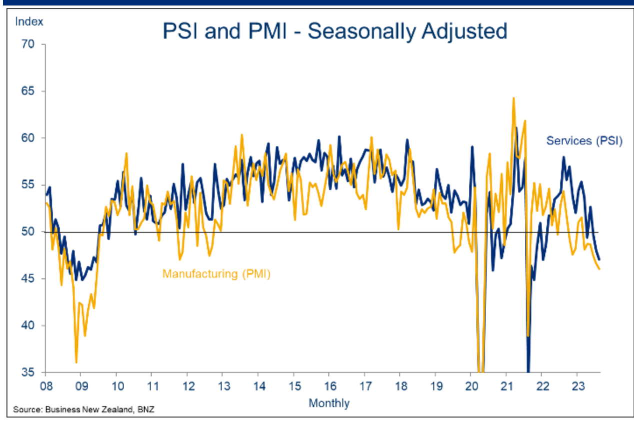
Could the Reserve Bank end up hiking rates again? Absolutely, but if it does so we warn again that it would likely mean a series of rate hikes not just one. Our scenario analysis is presented in the graph below. It should probably have one more line on the chart where the cash rate stays at 5.5% for a considerably longer period of time than we are projecting.

Interest rate scenarios



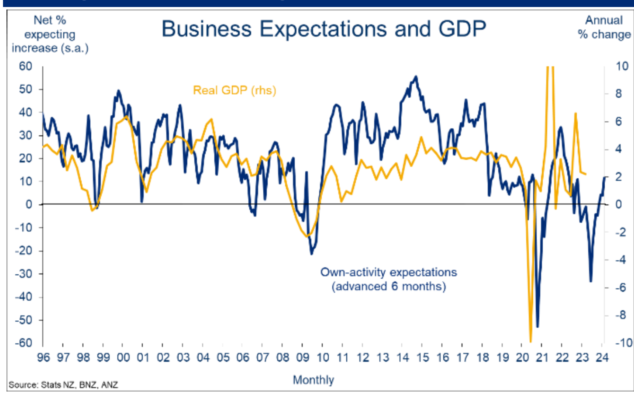
Our PMI and PSI indicators have recently printed very weak. This adds support to our view that Q3 activity will be stunted. But we, and the central bank, will be looking very closely at the leading indicators to get a sense of where things might go from here.

Coincident indicators weak



On Thursday we get the ANZ's latest survey of business opinion. The own activity indicator turned sharply higher in August. We would not be surprised if it nudged higher still this time around.

Leading indicators turning



Businesses have a tendency to like National Governments so the latest polls will have created some enthusiasm. But, more importantly, we think the massively reduced pressure on the labour market is taking the shackles off business and providing them with increased optimism about activity. Neither of these factors reflects an expected pick up in demand.

For us the most important aspect of the ANZ survey will be the pricing indicators. If these do not continue to show reduced inflationary pressure then they could well unnerve the central bank.

The more important business survey, in our opinion, is the September QSBO due for release the day before the RBNZ decision is released. While very proximate to the OCR review, there is no reason that it can't be taken into consideration by the Monetary Policy Committee given how short the accompanying text to an OCR review is.

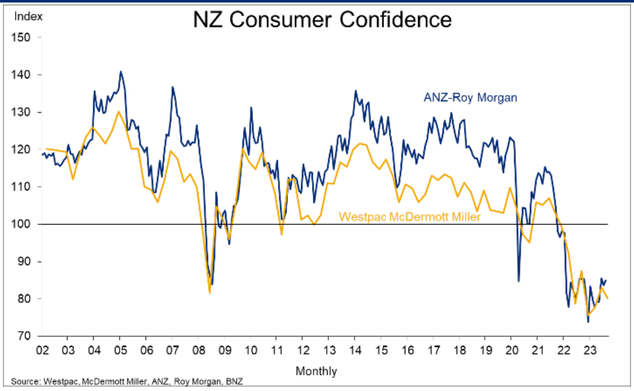
In the QSBO the key points of notice are likely to be those associated with the labour market. We will be looking for further confirmation that difficulty in finding labour is easing, turnover is dropping and demand continues to replace labour as business' major factor constraint.

