Research

Markets Outlook

16 October 2023

It's not over yet?!

- **2023 General Election delivers a National/ACT government**
- **But NZ First may well have the last laugh**
- **Be aware of possible RBNZ remit change**
- **But nothing to upset an on-hold view**
- **Q3 CPI should be relatively uneventful**

There are two types of folk dressed in Green who won't be very happy after the weekend. And with NZ First's logo a solid black there will be two types of black wearers who will be both enthused and bemused about what might happen next!

The election outcome

Turns out that the polls were telling a story very close to the outcome.

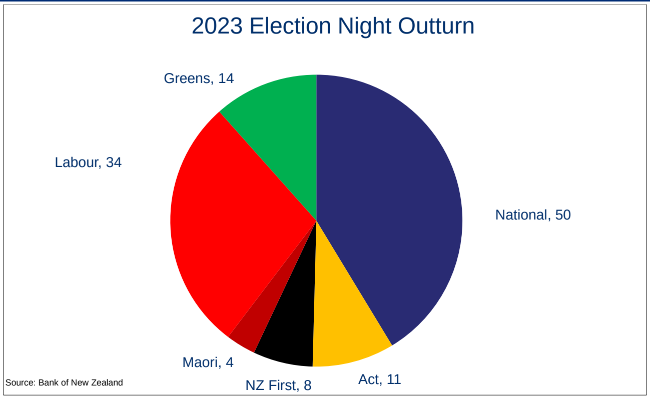
As expected:

- Labour was slaughtered losing almost half its sitting MPs
- National has the right to form a government
- NZ First re-enters parliament

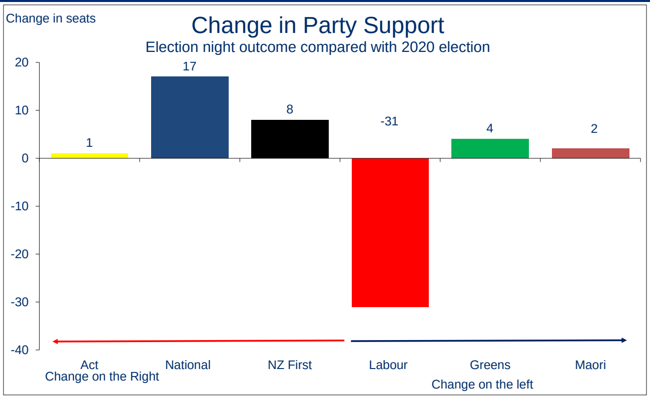
But it's not over yet:

- As things stand, National and Act can form a coalition government with 61 out of 121 seats under their control.
- Note that it's 121 seats (not 120) because Te Pati Maori won 4 electorate seats, one more seat than its proportionality in the party vote. The extra seat becomes an overhang.
- There are still special votes to be counted. In our opinion there is a very good chance that this could yet result in National/Act losing its election night majority meaning discussions with NZ First would have to occur.
- There are also two Maori seats currently held by labour with small majorities. This could provide yet another overhang seat unhelpful to National.
- Official results for the election are not declared until Friday November 3.
- There will be a by-election in Port Waikato on November 25th. This seat will almost certainly be won by National but will also become an overhang seat. Compared with election night results that would take National/Act to 62 out of 122 seats. Not really any better off and still leaving National to discuss with New Zealand First if it loses a seat on the specials.

The new look Government



A massive swing



If we do end up with a National/Act coalition, and it is still a big if, these are the key things from a business/markets point of view that we will be watching closely.

Monetary Policy

National has vowed to change the RBNZ remit to focus the RBNZ exclusively on inflation. The reference to Maximum Sustainable Employment (MSE) will be dropped. We doubt very much this will have a major bearing on the decisions that the MPC will make. Ultimately the reason that MSE is taken into consideration is because of its impact on medium term inflation so it will still need to be assessed.

If we were making changes to the remit it would be to allow the RBNZ greater flexibility to manage inflation within its target range of 1 to 3% as opposed to its Graeme Wheeler-led heightened focus in achieving the 2.0% mid-point.

The new Minister of Finance, likely to be Nicola Wills, can basically issue a new remit at any time provided there has first been some consultation with the Governor of the Reserve Bank. Remember that the RBNZ is only operationally independent. It does not independently set its targets.

