Research

Markets Outlook

24 October 2023

Pricing Risk

- **Insurance costs rising**
- **Inflation, relative price shift on risk, both appear in play**
- **The distinction matters for the central bank**
- **Overall annual CPI inflation expected to fall**
- **Will consumer confidence lift a bit, post-election?**

We have long talked about the rising cost of insurance, the potential for further increases, and the need to consider their economic implications. We take a quick look at insurance here, in the wake of last week's CPI data.

The overall CPI outcome printed a bit under most expectations, including those of the central bank. This was despite chunky gains in some components like insurance.

The Q3 CPI figures included a 3.3% q/q lift in the insurance category, shunting annual inflation for that component up to 9.6%. That is a significant lift. It was 2.3% a year ago. Our CPI forecasts include additional insurance premium increases ahead.

As big as it is, some might even feel that the 9.6% annual inflation underestimates reality – and they would be right if they were just thinking about dwelling insurance. That category is up 21.2% y/y. It's an illustration of the variation of premium inflation across various categories over the past year. Contents insurance was up 18.8%, while vehicle insurance was up 10.2%. Inflation for all these categories is considerably higher than it was a year earlier. A year ago, annual inflation in dwelling insurance was only 0.5%.

Premium Inflation by Category

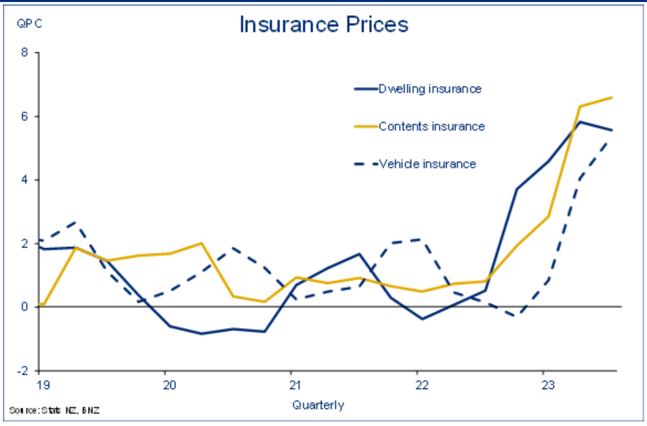
	2023	2023	2022
	Q3 q/q	Q3 y/y	Q3 y/y
Life insurance	-0.1	0.6	0.9
Dwelling insurance	5.6	21.2	0.5
Contents insurance	6.6	18.8	2.7
Health insurance	1.9	7.1	7.0
Vehicle insurance	5.4	10.2	4.8
Total	3.3	9.6	2.3

There are likely many drivers for the recent hikes in premiums including major weather events, inflation (think construction costs etc), reassessment of risk, and increased cost of reinsurance.

Amid general premium increases, it is notable that life insurance price inflation was near zero in Q3 and minimal for the year. Life insurance has the biggest individual weight in the CPI insurance category (representing about 36% of household expenditure on insurance) and has been typically slow moving such that it tends to anchor the overall category. But the overall insurance category has moved recently, given the large movements elsewhere.

Following major weather events earlier this year, the past two quarters have seen a general acceleration of premium price increases across the dwelling, contents, and vehicle categories – adding to some increases that were already taking place.

Marked Acceleration



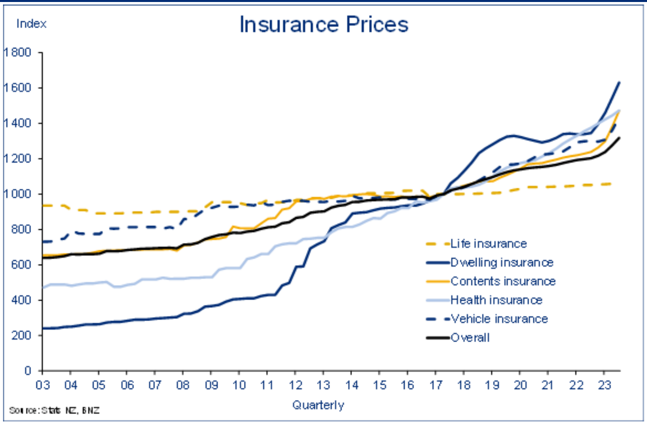
As well as these recent changes, it is worth looking at changes over the long term for perspective.

Dwelling insurance premium prices have been the main mover through time. The chart shows prices are roughly four times higher since just prior to the Canterbury earthquakes and up about three quarters from just before the 2016 Kaikoura earthquake.

Judging by the chart below, it looks like it took around 3 years for the dwelling insurance price adjustment to take place after the Canterbury earthquakes of 2010/11 and about 2 years post the Kaikoura earthquake. Interestingly, some of the price increases following the latter were being retraced – in inflation adjusted terms – prior to the latest spike upwards.

This is all something to ponder for insurance premiums ahead particularly for dwellings, contents, vehicles.

