Research

Markets Outlook

6 November 2023

Waiting for policy

- **New government in waiting**
- **Policy changes awaited**
- **Near term economic stall embedded**
- **PMI to reflect general weakness**
- **Inflation expectations still problematic**

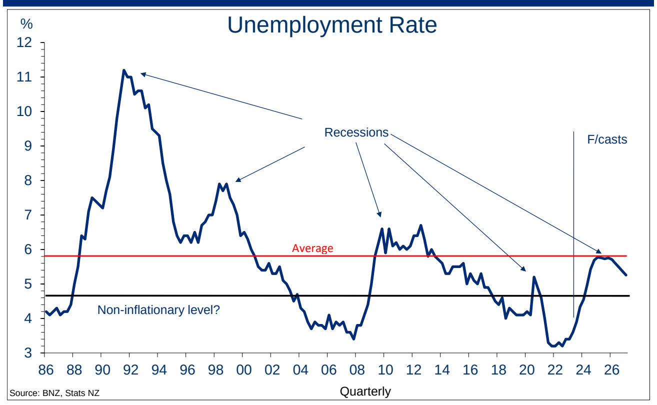
We now know it will take the agreement of three parties – National, NZ First and ACT – to form a government. What we don't know is the exact shape of that government. There are three broad options: a three headed coalition; a National-NZ First government with Act on the cross benches; a National-Act coalition with NZ First on the cross benches. While of interest to the political literati, the fact of the matter is policy outcomes are going to be very similar no matter the componentry.

From our perspective, the following is a shortlist of the key policy issues we will be keeping an eye on:

Monetary Policy

It looks highly likely the Reserve Bank will be required to drop Maximum Sustainable Employment from its remit. The remit change can be made relatively quickly but it might take a bit longer to adjust the Reserve Bank Act. We doubt any such change will have a material impact on monetary policy settings in the current cycle. In order to get inflation sustainably lower the labour market needs to ease which, in part, means a rising unemployment rate. An unemployment rate which, incidentally, we now forecast to peak at 5.8% following some reflection on last week's labour market data.

Maximum sustainable employment still matters



Fiscal policy

All parties are in agreement that there needs to be a significant reduction in real government spending. This will be a major headwind for growth as the expected drop in government consumption feeds through directly into the national accounts. Moreover, it looks highly likely that state sector employment growth will slow or turn negative. This will be a headwind for private consumption and residential construction, especially in Wellington.

The biggest challenge for National is its proposed changes to personal tax thresholds. NZ First and ACT are not ideologically opposed to tax cuts but both think adjustments should wait until the accounts permit.

The other problem National faces is that NZ First is strongly opposed to the funding of tax cuts via National's proposed tax on foreign purchases of top-end houses. It's not that NZ First opposes the tax per se but it does oppose selling to foreigners in the first place.

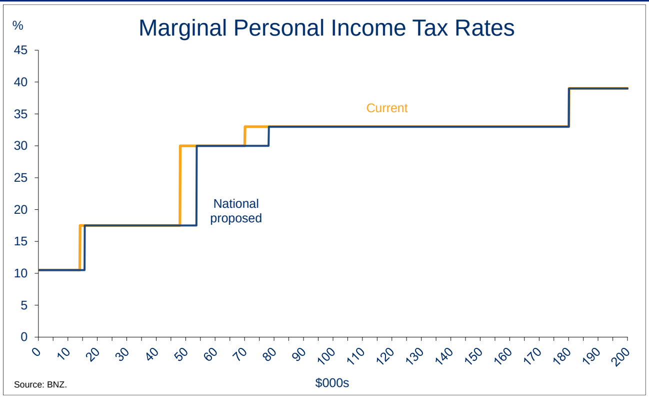
In the run up to the election there was much debate as to whether National's costings around its allegedly fiscal-neutral tax programme were well-founded. As soon as the Government is formed, assuming this policy is to be proceeded with, Treasury will be tasked with providing its full analysis of its costing so all will be revealed soon.

Given the above impediments, we are expecting a watered-down tax reduction policy in due course. Any tax relief is likely to be stimulatory for private consumption. The way in which it is funded will determine whether there is a net stimulus to the economy.

It is the National party's intent to deliver a mini-budget this side of Christmas. This is going to be a tough ask given the time it will take to form government, establish policy agreement and get Treasury to do the numbers bearing in mind that Treasury also needs to put its Half Year Economic and Fiscal Update together by the end of the year.

On Thursday we get the Crown Financial Statements for the three months to September. This may provide some insight as to how the fiscal headroom is changing.

Proposed tax cuts



The Labour Market

The three major parties seem broadly in agreement with regard to labour market policy. Expect the Government to wind back a number of Labour's policies. It will:

- Abandon plans for an income insurance scheme, which was an effective corporate tax increase
- Repeal fair pay legislation
- Restore the 90 day trial period for new workers

These changes should further take pressure off business labour costs and, hence, be disinflationary.

