Research

Markets Outlook

11 December 2023

Of Growth, Balance, and Inflation

- **We see Q3 GDP flat overall; contraction per capita**
- **But noisy details lift risk of surprise, including to RBNZ**
- **Annual current account deficit seen shrinking, slowly**
- **Net migration closely watched; on PM's radar**
- **Monthly prices to test our 4.7% y/y pick for Q4 CPI**
- **We nudge our 2023/24 milk price forecast up to $7.50**
- **ECT, PMI, travel, and possibly housing data to note too**

Thursday's Q3 GDP figures will be a focal point for the week's data, but there are plenty of other releases worthy of attention besides.

Starting with GDP, we expect the Q3 report to show a flat result for the quarter. This would take annual growth down to 0.3%. Market expectations for the quarter sit at 0.2%, while the RBNZ, in its November MPS, anticipated a quarterly gain of 0.3%.

We should say up front that the decimal points probably give a sense of forecast accuracy that is far beyond the reality. There remains considerable disturbance in the data from such things as post-cyclone recovery, post-Covid tourism recovery along with event hosting, and volatile spending on cars associated with policy change. All the while assessing seasonality remains problematic.

Recall a quarter ago, Q2 GDP growth figures came in stronger than expected partly on a post-cyclone activity bounce. While considerable recovery work continued, it is not clear how much more it has added to growth in Q3 (as opposed to maintaining a higher level of activity than otherwise or even easing a bit after the intensity of the initial clean up phase).

The decimals might matter. The RBNZ has indicated little tolerance for indicators to show upside surprise regards inflationary pressure. Any deviation from the RBNZ's estimate will be important to note, as will the accumulation of any historical revisions as they alter assessment of the output gap and associated inflationary pressures.

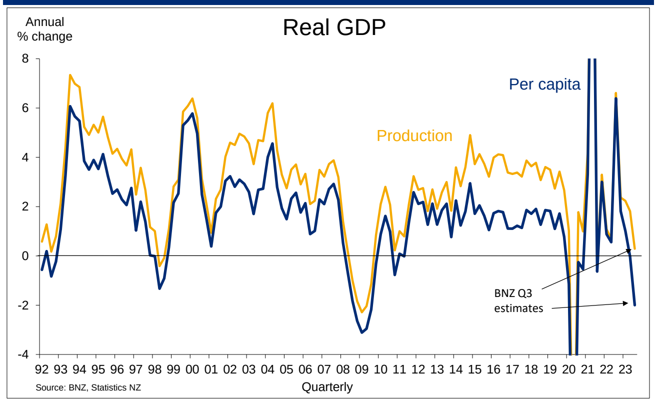
From a production perspective, our Q3 GDP estimate includes anticipated contraction in construction and manufacturing but moderate expansion in the services sector overall. The latter is expected to be supported by strong population growth driven by net inward migration.

Very strong exports of services, including tourism, will also be a feature of the Q3 national accounts. We have estimated a quarterly gain of more than 8%. Some of this reflects NZ's co-hosting of the FIFA Women's World Cup during the quarter. How much of the remainder reflects underlying strength or remaining issues around seasonal adjustment is an important consideration for the outlook.

Services exports will be a shining light on the expenditure side of the Q3 GDP accounts, which we see as just enough to keep that measure of growth positive for the quarter. We see a chunky fall in goods exports (after Q2's big bounce), although lower overall imports (on the back of falling domestic demand) will see net trade make a positive contribution to bottom line growth.

We estimate household spending fell 0.9% in the quarter, which is in line with RBNZ estimates. While retail sales were flat for the quarter, we suspect this included a firm positive contribution from offshore visitors suggesting spending by locals declined. Expenditure on cars appears to have fallen sharply in Q3 following Clean Car Discount policy changes. Spending on services has been supported by strong population growth.