We will then be keen to see if last quarter's dramatic drop in capacity utilisation is sustained and, again, how the pricing indicators are performing. Our suspicion is that the combination of these data will confirm that medium term inflationary pressures are abating.

It is important to note that labour market constraints have largely eased due to increased migration-driven labour supply. Employment growth has remained strong as employees satiate past excess labour demand with the increased supply. There will soon come a time, however, where weak domestic demand also slows demand for labour. We will look to Thursday's employment indicators to see if this process is underway. We are expecting a small drop in annual growth from the 3.4% reported in July.

On Friday we get ANZ's latest consumer confidence reading. If last week's Westpac equivalent is anything to go by consumer confidence will remain moribund. Businesses may be getting a little more optimistic about the way ahead but consumers are still battling rising mortgage interest rates and heightened cost pressures. With consumer confidence as weak as it is the outlook for consumer spending must remain soft.

Consumers still miserable



There are a couple of banking sector indicators to peruse as well. New residential lending data for August are released on Tuesday and credit aggregates on Friday.

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Global Watch

- **US PCE core inflation, income, spending data due**
- **Fed, ECB speakers galore**
- **EU inflation data due Friday**
- **China PMIs to note on Saturday**
- **AU CPI indicator to guide assessment of Q3**
- **AU August retail sales seen resilient**

Australia

NAB expects the CPI Indicator on Wednesday to show y/y inflation of 5.2% from 4.9% (in line with consensus), with a rise in fuel prices a key driver. Details on services are likely to indicate upside risks to the RBA's Q3 trimmed mean forecast, including from pass through from award wage increase and energy price increases. NAB's Monthly CPI forecast is consistent with a Q3 trimmed mean of 1.0-1.1% q/q, which would be above the RBA's 0.9% forecast.

Electricity price measurement and volatile holiday travel prices are the key uncertainties. With the Monthly CPI being only a partial indicator, if the details do show risks on more persistent services inflation, the RBA is likely to wait for confirmation in the full Q3 CPI on 25 October.

Retail sales are expected to show a 0.4% m/m increase in August (Consensus +0.3% m/m). NAB transactions data suggests spending has been resilient though July and August. Broader spending has been stronger outside of retail categories, boosted especially in August by fuel as prices rose, but an increase in the goods-heavy retail spending data is still expected in August.

Job vacancies data for August are expected to post another fall from levels that, while off their 2022 highs, remain exceptionally elevated relative to history. At the last update in May, Job vacancies fell just 2% from 3 months prior. And despite a 10% fall from May 22 peaks, vacancies were some 89% above pre-pandemic levels. There were just 1.2 unemployed people per job vacancy, compared to around 3 prior to the pandemic. Cooling in the labour market so far has reflected expanding labour supply alongside rapid migration meeting still elevated labour demand.

Papers from an RBA conference titled 'Inflation' might garner some passing interest on Tuesday. The Quarterly Statement by the Council of Financial Regulators (CFR) is on Monday and RBA Assistant Governor (Financial System) Brad Jones appears on a panel at a virtual conference on Financial Technology, Climate Change, and Challenges for Central Banks and Financial Regulators. Nothing to garner much fanfare.

Lastly, Treasurer Chalmers said Friday that he has interviewed three candidates for RBA deputy governor, but no decision has been made yet. Could a decision come this week?

US

The US data calendar is headlined by Friday's PCE data. But market attention may be elsewhere as the 30 September end of the fiscal year fast approaches. Political headlines will continue ahead of what many analysts expect will be a partial government shutdown from 1 October. As for the data, expectations are for a 0.2% m/m rise in the core measure and a 0.5% m/m rise in headline. Personal income growth is expected to show a healthy 0.4% m/m gain, supported by hours worked, while personal spending is seen up 0.4% m/m. Ahead of the August PCE report, the third estimate for Q2 GDP is out Thursday. Durable Goods orders, Conference Board consumer confidence, New Home Sales, and a smattering of regional Fed activity indexes fill out the data calendar. Fed speakers come in the form of Kashkari, Bowman, Goolsbee, Cook, Barkin, and Williams. Powell is scheduled on Thursday night, but hosting a town hall with educators.

