Research

Markets Outlook

20 November 2023

November MPS Preview

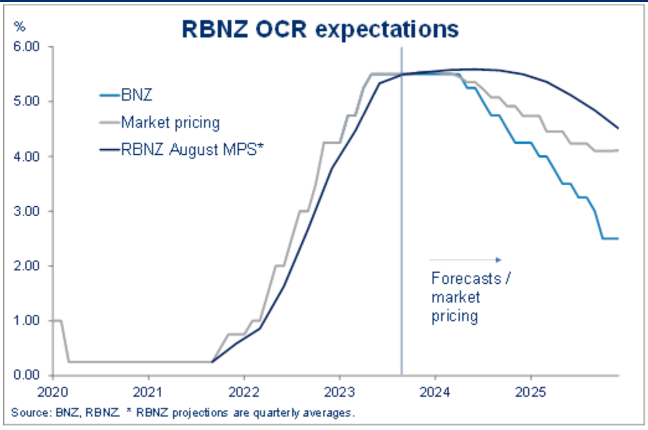
- **Key data point to easier monetary conditions**
- **Inflation falling, the labour market softening rapidly**
- **But RBNZ won't want market to rally from here**
- **As aggressive easing is already priced**
- **And inflationary question marks over migration remain**

It ain't really getting any easier for the Reserve Bank. There is no doubt in our minds that inflation and the labour market are currently doing just what the doctor ordered but the big unknown is just how inflationary the current surge in migration might be.

For now, though, there is the known versus the unknown. And the known indicates there is little reason for the RBNZ to publish a rate track, in its November 29 statement, which is any higher than it did when it produced its August missive.

The question is, how much lower is it prepared to push that track. Currently, financial markets are pricing in almost three cash rate cuts in calendar 2024. That is a quantum leap from the RBNZ's previous forecasts of no cut until the first quarter of 2025. Our suspicion is the Bank would be most comfortable with a market somewhere between where it is currently priced and what it forecast in August. How then do you generate this outcome?

Market a bit overzealous?



Given current market sentiment the Bank will be conscious that if it prints a rate track that in any way is seen by markets to support easing in 2024 that it might rally even further. Therefore, we think that the RBNZ will err on the side of caution.

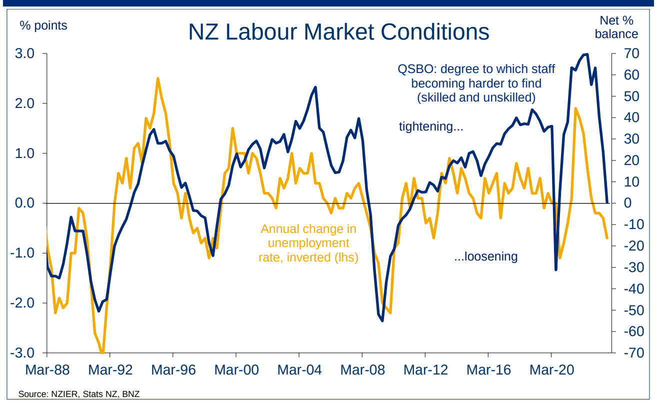
It goes without saying that we expect no rate move on the day. We think the Bank will then chip a few basis points, say 5, off its published rate peak and then move its first rate cut modestly sooner. Given there will be no specific date identified for a rate cut this could simply be expressed as a modestly lower cash rate for Q1 2025 or, maybe, moving the rate track nearer by a quarter intimating that a cut in Q4 2024 is now a real possibility.

How the market responds to any such moderation in stance will be heavily dependent on the accompanying text which will probably need to stress that there remains residual upside risks to inflation despite the current downward trend. So, on the one hand, we believe the Reserve Bank will have to present a slightly easier stance than it did previously but, on the other, it will still have to be fairly aggressive in its commentary that there will be no rate cut any time soon.

The reason why we think the RBNZ should be more dovish than it was back in August (and October for that matter) is simple. The labour market is easing more aggressively than anticipated and inflation has surprised to the downside.