Another Lurch Higher



There are many implications of premium increases. For one, they have a direct influence on the CPI (insurance has a 2.9% weight in the overall CPI). And, to the extent that the movements in the CPI categories reflect broad trends in the cost of insurance to business, they are a supply side headwind to growth. Such channels of influence suggest more upward pressure on inflation than would otherwise be the case.

There are demand implications too. Higher insurance premiums can operate a bit like a tax and reduce disposable income for use elsewhere. That headwind to demand can see less upward pressure on other prices.

For a central bank, it is important to distinguish between general inflation pressures and relative price changes. The former is something to potentially lean against, while not so the latter (absent influence on inflation expectations).

There have been material and understandable relative price shifts for insurance over the past decade or so. There looks to be another relative price shift underway now. Quantum is difficult to assess and differentiate from general inflation in real time. But recent history shows insurance inflation tends to quickly return to prior trends post a relative price shift taking place. For an inflation-targeting central bank the distinction between price level and price changes is critical, as is any influence on inflation expectations on the way through. There remains much to monitor in this space.

Our big picture view for annual CPI inflation is that it will continue to retreat over the coming year or two from currently high levels. This hasn't changed following last week's figures that saw annual inflation ease to 5.6% in Q3 from 6.0% in Q2. However, with that data undershooting our expectations a bit on the day it simply reinforces our view and adds to our confidence that annual inflation is indeed trending downward.

Important factors why we think annual inflation will continue to ease over the period ahead haven't changed. These include:

- Further declines in food price inflation as it follows previous offshore price declines, with a lag, as well as some further easing back from recent weather-driven extremes.
- Additional easing in construction cost inflation from recent highs.
- Easing global inflation feeding through various tradeable sector channels.
- The lagged influence of less disrupted supply chains and lower international freight costs.
- Lower airfare inflation, as capacity and competition increases further helping relieve prior price pressures.
- High interest rates cooling general demand and taking pressure off domestic resources.

On the latter, activity indicators such as the PMI and PSI have been soft. And we have seen a significant easing in firms' difficulty of finding labour that is likely to lessen upward pressure on wages over time. And some business measures of capacity utilisation have reduced markedly that will, in turn, lessen upward pressure on prices ahead.

Some of this is not set in stone, of course, and all of it warrants keeping an eye on. For example, the clear decline in world food price inflation is showing signs of petering out – albeit that we think there is still the lagged influence of prior declines to be fully felt on domestic prices. And, while easing pressures in the labour market has been accompanied by a strong surge in net migration, the latter also has demand side influences on such things as housing. Meanwhile, there is the high probability of further volatility in global oil prices that could alter inflation one way or the other.

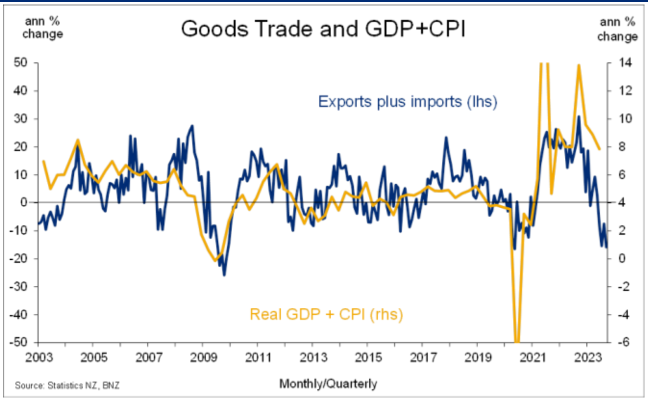
And, as we said in our CPI review note last week, we forecast non-tradables inflation will trend lower but there are a number of factors that will remain problematic for some time to come such as: rates, rent, insurance and the flow on effects of past wage increases.

None of the above changes our near-term monetary policy view, but as a matter of housekeeping note we have nudged our projected trough in the OCR in late-2025 and into 2026 up to 2.75% from 2.50%. That is so far away that there will probably be more unforeseen shocks in the meantime to alter things, but it is a nod to the balance of risks as we currently see them.

But back to the present, we remain firmly of the view that economic growth is struggling (particularly on a per capita basis), and annual inflation is trending downward. Last week's merchandise trade numbers were the latest to reinforce that train of thought.

It wasn't the large monthly trade deficit that caught our eye, as that came in close to expectations at $2,329m. Rather it was the fact that both exports and imports printed much lower than anticipated. We expected double digit declines, but the -17.6% y/y and -14.6% y/y for exports and imports, respectively, were bigger drops than we had pencilled in. Lower trade values suggest that either annual economic growth or annual inflation is easing – and most likely both are.