Migration

NZ First will likely block any measures to maintain or increase the current high levels of inbound migration.

Climate change

National and ACT believe the best way to drive down emissions is via the Emissions Trading Scheme. They do not believe in climate subsidies, such as the clean car discounts, as they see these as "feel good handouts".

Ultimately, businesses and households will bear these costs. One way or another they are going to anyway. We suspect that many in the agriculture sector will be surprised by the cost impost this will bring.

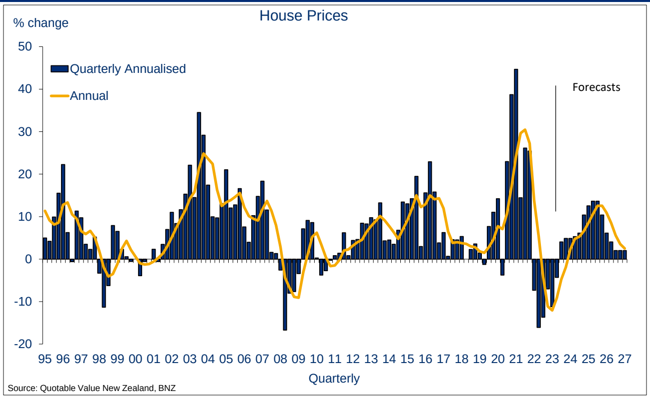
Housing

National and Act want to allow interest rate deductibility for landlords, return more "power" to landlords and overturn the ten-year brightline test.

It's difficult to know what the outcome of this will be. Landlord interest in property will increase but is likely to be centred on the existing property stock as these policy changes will improve the relative returns to investing in already-constructed buildings at a time when the cost of construction is currently prohibitively high.

We would expect house price inflation to rise. This will provide a positive wealth effect to private consumption but, potentially, impede first home buyers.

House prices to rise



Regulation

All the parties are concerned that "over-regulation" is impeding corporate activity and productivity. Expect changes here, including to the Resource Management Act, to lower business costs and, hence, improve investment activity and the demand for labour.

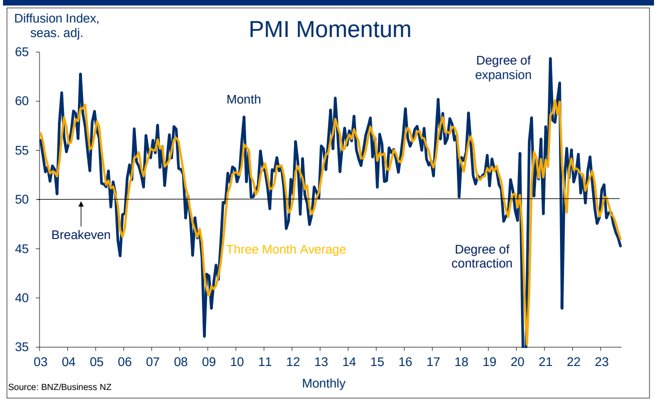
There is general agreement amongst the parties on:

- Tighter law and order
- Health sector reforms, including the possible restructuring of the Maori Health Authority
- Education reform

No matter what the government comes up with, the economic momentum is such that the next few quarters of economic activity, and inflationary pressure, are broadly set. We still see an economy bouncing along the bottom with inflationary pressures abating.

Further evidence of the current economic weakness should be provided in Friday's Performance of Manufacturing Index. Unlike last week's ANZ Business Opinion Survey, the PMI is a coincident indicator not a lead. While businesses are being buoyed by expectations of what a National-led government might deliver for them there is unlikely to be anything happening to current activity due to the political shift. The headline PMI has been sub-50 for the last six consecutive readings. We expect more of the same from October's reading.

Manufacturers under pressure



Also on Friday is the Q3 concrete production data. This provides some insight into the state of investment activity. Concrete production has also fallen (seasonally adjusted) in each of the last six quarters. A significant recovery would be surprising at this juncture.

On Wednesday we get the RBNZ's latest survey of expectations. The decline in other inflation survey numbers appears to have stalled. This survey may show likewise. Last quarter the two year inflation expectation was 2.83%. Keep an eye out for household expectations as well as the RBNZ is taking more interest in these now.

Rounding out the week is Wednesday's Dairy Auction. We expect prices to be relatively unchanged as the recent bounce runs out of steam.

stephen_toplis@bnz.co.nz

Global Watch

- **NAB expects RBA to hike 25bps on Tuesday**
- **Friday's SoMP to outline RBA tightening bias to boot**
- **US quiet with consumer confidence and Powell speaking**
- **China focus on CPI, trade and credit data**
- **Copious ECB speakers through the week; UK Q3 GDP too**

The RBA meets on Melbourne Cup Day (Tuesday) and the November SoMP is released Friday. The data calendar is quiet locally, but outside of the RBA we can expect some headlines on the back of PM Albanese's trip to China Saturday through Tuesday, and from earnings, including Westpac (Monday) and NAB (Thursday). Offshore, after the deluge of data and central bank decisions over the past week, it is a quieter week.

