Research

Markets Outlook

13 November 2023

Growth Struggles; New Inflation Series Awaited

- **Growth indicators weak**
- **More of the same expected from this week's batch**
- **A few – and new – inflation indicators to monitor**
- **With potential to alter near term CPI forecasts**
- **Housing reports to reveal activity during election month**

Evidence continues to mount that the NZ economy is struggling to grow. For example, last week's Performance of Manufacturing Index (PMI) went from bad to worse, dropping to 42.5 in October, concrete production slid for the seventh consecutive quarter in Q3, and SEEK job ads continued their downtrend.

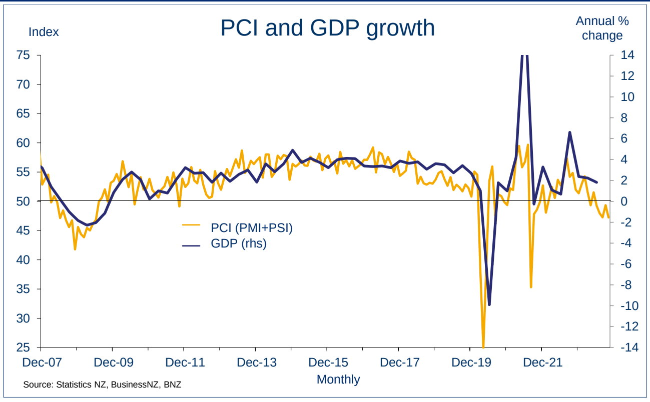
We think this week's data will continue the theme. With demand softening, it will drive inflation out of the system over time. On the inflation front, there are quite a few – and some new – indicators available to monitor this week.

We start, however, with the growth indicators that are already underway via this morning's Performance of Services Index (PSI). It dipped to 48.9 in October from 50.6 in September. While the PSI harboured quite a mixture of positives and negatives in the monthly details, it is back to averaging a bit below the breakeven level of 50 (where it has now been for four out of the past five months).

Combining the PSI and PMI (to form the PCI), the performance indicators continue to paint a picture of economic angst. It counsels caution around GDP growth in the here and now. The PMI and PSI surveys ask businesses about outcomes, not confidence and expectations. At face value, the indicators even suggest some downside risk to the broadly flat estimates we have built into our GDP forecasts for the second half of 2023.

Election uncertainty looks to have weighed on activity over recent months. It was noted by a few respondents to the PMI and PSI surveys and can be expected to unwind as the new government is formed (still waiting on that front). But other drivers like recent strong net migrant inflows would have argued for more strength, especially in the likes of services, than what we have seen to date. This suggests there are other factors that are weighing on growth such as concern about global growth, low primary export prices, cost pressures, and high interest rates.

Struggling



Importantly, the PMI and PSI demand indicators either point to outright contraction or are well below normal, and some are both. Among other factors, manufacturers cited weakness in retail sales, residential construction, primary industries, and external demand as influences currently weighing on new orders.

This Wednesday sees the release of October's electronic card transactions (ECT) – that were initially scheduled for last week. We have factored in a tentative monthly increase of 0.3% in these. The implied annual growth of around 1% for the retail component is very low in the context of around 5% inflation and 2% population growth. It suggests sales volumes are still falling, and even more so on a per-capita basis, highlighting current pressure on retailers.

To the extent the monthly ECT outcome falls short (as would seem the risk), the trajectory for another fall in real retail trade in Q4 will strengthen. This is following what we think will be a drop in Q3 retail trade volume of 1.5%.

We will provide a full preview of the 29 November RBNZ MPS next week, but suffice to say here that softening growth and demand indicators support our view that the RBNZ has finished hiking interest rates this cycle. Q2 GDP did print stronger than RBNZ forecasts, although the Bank acknowledged this at the October MPR, and the recent data argue for at least a reduction in upside risk to activity.

The PMI and PSI also revealed weakness in employment, with the combined PCI employment index falling further to

47.2 in October, indicating that softer demand for goods and services is feeding back into labour market outcomes. This adds to a host of recent data showing prior labour market tightness reducing – and a bit faster than the RBNZ had projected. Even with Q2 GDP printing a bit stronger than the RBNZ expected, the degree of pressure on resource looks less intense than projected.

Strong net inward migration has increased the availability of labour. Wednesday morning delivers the latest figures on migration, dating back to September. September's numbers (including revisions to back months) will, in turn, give a sense of how strong Thursday's population estimate for Q3 will be. Still very strong on an annual basis, one would think. It casts the economic growth indicators above in an even poorer light when considered on a per capita basis.