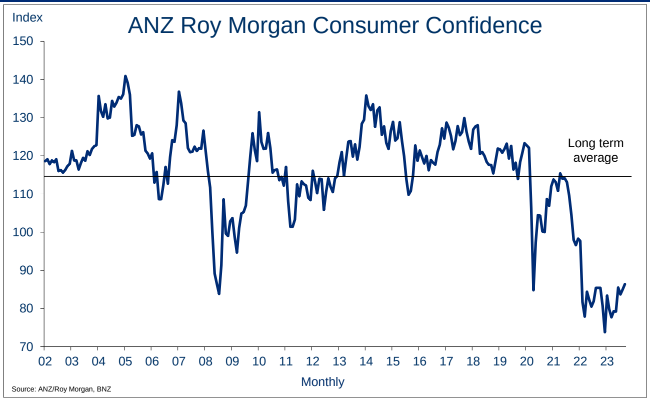
Trade Values Slump



Regards data this week, there isn't much on the agenda. October's ANZ Roy Morgan consumer confidence survey on Friday will likely gain most attention to see if it budged much from September's still weak 86.4. Will confidence be moved by the election night result? It is a moot point but when people vote for change it can provide some support to confidence. Moving further into spring usually helps sentiment a tad too, but people will also be weighing up a range of other factors. We wouldn't be surprised to see some lift in confidence, but it would take a large increase from current levels for confidence to indicate anything but ongoing weakness in core real retail sales.

We are also interested in the confidence report's measure of consumer inflation expectations. The 2-year ahead measure for October will be lined up against the 4.2% it fell to in September from August's 4.6%. It can be volatile, but for a series that was generally wriggling between 3% and 4% pre Covid, September's reading was getting closer to previous norms. Consumer house price expectations, which edge up to 3.2% in September, will also be worth a look given a variety of potential influences.

Any Election Driven Lift?



The week's other items of interest include the latest GDT pulse dairy auction early on Wednesday morning which will reveal whether the recent strong bounce in wholemilk powder prices has continued. And Thursday's Household Living-Costs Price Index (HLPI) for Q3 which is likely to show similar trends to, but higher annual inflation for the average household than, the CPI. This is given the different treatment of housing (the CPI captures the cost of building a new home, while the HLPI captures mortgage interest payments). In Q2, HLPI annual inflation for the average household was 7.2% compared to CPI annual inflation of 6.0% for that period. Last week's data saw CPI annual inflation ease to 5.6% in Q3.

Finally, Thursday afternoon sees new residential lending data for September, which would do well to match August's 6.8% y/y gain.

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Global Watch

- **Australia busy with Q3 CPI and RBA speeches/testimony**
- **US focus on (how chunky?) Q3 GDP and PCE deflator**
- **Global PMIs; and on-holds expected for ECB and BOC**

Australia

It is a big week for Australian news. RBA governor Bullock delivers a speech on Tuesday night, followed by the all-important Q3 CPI print on Wednesday. Further insight into the RBA's reaction may be revealed on Thursday with Ms Bullock giving testimony to the Senate Economics Committee.

RBA Governor Bullock is speaking at 7pm on Tuesday night in Sydney. The recent Minutes and this week's 'fireside chat' have certainly supported the view that the tightening bias in the RBA's messaging is genuine should the data surprise.

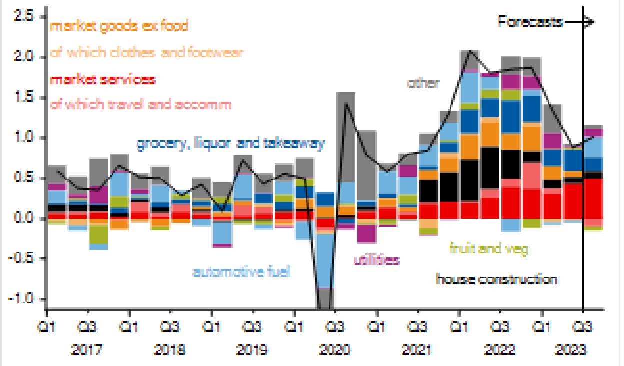
Wednesday's Q3 CPI is the big event ahead of the Melbourne Cup Day meeting. The RBA waved through the positive news in the Q2 print, but we think that was overly optimistic. We expect trimmed mean inflation of 1.1% q/q, compared to the RBA's August expectation of 0.9%, led by stubborn and too-high services inflation. That would see the y/y rate slow to 5.0% from 5.9% on helpful base effects. For headline, we pencil in 1.1% q/q and 5.2% y/y.

Table 1: Consumer Price Index Forecasts

	Actual					Forecast			
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Headline CPI									
CPI - NSA									
%q/q	1.8	1.9	1.4	0.8		1.1	1.1	0.9	0.8
%y/y	7.3	7.8	7.0	6.0		5.2	4.5	4.0	4.0
			RBA August SoMP:				4.1		3.6
Core Measures									
Trimmed Mean									
%q/q	1.9	1.7	1.3	0.9		1.1	1.0	0.9	0.8
%y/y	6.2	6.9	6.6	5.9		5.0	4.3	3.9	3.8
			RBA August SoMP:				3.9		3.3
Weighted median									
%q/q	1.5	1.6	1.3	1.0		1.1	1.0	0.9	0.8
%y/y	5.0	5.7	5.9	5.5		5.1	4.4	4.0	3.7

Source: National Australia Bank, ABS

Contributions to quarterly headline CPI (SA)



*contributions calculated by NAB from ABS data
Source: National Australia Bank, ABS

Michele Bullock, Governor, and Christopher Kent, Assistant Governor (Financial Markets), are before the Senate Economics Legislation Committee from 9am. That's awkward timing (post CPI) but we imagine they will do their best to give little away, but under questioning it could prove a useful opportunity to sense check where near-term pricing sits in the wake of CPI the previous day.