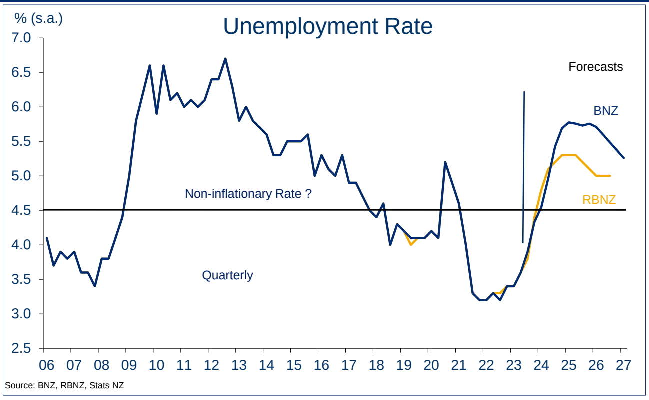
The movement in the labour market is nothing short of startling. Businesses have rapidly moved from not being able to find staff, for love nor money, to having choice in who they hire. This is best revealed in NZIER's QSBO which shows the ease of finding skilled labour improving markedly and labour turnover tumbling. Both of these variables are key indicators for future wage inflation. This, plus feedback from businesses, convinces us that wage inflation has well and truly peaked.

Labour market easing rapidly



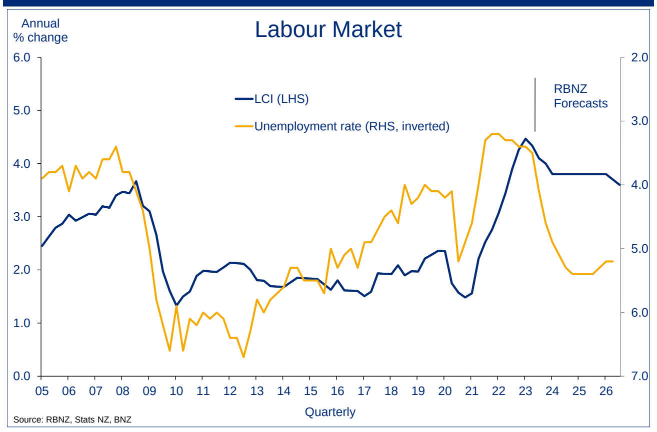
And it's not just the leading indicators of the labour market that are moving towards a dovish tilt. The September quarter unemployment rate printed at 3.9%. This is above the RBNZ's 3.8% expectation despite a drop in the participation rate from 72.4% to 72.0%. The RBNZ currently has the unemployment rate peaking at 5.3% but with the migration-led supply of labour surprising to the upside, and demand for labour threatening to drop, we now think the unemployment rate will peak closer to 6.0%.

Unemployment headed higher



This being the case we believe labour cost inflation will eventually decline faster than the RBNZ has forecast too. The RBNZ, back in August, published a LCI track which flatlined at 3.8% from March 2024 onwards. We understand why it did this but we still think the extent of the softening in the labour market will eventually push wage growth below the RBNZ's expectations.

A little odd?



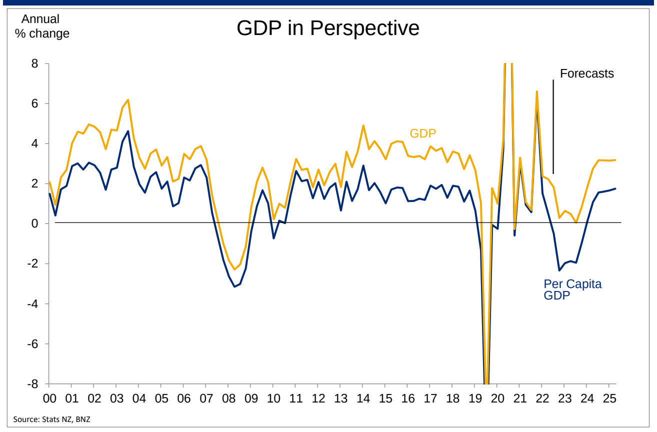
Meanwhile, headline inflation for Q3 came in well below the RBNZ's pick. The RBNZ was looking for a 2.1% quarterly read. Instead it was "just" 1.8%. Importantly, non-tradables inflation was on track while tradables was below forecast. Moreover, the RBNZ's sectoral factor model continued to show declining core inflation as did the CPI ex food and energy measure. Falling headline inflation will also help push inflation expectations lower.

We also forecast December quarter inflation to further widen the gap between the RBNZ's August's forecasts and the actual outcome. We are forecasting annual CPI inflation of 4.7% for calendar 2023. The Reserve Bank's published forecast is 5.2%. It is almost certain, given the starting point surprise, that the RBNZ will lower its annual forecast when it publishes its upcoming MPS.