Along with the migration data, there will also be an update on visitor numbers for September. There is clear growth here, albeit slowing. Annual growth in visitor arrivals is expected to show further slowing from August's 59.4%. We look for something around 47%, as the low base effects from Covid continue to diminish. A figure along these lines would see the pre-covid comparison incrementally improve from August's 82.3%.

Regards inflation, Tuesday's food prices and rents will be complemented by a range of other (not previously released) monthly price indices for October. There will also be some historical data in this new, and to be ongoing, monthly Stats NZ release aptly named Selected Price Indexes.

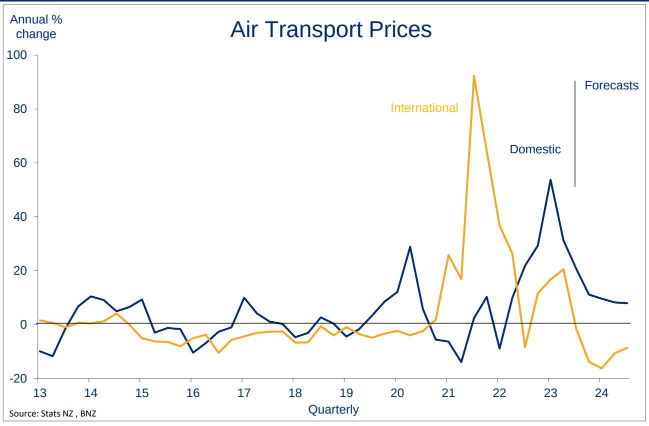
This is not a monthly CPI. But the new individual monthly series will give guidance to more components of the (still) quarterly CPI. The new monthly price indicators will cover:

- Alcoholic beverages and tobacco
- Petrol and diesel
- Domestic and international airfares
- Accommodation services

We will assess these monthly indicators for guidance to what they might mean for Q4 CPI overall in comparison to what we currently have pencilled in for the relevant CPI components.

All these indicators will be useful for assessing inflation trends. For example, we will be interested in more regular quality assessments of movement in airfares as capacity and competition increases. Airfares don't have a particularly large weight in the CPI (2.68% of the basket), but price movements can be very volatile including, but not limited to, significant seasonality. We will be looking for signs in Tuesday's data that annual airfare inflation is continuing to drop as we have built into our CPI forecast over coming quarters.

Losing Altitude?

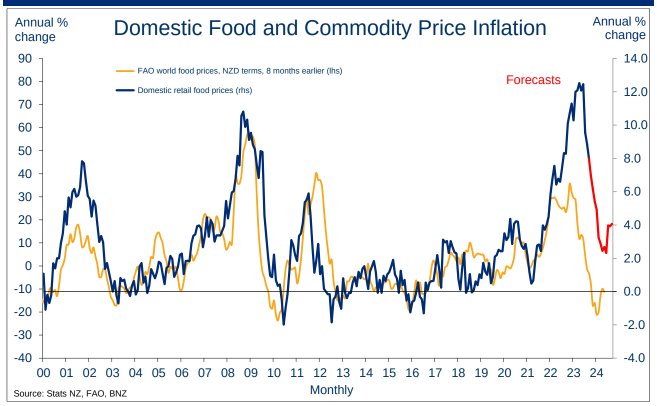


The new indicators could have implications for our near-term CPI estimates if guidance from the various indicators were to differ markedly from our expectations for the quarter. Given that the indicators, collectively, including food prices and rents, will cover around 44% (by weight) of the CPI there is potential for these to move the dial – and hence markets.

For food prices in October, we expect these eased 0.2%, which would drop their annual rate of inflation to 7.0%, from 8.0% in September.

There would seem to be risks on both sides of this view judging by today's Grocery Supplier Cost Index, as released by Infometrics. It rose 0.3% in October, but that was enough to lower its annual rate of inflation to 5.4%. While forecasting monthly food prices precisely remains as difficult as ever, it seems clear that their annual rate of inflation continues to ease.

Less Inflation Expected Here

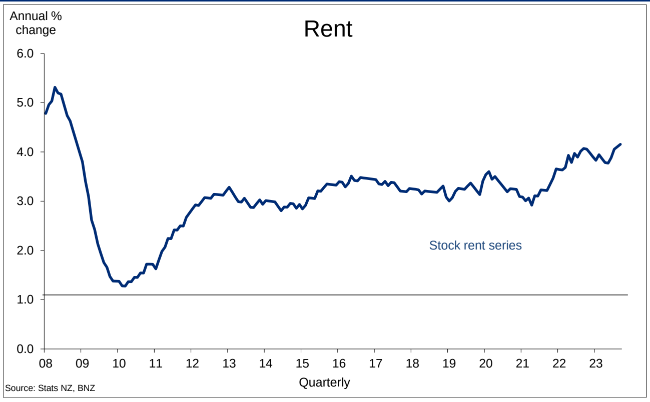


It has been the opposite for rents, which continue to rise at a faster rate, as expected. For rents in October, we expect another firm monthly increase of 0.4%, which would tick the annual rate up to 4.3% from 4.2% on Stats NZ stock measure. Rents, along with rates and insurance, remain niggly parts of the current inflationary pulse.