US

The advanced read on Q3 GDP on Thursday should confirm the outright strength in US activity in evidence in the timelier indicators. The Atlanta Fed's GDP now tracker is at 5.4%, though early forecasts in the Bloomberg survey put expectations at a more modest, though still above trend, 4.3% quarterly annualised rate. For context, and to underscore the extent of upside surprises on US activity data recently, 100 days ago consensus expectations were for activity to show 0% growth in Q3.

September personal income and spending data on Friday are each seen growing 0.4% m/m. Much will be known already from the Q3 GDP data, but it will still be worth watching. Expectations are for the headline deflator to lift 0.3% m/m, matching the September CPI outcome. After PCE, ECI on 31 October, day one of the 2-day FOMC meeting, is the other data of note ahead of the next rate decision. All messaging from the Fed is that they are content to be on hold in November.

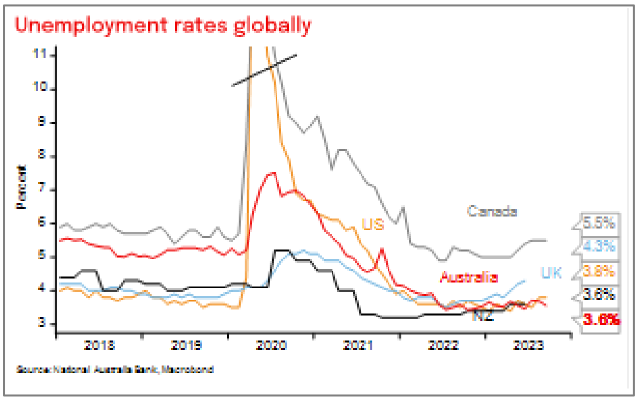
Also to note, earnings season is in full swing, headlined by big tech. Microsoft and Alphabet report Tuesday, IBM and Meta Wednesday and Intel and Amazon Thursday.

Europe

We expect no change to rates from the ECB (like the consensus) and see the current 4% Deposit Rate as having peaked. That would be in line with the ECB's caveated message from its last meeting on 14 September that rates have reached levels that, 'if maintained for a sufficiently long duration, will make a substantial contribution to returning inflation to target.' Minutes of the last meeting in early September confirmed what was a very close decision to raise rates, with doves worrying about a repeat of a 2011 (hike) policy mistake and some hawks are openly talking of rates having risen enough.

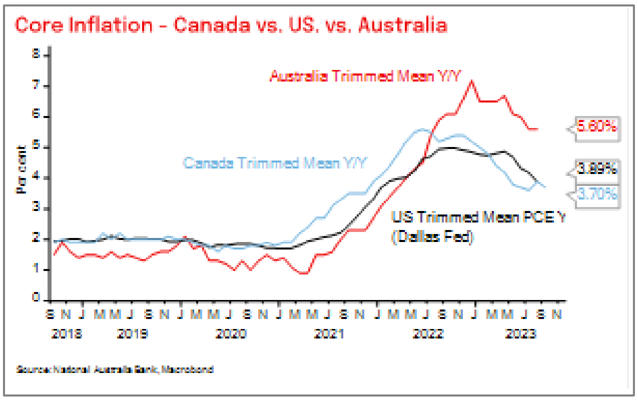
UK

The ONS produced average earnings data on 17 October but delayed the publication of September's employment and unemployment data due to concerns about the decline in the response rate to the survey. Still, we expect a further softening of these labour market, with lower employment and job vacancies alongside slightly higher unemployment. The latter at 4.3%, up from a cycle low of 3.5% is rising more quickly than its peers.



Canada

Analysts near-universally see the BoC on hold at 5.0% on Wednesday, while markets price about a 15% chance of a hike in November, and cumulatively price a less than 50% chance of another increase this cycle. Since the September meeting, CPI was stronger than expectations in August, but softer in the most recent September data. Activity data will have done little to challenge the September assessment that "excess demand in the economy is easing". The October meeting is followed by a press conference.



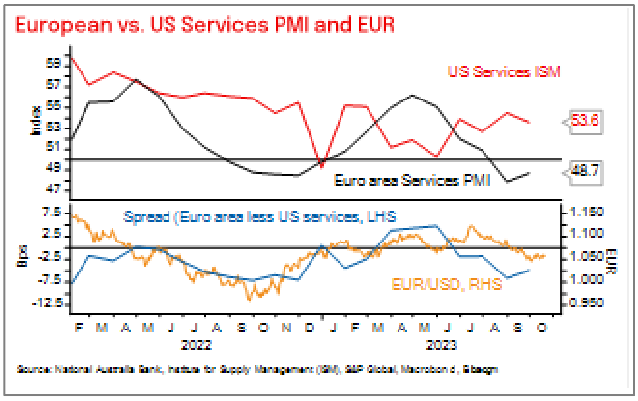
Japan

Tokyo CPI for October is expected to show a further small easing in y/y rates for the headline and ex energy and food measures, though primarily due to still-supportive base effects. Press reports suggest an upward revision to BoJ CPI forecasts for national CPI, which is running a little faster than Tokyo's, will come on Oct 31.