Tax change implications

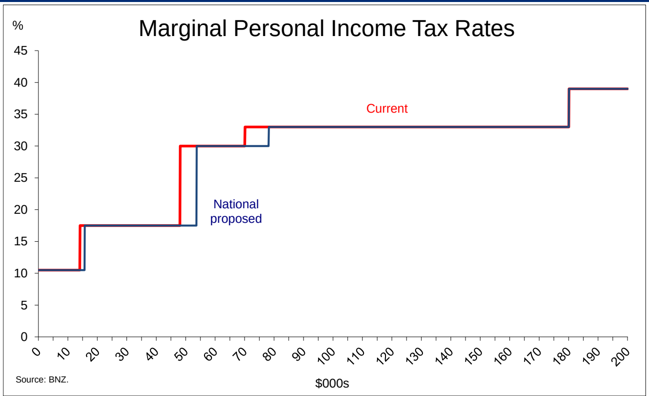
National has vowed to cut personal taxes.

It will change the thresholds as follows:

	Existing tax bracket	Proposed tax bracket
10.5%	$0 - $14,000	$0 - $15,600
17.5%	$14,000 - $48,000	$15,600 - $53,500
30.0%	$48,000 - $70,000	$53,500 - $78,100
33.0%	$70,000-$180,000	$78,100-$180,000
39.0%	$180,000	$180,000

The biggest beneficiaries are those roughly in the $50,000 to $100,000 wage bracket who will get an effective after tax pay increase of between 1.5 and 1.8%.

Tax changes at the margin



In addition, National will widen the eligibility for the Independent Earner Tax Credit and introduce the FamilyBoost childcare tax credit.

At the margin, these measures should help support private consumption.

Business investment is likely to find some support from the election outcome. No longer is election uncertainty an excuse for delaying investment projects. Also, business confidence is likely to rise further supporting investment activity if for no other reason than businesses historically have liked National led governments more than they do Labour equivalents.

We suspect the agriculture sector, in particular, will receive a boost in confidence particularly given National's less aggressive approach to environmental issues with regard to the rural sector. However, we should stress that, ultimately, New Zealand's response to climate change will be dictated by the global consumer so change in this space, and its associated costs, will be ongoing.

It is a moot point whether consumer confidence will increase but when people vote for a change it can provided some support for confidence.

Whether or not any improvement in confidence is sustained is a different matter.

Many other tax changes are proposed. These include:

- Removal of Auckland regional fuel tax
- Remove of the light rail tax for Aucklanders
- Remove environmental tax on trucks and utes
- Remove the clean car discounts
- Remove the 10 year brightline extension on investment properties
- Allow landlords of existing dwellings to claim interest rate payments as a business expense.

The housing changes should, at the margin, result in a heightened supply of rental accommodation but also the resulting increase in demand for the existing housing stock will put upward pressure on house prices. It probably will do little to encourage new construction as new builds have interest deductibility already.

Labour market

National will abandon plans for the income insurance scheme which would have imposed levies on businesses.

National wants to make it easier to migrate to New Zealand and to get citizenship. Currently net immigration is running very hot so not much more is needed.

National will repeal Labour's Fair Pay legislation.

National will restore 90-day trial periods for all business.

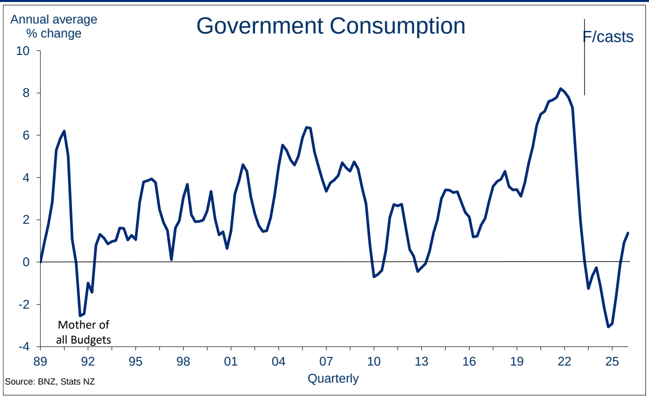
Fiscal Policy

National says it get can get the books under control faster than the current government. We doubt that the incoming government will find it particularly easy to achieve its fiscal objectives. The economic cycle will be unhelpful, we are not convinced revenue will be as easy to come by as assumed, and it will be difficult to cut fiscal expenditure as anticipated. We would have said the same had Labour retained the government benches albeit that the detail might be a tad different.

We will be watching particularly closely what happens to government consumption. It is hard to believe the incoming government can be any more aggressive than what was being forecast by the outgoing government. The forecast reduction in Government Consumption provided in the Pre-Election Fiscal Update was greater than Ruth Richardson achieved in her mother of all budgets back in

1991. To cut in this manner would be an achievement and a half and would be a huge handbrake for the economy.

Government cutbacks aggressive



The big picture

It's difficult to determine the precise economic impact of this election outcome not the least because we still don't know for sure whether New Zealand First will be able to influence policy. It could yet end up in formal coalition with National and Act or, possibly more likely, providing backing with confidence and supply. If NZ First is there, however, it could yet block some of National's policy prescription from seeing the light of day. Similarly, we can't be sure what compromises ACT will ask of National albeit that ACT is unlikely to be directionally different in its stance.