Australia

NAB expects the RBA to hike rates by 25bp to 4.35% and to retain a clear tightening bias. Underlying inflation in the third quarter confirmed our long-held view that the RBA was overly optimistic about progress on taming inflation pressures, but it is the outlook for the path of disinflation, not just the Q3 surprise that matters. The November decision is alongside new forecasts, which will be detailed in full in Friday's SoMP.

The worse starting point for inflation means near-term inflation forecasts need to be revised higher, and resilient household spending, activity and labour markets provide no offset as the staff draw the longer-run projections. With market pricing and analyst expectations having shifted towards further tightening, upward revisions to the outlook further out may instead only be mitigated by a higher cash rate assumption (40bps of hikes are priced by May 2024).

In that context, it would be difficult for the RBA to avoid delivering on that implied path. The RBA has communicated inflation below the top of the band in 2025 as an upper limit on its tolerance. Given the RBA's strategy of attempting to manage this cycle by doing the minimum necessary with the cash rate, it necessarily has a low tolerance for upside surprises to the inflation outlook.

Regarding Friday's SoMP, the punchlines will be known ahead of time, with key forecasts mentioned in the post-meeting statement on Tuesday. Friday's document details the full set of forecasts, as well as giving a greater discussion of risks. In the context of rising house prices and resilience in consumer demand, the framing of the skew of risks relative to and outlook for subdued consumption growth will be important. So too will how the RBA is reading China. There has been some stabilisation evident since their August assessment where an uncertain outlook for China was a key domestic uncertainty, but the recovery is on far-from-firm footing.

Note that along with the change to 8 RBA policy meetings a year, from the February 6 decision, the SoMP will be published at the same time as the monetary policy decision.

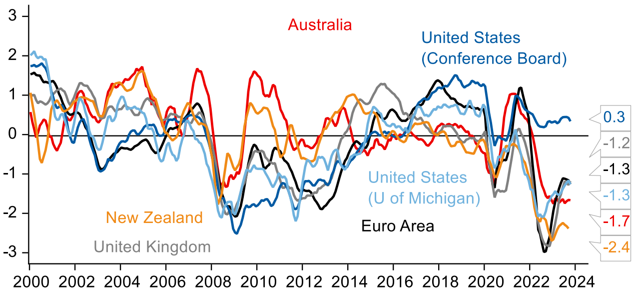
United States

In the US, Uni Michigan consumer sentiment data on Friday headlines a remarkably quiet week. There's a smattering of Fed speakers to look out for, most noticeably a panel appearance from **Chair Powell on Thursday** (6am Friday morning Sydney time).

University of Michigan consumer sentiment caps what is a thoroughly quiet US data calendar next week. Sentiment is expected to remain mired at exceptionally subdued levels in the preliminary November read, despite receding inflation and strong growth in Q3. 5-10yr inflation expectations will also get some attention, having jumped back up to 3.0% in October. That's near the top of the 2.7% to 3.1% range in place since January 2021 and compares to an average of 2.4 over 2019. Long term consumer expectations have not fallen, despite the easing in realised inflation over that period.

Consumer Confidence by Country

Standard deviations from mean post 1985 (5m moving average)



Source: National Australia Bank, Melbourne Institute of Applied Economic & Social Research, European Commission (DG ECFIN), GfK UK, Conference Board, Westpac New Zealand, University of Michigan and Macro

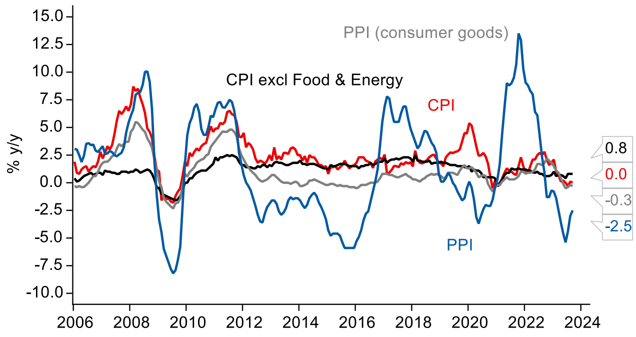
Markets have taken the communication alongside the FOMC's second consecutive hold as suggestive the Fed is at the peak in rates. Powell appears on a panel on monetary policy challenges at the IMF's annual research conference and has an opportunity to either endorse that view or correct the record.

China

China's inflation data Thursday is expected to reflect domestic demand that has not yet responded strongly to incremental policy support. **Trade data is on Tuesday** and Credit is due in the week from Thursday.

CPI could dip back into negative territory on a year-ended basis after a 0.0%y/y outcome in September, reflecting that domestic demand has not yet responded strongly to incremental policy support. PPI is seen at -2.8% y/y from 2.5%.