Global PMIs (October)

Preliminary manufacturing and service sector PMIs for October provide an update on the pulse of global activity. European markets are much more sensitive to the PMIs than US markets. Further stabilisation or very modest upticks in Europe would help broader sentiment and narrow the gap between the European and US services sector; one factor behind persistent Euro weakness.

There is some chance of rare good news in the UK as well, given the recent rebound to almost 50 in the dominant services sector. Firm conclusions on whether the US continues its emphatic relative outperformance may need to wait for the closer watched ISMs the following week.



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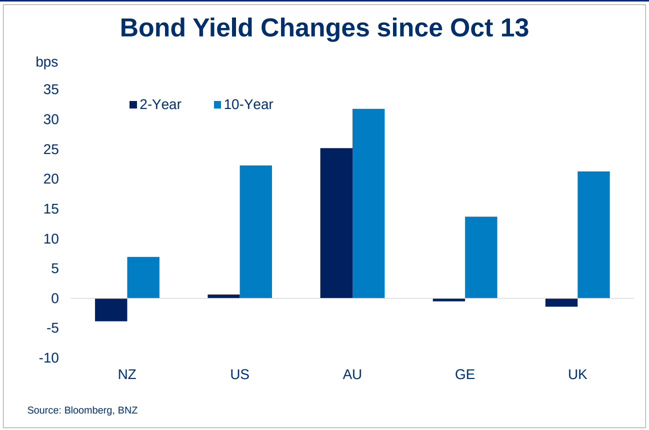
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Global fixed interest markets remain volatile with the key global benchmark 10-year treasury yield briefly trading above 5% earlier this week. The MOVE index of US treasury implied volatility has moved sharply higher amid rising geopolitical uncertainty which has contributed to large moves in key macro markets and choppy price action. NZ 10-year government bonds also made new cycle highs up towards 5.60%. The pace of the recent sell-off has taken the market into oversold territory. Rolling 3-month returns are below the 10th percentile, suggesting a period of consolidation is due. Indeed, the move above 5.0% in 10-year US treasuries resulted in a sharp retracement off the yield highs.

NZ fixed income generally outperformed following Q3 CPI data released last week, which was below consensus estimates and the Reserve Banks's projections, from the August Monetary Policy Statement. The market has reduced expectations for the terminal Official Cash Rate by close to 10bp following the CPI data. There has been a notable compression cross market spreads to Australia following minutes from the Reserve Bank of Australia (RBA) October meeting. The hawkish tone from the minutes was reinforced in comments by Governor Bullock and contributed to the market pricing an increased likelihood of tightening by the RBA.

NZ bonds have outperformed since NZ CPI



The NZ 2y/10y government curve has been on a steepening trend since the second half of July, when it reached the peak level of inversion close to -80bp. Since then, the curve has bear steepened. 2-year yields have increased close to 20bps, while 10-year yields are up 100bps, and the curve is the steepest in almost 12-months. The trend steepening is consistent in terms of magnitude and timing with the move in US treasuries, and aligns with the timing in ACGBs, though the magnitude is larger.

The curve steepening has been led by the longer maturities and we see limits to how far this can extend. One of the key drivers of higher yields – the unwinding of 2024 rate cuts – has largely run its course. The market was pricing almost 150bps of 2024 RBNZ rate cuts back in May. There are no cuts priced now, and we judge that the probability of additional tightening by the RBNZ next year is low, given the evolution of the domestic macro backdrop. We expect the curve will steepen further but the primary driver is likely to pivot towards the front end.

2y/10y government curve steepening

With limited domestic data in the week ahead, NZ fixed income will look to external drivers. The next round of global central bank meetings begins with ECB and Bank of Canada ahead of the US Federal Reserve, BoJ and BoE the following week. Market pricing suggests central banks will leave policy rates unchanged. However, a Nikkei article outlined Bank of Japan officials are pondering whether to tweak its yield curve control settings. Other key releases are the preliminary PMIs for October and the first read of US Q3 GDP as well as Q3 inflation data in Australia.

New Zealand Debt Management (NZDM) release the monthly tender schedule tomorrow at 8am (NZT). The market will be looking for additional details on the timing for the syndication of the new nominal lines – 15 May 2035 and 15 May 2054 maturities- announced alongside the Pre-election Economic and Fiscal Update (PREFU) in September.

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the NZD underperformed against a backdrop of weaker risk appetite and a weaker than expected NZ Q3 CPI report. NZD/USD fell by 1% to 0.5830. The NZD was weaker on all key crosses including a 1.3% fall against the AUD, after hawkish RBA minutes increased the chance of further RBA tightening. Despite weaker risk appetite and strong US data, the USD DXY index fell, adding weight to the view that the currency has been overbought and the peak for the year has already been seen. The new week has opened with the NZD making a fresh year-to-date low of 0.5808 last night, before a reversal in the USD saw a recovery back to 0.5850.