On balance we think the changes proposed by National, if implemented, will mean the economy, at the margin, will be stronger. Private consumption and investment will be a little higher but the impact on GDP will be partially offset by the restrictions on government consumption and near-term investment.

From an inflationary perspective it is very difficult to gauge. Heightened demand may increase inflationary pressure but the flip side is that there may well be supply effects that dominate. Moreover, there will be direct disinflationary effects from some of the tax cuts proposed.

The change in government will make the RBNZ nervous simply because it too no longer knows the detail of what lies ahead. We doubt, however, that there is anything in the election night outcome that would see it raise rates in November.

Anyway, before making any judgment on the likely impact of the change in government, it will want to see the detail of National's mini-Budget which is expected to be delivered pre-Christmas. Moreover, don't forget National has pledged that most of its major tax changes won't be delivered until the start of July 2024. The economic impact will thus be delayed for some time and an awful lot could happen between now and then.

If the economy continues to falter, and inflationary pressures continue to ease, then it is conceivable that even a modestly expansionary/inflationary budget may cause little grief. In that vein last Friday's Performance of Manufacturing Index (PMI) was an absolute shocker suggesting that New Zealand's manufacturing sector is really struggling. Also on Friday, was September's Electronic Card Transactions which suggests that the volume of retail spending fell again through Q3, despite strong population growth.

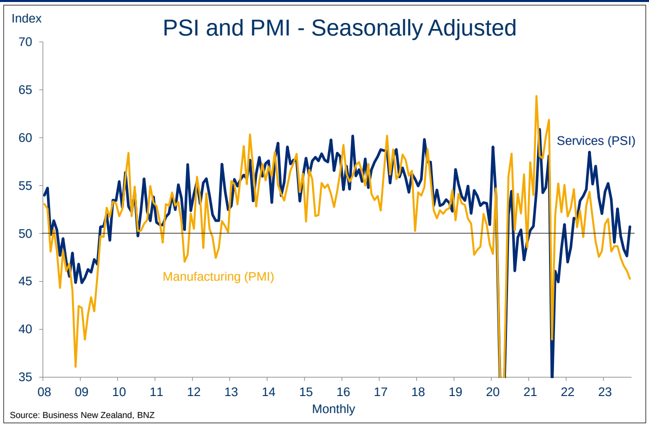
All that aside, if New Zealand First does re-enter the fray then extended negotiations with Winston Peters could also alter the process.

The week ahead

For the Reserve Bank it has more immediate issues to be confronted with. That PMI reading will not have gone unnoticed as it is a clear indicator current conditions are difficult and probably don't need any stronger headwinds from rising interest rates.

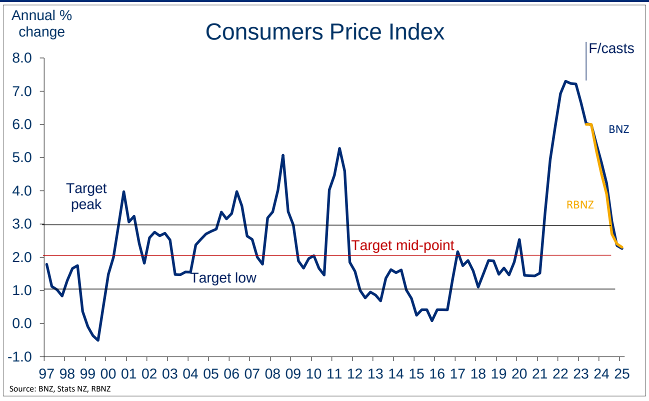
The PMI's sister survey, the Performance of Services Index, was released this morning. It was nowhere near as ugly as the PMI but is hardly an indicator of economic strength.

Stalled



From a markets' perspective, tomorrow's September Quarter CPI release will take centre stage. We are forecasting a 2.1% increase for the quarter which leaves the annual reading at 6.0%. The RBNZ has the same view. This means that at the headline level the RBNZ should be fairly relaxed about the outcome. Moreover, our forecasts show CPI ex food and energy annual inflation dropping about one percentage point in Q3 from Q2's 6.1%. The sticking point could be non-tradables inflation which is likely to be higher than the RBNZ's forecast. Nonetheless, it would have to be a big upside shock for the Bank to contemplate moving in November particularly as there is still strong reason to believe the downward trend in annual inflation will resume in Q4.

Still trending down



Other data to keep an eye on include:

- Wednesday's dairy auction, which should witness a further decent pick up in prices as negative global supply issues dominate while Chinese buying interest holds up.
- Friday sees September merchandise trade data released. We expect both exports and imports to be down 10% on year earlier levels. This is sufficient to see a slight improvement in the annual deficit but keep an eye out for lumpy aircraft imports to bring noise to the data.