For the record, our current Q4 CPI estimate sits at 0.7% q/q and 4.9% y/y. This is down a tick from last week as domestic fuel prices have edged down on the back of oil price movements offshore.

Our view for Q4 CPI annual inflation sits a bit below the RBNZ's 5.2% displayed in the August MPS. This is largely because Q3 CPI came in lower than the RBNZ expected but underscores inflation is retreating from prior highs.

But More Inflation Expected Here



Staying with inflation considerations, Wednesday afternoon brings the RBNZ survey of household expectations, which the Bank says it is giving due regard to (post the revamp the survey had not so long ago). Last quarter, households' 2-year and 5-year ahead median expectation for CPI annual inflation were 3.5% and 2.0% respectively.

Households' expectations on house prices in the RBNZ survey will also be worth a look to see if, or much more likely, how much, they have pushed higher. Q3's 1-year ahead median expectation for house prices was flat and the mean expectation was 1.6%.

For broader information on the housing market, we get QVNZ's House Price Index on Tuesday and the Real Estate Institute's housing report on Wednesday morning. These will no doubt affirm the sense of recovery the market has traced in 2023. Any anecdote, post the election outcome, will be the key lead.

Friday brings more inflation figures in the form of a variety of Q3 business price indexes. These include producer output and input prices that are prone to show further deceleration on an annual basis, to rates of inflation even further below that of the CPI.

Concurrently, Stats NZ is scheduled to publish the year to March 2023 national (GDP) accounts, in income and expenditure form. This is clearly historical, but we will have some interest in these latest annual revisions, including for a likely lowering of the household saving rate.

Also note that RBNZ Assistant Governor, Karen Silk, is due to speak from 12:30pm on Tuesday. This is regarding the RBNZ balance sheet as a tool for financial stability (including the role of FX reserves). The Bank has said the speech contains no guidance on the future path of monetary policy.

doug_steel@bnz.co.nz

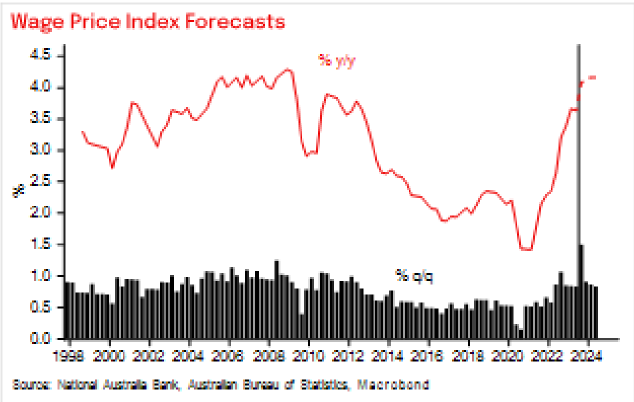
Global Watch

- **Aussie focus on Q3 wage index and Oct jobs**
- **US peddles CPI and plenty of Fed speakers**
- **China has credit/MLF plus Oct. retail and IP to watch**
- **Loads of ECB speakers; UK labour market and CPI data**

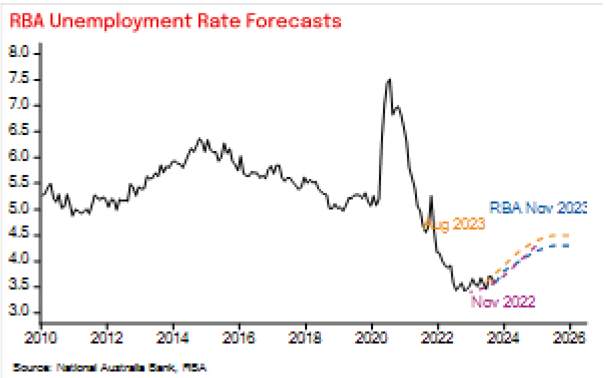
Australia

With the RBA having delivered a November hike and laid out their upgraded forecasts in last Friday's SoMP, attention reverts to the data flow. The most important will be Q3 WPI on Wednesday and October employment on Thursday. Also out are Consumer Confidence data and the NAB Business Survey on Tuesday.