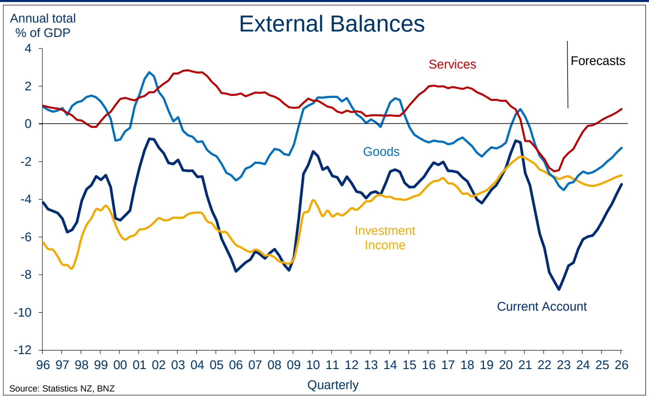
GDP Per Capita Contracting



Population expansion has supported activity. But with population growth of 2.7% over the year to September, anything close to our 0.3% estimate for annual GDP growth over the period would imply a meaningful contraction in activity on a per capita basis. That represents challenging economic conditions for many.

Ahead of GDP, we get Q3 Balance of Payments data on Wednesday. We expect these to show the annual current account deficit continues to abate. We see the deficit at 7.4% of GDP for the year to September, marginally narrower than the 7.5% recorded three months prior. This matches market expectations. A smaller deficit would be in the direction of travel that the likes of the rating agencies would like to see. But it is only glacial, and from still elevated levels. We expect further narrowing ahead, partly on subdued imports reflecting domestic demand.

Large Deficit Narrowing



But not all is helpful for further current account deficit narrowing with debt servicing costs rising, generally low commodity prices still feeding into the external accounts, and while we expect tourism's recovery to continue (as airline capacity expands) its rapid pace off the previous low base is likely to slow. On the latter, we will get October's visitor numbers in tomorrow's travel data release as well as get a check on the number of short-term trips NZers are taking offshore.

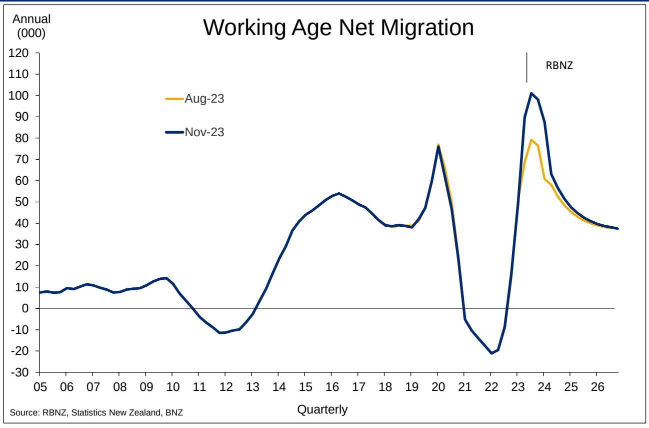
There are some positives emerging regards exports. Last week Fonterra lifted its 2023/24 milk price forecast midpoint to $7.50 from $7.25. This is still relatively low on an inflation-adjusted basis, but it is a nudge in the right direction. Encouragingly, Fonterra noted strengthening demand from China. After previously noting some upside risk to our own view, we nudge our 2023/24 milk price forecast up to $7.50 (from $7.25 previously).

On our estimates such movement equates to around $450m more annual revenue for the dairy sector over time. Better than it might have been, but still well below year earlier levels. Last season's milk price was $8.22.

Back to this week's data, in tomorrow's international travel data release we get provisional net migration figures for October. Provisional and subject to material revision they may be, but these will get a lot of attention given the RBNZ's recent focus on the aggregate demand effects, which the Bank appears discomforted by, on inflation grounds. In the November MPS, the Bank built in the much bigger estimates of net inflows of working age migrants compared to the previous MPS.

For the year to September, annual net migrant inflows were estimated at just under 119,000. October's figures will be pored over, including for any upward revision to the net-inflow number in recent history, which has been the pattern for a good while now. In the bigger picture, we (and the RBNZ) have assumed net inward migration starts subsiding from about now.