The decisive National-led win in the general election saw the NZD start last week on a positive note. We didn't see the blip higher as justified – and the move wasn't sustained – given the outcome after special votes are counted will likely be in line with the pre-election polls, with NZ First holding the balance of power. After that, a mix of both global and domestic factors weighed on the NZD last week.

A weaker than expected NZ Q3 CPI report got the market's attention, seeing a paring of RBNZ rate hike expectations and driving a weaker NZD. The headline and range of core CPI measures showed signs of weaker inflationary pressure, even if annual rates of over 5% are still uncomfortably high.

This contrasted with more hawkish than expected RBA meeting minutes, along with hawkish remarks by new Governor Bullock. The RBA Board "has a low tolerance for a slower return of inflation to target than currently expected", implying tighter policy should inflation print high. There is a good chance of the underlying trimmed mean measure of Australian Q3 CPI printing higher than RBA forecasts this Wednesday, with the consensus median at 1.0% q/q and mode at 1.1%, versus the RBA's 0.9%. Such an outcome would play to our view of an RBA hike next month and NZD/AUD heading lower. We continue to target 0.90 or below before this cycle is over.

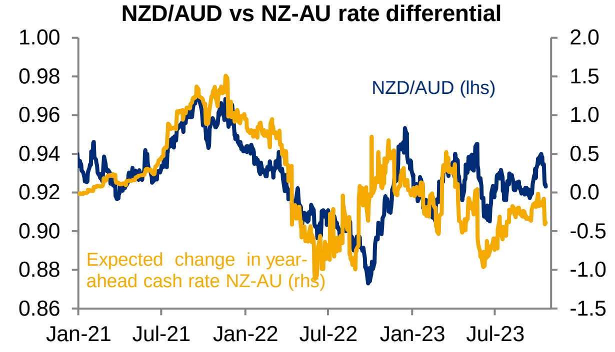
In addition to NZ's softer CPI report, the war between Israel and Hamas, and chance of the conflict spreading further, weighed on market sentiment, a negative factor for the NZD. A ground assault on Gaza by Israel has yet to proceed, but that could trigger an escalation of the war. We are alert to how this negative risk could impact the NZD.

On the economic side, US retail sales were much stronger than expected, while initial jobless claims fell below 200k, to their lowest level since January, suggesting ongoing resilience of the US labour market. The data were a factor in global rates making fresh cycle-highs, led by the long-end of the curve. It was interesting that the USD only received temporary support from the strong data, adding weight to the view that the USD faces a significant hurdle to appreciate further from a highly elevated level.

Chair Powell reaffirmed recent commentary from the last FOMC and what his colleagues on the committee have been saying – regarding further rate hikes, the Fed would be "proceeding carefully" and remained data dependent, with policy taking into account the recent tightening in financial conditions. We believe that the Fed is finished with the hiking cycle, but is reluctant to declare that at this stage, to avoid any significant easing in financial conditions. More conviction on the end of the tightening cycle is a necessary condition for NZD/USD to lift next year under our current projections.

In the week ahead, there is nothing domestically to impact the NZD. At ECB and BoC meetings, we expect policy to remain on hold, supporting a view that both central banks are finished tightening for the cycle. US Q3 GDP is widely expected to be strong, with the median at 4.3%, but with many credible forecasts above that. Despite a strong outcome, the odds favour a significant pullback in growth in Q4. The PCE deflators should reinforce the weaker inflation narrative. As noted, Australian CPI data could well be market moving and global PMIs tonight will also be of some interest.

NZD/AUD highly correlated with RBNZ/RBA expectations



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5848	0.5810 - 0.6060
NZD/AUD	0.9237	0.9220 - 0.9420
NZD/GBP	0.4777	0.4780 - 0.4930
NZD/EUR	0.5484	0.5480 - 0.5710
NZD/JPY	87.51	87.10 - 89.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6230	-6%
NZD/AUD	0.9030	2%

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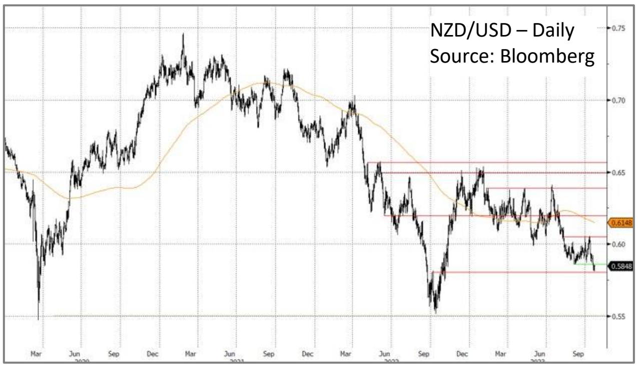
Technicals