China

Industrial profits on Wednesday in a quiet data week. Official Manufacturing and Services PMIs are due on Saturday (30 September), ahead of the Caixin counterparts early the next week. With August activity data suggesting a firmer footing emerging under sluggish activity, can the PMIs reflect a rebound?

Eurozone

EZ consumer and economic confidence data are released on Thursday. On Friday preliminary inflation data for September is released. As always both headline and core measures will be closely watched, with an eye on the impact of higher oil prices that are likely to nudge up the headline. The dove-hawk ECB debate and whether rates have peaked or not continues with speeches from Villeroy, Lane, Holzmann, and Lagarde.

UK

After pausing its almost two-year unbroken run of rate rises at 5.25%, markets will be alert for any ad-hoc comments from BoE officials for further background. There are no scheduled speakers, but ad-hoc media appearances are possible. Mortgage approvals and lending data for August are released on Friday.

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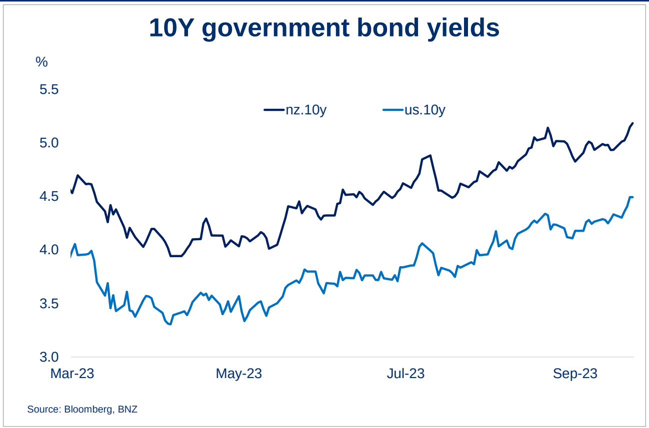
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed interest markets moved higher in yield over the course of last week with 10-year government bond yields making new highs for the cycle and reaching levels last seen back in 2011. The main catalyst for the move was higher US treasury yields following hawkish messaging accompanying the US Federal Reserve's decision to leave rates on hold. Spreads between NZ and US 10-year government bonds have been stable near 70bp with the NZ market keeping pace with the US on the move higher.

US 10-year treasury yields reached 4.5% extending the move from the lows reached in May to more than 100bp. The move higher in longer maturity treasuries has contributed to a steeper yield curve. The spread between 10-year and 2-year bonds has steepened to -63bps, the least inverted since May and some way from the peak inversion of -110bp reached in July.

New cycle yield highs

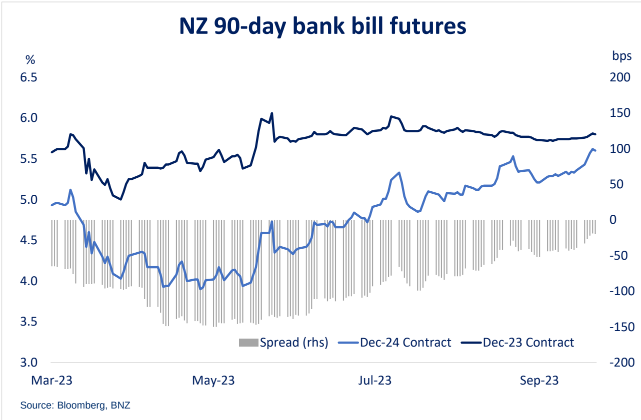


The market is continuing to transition to a 'higher for longer' scenario where the Fed is expected to hold rates at current restrictive levels for longer than the market had originally anticipated. This has contributed to a reduction in the amount of easing being priced for next year. Higher oil prices are also impacting market sentiment given the potential pass-through to inflation and inflation expectations. Brent crude has increased to US$95 per barrel, representing a 30% gain since June, amid tightening supply from Saudi Arabia and Russia.