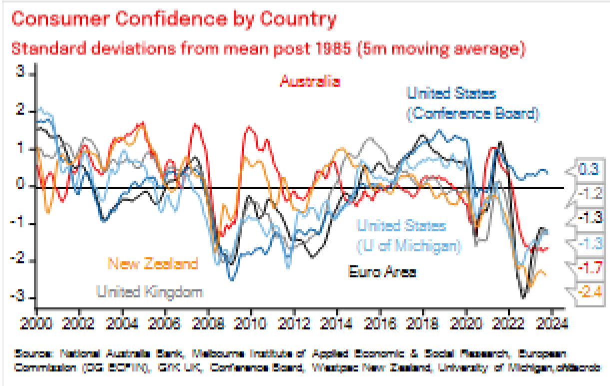
For WPI (Wednesday), we pencil in a 1.5% q/q outcome, above the RBA's implied pick of about 1.4% q/q, which is itself above market consensus, which is clustered at 1.2%/1.3%. We think the consensus looks low due to analysts not incorporating the 15% increase to award wages for aged care workers. Given one-offs (incl. from the higher minimum and award wage decision), the high quarterly growth rate shouldn't be extrapolated. The RBA's SoMP forecast a more benign wages picture.



Employment (Thursday) comes after a mixed September outcome where employment disappointed but a fall in participation saw the unemployment rate fall. We pencil in employment of 30k. That could be enough to see the unemployment rate remain at 3.6%. The RBA forecasts the unemployment will average 3.8% in Q4.

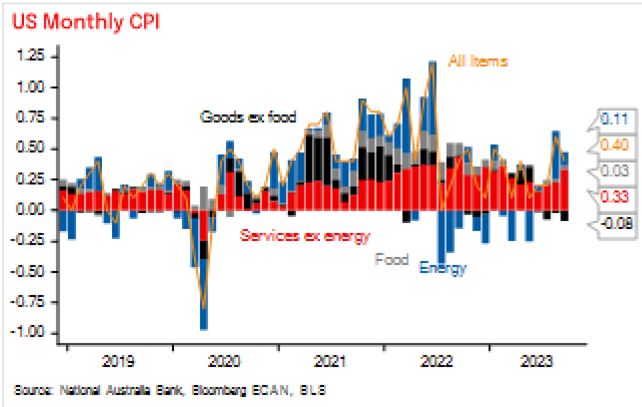


Westpac Consumer Confidence remains mired at depressed levels. Fuel prices were a little lower through the month which could be some support, but more interesting will be the split before and after the recent RBA Melbourne Cup Day rate increase.



US

US October CPI (Tuesday) is seen up 0.1% m/m, weighed by lower gas prices, even as core remains at 0.3% m/m. That core outcome shouldn't derail the Fed's patience, but it is still too high. Given market pricing, the risk is from a stronger than expected print. There is one more CPI to come before the next FOMC on 13 December.



Lower fuel prices in October should weigh on headline retail sales (due Wednesday). The early consensus looks for the core control group, which feeds more directly into GDP, to slow to 0.2% m/m, following outright strength in consumption through the third quarter.

China

Flagging momentum on activity and an absence of inflationary pressures make a case for some further easing in monetary policy from here. But analysts don't see that as soon as now, with expectations the 1yr MLF rate will be left unchanged on Wednesday.

Recent PMIs point to a loss of momentum in the Chinese economy over the past couple of months. October reads on Industrial Production, Investment, and Retail Sales are an opportunity to confirm that signal. IP is seen steady at 4.5% y/y, while base effects could support a pickup in retail sales, where consensus is for 7.0% y/y from 5.5%.

Japan

Japan GDP grew a bumper 1.2% q/q in Q2, but that won't sustain, with expectations for the Q3 outcome to show a 0.1% q/q decline. Helping to offset an expected 0.3% q/q gain in consumption is a rebound in imports that is set to weigh on the net export contribution.

EU

It is a **slow week for EZ** economic data with likely more focus on a bevy of speeches from ECB officials, including Lagarde on Friday.

There should not be too much surprise in Tuesday's Q3 GDP preliminary figures, given the advance release already known about. Employment data for Q3 is also released.

ECB president Lagarde delivers a keynote speech from the 33rd 'Frankfurt European banking Congress', where the topic is, "Navigating in a World of Fragmentation." There are also speeches, though the week, from Villeroy (centrist/dove), Holzmann (hawk), Vujcic (centrist/hawk), Nagel (hawk), and Wunsch (hawk).

Final Oct inflation data is released on Friday, where the preliminary data points to another base effect-led drop to - 2.9% y/y in the headline, while core HICP is seen at 4.2%.

UK

The labour market data for September is due out on Tuesday and October inflation on Wednesday. The latter is expected to drop sizeably (in y/y terms) on energy base effects, so look for lower inflation to dominate the media headlines.

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

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

New Zealand fixed interest markets extended the recent move lower in yield in the initial stages of last week. 10-year government bond yields reached lows close to 5% which represented an almost 60bps decline from the cyclical highs. However, a reversal higher in U.S. Treasury yields driven by the combination of a poor 30-year auction and hawkish commentary by Fed Chair Powell contributed to NZ yields rebounding off the lows.