China Inflation



Source: National Australia Bank, China National Bureau of Statistics (NBS), Macrobond

China's trade data is expected to show a small widening in the USD surplus in October. Base effects relative to softness in exports into October 2022, rather than emphatically positive news on demand for Chinese exports, should see y/y export declines continue to slow sharply from the -6.2% y/y outcome in September.

Japan

With the BoJ having delivered a tweak to its yield curve control policy, but a lack of clarity, September meeting minutes and a press conference from **BoJ Governor Ueda Monday and the October Summary of Opinions Thursday** may be interesting. Labour earnings are out on Tuesday.

EU

The **European calendar is dominated by central bank speak.** Expect some pushback relative to current pricing for cuts, with appearance earlier in the week skewing to more hawkish officials. Lagarde speaks on Thursday.

Final S&P EZ services PMI for October, including readings from Spain, Italy, France and Germany are due Monday. The preliminary readings have shown the improvement to 48.7 seen in September reversed in October.

ECB's Holzmann, Valimaki speak from a conference in Vienna, also Monday (EU time). Both are hawks and are expected to push back on rate cut discussion from the doves and in market pricing (A cut is 80% priced by April, with three cuts by October). Expect more of the same from ECB and Buba's Nagel speaking the following day.

Regarding Wednesday's PPI report for September, the consensus is for +0.5% m/m from +0.6% and for -12.5% y/y from -11.5%, helped by lower energy costs. This reading is a little outdated given already released preliminary October HICP.

More ECB speak is due late in the week, including President Lagarde, as well as a second appearance in 2 days from Chief economist Lane. Lagarde is speaking at the inauguration of the House of the Euro in Brussels, while Lane opens the ECB conference on Money Markets.

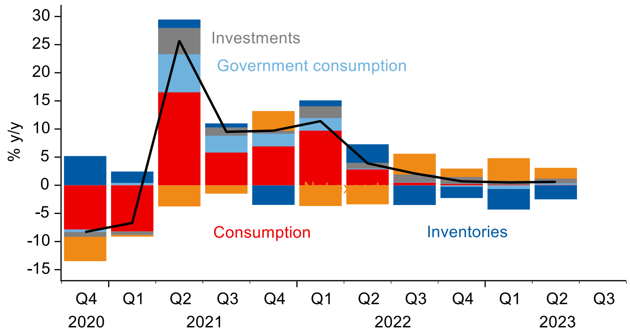
UK

UK GDP data on Friday is likely to show no growth in Q3. BoE's Bailey speaks Wednesday and Pill speaks Monday and Thursday.

BoE Governor Andrew Bailey delivers a keynote address at the Central Bank of Ireland 'Financial System Conference, Achieving good outcomes in an uncertain world.' Following the BoE's second successive rate pause at 5.25%, the message was that wage and services inflation remains too high, necessitating rates need to stay restrictive for an extended period. While the BoE as stated clearly it is far too soon to debate rate cuts, markets are pricing cuts in from Q3, 2024.

The early consensus looks for a flat outcome for Q3 GDP, after +0.2% q/q in Q2. Data so far suggest monthly growth will need to rise by 0.2% to avoid a quarterly contraction but we think the risks are skewed to the downside.

UK Contributions to annual GDP



Source: National Australia Bank, U.K. Office for National Statistics (ONS), Macrobond

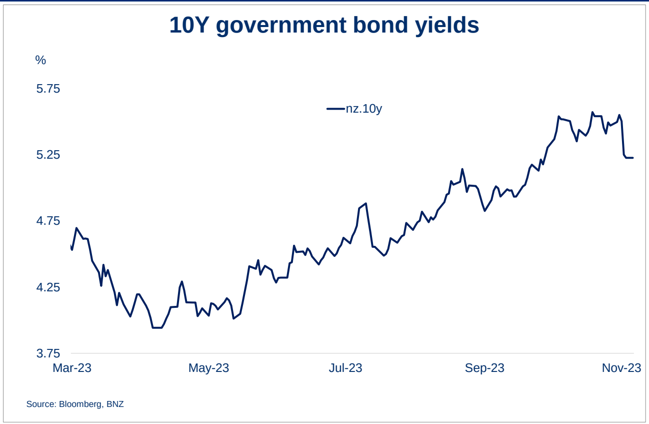
taylor.nugent@nab.com.au / craig_ebert@bnz.co.nz

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

New Zealand fixed interest markets moved significantly lower in yield last week driven by the moves in US treasuries. NZ labour market data, which provided clear evidence that previous tightness is abating, was also supportive. The ~30bps reversal in NZ 10-year government bonds from the recent highs above 5.5% is the third significant yield retracement since the selloff began back in April. The other two retracements of similar magnitude in July and August were quickly reversed with 10-year bond yields continuing to trend higher.