RBNZ Sees More People



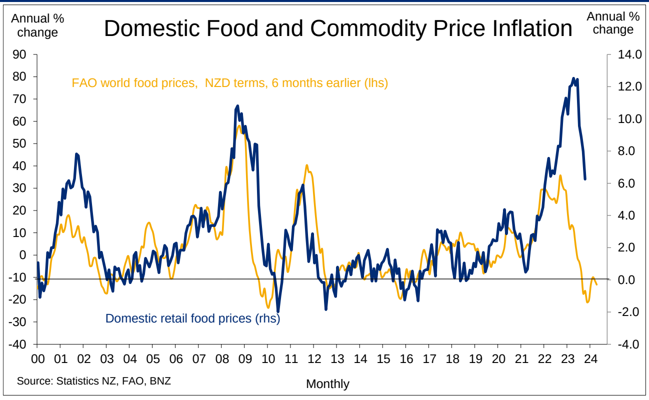
The chance of some pullback over time appears to have increased, with PM Luxon this morning suggesting that the current high rates of net migration did not feel sustainable. Setting overall target numbers is difficult because one can't always control the ebb and flow of NZers and Australians. But on the broad settings, the PM was reported as saying 'It's gone from being way too restrictive, to being way too loose, and we've gotta find that balance.' This remains a key area to watch. Both for potential implications for monetary policy ahead as well as for the wider economy.

Tuesday morning also delivers the electronic card transactions (ECT) data for November. They have been struggling all year. We haven't seen any clear signs of a break in that trend. We are not sure spending associated with Black Friday/Cyber Monday has altered the trend. A small increase in November's ECT figures, would still have us thinking retail sales volumes have extended their long period of struggle into Q4.

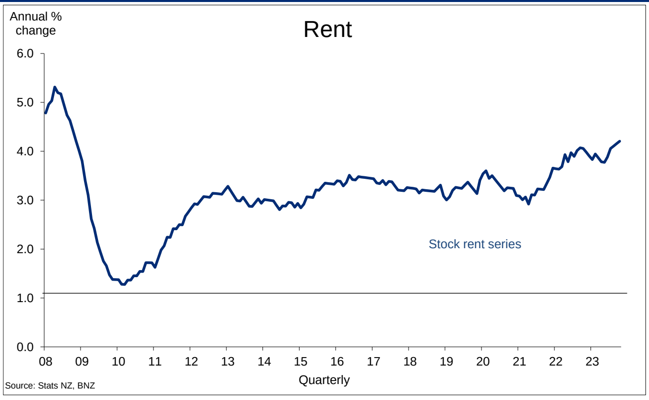
Regards data on inflation, we get the Selected Price Indexes for November this week. Note these are out at midday on Wednesday, to not clash with the Balance of Payments data release that morning. In covering around 45% of the CPI by weight, these price series will test our view that Q4 CPI will advance 0.6%. That would pare annual inflation to 4.7%, from Q3's 5.6%.

As part of November's prices release, we have pencilled in a 0.5% decline in November's food price index largely on seasonal grounds (but that would be enough to see annual food price inflation fall below 6% for the first time since the beginning of 2022), while we see another firm 0.4% m/m gain in the stock measure of rents.

Some Inflation Relief Here



But Not Here



Our current 4.7% estimate for Q4 CPI annual inflation sits a bit below the RBNZ's 5.0% in the November MPS. Should this be how it pans out it would suggest somewhat less pressure for the RBNZ to lift the OCR. Even more so to the extent that lower actual inflation feeds into inflation expectations. However, it is not that straightforward, with our sense that non-tradeables inflation might test the RBNZ's expectations to the high side. These are but some of the factors to watch and assess ahead of the RBNZ's next scheduled OCR decision, in late February.

The final data report scheduled for the week is Friday's Performance of Manufacturing Index for November. Can it recover any, from the dreadful 42.5 it sagged to in October?