A potential ankle tapper in our hypothesis is the role that migration is playing in the economy. The ongoing net inflow of migrants is defying expectations. This is putting upward pressure on demand and is a key driver of the apparent turn around in the housing market. Both real activity and housing activity are probably running hotter than RBNZ expectations. All other things being equal, this is inflationary.

We think the disinflationary impact on the labour market of migration is dominating the demand side impact. But if net immigration was to stay at current levels this could change quite quickly. This is something we are going to have to keep a very close eye on but, for now, is not sufficiently disconcerting for us to think the RBNZ should focus on it. And don't forget that even with this surge in migration, domestic demand is very soft. With annual population growth climbing to 2.7% in the year ended September 2023, we estimate that per capita GDP contracted 2.4% over the period. Perhaps one could instead conclude that without this surge in migration economic activity would have been poleaxed?

Struggling



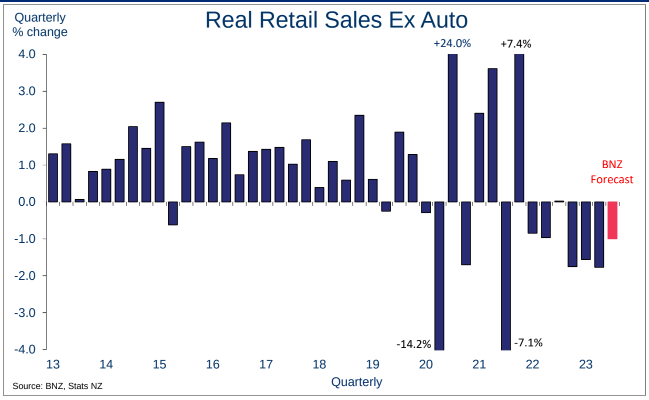
Another risk to the inflationary outlook is the quasi-structural shift in local authority rates and insurance inflation. These factors are going to keep non-tradables inflation elevated for some time. At some stage the RBNZ will need to make a decision as to whether it treats this as a relative price shift beyond its control or whether it needs to respond to it.

The RBNZ's next MPS is still nine days away. Domestic financial markets are currently being buffeted by international developments so there is plenty of potential for surprise on this front. However, if international market pricing remains where it is, this would add extra incentive for the RBNZ to shift towards a more dovish stance.

Domestically, there's not much that should rattle the RBNZ's cage.

On Friday we get Q3 retail trade. We are forecasting a 1.0% real decline in ex-auto sales. If we are right, it will represent the seventh consecutive zero or below reading. Another way to think of this is that after 15 quarters real retail sales are just 1.2% higher than where they were during their pre-COVID peak. And over that period the population has grown 4.5%.

Retail recession



A slump in car sales, largely caused by government policy impacting the relative price of electric vehicles, should see total retail sales drop by 1.8%.

These are not the sort of data that would dissuade the RBNZ from an easier stance.

The other key indicator for the Bank might be the monthly employment data for October released on Tuesday November 28. But it's only one month's data, it might be affected by the election, and it's released well after the RBNZ's forecasts are put to bed, and only a day before the MPS is delivered.

Other announcements to be aware of but which should have little bearing on the RBNZ are:

- Merchandise trade for October due Tuesday. We expect this to reveal an ongoing reduction in the trade deficit which, in turn, will help further lessen consternation about the size of the current account deficit.
- The latest GDT auction on Wednesday is shaping up for a solid increase in price building upon the recovery that began in September. All things going to plan prices should be around 20% up on August's trough.
- Friday sees new residential lending data for October which will be heavily constrained by a reluctance to invest so close to the General Election.
- And talking of elections, the Port Waikato by-election is held on Saturday November 25. It is almost certain to be won by National. It is an "overhang" seat so National's MP count will rise to 49 but the total number of seats in the House will also rise by one to 123. It will have no impact on the shape of the Government.

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Global Watch

- **Thanksgiving Thursday to thin markets**
- **PMIs ahead for: US, EU, UK, Japan**
- **US jobless claims, inflation expectations to watch**
- **FOMC, ECB, RBA minutes due**
- **RBA's Bullock speaks, focus on Q&A**

Australia

Focus will be on RBA Governor Bullock who is speaking on Tuesday and Wednesday, with attention on the Q&A's for any teasing out of the RBA's mild hiking bias. The "whether" qualifier was inserted into both the post-Meeting Statement and the November SoMP, significantly watering down the RBA's tightening bias.