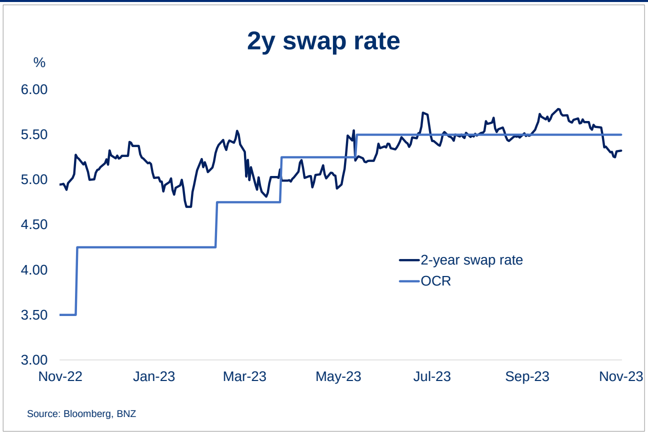
The poorly attended US 30-year Treasury auction undermined the improved tone across global fixed income. The auction clearing yield was 5bps above the prevailing level in the market, making it one of the worst bond sales in the past decade. This contributed to a move higher in yields as investors required additional compensation for the large funding requirement. The Bloomberg index that measures the performance of the US treasury market had its worst daily returns in more than six months.

Meanwhile Powell, who was speaking at an International Monetary Fund conference in Washington, said the central bank won't hesitate to tighten policy further if needed to contain inflation. Policymakers at the Federal Reserve had repeatedly outlined that rising bond yields were contributing to tighter financial conditions and reducing the need for additional policy right hikes. However, financial conditions have eased as bond yields have fallen, credit spreads narrowed, and equities rebounded from the October lows likely influencing Powell's tone.

US financial conditions have eased

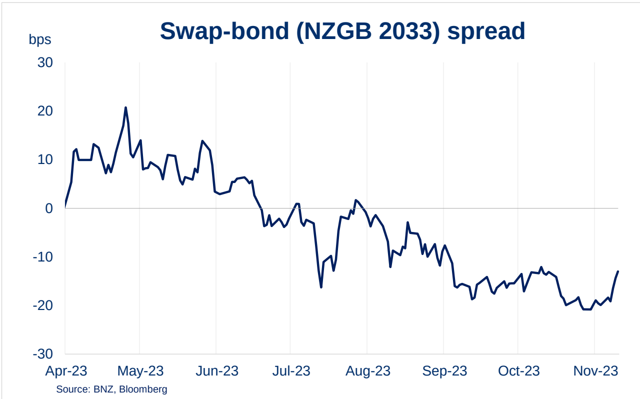
The front-end of the NZ yield curve is likely to be anchored near current levels given the increasing likelihood that the Official Cash Rate (OCR) has peaked at 5.5% following the below consensus inflation and employment data over the past month. There is scope for the recent move to extend lower as the domestic macro backdrop evolves – we continue to forecast the RBNZ will pivot towards an easing cycle from the middle of next year – but a period of consolidation is likely in the near term. The 2-year swap rate is currently 18bps below the OCR, the largest margin since May.

Front end rates to consolidate anchored by the OCR



NZ government bonds have outperformed recently on a cross-market basis against the US and Australia as well as relative to interest rate swaps. Swap spreads have widened more than 10bps. One of the main drivers of wider swap spreads has been the market lowering its estimate of issuance volumes by New Zealand Debt Management (NZDM) before the end of the calendar year.

Bonds outperforming swaps



The market was anticipating a syndication – either a May 2035 or a May 2054 maturity – and when no such syndications were signalled for November, bonds outperformed relative to swaps. We would look to fade moves wider in swap spreads. After the summer break, Q1-24 is expected to see heavy issuance. If FY24 gross issuance remains at NZ$36 billion at the Half Year Economic and Fiscal Update in December, we estimate there will be NZ$9 billion to be met by syndication volumes in the remainder of FY24, alongside the regular NZ$500 million weekly tenders.

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the USD was broadly stronger, recovering after the hefty loss the previous week. The NZD and AUD were the worst performers, after being the best performers during the previous week, and with a dovish RBA hike not helping matters. The NZD fell 1.8% to just under 0.59. The AUD was even weaker, seeing NZD/AUD up 0.6% to 0.9260, while other NZD crosses were all weaker, the largest fall being 1½% against EUR to 0.5515.