30bps retracement in 10-year government bond yields

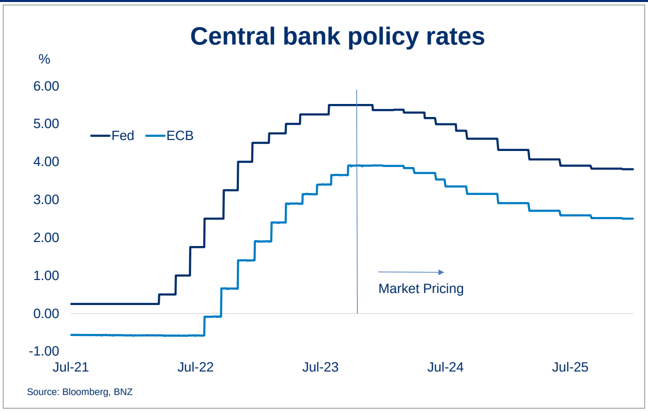


There are several reasons to think the improved performance may be more durable this time. Firstly, there had been signs that the selloff, which began back in April, had become over-extended. Rolling 3-month returns had fallen below the 10% percentile, which is typically a pre-cursor to a period of consolidation. Secondly, the data flow in NZ makes it increasingly likely that the RBNZ's Official Cash Rate has peaked at 5.50%. And thirdly, most major global central banks are similarly signalling that tightening cycles are close to complete.

The US Federal Reserve (Fed) left rates steady as expected last week. While there were minimal changes to the statement there was an acknowledgement that tighter financial conditions, in part due to higher long-term yields, are a headwind for the economy. If economic growth moderates in Q4 and the disinflationary trend remains in place, then it is likely that the Fed will remain on hold in coming months.

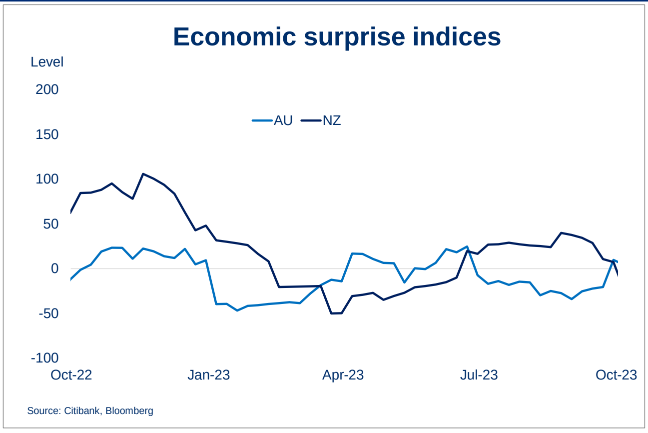
The weaker than expected Institute of Supply Management (ISM) PMIs for both the manufacturing and services sectors point towards a slowdown in US economic activity. And the labour market data for October was weaker than consensus estimates with the unemployment rate rising to 3.9%, which is 0.5% above the cyclical lows of 3.4% back in April. Futures market pricing overwhelmingly favours the Fed remaining on hold at the December FOMC and an easing cycle beginning in Q2 of next year.

Market pricing for Fed and ECB



The cross market spread between NZ and Australia has continued to compress over the past week. 5-year swap rate differentials traded to a low of 25bps. This represents a significant decline from the recent highs near 85bps. Recent data in Australia has been stronger than expected and raised expectations that the Reserve Bank of Australia (RBA) will need to tighten policy further. The divergent run of economic activity data between Australia and New Zealand is captured by economic surprise indices.

Economic surprises diverging between NZ and Australia



While the diverging macro and central bank outlooks point towards further compression, the pace of the spread narrowing suggests a period of consolidation is due. The RBA policy decision tomorrow is finely balanced according to market pricing. There is close to a 50% chance of a 25bps increase priced into futures markets. A significant majority of economists surveyed by Bloomberg expect a 25bp hike taking the policy rate to 4.35%.

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week was monumental for financial markets, with large moves across equities, bonds and currency markets. Risk appetite bounced higher as the market embraced a view that the Fed hiking cycle was over. Despite negative domestic forces in the form of lower NZ-global rate spreads following NZ's soft labour market reports, the NZD was the strongest of the majors, rising 3.2% to close the week a tad under 0.60. NZD/JPY gained 3% and the NZD made smaller gains, albeit still more than 1%, against EUR, GBP and CAD. NZD/AUD showed a modest 0.4% lift to just over 0.92.

There was plenty of event risk last week. Israel's ground invasion into Gaza was more targeted than "full-on", with the market continuing to take an optimistic view that the conflict wouldn't spread to involve oil-producing nations like Iran. This view helped support risk appetite.

But the pièce de résistance was a series of softer US data releases, including a lift in the unemployment rate to a 21-month high of 3.9%, and the Fed's policy update that encouraged the market to believe that the US tightening cycle was over. For the second consecutive meeting, the Fed left its target range for the Fed Funds rate at 5.25-5.5% and the Fed acknowledged tighter financial conditions, codifying the message we've heard from Fed speakers. In the press conference Chair Powell kept the option open for a further possible hike, but the market was comforted by the fact that he didn't overplay the strength of recent economic data.