Although the Fed left rates on hold last week, meeting participants made meaningful changes to their economic and interest rate projections. Growth forecasts were revised significantly higher for 2023 and 2024 aligning with a lower unemployment rate for both years. Meanwhile, the median inflation forecast for core PCE in 2023 was revised down to 3.7% from 3.9% while the 2024 forecast was left unchanged at 2.6%.

The 'dot plots', where participants' forecasts for the Fed funds rate are collated, signalled one further 25bp hike this year and reduced the amount of easing in 2024. The median estimate for the fed funds rate at the end of 2024 is 5.1%, up from 4.6% in June. The reduction in easing priced for next year has driven longer end yields higher in recent weeks and has continued following the FOMC. The median projection for the longer-term rate in the dot plot was unchanged at 2.5% though the market is pricing a considerably higher terminal rate.

The market is reducing 2024 RBNZ easing expectations



The same dynamic is playing out in New Zealand. Market pricing for the Official Cash Rate at end 2023 is little changed – the overnight interest swap for the November monetary policy statement date is implying about a 50% chance of a 25bp hike – while rate cuts priced for 2024 have been unwound. This can be illustrated by the spread between the December 2023 and December 2024 contracts for 90-day bank bill futures (chart above). This spread has narrowed, driven by the December 2024 contract, while the yield on the December 2023 contract has been stable.

The move higher in yields has created value in New Zealand fixed income. Bond yields adjusted for inflation expectations are well above long term means. However, timing the reversal has proven challenging amid strong upward momentum. We continue to believe that the RBNZ has completed the tightening cycle. Policy rates are restrictive and despite the upside surprise to Q2 GDP last week, growth is likely to be near flat on average in coming quarters while inflation slowly retraces towards the central bank's target range by Q4 2024.

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD outperformed last week, rising by 1% to 0.5960 and it was stronger on all the key crosses. More dovish than expected policy updates by the BoE and BoJ saw NZD/GBP up 2.2% to 0.4870 and NZD/JPY up 1.4% to 88.4. NZD/AUD rose almost 1% for the week to push back over 0.9250 while NZD/EUR rose over 1%.

There was plenty of news flow to digest last week. For reasons not entirely obvious, the NZD had a good week. Positive news we can point to for the NZD include another strong gain in dairy prices at the fortnightly GDT auction; a much better than expected current account position with the annual deficit falling to 7.5%, albeit still too high for comfort; and a stronger than expected Q2 GDP print of 0.9% q/q and 1.8% y/y, following two very weak quarters.

While at face value it appears that the NZ economy was on a stronger footing than many assumed in Q2, it doesn't change the picture of a sluggish underlying economy, particularly when viewed against annual population growth that now exceeds 2%. Echoing that sentiment, consumer confidence continues to languish near record low levels, consistent with recession-like conditions. We project a flat Q3 for GDP and annual growth not exceeding 1% again until the end of next year.

In terms of global forces, our risk appetite index fell to 56%, its lowest level in over four weeks. This was against a backdrop of global bond yields reaching fresh multi-year highs, or multi-decade highs in some cases. Adding to this dynamic, in a hawkish hold, the US Federal Reserve left the target range for the Fed Funds rate unchanged at 5.25-5.50% and signalled rates are likely to stay higher for longer. The median FOMC member now sees only two projected rate cuts next year (down from four) and still another rate hike later this year.

Pertinent to the crosses, CPI inflation for August in the UK was much lower than expected, the core rate down to 6.2% y/y compared to expectations of 6.8%. As well as another fall in the services PMI, this was a factor in the BoE's first no-change decision on its policy rate in nearly two years. As a result, NZD/GBP has recovered to its highest level in over two months.