Track changes of Nov and Oct RBA final paragraph

Whether~~Some~~ further tightening of monetary policy is~~may be~~ required to ensure that inflation returns to target in a reasonable timeframe~~, but that~~ will~~ continue to~~ depend upon the data and the evolving assessment of risks. In making its decisions, the Board will continue to pay close attention to developments in the global economy, trends in domestic demand~~household spending~~, and the outlook for inflation and the labour market. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome.

There is still a lot of uncertainty around whether the data flow needs to surprise relative to their November forecasts for them to hike again, or whether data in line with forecasts which assumes a partial rate hike and only sees core inflation back at 2.9% by 2025 is enough for the RBA to hike again.

The RBA Minutes are on Tuesday, but we are unlikely to learn much from here given the Overview Chapter for the November SoMP read like the Minutes – the case for a 25bp hike and for keeping rates on hold was discussed.

US

Thanksgiving is on Thursday. Equity and bond markets will be closed on Thursday, and limited trade on Friday (US equities will close 1pm, US cash bonds 2pm, futures open as usual). Thanksgiving is also celebrated outside of the US, including with a public holiday in Japan on Thursday. Expect thin markets globally on Thursday and Friday.

Ahead of Thanksgiving, the FOMC Minutes are out on Tuesday but are unlikely to be materially market moving, having been superseded by the recent soft core inflation print. October's existing home sales data are also out Tuesday.

Other US data is being released early ahead of Thanksgiving on Thursday. Jobless Claims is the one to watch after the recent pickup to 231k, from 218k. Does it signal a new trend? Or will there be revisions? Also out are an advanced read of durable goods with core durables seen at 0.2% m/m after 0.4% last month.

A final read of the University of Michigan Consumer Sentiment will also be worth a look given the unexpected rise in the 5-10yr inflation expectation to 3.2%. That rise being out of kilter with other consumer surveys and the recent moderation in core inflation. A revision looks likely.

US PMIs for November are out on Friday. The PMIs do not tend to be market moving in the US, with the ISMs getting more focus. With that context, expect more coverage of the extent of Black Friday Sales and how they compare to prior years.

China

The 1 and 5 year loan prime rates are expected to be unchanged today.

EU

The European PMIs will be very important around the Euro area services sector given the sharp deterioration seen recently (previously 47.8). If another soft print eventuates, expect pricing for ECB cuts to extend beyond the current near 100bps being priced for 2024.

The ECB's minutes of the October meeting is published on Thursday, while Germany's IFO survey for November is released on Friday.

UK

The PMIs on Thursday are the key data, with all headline indices expected to remain weak and below the breakeven 50 mark. Chancellor Jeremy Hunt delivers his Autumn Statement on Wednesday. We expect no significant giveaways, as the government has little fiscal headroom. This event will target growing the economy and will focus on unlocking investment, fiscal changes that coalesce people back to work and reform of the public sector.

Japan

Friday brings important data in the form of October's CPI where headline annual inflation is seen pushing higher, but the ex fresh food and energy annual inflation is seen easing a tick. November's PMIs are also out on Friday.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed interest yields extended lower last week. The retracement off the multi-year highs has been sharp with 10-year government bond yields trading as low as 4.85%, down from 5.5% at the beginning of November. Softer than expected US CPI data was the catalyst for a strong rally across global fixed income markets. The data increased the probability that the US Federal Reserve has completed its tightening cycle. The market has increasingly priced in a 2024 easing cycle by the Fed. There is close to 90bps of cuts priced for 2024 with a 25bps cut more than fully priced by the June FOMC.

NZ fixed income outperformed with the NZ-US 10-year government spread compressing to 45bps. This is the lowest since February and a convincing breakout of the 60-80bps range which prevailed from June till the recent spread tightening. Domestic activity data remains subdued as evidenced by the latest round of PMIs and has contributed to the NZGB outperformance. The services sector PMI slipped back into contractionary territory while the manufacturing PMI fell to new cycle lows.