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Global Watch

- **Fed speakers aplenty, include Powell on Thursday**
- **US retail sales expected to be higher again**
- **China Q3 GDP seen 1.0% q/q; activity indicators higher**
- **Japan inflation expected to ease**
- **UK inflation expected to ease**
- **AU unemployment seen steady; Bullock to speak**

Concerns about an escalation in the conflict between Israel and Hamas and the potential for it to spread more widely remains a key watch point for global markets. A clear lift in investor risk aversion swept through markets at the end of last week.

Australia

Australian Employment data for September, out Thursday, dominates the local calendar next week. NAB looks for a 30k employment gain. That's a little above the consensus for 20k, though NAB are in line with the consensus forecast for the unemployment rate to hold at 3.7% in September. NAB sees the participation rate steady at 67.0%. The RBA forecast the unemployment rate averaging 3.9% in Q4.

There are also a few appearances from RBA officials and the October Minutes, though it is Governor Bullock on Wednesday that has the most potential to shift views on the path forward for policy where the AFSA Summit notes 'Michele will share her insights into the current economic climate with a focus on system stability'.

The Minutes are likely to once again reflect that a rate rise was discussed but opted against. Any evolution on the discussion of risks around the inflation outlook will also be key in the wake of the August Monthly CPI, and there could be some mention that the continued appropriateness of passive QT was considered, though NAB doesn't see any change to current policy.

US

There will be plenty of commentary from Fed officials for markets to digest, with no fewer than 19 appearances scheduled. Powell at the Economic Club of New York on Thursday is the headliner.

US September Retail Sales are seen 0.3% m/m higher, helped by gas prices and auto sales. The ex-autos and gas number is expected to be 0.1% higher after last month's 0.2% gain. Labour day sales may have boosted online spending in the month.

Earnings season is also underway, with a slew of reports, including from Goldman Sachs and Bank of America Tuesday, and Morgan Stanley, Netflix and Tesla Wednesday.

China

China Q3 GDP data on Wednesday is seen 1.0% q/q higher, following stabilisation in more timely activity indicators, though base effects mean the y/y rate will likely fall. Monthly activity indicators are expected to continue to pick up with Retail Sales 4.8% y/y; Industrial Production 4.3% y/y; and Fixed Asset Investment at 3.2% y/y. The PBoC set the 1yr MLF rate today, analysts generally expecting no change from 2.5%.

Japan

Japan CPI on Friday is likely to support the view that annual inflation is past its peak, even as upside risks to the BoJ's outlook will remain. Consensus sees the headline number at 3.0% y/y from 3.2%, while the core-core measure (ex. energy and fresh food) is seen slowing to 4.1% y/y from 4.3%.

UK

The UK labour market is likely to continue to gradually cool, though the unemployment rate in the three months to August may have held steady at 4.3%, having risen from just 3.5% in September 2022. That combined with the moderation in headline inflation should also be putting downward pressure on wages growth, but signs of stubbornness at much too high levels will keep the BoE on alert.

Core CPI provided a welcome downside surprise in August, up just 0.1% m/m and falling to 6.2% y/y. Headline inflation is likely to fall further from 6.7%, even as fuel impacts are unhelpful in the month. More important will be evidence of further progress on core CPI and services to support the BoE's decision to pause last month.

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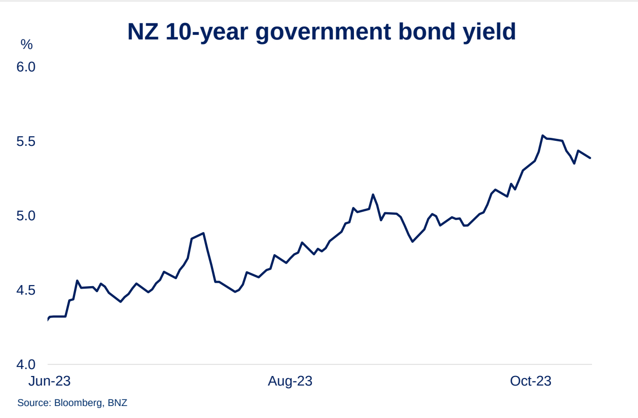
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

There was whip-saw price action in New Zealand fixed income markets during last week. The market faced crosscurrents from rising investor risk aversion amid concerns about an escalation in the conflict between Israel and Hamas and the potential for it to spread more widely. This contributed to flows into safe haven assets including global bond markets. 10-year New Zealand government bond (NZGB) yields started the week near multi-year highs of 5.55% and fell 20bp before reversing back higher. Global factors continue to be the dominant driver of NZ yields.