NZD/USD

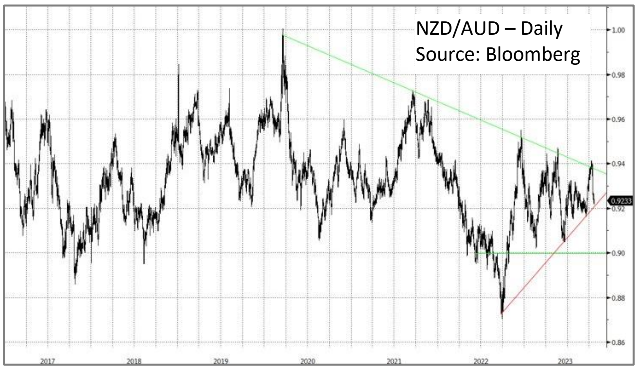
Outlook: Downside risk
ST Resistance: 0.6050 (ahead of 0.62)
ST Support: 0.58 (ahead of 0.55)



A fresh year-to-date low just over 0.58 makes that the new support level and raises the chance that the downturn isn't over yet, with not much in the way of the next support level just over 0.55. We leave resistance at 0.6050.

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. A sharp move lower sees it near the bottom of the wedge formation that has been in play for some time.

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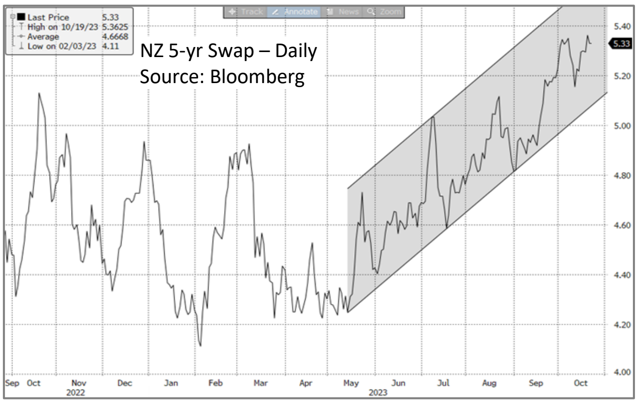
NZ 5-year Swap Rate

Outlook: Neutral
MT Resistance: 5.59
MT Support: 5.09



The 5-year swap rate moved slightly higher last week but failed to break any meaningful technical level or touch any resistance.

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

Outlook: Less inverted
MT Resistance: -0.10
MT Support: -0.33

2x5 swap spread broke through the technical resistance of -0.33 last week. We will maintain our paid position with our stop level moving to the new support while the new target becomes -0.10.

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Quarterly Forecasts

Forecasts as at 24 October 2023

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts (shaded): 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	-7.2	-6.7	-6.4	-6.3	-6.1
CPI (q/q)	1.7	2.2	1.4	1.2	1.1	1.8	0.8	0.6	0.6	1.3
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	6.1	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 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	5.20	5.30	5.15	5.35	5.40	5.85	4.60	0.70
2024 Mar	5.50	5.45	4.85	5.05	4.75	5.05	5.20	5.85	4.40	0.65
Jun	5.25	5.00	4.55	4.80	4.35	4.75	4.95	5.60	4.20	0.60
Sep	4.75	4.50	4.30	4.60	3.95	4.55	4.80	5.35	4.00	0.60
Dec	4.25	4.25	3.95	4.30	3.50	4.20	4.50	4.85	3.75	0.55
2025 Mar	4.00	3.75	3.65	4.00	3.20	3.90	4.20	4.35	3.50	0.50
Jun	3.50	3.25	3.60	4.00	3.05	3.85	4.20	3.85	3.50	0.50
Sep	3.00	2.90	3.55	3.95	3.00	3.80	4.15	3.35	3.50	0.45

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.58	0.63	1.07	1.22	150
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	0.58	0.92	0.55	0.48	87.5	69.6
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 24 October 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	1.4	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	0.5	-1.1	4.2	12.3	4.1	1.2	-1.9	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	-0.2	0.1	2.3
Exports	2.5	6.0	5.5	3.0	5.2	-2.7	-0.2	9.0	3.0	5.1
Imports	17.3	4.7	-1.0	-0.1	2.7	14.8	4.7	0.7	-0.8	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	-0.5	-1.0	-0.1	1.4	1.8	0.1	-1.1	-0.3
Nominal Expenditure GDP - $bn	358	388	412	428	453	353	381	407	423	447
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	4.3	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	-12.1	2.3	8.6	10.9	27.2	-11.1	-1.9	6.7	12.5
External Balance										
Current Account - $bn	-23.6	-31.8	-26.2	-21.7	-15.6	-20.6	-33.4	-27.2	-23.8	-16.9
Current Account - % of GDP	-6.6	-8.2	-6.4	-5.1	-3.4	-5.8	-8.8	-6.7	-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	2.75	0.75	4.25	5.50	4.25	2.75
90-day Bank Bill Rate	1.45	5.16	5.45	3.75	2.90	0.92	4.55	5.60	4.25	2.90
5-year Govt Bond	2.90	4.40	4.85	3.65	3.55	2.20	4.30	5.20	3.95	3.50
10-year Govt Bond	3.20	4.35	5.05	4.00	3.90	2.35	4.25	5.30	4.30	3.90
2-year Swap	3.00	5.15	4.75	3.20	3.10	2.22	5.21	5.15	3.50	3.00
5-year Swap	3.20	4.50	5.05	3.90	3.80	2.56	4.62	5.35	4.20	3.75
US 10-year Bonds	2.10	3.65	4.40	3.50	3.50	1.45	3.60	4.60	3.75	3.50
NZ-US 10-year Spread	1.10	0.70	0.65	0.50	0.40	0.90	0.65	0.70	0.55	0.40