Last week was uneventful in financial markets but it was a case of some mean reversion, with some reversal of the previous week's sharp moves. Thus, the NZD couldn't hang on to the 0.60 level and fell just over a cent. This was against a backdrop of steady risk appetite, with our index remaining around a two-month high of 59%. High risk appetite and the recent recovery in NZ commodity prices sees our NZD short-term fair value model estimate near the top end of its range for this year at just under 0.64.

Fed speakers reiterated the message that they weren't quite willing to declare the inflation fight over and kept alive the chance of a further possible tightening. The market only prices a small chance of another Fed hike in December and about a one in four chance of another hike by January. Our base case remains that the Fed hiking cycle is over. If true, then that would support our view that the peak in the USD has been seen for the cycle.

Not helping the NZD, the RBA hiked its cash rate by 25bps to 4.35% but forward guidance seemed to temper the RBA's tightening bias, as the Bank mulled "whether further tightening is required". This saw the market pare future tightening priced into the curve, a weaker AUD and this spilled over into a weaker NZD.

Recent price action confirms 0.9150, or thereabouts, as a key support level for the NZD/AUD cross rate. We have pushed out the next expected RBA hike to February, priced by the market as only about a one-in-three chance. It looks like we'll have to be more patient on our view that the cross could head to 0.90 before the cycle is finished.

Last week we suggested that the fortunes for the NZD could be on the verge of changing, on rising conviction that the Fed's tightening cycle was over. Last week's price action suggests we're not quite there yet and we'll need a few more soft US data prints to help get the ball rolling.

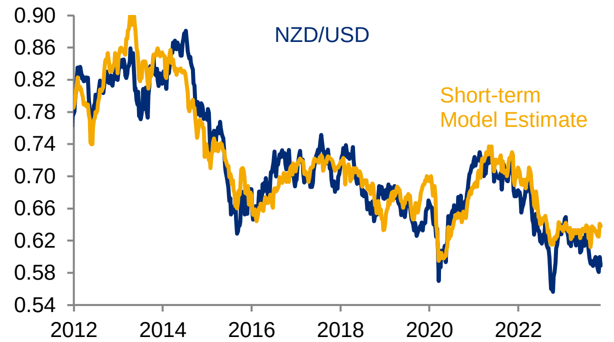
In that regard, this week's US CPI and retail sales data releases will be important. Lower gasoline prices will keep a lid on headline inflation but, as usual, the focus will be on the core measures and inflation in the services sector. Relative to the consensus 0.3% m/m estimate for the ex-food and energy measure, one would hope that downside risks outweigh upside risks, while the market is already anticipating a soft retail sales print.

Softer US data prints are a necessary condition for the NZD to trade back above 0.60. The 0.58 level still looks like an area of support, while we see the first resistance level around 0.6050.

The Australian wage price index and employment report, due this week, are two key indicators ahead of the next RBA meeting in December, but our view is that the RBA would likely wait until after the Q4 CPI print released in January before hiking again, which reflects our February hike view.

Elsewhere, China monthly activity data for October, euro area and Japan GDP and UK CPI data will be of some interest. Also of note, Presidents Xi and Biden will be meeting in San Francisco, with one goal being to stable the relationship between China and the US. We'd see the balance of risk around the possible outcome of this meeting as more positive than negative.

NZD still trading comfortably on the cheaper side of fair value



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5891	0.5770 - 0.6000
NZD/AUD	0.9263	0.9140 - 0.9280
NZD/GBP	0.4818	0.4770 - 0.4860
NZD/EUR	0.5513	0.5470 - 0.5590
NZD/JPY	89.25	86.80 - 89.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6380	-8%
NZD/AUD	0.9000	3%

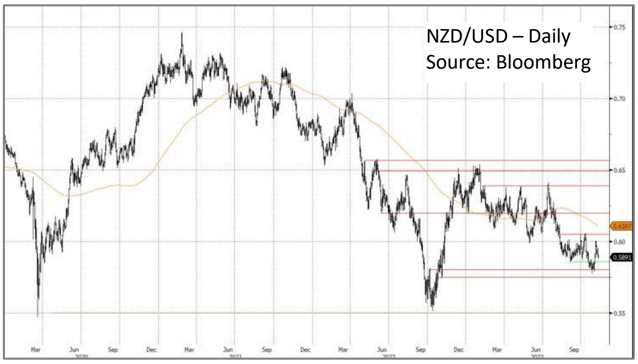
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

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

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. Initial support at 0.58.