The market now prices little chance of any further Fed tightening and it priced in almost an extra full easing into the curve for next year, now seeing almost 100bps of easing in 2024. For some time, we have suggested that the USD will become vulnerable and meet a major cycle turning point when the market has conviction that the Fed's tightening cycle is over. That time has now come.

Our risk appetite index rose a hefty 17pts to 59% and that was instrumental in driving broad-based USD weakness. The USD DXY index fell 1.4% to a six-week low of 105.0. We are much more confident now that the peak of 107.3 in early October was the high for the year. The flip side is that we have increasing conviction that the low for the NZD has been reached for the year, the 0.5774 level of just over a week ago.

Weaker NZ labour market data drove a weaker NZD but the hit proved to be temporary. A 0.2% fall in employment in Q3 drove a 0.3 percentage point lift in the unemployment rate to 3.9%, its highest level in more than two years. The data conveyed a picture of labour market tightness abating and this leading to weaker private sector wage inflation. The data supported the view that further tightening in policy is unnecessary.

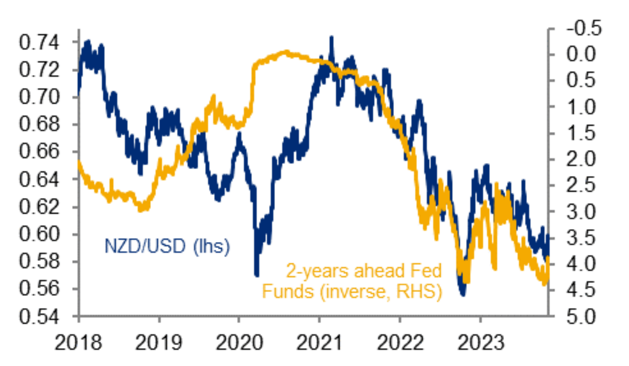
Our regular readers will know our view that the Fed's policy cycle, rather than the RBNZ's, has been the key driver of the NZD over the past couple of years. That played out last week, with the much stronger NZD despite the market also gaining conviction that the RBNZ's tightening cycle is over.

This morning we published a note on the currency market, noting that the fortunes of the beleaguered NZD could be on the verge of changing. The first point of resistance is last month's high of 0.6056. A clean break of that and it would be tempting to suggest a sustained return to the earlier 0.60-0.64 trading range. See "A major turning point in the cycle?"

Also last week, the BoJ made another tweak to its yield curve control policy that moves a step closer to abandoning it. Sourced media reports suggested that the BoJ would continue to proceed slowly and carefully in moving away from its ultra-easy policy stance. This approach reduces the chance of an outsized financial market reaction to future policy tweaks, reducing the chance of a major risk-off event emanating from its policy adjustments.

The week ahead is fairly uneventful, with the main event being the RBA meeting next week where almost all economists see a 25bps rate hike but is only 60% priced by the market.

Fed policy outlook a key driver of NZD over past 2½ years



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5993	0.5770 - 0.6000
NZD/AUD	0.9206	0.9140 - 0.9400
NZD/GBP	0.4846	0.4770 - 0.4880
NZD/EUR	0.5586	0.5470 - 0.5640
NZD/JPY	89.50	86.80 - 89.60

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6380	-6%
NZD/AUD	0.8980	3%

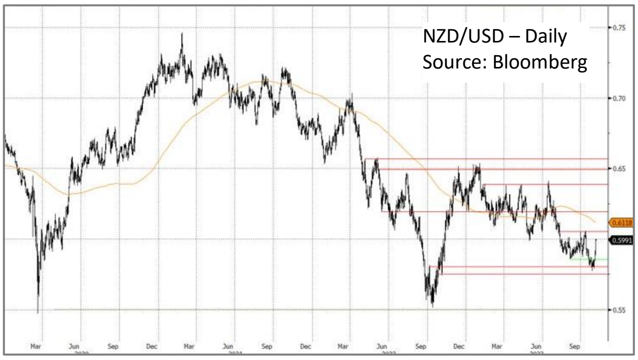
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6055 (ahead of 0.62)
ST Support: 0.58 (ahead of 0.5750)

Last week's more than 3% bounce takes the NZD out of the danger zone. We're watching the October high of 0.6056 as a point of resistance, a break of which could see a return of the previous 0.60-0.64 trading range develop.



NZD/USD – Daily
Source: Bloomberg

NZD/AUD

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

Near the mid-point of the broad 0.90-0.94 trading range.