10-year yields retrace off the highs on rising risk aversion



The main domestic focus in the week ahead will be the release of Q3 CPI data. The final partial indicators – food prices and rents for September - allowed us to fine tune our forecast last week. We expect a 2.1% gain in the quarter taking the annual rate to 6%. This is the same as the Reserve Bank of New Zealand (RBNZ) projections from the August Monetary Policy Statement. The overnight interest rate swap market continues to price the terminal Official Cash Rate close to 5.70% in April of next year.

The Australian Office of Financial Management (AOFM) launched a new 30-year bond – a 2054 maturity – today. This will form an important reference point for the new 30-year NZGB – also a 2054 maturity – that was announced alongside the Pre-election Economic and Fiscal Update in September. New Zealand Debt Management (NZDM) expects to syndicate two new maturities this fiscal year. We continue to expect a syndication in November but see the 2035 maturity as more likely with the 2054 transaction expected in the first quarter of 2024.

The tightening in US financial conditions resulting from higher long end treasury yields has seen several US policy makers comment that the surge in yields reduces the need for a further increase in the Fed funds rate. San Francisco Fed President, Mary Daly, an alternate voter on this year's FOMC said she considers recent move higher in bond yields as equivalent to about one rate hike in comments that were echoed by other FOMC members.

The selloff in the treasury market has contributed to the tightest financial conditions since the peak of Fed hawkishness in late 2022, according to an index calculated by Goldman Sachs. Futures market pricing suggests there is little chance of a rate hike at the early November FOMC. This compares with a near 30% probability of a 25bp hike a week ago with the market adjusting to Fed officials' comments on financial conditions. US 10-year treasury yields have retraced off multi-year highs of 4.80% aligned with the broader move in risk sentiment.

US financial conditions are tightening

Current rates/ spreads and recent ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	5.71	5.68 - 5.74
NZ 2yr swap (%)	5.65	5.60 - 5.85
NZ 5yr swap (%)	5.22	5.12 - 5.39
NZ 10yr swap (%)	5.20	5.00 - 5.37
2s10s swap curve (bps)	-46	-61 - -37
NZ 10yr swap-govt (bps)	-19	-20 - -12
NZ 10yr govt (%)	5.39	4.41 - 5.56
US 10yr govt (%)	4.61	4.48 - 4.89
NZ-US 10yr (bps)	78	63 - 80
NZ-AU 2yr swap (bps)	143	130 - 152
NZ-AU 10yr govt (bps)	93	78 - 99
*Indicative range over last 3 weeks		

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD underperformed last week against a backdrop of weaker risk appetite, not helped by the war between Israel and Hamas and stronger than expected underlying US CPI inflation. The NZD and AUD were at the bottom of the leaderboard, falling by 1.7% and 1.4% respectively, with the NZD closing at 0.5885 and NZD/AUD showing a modest fall to 0.9350. CAD's performance was saved by a rebound in oil prices, leaving it flat against the USD. Other majors apart from CHF were weaker against a strong USD. NZD crosses were all lower, with falls of 1% against EUR and GBP and a more than 1½% fall against JPY.

Last week there were a few key forces driving markets. The week opened with lower risk appetite following the previous weekend's attack on Israel by Hamas. Conflict between the two sides has ramped up but the market currently takes a sanguine view for as long as Iran is not brought into the conflict. Risk appetite recovered after the initial shock (until US data took over as the driving factor). Brent crude rose 7½% for the week, a modest move in the context of its previous week's fall of more than 11%.

More importantly for currency markets, FOMC members showed a concerted effort to deliver a similar message (Daly, Logan, Jefferson and Collins, for example) regarding the recent tightening in financial conditions doing some of the work for the Fed and reducing the need for higher rates. Alongside the initial risk-off move related to the war, this saw a sharp fall in US rates which drove down the USD. However, stronger than expected US inflation data saw some reversal of US rates. The USD rebounded and risk appetite closed the week on a softer note.

US core CPI inflation was in line with expectations at 0.3% m/m and 4.1% y/y but, digging deeper, underlying services inflation picked up as highlighted by alternative core measures, keeping alive the chance of a further possible Fed hike later this year.