NZD/AUD

Outlook: Trading range
ST Resistance: 0.94 (ahead of 0.9450)
ST Support: 0.9150 (ahead of 0.90)

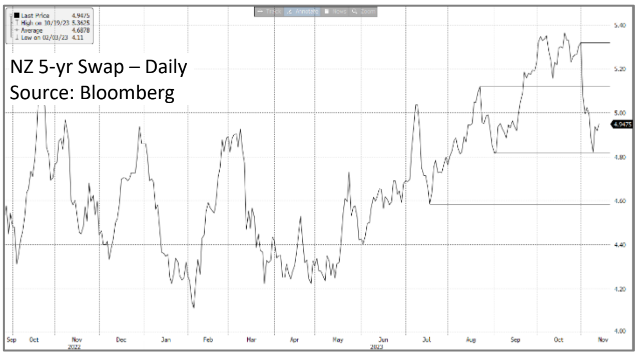
Still range bound and within the narrowing wedge formation. Support at 0.9150, resistance at 0.94.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook: Neutral
MT Resistance: 5.12
MT Support: 4.81

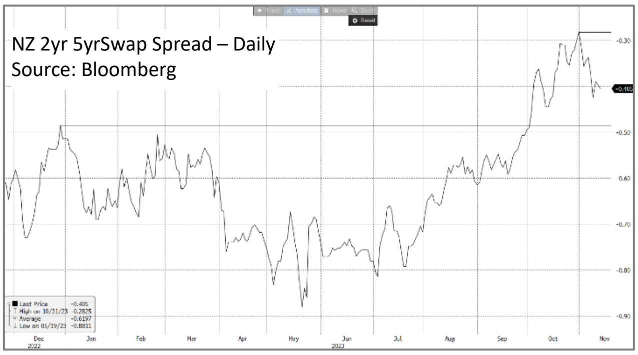
5-year swap moved lower last week before bouncing off our support level at 4.81. We now sit neutral and await further technical signals.



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

Outlook: Neutral
MT Resistance: -0.28
MT Support: -0.48

2x5 swap spread moved lower last week. We now consider the new resistance to be -0.28 but continue to be neutral at these levels.



matthew.herbert@bnz.co.nz

Quarterly Forecasts

Forecasts as at 13 November 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	-6.3	-6.1
CPI (q/q)	1.7	2.2	1.4	1.2	1.1	1.8	0.7	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	4.9	4.3	3.7	3.3
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	5.66	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 Forecasts**					
	NZD/USD	**AUD/USD**	**EUR/USD**	**GBP/USD**	**USD/JPY**	**NZD/USD**	**NZD/AUD**	**NZD/EUR**	**NZD/GBP**	**NZD/JPY**	**TWI-17**
Current	0.59	0.64	1.07	1.22	151	0.59	0.93	0.55	0.48	89.3	69.6
Dec-23	0.60	0.66	1.13	1.31	138	0.60	0.91	0.53	0.46	82.8	69.1
Mar-24	0.62	0.69	1.16	1.35	135	0.62	0.90	0.53	0.46	83.7	70.3
Jun-24	0.64	0.71	1.17	1.34	130	0.64	0.90	0.55	0.48	83.2	71.3
Sep-24	0.64	0.72	1.18	1.35	125	0.64	0.89	0.54	0.47	80.0	70.4
Dec-24	0.65	0.73	1.19	1.35	120	0.65	0.89	0.55	0.48	78.0	70.4
Mar-25	0.67	0.75	1.21	1.37	118	0.67	0.89	0.55	0.49	79.1	71.8
Jun-25	0.69	0.77	1.22	1.37	116	0.69	0.90	0.57	0.50	80.0	73.4
Sep-25	0.71	0.78	1.23	1.38	115	0.71	0.91	0.58	0.51	81.7	75.2
Dec-25	0.71	0.78	1.23	1.38	114	0.71	0.91	0.58	0.51	80.9	75.2
Mar-26	0.69	0.76	1.21	1.37	112	0.69	0.91	0.57	0.50	77.3	73.7
						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 13 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	429	453	353	381	407	423	447
Prices and Employment - annual % change										
CPI	6.9	6.7	4.3	2.8	2.1	5.9	7.2	4.9	2.8	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	-15.7	-20.6	-33.4	-27.0	-24.1	-17.0
Current Account - % of GDP	-6.6	-8.2	-6.3	-5.2	-3.5	-5.8	-8.8	-6.6	-5.7	-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	73.7	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 13 November			
NZ	Performance Services Index Oct			50.7
UK	Rightmove House Prices YoY Nov			-0.80%
AU	CBA Household Spending MoM Oct			0.50%
CH	Aggregate Financing CNY Oct	1950.0b		4120.0b
	Tuesday 14 November			
US	NY Fed 1-Yr Inflation Expectations Oct			3.67%
UK	BOE's Catherine Mann speaks			
NZ	Food Prices MoM Oct		-0.20%	-0.40%
NZ	RBNZ's Silk Speaks (RBNZ balance sheet)			
AU	NAB Business Confidence Oct			1
UK	Payrolled Employees Mthly Chng Oct	-20k		-11k
EC	ECB's Lane/Villeroy Speak			
GE	ZEW Survey Expectations Nov	5		-1.1
EC	GDP SA QoQ 3Q P	-0.10%		-0.10%
EC	Employment YoY 3Q P			1.30%
US	Fed's Jefferson Speaks			
	Wednesday 15 November			
US	NFIB Small Business Optimism Oct	90.5		90.8
US	CPI Ex Food and Energy YoY Oct	4.10%		4.10%
UK	BOE's Huw Pill speaks			
US	Fed's Barr Testifies			
US	Fed's Goolsbee Speaks			
NZ	REINZ Housing Report Oct			
NZ	Card Spending Total MoM Oct		0.30%	-0.10%
NZ	Net Migration SA Sep			9980
JN	GDP SA QoQ 3Q P	-0.10%		1.20%
AU	Wage Price Index QoQ 3Q	1.30%		0.80%
CH	Industrial Production YoY Oct	4.50%		4.50%
CH	Retail Sales YoY Oct	7.00%		5.50%
CH	Fixed Assets Ex Rural YTD YoY Oct	3.10%		3.10%
CH	Surveyed Jobless Rate Oct	5.00%		5.00%
NZ	RBNZ Survey of Household Expectations Q4			
JN	Industrial Production MoM Sep F			0.20%