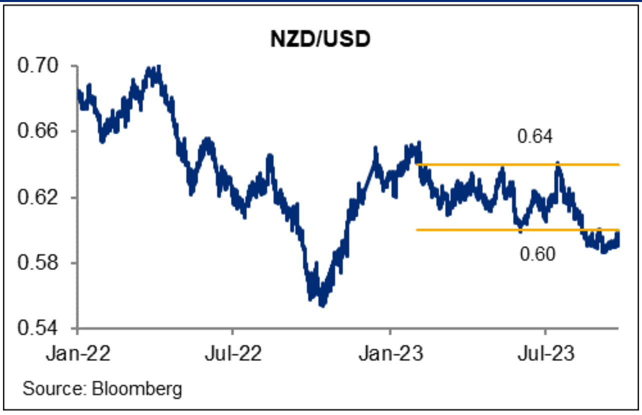
The BoJ remained as dovish as ever, maintaining its ultra-easy policy and Governor Ueda saying the distance from being able to adjust the negative rate hasn't changed much. NZD/JPY is near the top end of its range this year and intervention to support the yen remains a key risk over coming weeks. There was little Australian news last week, but positive NZ forces saw NZD/AUD up nearly a cent for the week.

The week ahead is quieter. Monthly Australian CPI is expected to lift from 4.9% to 5.2%, but the market gives almost no chance to the RBA hiking again until after Q3 data are released next month. Domestically, the ANZ business outlook survey could see further recovery in confidence and activity indicators, on anticipation of a change in government, although we're more interested in the pricing indicators.

The key global releases are late in the week, including euro area CPI data and the US PCE deflators. There will be plenty of noise in the form of Fed speakers outlining their policy views.

Despite the better week for the NZD last week, a fair description is that the currency has been languishing in a tight range just below 0.60 over the past six weeks, with largely global forces in charge. Failure to sustainably break above 0.60, and that level also being a key level of support over the prior period, suggests it is a mark of resistance for now. Our year-end target of 0.60 is consistent with the NZD ultimately seeing a slightly higher trading range evolving over coming months, but the path of the USD remains key.

NZD languishing below 0.60; resistance at that level for now



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5965	0.5860 - 0.5990
NZD/AUD	0.9247	0.9150 - 0.9270
NZD/GBP	0.4864	0.4670 - 0.4880
NZD/EUR	0.5598	0.5460 - 0.5620
NZD/JPY	88.50	86.30 - 88.70

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6220	-4%
NZD/AUD	0.9070	2%

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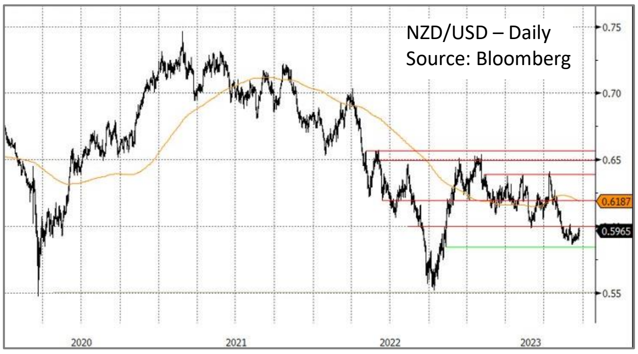
Technicals

NZD/USD

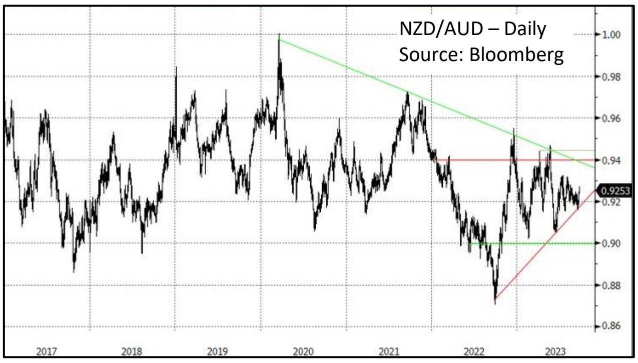
Outlook:	Downside risk
ST Resistance:	0.60 (ahead of 0.62)
ST Support:	0.5840 (ahead of 0.55)



Recent signs of consolidation with prior support of 0.60 now being a level of resistance. Looking at 0.5840 as a possible support level.

NZD/AUD

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



Technicals remain consistent with the cross in a broad 0.90-0.94 trading range. Watching the wedge formation closely.