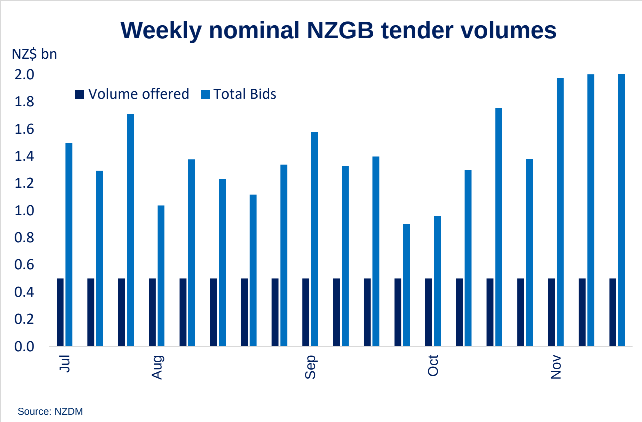
Statistics NZ released new monthly price indices for selected goods and services last week. The indices complement existing data on food prices and rents and cover around 45% of the consumer prices basket. The data, for October, led to BNZ revising down its forecast of the Q4 CPI to 4.7% y/y, from 4.9% y/y previously. The RBNZ forecast 5.2% at its August Monetary Policy Statement.

While the evolution of the NZ economy is aligning with our view that the RBNZ will begin an easing cycle from the middle of next year, we are cautious about the pace of the move lower in yields. The market is pricing about 75bps of easing by the RBNZ in 2024. A period of consolidation is likely for NZ fixed income near term particularly with limited first-tier economic data releases in the week ahead.

There has been strong demand for government bonds in the weekly tenders since sentiment towards global fixed interest markets improved. New Zealand Debt Management (NZDM) has been offering NZ$500 million per week across three separate maturities. The market had anticipated a syndication in November. The absence of an announcement has created additional demand for bonds as indicated by the outperformance of bonds relative to interest rate swaps.

There has been weekly demand close to NZ$2 billion in each of the past three tenders. This is well above the NZ$ 1.4 billion average for FY24 when the weekly tender size was increased from NZ$400 million to current levels to accommodate the government's increased funding requirements. While the date of it hasn't been confirmed, the Half Year Economic and Fiscal Update, which will provide an update on the borrowing programme, is required to be published before the end of the calendar year.

Strong demand for government bonds in weekly tenders



Non-resident investors continue to be a key source of demand for NZGBs. The latest data provided by the RBNZ covering the period to end-October revealed that non-residents own NZ$77 billion of NZGBs – covering nominals and inflation linked bonds – which equates to ~61% of outstanding bonds. This calculation excludes the RBNZ's large-scale asset purchase programme holdings which are progressively declining through programmatic sales to NZDM and via maturities. Non-residents have increased NZGB holdings NZ$12 billion in 2023. This is compares with net supply of ~NZ$13 billion absorbed by market participants (ex RBNZ) during this period.

Non-resident ownership of NZGBs tops NZ$77 billion

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Foreign Exchange Market

Reuters pg BNZWFWDS **Bloomberg pg BNZ9**

Last week the USD was broadly weaker as the market embraced more conviction in views that the Fed's tightening cycle was over. The DXY USD index fell 1.8% and NZD/USD rose a full cent, or 1.7%, to 0.5990. The NZD was mixed on the crosses, with ½-1% gains against JPY and CAD and modest falls against the AUD, EUR and GBP.

Two weeks ago, we suggested a major turning point in financial markets had been reached, driven by increased conviction that the Fed tightening cycle was over. After a slight hiccup, that view gained further traction last week as US data releases played to the soft landing and disinflationary narrative. The market now prices no chance of any further Fed tightening, the first full cut by June, and a cumulative 92bps of easing through to the end of next year.

The dataflow included signs of weaker retail sales, easier labour market pressures with continuing jobless claims up to a near two-year high, and lower industrial production. The largest market reaction was reserved for a small downside miss on the CPI, taking annual core inflation down to a fresh two-year low of 4.0% y/y, while weaker PPI inflation supported the view of weaker inflation pressure.

The fall in the DXY index now sees it over 3% below the early-October peak and closing in on its 200-day moving average – a break of that would play to our view that the USD has begun a sustained downturn. The NZD showed another push above 0.60 before meeting resistance just over the 0.6050 mark. Until that resistance level breaks, we're reluctant to call a higher trading range than has prevailed over the past few months. But further softer US data releases and an on-hold Fed decision in mid-December could ultimately push the NZD into a higher sustained trading range.