(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
	Tuesday 24 October			
AU	Judo Bank Australia PMI Mfg Oct P			48.7
AU	Judo Bank Australia PMI Services Oct P			51.8
GE	GfK Consumer Confidence Nov	-27		-26.5
GE	HCOB Germany Services PMI Oct P	50		50.3
AU	RBA's Bullock-Speech			
EC	HCOB Eurozone Mfg PMI Oct P	43.7		43.4
EC	HCOB Eurozone Services PMI Oct P	48.6		48.7
UK	S&P Global/CIPS UK Mfg PMI Oct P	44.7		44.3
UK	S&P Global/CIPS UK Services PMI Oct P	49.3		49.3
UK	CBI Trends Total Orders Oct	-16		-18
UK	CBI Trends Selling Prices Oct			14
	Wednesday 25 October			
US	Philly Fed Non-Manufact. Activity Oct			-16.6
US	S&P Global US Mfg PMI Oct P	49.5		49.8
US	S&P Global US Services PMI Oct P	49.9		50.1
US	Richmond Fed Manufact. Index Oct	2		5
US	Richmond Fed Business Conditions Oct			-5
AU	CPI QoQ 3Q	1.10%		0.80%
AU	CPI Trimmed Mean QoQ 3Q	1.00%		0.90%
AU	CPI YoY Sep	5.30%		5.20%
GE	IFO Expectations Oct	83.5		82.9
	Thursday 26 October			
SW	Riksbank's Jansson speech			
CA	Bank of Canada Rate Decision Oct-25	5.00%		5.00%
US	New Home Sales Sep	680k		675k
US	Fed's Powell Remarks			
NZ	Household Living Cost Indexes y/y			7.20%
AU	RBA's Bullock, Kent - Senate Testimony			
NZ	New Residential Lending y/y			6.80%
UK	CBI Retailing Reported Sales Oct			-14
	Friday 27 October			
EC	ECB Main Refinancing Rate Oct-26	4.50%		4.50%
US	GDP Annualized QoQ 3Q A	4.50%		2.10%
US	Durable Goods Orders Sep P	1.80%		0.10%
US	Initial Jobless Claims Oct-21	208k		198k
US	Continuing Claims Oct-14	1740k		1734k
EC	ECB President Lagarde Press Conf.			
US	Fed's Waller Remarks			
US	Pending Home Sales MoM Sep	-1.80%		-7.10%
UK	BOE's Jon Cunliffe speaks			
NZ	ANZ Consumer Confidence Index Oct			86.4
AU	PPI QoQ 3Q			0.50%
CH	Industrial Profits YoY Sep			17.20%
EC	ECB Survey of Professional Forecasters			
	Saturday 28 October			
US	Personal Spending Sep	0.50%		0.40%
US	PCE Core Deflator YoY Sep	3.70%		3.90%
US	Fed's Barr Remarks			
US	U. of Mich. Sentiment Oct F	63		63
US	Kansas City Fed Services Activity Oct			2
	Sunday 29 October			
FR	NZ v SA Rugby World Cup final			12 v 15

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	5.61	5.62	3.71
2mth	5.64	5.66	5.67	3.92
3mth	5.67	5.69	5.71	4.14
6mth	5.73	5.76	5.78	4.68
GOVERNMENT STOCK				
04/25	5.60	5.60	5.71	4.53
04/27	5.38	5.36	5.33	4.54
04/29	5.42	5.35	5.20	4.53
05/31	5.50	5.41	5.20	4.55
04/33	5.54	5.43	5.21	4.62
04/37	5.70	5.60	5.36	4.84
05/41	5.74	5.65	5.43	4.95
05/51	5.68	5.63	5.42	4.88
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	79	75	74	93
Europe 5Y	87	83	81	116

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.64	5.63	5.70	5.19
3 years	5.47	5.43	5.45	5.10
4 years	5.37	5.31	5.28	5.02
5 years	5.33	5.24	5.18	4.96
10 years	5.37	5.25	5.09	4.95
FOREIGN EXCHANGE				
NZD/USD	0.5847	0.5897	0.5945	0.5740
NZD/AUD	0.9227	0.9263	0.9293	0.9000
NZD/JPY	87.52	88.33	88.61	84.83
NZD/EUR	0.5476	0.5575	0.5624	0.5772
NZD/GBP	0.4775	0.4840	0.4889	0.5006
NZD/CAD	0.8003	0.8048	0.8036	0.7811
TWI	69.6	70.1	70.7	68.7

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