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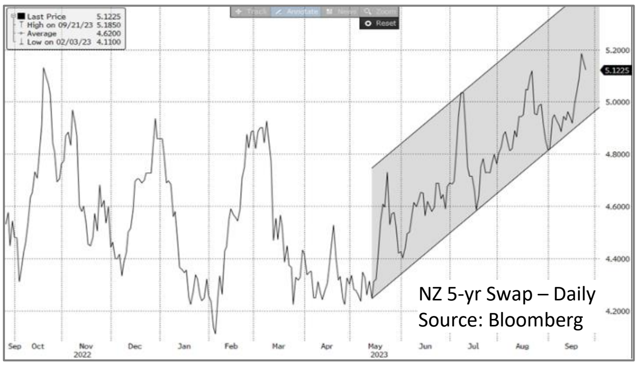
NZ 5-year Swap Rate

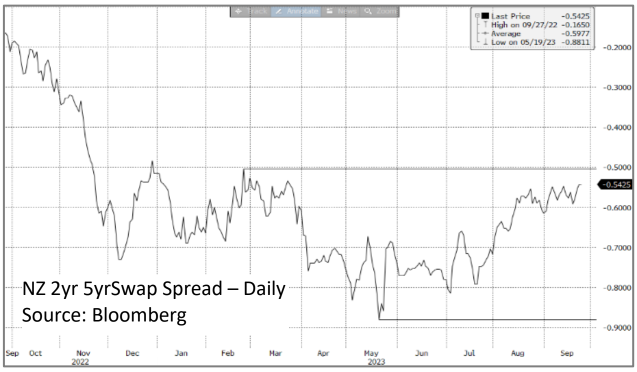
Outlook:	Neutral
MT Resistance:	5.43
MT Support:	4.94



We have taken profit on our paid 5y position and now sit neutral. We attain new levels of resistance and support from the ascending channel.

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

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



2x5 curve remains steady around current levels. Target remains to steepen towards -51 resistance.

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Quarterly Forecasts

Forecasts as at 25 September 2023

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Sep-23 to Sep-24

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
GDP (production s.a.)	1.3	1.5	-0.5	0.0	0.9	0.0	-0.2	-0.2	0.4	0.8
Retail trade (real s.a.)	-1.9	0.2	-1.1	-1.6	-1.0	-1.5	-0.5	0.2	0.6	0.8
Current account (ytd, % GDP)	-7.9	-8.3	-8.8	-8.2	-7.5	-7.4	-7.1	-6.9	-7.1	-6.9
CPI (q/q)	1.7	2.2	1.4	1.2	1.1	2.2	1.2	0.7	0.5	1.0
Employment	-0.1	1.2	0.7	1.1	1.0	0.5	0.3	0.1	0.0	0.1
Unemployment rate %	3.3	3.3	3.4	3.4	3.6	3.8	4.0	4.4	4.8	5.1
Avg hourly earnings (ann %)	7.0	8.6	8.1	8.2	7.7	6.8	6.6	5.8	5.1	4.2
Trading partner GDP (ann %)	2.2	3.8	2.2	2.8	3.4	2.7	3.0	2.5	2.6	2.7
CPI (y/y)	7.3	7.2	7.2	6.7	6.0	6.1	5.8	5.3	4.7	3.5
GDP (production s.a., y/y))	0.7	6.6	2.4	2.2	1.8	0.3	0.6	0.5	0.0	0.8

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/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.59	0.64	1.07	1.25	147
Dec-23	0.60	0.66	1.13	1.31	138
Mar-24	0.62	0.69	1.16	1.35	135
Jun-24	0.64	0.71	1.17	1.34	130
Sep-24	0.64	0.72	1.18	1.35	125
Dec-24	0.65	0.73	1.19	1.35	120
Mar-25	0.67	0.75	1.21	1.37	118
Jun-25	0.69	0.77	1.22	1.37	116
Sep-25	0.71	0.78	1.23	1.38	115
Dec-25	0.71	0.78	1.23	1.38	114
Mar-26	0.69	0.76	1.21	1.37	112