Domestic forces remain a handbrake on NZD performance, with another fall in NZ electronic card transactions data, suggesting weak domestic demand continuing. Q3 retail sales data this Friday are expected to show another contraction in retail sales in volume terms, making it six of out seven negative quarters – a remarkably poor performance considering record 2.7% population growth over the past year.

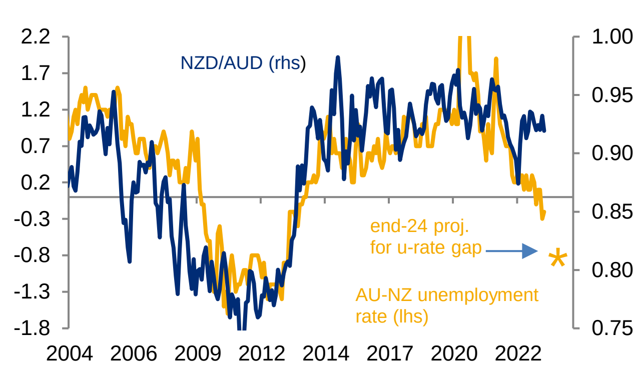
Weaker monthly pricing indicators for October suggest inflation is running below the RBNZ's forecasts, adding to the case that the NZ tightening cycle is over and the market will increasingly focus on the scope of likely rate cuts next year. NZ's 2-year swap rate fell a chunky 24bps to close the week at 5.08% and down a massive 73bps from the early October peak.

NZD/USD can head sustainably higher next year if the NZD's prevailing headwinds are less than the USD headwinds, but we remain bearish on NZD crosses against the AUD and JPY.

Australian labour market data showed wage inflation at a 14-year high and the unemployment rate remaining within the range it has been in for the past year – thus tight labour market conditions, not necessarily enough to prompt another rate hike next month, but enough to keep alive the prospect of further RBA tightening next year. Our chart below shows our forecast for the gap between NZ and Australia's unemployment rate to widen, as the NZ economy underperforms. Such an unusually large cyclical force points to a sustained projected fall in the NZD/AUD cross rate.

In the week ahead, the global calendar is light, with second-tier US economic releases and global PMI data towards the end of the week being a feature. Elsewhere, we'll hear again from RBA Governor Bullock, FOMC minutes of the November meeting and Canadian and Japanese CPI data.

NZD/AUD to weaken as NZ underperforms AU economy



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5993	0.5790 - 0.6050
NZD/AUD	0.9199	0.9140 - 0.9280
NZD/GBP	0.4812	0.4770 - 0.4860
NZD/EUR	0.5494	0.5470 - 0.5590
NZD/JPY	89.67	86.90 - 91.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6390	-6%
NZD/AUD	0.8980	2%

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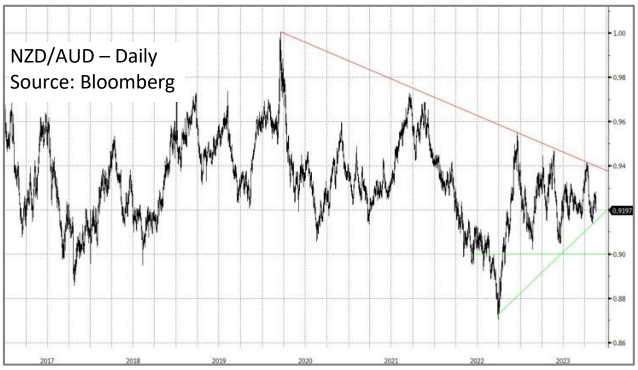
Technicals

NZD/USD

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

Last week's high reinforces 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 remains 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.

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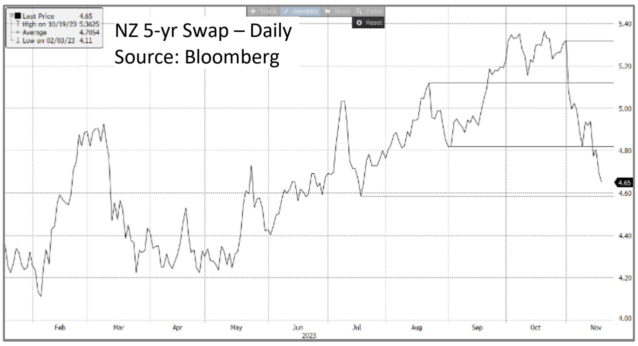
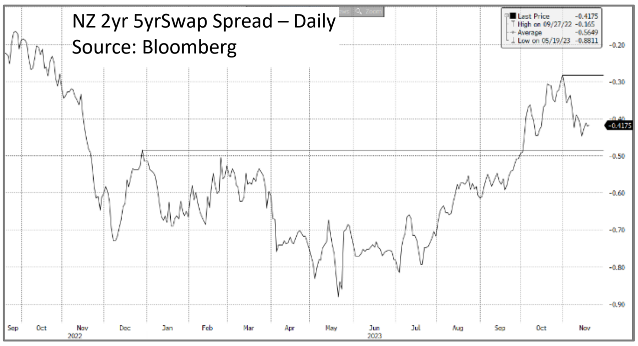
NZ 5-year Swap Rate