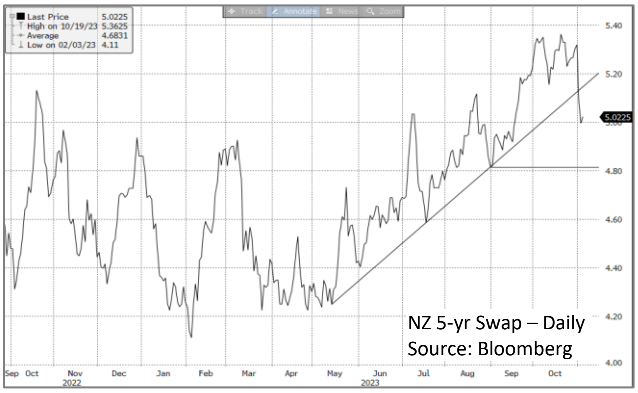
jason.k.wong@bnz.co.nz

NZD/AUD – Daily
Source: Bloomberg

NZ 5-year Swap Rate

Outlook: Lower
MT Resistance: 5.13
MT Support: 4.81

A clear technical break lower through our support means that we now see 5y swap trending lower. We are targeting 4.81 as the new level of support while resistance moves to 5.13.



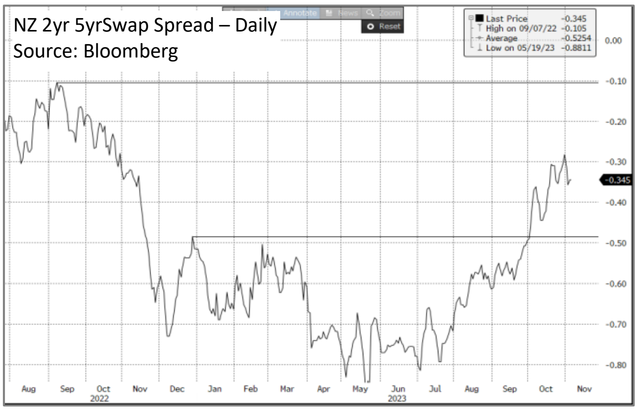
NZ 5-yr Swap – Daily
Source: Bloomberg

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

Outlook: Neutral
MT Resistance: -0.10
MT Support: -0.48

2x5 swap spread remained relatively stable last week. We continue to be neutral and await further technical signals.

matthew.herbert@bnz.co.nz



NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

Quarterly Forecasts

Forecasts as at 6 November 2023

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded)

	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	-6.1
CPI (q/q)	1.7	2.2	1.4	1.2	1.1	1.8	0.8	0.6	0.6	1.3
Employment	-0.2	1.4	0.6	1.0	1.0	-0.2	0.3	-0.1	0.0	0.1
Unemployment rate %	3.3	3.2	3.4	3.4	3.6	3.9	4.3	4.5	5.0	5.4
Avg hourly earnings (ann %)	7.0	8.6	8.1	8.2	7.7	7.1	7.0	6.2	5.5	4.4
Trading partner GDP (ann %)	2.2	3.8	2.2	2.8	3.4	2.8	3.0	2.5	2.6	2.7
CPI (y/y)	7.3	7.2	7.2	6.7	6.0	5.6	5.0	4.4	3.8	3.4
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	Government Stock 5 Year	Government Stock 10 Year	Swaps 2 Year	Swaps 5 Year	Swaps 10 Year	US Rates Libor 3 month	US Rates 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	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
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	0.60	0.65	1.07	1.24	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	0.60	0.92	0.56	0.48	89.5	70.6
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	73.7
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 6 November 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	3.1	5.2	-2.7	-0.2	9.0	3.1	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*	*3.1*
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	4.4	2.9	2.1	5.9	7.2	5.0	2.9	2.1
Employment	2.5	2.9	1.0	0.9	2.4	3.3	1.7	2.1	0.3	2.3
Unemployment Rate %	3.2	3.4	4.5	5.8	5.7	3.2	3.4	4.3	5.7	5.8
Wages - ahote (private sector)	5.3	8.2	6.2	3.9	3.0	4.1	8.1	7.0	4.3	3.0
Productivity (ann av %)	2.3	0.8	-1.2	1.0	1.1	3.9	0.5	-1.3	0.5	1.4
Unit Labour Costs (ann av %)	4.0	6.2	6.9	3.4	2.1	2.0	6.2	7.4	4.3	2.0
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	-26.0	-22.1	-16.0	-20.6	-33.4	-27.0	-24.0	-17.3
Current Account - % of GDP	-6.6	-8.2	-6.3	-5.2	-3.5	-5.8	-8.8	-6.6	-5.7	-3.9
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	73.7	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
	Monday 06 November			
JN	BOJ Minutes of Sept. Meeting			
NZ	ANZ Commodity Price MoM Oct			1.30%
AU	Melbourne Institute Inflation YoY Oct			5.70%
AU	ANZ-Indeed Job Advertisements MoM Oct			-0.10%
JN	BOJ Governor Ueda speaks			
GE	Factory Orders MoM Sep	-1.50%		3.90%
EC	ECB's Guindos speaks			
GE	HCOB Germany Services PMI Oct F	48		48
EC	HCOB Eurozone Services PMI Oct F	47.8		47.8
EC	Sentix Investor Confidence Nov	-22.4		-21.9
	Tuesday 07 November			
EC	ECB's Holzmann, Nagel speak			
US	Fed's Cook speaks			
UK	BOE's Huw Pill speaks			
JN	Household Spending YoY Sep	-2.70%		-2.50%
UK	BRC Sales Like-For-Like YoY Oct			2.80%
AU	RBA Cash Rate Target Nov-07	4.35%	4.35%	4.10%
GE	Industrial Production SA MoM Sep	-0.20%		-0.20%
CH	Trade Balance CNY Oct			558.74b
	Wednesday 08 November			
NZ	GDT dairy auction			4.30%
US	Trade Balance Sep	-$60.0b		-$58.3b
US	Fed's Barr, Schmid, Waller, Williams, Logan speak			
US	Fed's Williams Moderates Discussion in New York			
EC	ECB's Nagel speaks			
NZ	2Yr Inflation Expectation 4Q			2.83%
GE	CPI YoY Oct F	3.80%		3.80%
EC	ECB's Lane, Kazaks speak			
EC	ECB 3 Year CPI Expectations Sep			2.50%
EC	ECB's Wunsch, Makhlouf speak			
UK	BOE's Bailey speaks			
EC	Retail Sales MoM Sep	-0.20%		-1.20%
US	Fed's Cook speaks			