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.59	0.92	0.55	0.47	86.8	69.7
Dec-23	0.60	0.91	0.53	0.46	82.8	69.1
Mar-24	0.62	0.90	0.53	0.46	83.7	70.3
Jun-24	0.64	0.90	0.55	0.48	83.2	71.3
Sep-24	0.64	0.89	0.54	0.47	80.0	70.4
Dec-24	0.65	0.89	0.55	0.48	78.0	70.4
Mar-25	0.67	0.89	0.55	0.49	79.1	71.8
Jun-25	0.69	0.90	0.57	0.50	80.0	73.4
Sep-25	0.71	0.91	0.58	0.51	81.7	75.2
Dec-25	0.71	0.91	0.58	0.51	80.9	75.2
Mar-26	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 as at 25 September 2023	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	1.4	1.0	2.3	7.4	3.2	1.5	0.6	2.1
Government Consumption	8.0	2.0	-0.3	-2.9	1.4	8.2	4.6	-0.7	-3.1	0.9
Total Investment	10.4	3.5	0.7	-1.1	4.2	12.3	4.1	1.4	-1.8	3.3
Stocks - ppts cont'n to growth	0.5	-0.1	-1.0	1.1	0.0	1.4	-0.3	-1.3	1.1	0.1
GNE	8.0	2.6	0.0	0.8	2.6	10.2	3.4	0.0	0.2	2.3
Exports	2.5	6.0	3.0	2.3	5.4	-2.7	-0.2	7.3	1.5	5.3
Imports	17.3	4.7	-1.4	-0.3	2.7	14.8	4.7	0.4	-1.0	2.1
Real Expenditure GDP	4.8	2.9	1.1	1.5	3.2	6.1	2.3	1.4	1.1	3.1
GDP (production)	**5.2**	**2.9**	**0.8**	**1.3**	**3.2**	**6.0**	**2.7**	**1.2**	**0.8**	**3.1**
GDP - annual % change (q/q)	*1.1*	*2.2*	*0.5*	*2.7*	*3.2*	*3.3*	*2.4*	*0.6*	*1.8*	*3.2*
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	388	411	427	451	353	381	407	421	445
Prices and Employment - annual % change										
CPI	6.9	6.7	5.3	2.3	2.2	5.9	7.2	5.8	2.5	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	-2.4	0.3	1.3	3.9	0.5	-2.1	-0.6	1.5
Unit Labour Costs (ann av %)	4.0	6.3	8.1	3.9	1.7	2.0	6.2	8.2	5.4	1.7
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	-23.6	-31.8	-28.5	-24.6	-18.3	-20.6	-33.4	-28.7	-26.8	-19.7
Current Account - % of GDP	-6.6	-8.2	-6.9	-5.8	-4.1	-5.8	-8.8	-7.1	-6.4	-4.4
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.5	-2.8	-1.7	-0.8					
Net Core Crown Debt (excl NZS Fund Assets)	17.0	18.1	22.4	23.2	23.3					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	36.0	35.0	30.0					
Bond Programme - % of GDP	5.6	7.2	8.8	8.2	6.6					
Financial 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

(1) *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 25 September			
AU	RBA's Jones on panel			
EC	ECB's Villeroy speaks			
GE	IFO Expectations Sep	83		82.6
UK	CBI Retailing Reported Sales Sep	-35		-44
	Tuesday 26 September			
US	Chicago Fed Nat Activity Index Aug	0.05		0.12
EC	ECB's Lagarde, Schnabel speak			
US	Fed's Kashkari speaks			
EC	ECB's Lane, Simkus speak			
	Wednesday 27 September			
US	Philadelphia Fed Non-Mfg Activity Sep			-13.1
US	S&P CoreLogic CS US HPI YoY NSA Jul			-0.02%
US	New Home Sales Aug	699k		714k
US	Conf. Board Consumer Confidence Sep	105.5		106.1
US	Richmond Fed Manufact. Index Sep	-7		-7
US	Dallas Fed Services Activity Sep			-2.7
EC	ECB's Holzmann speaks			
US	Fed's Bowman speaks			
JN	BOJ Minutes of July Meeting			
AU	CPI YoY Aug	5.20%		4.90%
CH	Industrial Profits YoY Aug			-6.70%
GE	GfK Consumer Confidence Oct	-26		-25.5
	Thursday 28 September			
US	Durable Goods Orders Aug P	-0.50%		-5.20%
NZ	ANZ Business Confidence Sep			-3.7
AU	Retail Sales MoM Aug	0.30%	0.40%	0.50%
EC	ECB Publishes Economic Bulletin			
EC	Economic Confidence Sep	92.4		93.3
UK	BOE's Hauser speaks			
	Friday 29 September			
GE	CPI YoY Sep P	4.60%		6.10%
US	Revisions: GDP/National Economic Accounts			
US	GDP Annualized QoQ 2Q T	2.20%		2.10%
US	Initial Jobless Claims Sep-23	215k		201k
US	Continuing Claims Sep-16	1675k		1662k