Outlook: Lower
MT Resistance: 4.81
MT Support: 4.58

5-year swap has broken lower through our support at 4.81 and has continued to move lower with strong momentum. The new level of support becomes 4.58 and resistance becomes 4.81.

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



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

2x5 swap spread remained steady last week. We remain neutral and await a new technical break.

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Quarterly Forecasts

Forecasts as at 20 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	-1.8	-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	0.5	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	3.7	2.1	2.8	3.4	3.0	3.2	2.8	2.7	2.7
CPI (y/y)	7.3	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.6	3.0
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	5.66	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	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.60	0.65	1.09	1.25	150	0.60	0.92	0.55	0.48	89.6	70.1
Dec-23	0.60	0.66	1.10	1.27	148	0.60	0.91	0.55	0.47	88.8	69.8
Mar-24	0.62	0.69	1.13	1.31	145	0.62	0.90	0.55	0.47	89.9	71.0
Jun-24	0.64	0.71	1.16	1.35	138	0.64	0.90	0.55	0.47	88.3	72.1
Sep-24	0.64	0.72	1.17	1.34	135	0.64	0.89	0.55	0.48	86.4	71.3
Dec-24	0.65	0.73	1.18	1.35	130	0.65	0.89	0.55	0.48	84.5	71.3
Mar-25	0.67	0.75	1.19	1.35	125	0.67	0.89	0.56	0.50	83.8	72.5
Jun-25	0.69	0.77	1.21	1.37	120	0.69	0.90	0.57	0.50	82.8	73.8
Sep-25	0.71	0.78	1.22	1.37	118	0.71	0.91	0.58	0.52	83.8	75.4
Dec-25	0.71	0.78	1.23	1.38	116	0.71	0.91	0.58	0.51	82.4	75.2
Mar-26	0.69	0.76	1.23	1.38	115	0.69	0.91	0.56	0.50	79.4	73.6
						TWI Weights					
						13.8%	16.5%	9.8%	3.1%	6.1%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts	March Years					December Years				
as at 20 November 2023	Actuals		Forecasts			Actuals		Forecasts		
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	1.4	1.0	2.3	7.4	3.2	1.4	0.5	2.1
Government Consumption	8.0	2.0	-0.3	-2.9	1.4	8.2	4.6	-0.7	-3.1	0.9
Total Investment	10.4	3.5	0.5	-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	408	423	447
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.8	2.1	5.9	7.2	4.7	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	2.6	8.6	10.9	27.2	-11.1	-1.6	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	145	125	115	114	135	148	130	116
EUR/USD	1.10	1.07	1.13	1.19	1.23	1.13	1.06	1.10	1.18	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	0.47	0.50	0.50	0.51	0.52	0.47	0.48	0.51
NZD/EUR	0.62	0.58	0.55	0.56	0.56	0.60	0.60	0.55	0.55	0.58
NZD/YEN	81.5	83.0	89.9	83.8	79.4	77.4	85.6	88.8	84.5	82.4
TWI	73.9	71.0	71.0	72.5	73.6	73.0	72.9	69.8	71.3	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 20 November			
EC	ECB's Lane Speaks			
GE	PPI YoY Oct	-11.00%		-14.70%
EC	ECB's Vujcic Speaks			
	Tuesday 21 November			
EC	ECB's Hernandez de Cos in Madrid			
UK	BOE releases article on financial stability			
US	Fed's Barkin Speaks on Fox Business			
UK	BOE's Bailey speaks			
EC	ECB's Villeroy speaks			
NZ	Trade Balance NZD Oct		-1575m	-2329m
AU	RBA's Bullock-Panel			
AU	RBA's Schwartz-Speech			
AU	RBA Minutes of Nov. Policy Meeting			
UK	Bank of England Governor testifies			
	Wednesday 22 November			
NZ	Dairy Auction		4.00%	-0.70%
US	Chicago Fed Nat Activity Index Oct	0		0.02
US	Philly Fed Non-Manufacturing Activity Nov			-20.3
US	Existing Home Sales Oct	3.90m		3.96m
EC	ECB's Lagarde, Germany's Lindner, Speak			
EC	ECB's Schnabel Speaks			
EC	ECB's Centeno Speaks			
US	FOMC Meeting Minutes Nov-01			
AU	Westpac Leading Index MoM Oct			0.07%
AU	RBA's Bullock-Speech			
UK	Chancellor Gives the Autumn Statement			
	Thursday 23 November			
UK	CBI Trends Total Orders Nov	-23		-26
US	Initial Jobless Claims Nov-18	225k		231k
US	Continuing Claims Nov-11	1875k		1865k