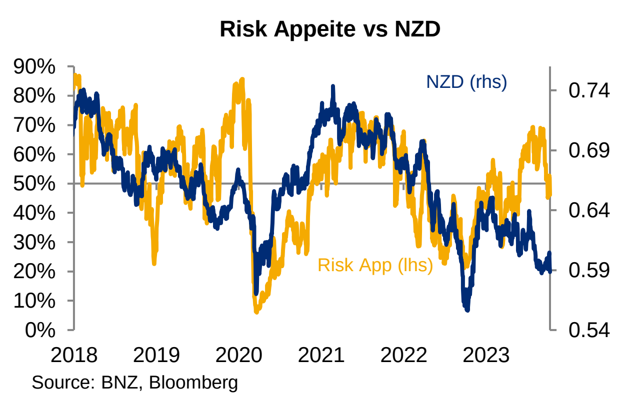
The NZD traded a fresh two-month high of 0.6055, before the recovery in the USD drove it back down. On a technical view we revise up the resistance level to 0.6050 with support remaining at 0.5860. Fundamentally, the price action continues to suggest that US inflation and the Fed's policy outlook remain the most important considerations for the path of the NZD. A sustained lift in the NZD will require more inflation-friendly US data and conviction that the Fed's tightening cycle is over.

Last week we noted that the NZ general election outcome was unlikely to be a key driver of the NZD. A convincing swing to the centre-right will support business confidence. We see a high chance that the election night result of National/ACT being able to govern alone being overturned after special votes are counted. It is typical for National to lose one or two seats after special votes are counted, meaning that the support of NZ First is likely to be required, as predicted by the pre-election polls. Even after knowing the final outcome, it will take some time to see the policies in place and judge the impact on monetary policy. We don't see the knee-jerk NZD-positive reaction this morning as justified and ultimately continue to see global forces as driving the path of the NZD.

In the week ahead the domestic focus will be on the Q3 CPI report. Higher petrol prices will drive a sharp lift in the headline rate to around 2% q/q, keeping the annual increase around 6%. The market will be more focused on the core measures, which will need to show moderating inflation pressure to keep the RBNZ on the sidelines.

There are a number of key global releases including Australian employment, China Q3 GDP and monthly activity data for September, UK wages and CPI data, Japan CPI, and US retail sales. Furthermore, there will be a number of Fed speakers but we'll be focused on Powell's speech to the Economic Club of NY to see if he backs up the recent message of his colleagues.

Risk appetite back below the neutral 50% mark



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5922	0.5870 - 0.6060
NZD/AUD	0.9391	0.9240 - 0.9420
NZD/GBP	0.4880	0.4840 - 0.4930
NZD/EUR	0.5634	0.5580 - 0.5710
NZD/JPY	88.51	87.10 - 90.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6180	-4%
NZD/AUD	0.9130	3%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6050 (ahead of 0.62)
ST Support: 0.5860 (ahead of 0.55)

The consolidation phase continues, bounded by 0.5860 to 0.6050, which we see as initial support/resistance levels.

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. Currently near the top of the wedge formation that has been in play for some time, with last week's break over 0.94 not sustained.

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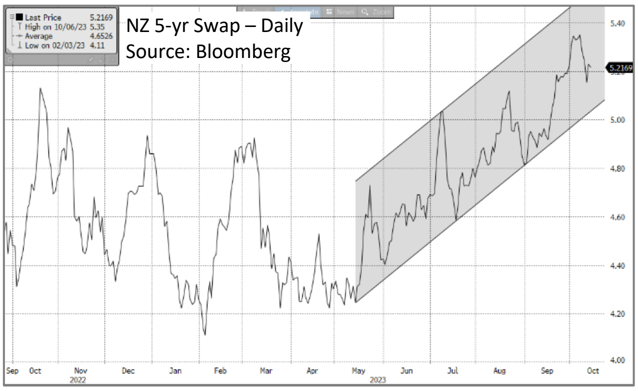
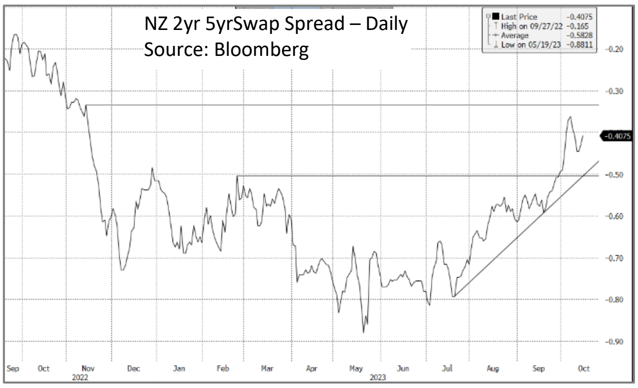
NZ 5-year Swap Rate



Outlook: Neutral
MT Resistance: 5.55
MT Support: 5.05

5y swap took a turn lower last week albeit not yet able to break the channel. We continue to remain neutral but may look to enter a short position should 5y continue to move lower towards our support level of 5.05.

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



Outlook: Less inverted
MT Resistance: -0.33
MT Support: -0.51

A choppy week in 2x5 spread, initially inverting further before retracing a part of the move. We continue to target -0.33 for our paid position.