		Median	Fcast	Last
UK	CPI YoY Oct	4.70%		6.70%
EC	Industrial Production SA MoM Sep	-1.00%		0.60%
EC	Trade Balance SA Sep			11.9b
EC	EU Commission Economic Forecasts			
	Thursday 16 November			
US	Retail Sales Advance MoM Oct	-0.30%		0.70%
US	PPI Ex Food and Energy YoY Oct	2.80%		2.70%
US	Empire Manufacturing Nov	-3		-4.6
US	Fed's Barr Testifies			
US	Business Inventories Sep	0.40%		0.40%
JN	Trade Balance Oct	-¥674.0b		¥62.4b
JN	Core Machine Orders MoM Sep	0.90%		-0.50%
AU	Employment Change Oct	24.5k		6.7k
AU	Unemployment Rate Oct	3.70%		3.60%
	Friday 17 November			
EC	ECB's Lagarde Speaks			
US	New York Fed Services Business Activity Nov			-19.1
US	Initial Jobless Claims Nov-11	220k		217k
US	Philadelphia Fed Business Outlook Nov	-10.3		-9
US	Manufacturing (SIC) Production Oct	-0.30%		0.40%
US	Fed's Williams Speaks			
US	NAHB Housing Market Index Nov	40		40
US	Fed's Barr Speaks on Financial Stability			
US	Fed's Cook Speaks			
NZ	PPI Output QoQ 3Q			0.20%
NZ	Population Estimate Q3			
UK	Retail Sales Inc Auto Fuel MoM Oct	0.40%		-0.90%
EC	ECB's Lagarde Speaks in Frankfurt			
EC	CPI YoY Oct F	2.90%		4.30%
	Saturday 18 November			
EC	ECB's Nagel Speaks in Frankfurt			
US	Housing Starts Oct	1349k		1358k
US	Fed's Goolsbee Speaks on Economy			
US	Kansas City Fed Services Activity Nov			-1

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	3.50
1mth	5.59	5.59	5.61	4.04
2mth	5.61	5.61	5.66	4.10
3mth	5.62	5.63	5.71	4.16
6mth	5.68	5.68	5.78	4.63
GOVERNMENT STOCK				
04/25	5.32	5.38	5.64	4.32
04/27	4.97	4.99	5.38	4.25
04/29	4.98	5.02	5.33	4.22
05/31	5.07	5.12	5.37	4.22
04/33	5.12	5.17	5.40	4.29
04/37	5.25	5.33	5.56	4.51
05/41	5.28	5.36	5.61	4.65
05/51	5.20	5.29	5.60	4.62
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	68	71	75	83
Europe 5Y	76	78	84	96

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.34	5.31	5.68	4.95
3 years	5.11	5.10	5.47	4.80
4 years	4.99	5.00	5.33	4.69
5 years	4.94	4.96	5.25	4.62
10 years	5.01	5.08	5.21	4.61
FOREIGN EXCHANGE				
NZD/USD	0.5897	0.5964	0.5927	0.6096
NZD/AUD	0.9259	0.9191	0.9346	0.9095
NZD/JPY	89.32	89.49	88.61	85.27
NZD/EUR	0.5516	0.5565	0.5613	0.5903
NZD/GBP	0.4821	0.4831	0.4852	0.5185
NZD/CAD	0.8134	0.8171	0.8067	0.8115
TWI	69.9	70.3	70.5	70.8

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