		Median	Fcast	Last
US	Fed's Goolsbee speaks			
EC	ECB's Holzmann speaks			
US	Pending Home Sales MoM Aug	-1.00%		0.90%
UK	BOE's Greene speaks			
EC	ECB's De Cos speaks			
US	Fed's Powell, Cook speak			
NZ	ANZ Consumer Confidence Index Sep			85
US	Fed's Barkin speaks			
JN	Jobless Rate Aug	2.60%		2.70%
JN	Retail Sales MoM Aug	0.50%		2.10%
JN	Industrial Production MoM Aug P	-0.80%		-1.80%
AU	Private Sector Credit MoM Aug	0.30%	0.30%	0.30%
UK	GDP QoQ 2Q F	0.20%		0.20%
UK	Current Account Balance 2Q	-14.3b		-10.8b
EC	ECB's Lagarde speaks			
GE	Unemployment Claims Rate SA Sep	5.70%		5.70%
EC	CPI Estimate YoY Sep	4.50%		5.20%
EC	ECB's Kazaks speaks			
EC	CPI Core YoY Sep P	4.80%		5.30%
	Saturday 30 September			
US	Personal Income Aug	0.40%		0.20%
US	Personal Spending Aug	0.40%		0.80%
US	Real Personal Spending Aug	0.00%		0.60%
US	PCE Deflator MoM Aug	0.50%		0.20%
US	PCE Deflator YoY Aug	3.50%		3.30%
US	PCE Core Deflator MoM Aug	0.20%		0.20%
US	PCE Core Deflator YoY Aug	3.90%		4.20%
US	MNI Chicago PMI Sep	47.5		48.7
US	U. of Mich. Sentiment Sep F	67.7		67.7
US	Kansas City Fed Services Activity Sep			-1
US	Fed's Williams speaks			
CH	Manufacturing PMI Sep	50.2		49.7
CH	Non-manufacturing PMI Sep	51.5		51
	Sunday 01 October			
CH	Caixin China PMI Mfg Sep	51.1		51

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	3.00
1mth	5.62	5.60	5.60	3.39
2mth	5.67	5.63	5.62	3.58
3mth	5.72	5.66	5.64	3.76
6mth	5.79	5.72	5.72	4.09
GOVERNMENT STOCK				
04/25	5.70	5.55	5.56	4.12
04/27	5.32	5.14	5.12	4.11
04/29	5.17	5.01	5.00	4.10
05/31	5.17	5.00	5.01	4.12
04/33	5.18	5.01	5.02	4.19
04/37	5.32	5.16	5.15	4.36
05/41	5.38	5.23	5.20	4.48
05/51	5.37	5.23	5.20	4.43
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	73	63	64	110
Europe 5Y	77	69	74	134

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.67	5.56	5.58	4.62
3 years	5.41	5.29	5.30	4.55
4 years	5.23	5.11	5.10	4.48
5 years	5.12	4.99	4.99	4.42
10 years	5.01	4.87	4.85	4.37
FOREIGN EXCHANGE				
NZD/USD	0.5965	0.5917	0.5910	0.5637
NZD/AUD	0.9250	0.9192	0.9194	0.8730
NZD/JPY	88.41	87.33	86.60	81.58
NZD/EUR	0.5595	0.5534	0.5463	0.5865
NZD/GBP	0.4866	0.4779	0.4690	0.5274
NZD/CAD	0.8028	0.7980	0.8038	0.7741
TWI	70.2	69.7	69.6	68.4

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