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Quarterly Forecasts

Forecasts as at 16 October 2023

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	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	-7.2	-6.6	-6.3	-6.2	-6.0
CPI (q/q)	1.7	2.2	1.4	1.2	1.1	2.1	0.9	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	3.7	3.9	4.3	4.7	5.0
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	6.0	5.4	4.8	4.2	3.1
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			Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter		Cash	90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	NZ-US Ten year
2022	**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	5.40	3.60	0.68
	Sep	5.50	5.65	4.83	4.83	5.50	4.86	4.70	5.65	4.10	0.74
Forecasts											
	Dec	5.50	5.60	4.70	4.70	4.95	4.85	4.80	5.85	4.10	0.60
2024	**Mar**	5.50	5.45	4.40	4.50	4.55	4.60	4.65	5.60	3.90	0.60
	Jun	5.25	5.00	4.20	4.35	4.15	4.40	4.50	5.10	3.75	0.60
	Sep	4.75	4.50	3.95	4.10	3.95	4.20	4.30	4.60	3.50	0.60
	Dec	4.25	4.25	3.80	4.10	3.45	4.05	4.30	4.10	3.50	0.60
2025	**Mar**	4.00	3.75	3.70	4.10	3.10	3.95	4.30	3.60	3.50	0.60
	Jun	3.50	3.65	3.60	4.10	2.80	3.85	4.30	3.35	3.50	0.60
	Sep	3.00	3.15	3.60	4.10	2.75	3.85	4.30	3.10	3.50	0.60

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.59	0.63	1.05	1.21	149
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	0.94	0.56	0.49	88.5	70.2
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	March Years					December Years				
as at 16 October 2023	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	1.4	0.5	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	-1.1	1.0	0.0	1.4	-0.3	-1.3	1.1	0.1
GNE	8.0	2.6	-0.2	0.7	2.6	10.2	3.4	-0.1	0.1	2.3
Exports	2.5	6.0	5.8	3.1	5.2	-2.7	-0.2	9.2	3.2	5.1
Imports	17.3	4.7	-0.7	0.0	2.7	14.8	4.7	0.9	-0.6	2.1
Real Expenditure GDP	4.8	2.9	1.4	1.5	3.2	6.1	2.3	1.6	1.2	3.1
GDP (production)	**5.2**	**2.9**	**0.8**	**1.4**	**3.2**	**6.0**	**2.7**	**1.2**	**0.8**	**3.1**
GDP - annual % change (q/q)	*1.1*	*2.2*	*0.5*	*2.8*	*3.2*	*3.3*	*2.4*	*0.6*	*1.8*	*3.2*
Output Gap (ann avg, % dev)	1.3	1.6	-0.3	-1.0	-0.1	1.4	1.8	0.2	-1.1	-0.3
Nominal Expenditure GDP - $bn	358	388	412	429	453	353	381	408	423	447
Prices and Employment - annual % change										
CPI	6.9	6.7	4.8	2.3	2.2	5.9	7.2	5.4	2.4	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	4.3	5.2	5.2	3.2	3.4	3.9	5.1	5.2
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	-1.8	0.7	1.4	3.9	0.5	-1.7	-0.1	1.6
Unit Labour Costs (ann av %)	4.0	6.2	7.6	3.5	1.6	2.0	6.2	7.8	4.8	1.7
House Prices	13.8	-11.9	2.4	8.6	10.9	27.2	-11.1	-1.6	6.7	12.5
External Balance										
Current Account - $bn	-23.6	-31.8	-25.9	-21.8	-15.7	-20.6	-33.4	-27.1	-23.7	-17.1
Current Account - % of GDP	-6.6	-8.2	-6.3	-5.1	-3.5	-5.8	-8.8	-6.6	-5.6	-3.8
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.8	-1.7	-0.8					
Net Core Crown Debt (excl NZS Fund Assets)	17.0	18.0	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	8.7	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 16 October			
NZ	Performance Services Index Sep			47.1
UK	Rightmove House Prices YoY Oct			-0.40%
AU	RBA's Jones speaks			
JN	Industrial Production MoM Aug F			0.00%
EC	ECB's Villeroy speaks			
UK	BOE's Pill speaks			
EC	Trade Balance SA Aug			2.9b
EC	ECB's De Cos speaks			
EC	Euro-Area Finance Ministers meet in Luxembourg			
	Tuesday 17 October			
EC	US's Yellen at Eurogroup in Luxembourg			
US	Empire Manufacturing Oct	-6		1.9
US	Fed's Harker speaks			
UK	BOE's Woods speaks			
NZ	CPI YoY 3Q	5.90%	6.00%	6.00%
NZ	CPI Non Tradeable QoQ 3Q	1.80%	1.80%	1.30%
NZ	CPI Tradeable QoQ 3Q	2.40%	2.30%	0.80%
AU	RBA Minutes of Oct. Policy Meeting			
UK	Payrolled Employees Monthly Change Sep			-1k
GE	ZEW Survey Expectations Oct	-9.5		-11.4
UK	BOE's Dhingra speaks			
	Wednesday 18 October			
US	Fed's Williams speaks			
US	Retail Sales Advance MoM Sep	0.30%		0.60%
US	Retail Sales Ex Auto and Gas Sep	0.10%		0.20%
US	Retail Sales Control Group Sep	-0.10%		0.10%
US	New York Fed Services Business Activity Oct			-3
EC	ECB's Knot speaks			
US	Manufacturing (SIC) Production Sep	0.00%		0.10%
US	Fed's Bowman speaks			
NZ	GDT dairy auction			4.40%
EC	ECB's Centeno speaks			
US	Business Inventories Aug	0.30%		0.00%
US	NAHB Housing Market Index Oct	44		45
US	Fed's Barkin speaks			
EC	ECB's Guindos, Holzman, Nagel speak			
US	Fed's Kashkari speaks			