		Median	Fcast	Last
	Thursday (continued)			
US	Durable Goods Orders Oct P	-3.20%		4.60%
US	U. of Mich. Sentiment Nov F	61		60.4
EC	Consumer Confidence Nov P	-17.9		-17.9
CA	BoC Governor Macklem Speaks			
AU	Judo Bank Australia PMI Mfg Nov P			48.2
AU	Judo Bank Australia PMI Services Nov P			47.9
CH	Bloomberg Nov. China Economic Survey			
GE	HCOB Germany Services PMI Nov P	48.5		48.2
SW	Riksbank Policy Rate Nov-23	4.25%		4.00%
EC	HCOB EZ Manufacturing PMI Nov P	43.4		43.1
EC	HCOB Eurozone Services PMI Nov P	48.1		47.8
UK	S&P Global/CIPS UK Mfg PMI Nov P	45		44.8
UK	S&P Global/CIPS UK Services PMI Nov P	49.5		49.5
	Friday 24 November			
EC	ECB Publishes Account of Oct. Meeting			
NZ	Retail Sales Ex Inflation QoQ 3Q	-0.80%	-1.80%	-1.00%
JN	Natl CPI YoY Oct	3.40%		3.00%
UK	GfK Consumer Confidence Nov	-27		-30
NZ	New Residential Lending y/y			1.10%
GE	GDP SA QoQ 3Q F	-0.10%		-0.10%
GE	IFO Expectations Nov	85.8		84.7
EC	ECB's Lagarde Speaks			
	Saturday 25 November			
SW	Riksbank's Floden Speaks			
EC	ECB's De Guindos Speaks			
US	S&P Global US Manufacturing PMI Nov P	49.9		50
US	S&P Global US Services PMI Nov P	50.4		50.6
EC	ECB's De Cos Speaks			
	Sunday 26 November			
EC	Bundesbank Chief Nagel Speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	3.50
1mth	5.58	5.59	5.61	4.21
2mth	5.61	5.61	5.64	4.26
3mth	5.63	5.63	5.67	4.31
6mth	5.66	5.68	5.73	4.76
GOVERNMENT STOCK				
04/25	5.13	5.31	5.60	4.33
04/27	4.73	5.02	5.38	4.24
04/29	4.73	5.03	5.42	4.17
05/31	4.82	5.12	5.50	4.16
04/33	4.88	5.17	5.54	4.19
04/37	5.07	5.30	5.70	4.41
05/41	5.14	5.33	5.74	4.56
05/51	5.10	5.25	5.68	4.53
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	64	67	79	81
Europe 5Y	70	74	87	95

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.08	5.37	5.64	5.02
3 years	4.83	5.14	5.47	4.81
4 years	4.71	5.02	5.37	4.64
5 years	4.66	4.97	5.33	4.53
10 years	4.77	5.03	5.37	4.44
FOREIGN EXCHANGE				
NZD/USD	0.5982	0.5877	0.5846	0.6101
NZD/AUD	0.9191	0.9215	0.9227	0.9237
NZD/JPY	89.55	89.16	87.51	86.71
NZD/EUR	0.5484	0.5494	0.5479	0.5957
NZD/GBP	0.4802	0.4787	0.4773	0.5159
NZD/CAD	0.8206	0.8112	0.8003	0.8207
TWI	70.0	69.8	69.4	71.9

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