		Median	Fcast	Last
	Thursday 09 November			
EC	ECB's De Cos, Vujcic speak			
US	Fed's Powell, Barr, Jeffferson speak			
US	Wholesale Trade Sales MoM Sep			1.80%
CA	Bank of Canada Releases Summary of Deliberations			
NZ	N.Z. Government 3-Month Financial Statements Sep			
JN	BOJ Summary of Opinions (Oct. MPM)			
CH	CPI YoY Oct	-0.20%		0.00%
CH	PPI YoY Oct	-2.80%		-2.50%
JN	Eco Watchers Survey Outlook SA Oct	49.7		49.5
EC	ECB's Villeroy, Lane speak			
UK	BOE's Pill speaks			
EC	ECB Publishes Economic Bulletin			
CH	Aggregate Financing CNY Oct	1916.5b		4120.0b
CH	New Yuan Loans CNY Oct	650.0b		2310.0b
	Friday 10 November			
US	Initial Jobless Claims Nov-04	220k		217k
US	Continuing Claims Oct-28	1830k		1818k
US	Fed's Bostic, Barkin, Paese speak			
EC	ECB's Lagarde speaks			
US	Fed's Powell speaks			
NZ	BusinessNZ Manufacturing PMI Oct			45.3
NZ	Ready-mixed Concrete Production 3Q			-0.40%
AU	RBA-Statement on Monetary Policy			
UK	Monthly GDP (MoM) Sep	0.00%		0.20%
UK	Industrial Production MoM Sep	0.00%		-0.70%
UK	Trade Balance GBP/Mn Sep	-£2550m		-£3415m
UK	GDP QoQ 3Q P	-0.10%		0.20%
	Saturday 11 November			
US	Fed's Logan, Bostic speak			
EC	ECB's Lagarde, Nagel speak			
US	U. of Mich. Sentiment Nov P	63.5		63.8
	Sunday 12 November			
US	Fed's Bostic speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	3.50
1mth	5.57	5.60	5.62	3.95
2mth	5.60	5.62	5.66	4.07
3mth	5.63	5.64	5.70	4.19
6mth	5.68	5.72	5.77	4.68
GOVERNMENT STOCK				
04/25	5.41	5.61	5.71	4.62
04/27	5.06	5.31	5.46	4.56
04/29	5.09	5.35	5.41	4.52
05/31	5.19	5.45	5.47	4.53
04/33	5.23	5.50	5.51	4.55
04/37	5.40	5.67	5.67	4.75
05/41	5.44	5.70	5.72	4.87
05/51	5.37	5.63	5.70	4.82
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	70	81	75	89
Europe 5Y	77	88	87	107

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.33	5.58	5.72	5.20
3 years	5.12	5.41	5.52	5.09
4 years	5.02	5.32	5.40	4.97
5 years	4.98	5.28	5.34	4.88
10 years	5.11	5.38	5.33	4.80
FOREIGN EXCHANGE				
NZD/USD	0.5993	0.5844	0.6023	0.5939
NZD/AUD	0.9211	0.9167	0.9395	0.9166
NZD/JPY	89.45	87.12	89.43	87.07
NZD/EUR	0.5587	0.5505	0.5699	0.5927
NZD/GBP	0.4840	0.4802	0.4921	0.5158
NZD/CAD	0.8182	0.8079	0.8184	0.8015
TWI	70.4	69.4	71.1	70.7

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Stuart Ritson
Senior Interest Rate Strategist
+64 9 9248601

Mike Jones
BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854