		Median	Fcast	Last
	Wednesday (continued)			
AU	RBA's Bullock speaks			
AU	Westpac Leading Index MoM Sep			-0.04%
AU	RBA's Smith speaks			
CH	GDP SA QoQ 3Q	1.00%		0.80%
CH	Industrial Production YoY Sep	4.30%		4.50%
CH	Retail Sales YoY Sep	4.90%		4.60%
CH	Fixed Assets Ex Rural YTD YoY Sep	3.20%		3.20%
CH	Surveyed Jobless Rate Sep	5.20%		5.20%
UK	CPI YoY Sep	6.60%		6.70%
UK	CPI Services YoY Sep	6.80%		6.80%
EC	CPI YoY Sep F	4.30%		4.30%
EC	CPI Core YoY Sep F	4.50%		4.50%
	Thursday 19 October			
US	Housing Starts Sep	1380k		1283k
US	Fed's Waller, Williams, Bowman, Barkin, Harker, Cook speak			
US	Federal Reserve Releases Beige Book			
JN	Trade Balance Sep	-¥425.0b		-¥930.5b
AU	Employment Change Sep	20.0k	30.0k	64.9k
AU	Unemployment Rate Sep	3.70%	3.70%	3.70%
AU	RBA Annual Report			
	Friday 20 October			
US	Initial Jobless Claims Oct-14	212k		209k
US	Continuing ClaimsOct-07	1700k		1702k
US	Philadelphia Fed Business Outlook Oct	-7		-13.5
US	Fed's Jefferson speaks			
US	Existing Home Sales Sep	3.88m		4.04m
US	Fed's Powell, Goolsbee, Barr, Bostic, Harker speaks			
NZ	Trade Balance NZD Sep		-2268m	-2291m
US	Fed's Logan speaks			
UK	GfK Consumer Confidence Oct	-20		-21
JN	Natl CPI YoY Sep	3.00%		3.20%
NZ	RBNZ Six-monthly Credit Conditions Survey			
GE	PPI YoY Sep	-14.20%		-12.60%
UK	Retail Sales Inc Auto Fuel MoM Sep	-0.30%		0.40%
UK	UK Sovereign Rating to be reviewed by Moody's and S&P			
	Saturday 21 October			
US	Fed's Harker, Mester speak			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	3.50
1mth	5.61	5.62	5.60	3.54
2mth	5.66	5.66	5.63	3.78
3mth	5.70	5.70	5.66	4.01
6mth	5.77	5.77	5.72	4.41
GOVERNMENT STOCK				
04/25	5.64	5.71	5.55	4.39
04/27	5.40	5.46	5.14	4.43
04/29	5.36	5.41	5.01	4.45
05/31	5.41	5.47	5.00	4.49
04/33	5.44	5.51	5.01	4.58
04/37	5.60	5.67	5.16	4.80
05/41	5.65	5.72	5.23	4.91
05/51	5.63	5.70	5.23	4.85
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	77	75	63	98
Europe 5Y	85	87	69	126

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.62	5.72	5.56	5.00
3 years	5.41	5.52	5.29	4.92
4 years	5.28	5.40	5.11	4.84
5 years	5.21	5.34	4.99	4.79
10 years	5.19	5.33	4.87	4.77
FOREIGN EXCHANGE				
NZD/USD	0.5922	0.6023	0.5917	0.5634
NZD/AUD	0.9387	0.9395	0.9192	0.8959
NZD/JPY	88.35	89.43	87.33	83.89
NZD/EUR	0.5624	0.5699	0.5534	0.5725
NZD/GBP	0.4873	0.4921	0.4779	0.4958
NZD/CAD	0.8079	0.8184	0.7980	0.7725
TWI	70.2	71.1	69.7	67.6

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