Also keep an eye out for the Real Estate Institute's housing report for November, which might well come to light before the end of the week. We expect this to show sales not increasing as much as they normally do in the month, but with the composition-controlled House Price Index still creeping upward.

doug_steel@bnz.co.nz

Global Watch

- **AU focus on Nov jobs, NAB survey (& Bullock speech)**
- **US FOMC decision/dots Wed., Nov CPI/retail sales too**
- **ECB and BoE policy meetings also in view, Thursday**

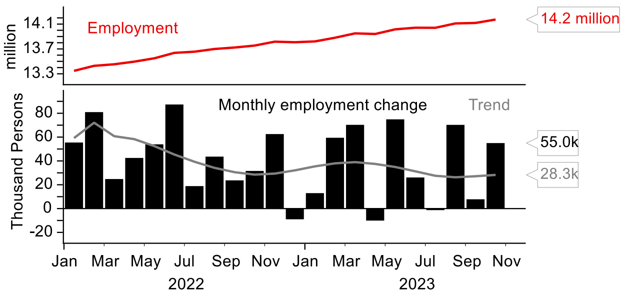
Australia

Aussie employment data, Thursday, is the last local data point of note this year. Tuesday, NAB publishes its business survey 1:30pm, with RBA Governor Bullock speaking 11:20am and Westpac consumer confidence at 12:30pm.

As for November's labour market data, we expect the unemployment rate to tick up to 3.8%, from 3.7% in October. That would be consistent with ongoing gradual cooling in the still-tight labour market, in line with the RBA's forecast of 3.8% in Q4.

There is significant uncertainty around the employment print, with monthly employment growth unusually volatile recently. The referendum supported the data for October, with this impact expected to fade in November on both employment and the participation rate. We pencil in an employment gain of 10k and for the participation rate to decline one tenth to 66.9%.

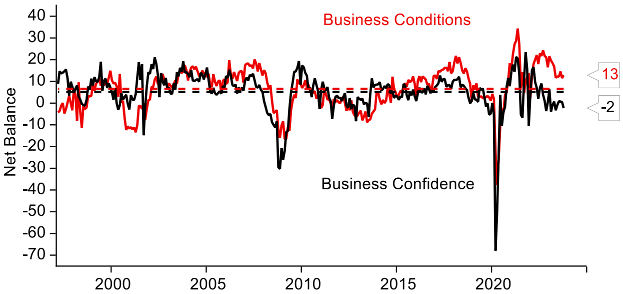
Australian Employment



Source: National Australia Bank, ABS

RBA Governor Bullock gives the annual payments address at Australian Payments Network. Given the forum there won't be much discussion of monetary policy, though there is Q&A open to the media which could see a question on policy posed to the Governor.

NAB Business Survey



Source: National Australia Bank, National Australia Bank, Macrobond

As context to Tuesday's NAB business survey, note that in the previous edition business conditions (+13) were faring better than general confidence (-2).

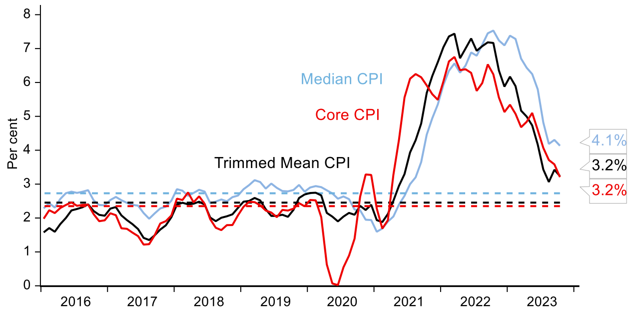
US

At its policy meeting on Wednesday (UST), an on-hold FOMC should revise down their PCE inflation forecasts and may revise unemployment higher. A statement that shifts away from the language on 'additional policy firming' would be a clear signal of confidence from FOMC members that policy is sufficiently restrictive.

Regardless, focus will be on the new dot-plots and the press conference. The September projections had two cuts implied from a policy rate 25bp higher than it is currently. That will be lowered, and we anticipate the median dot will reflect 75bp of cuts, but still not match the 125bp of cuts currently priced by markets.

The moderation in CPI/PCE inflation and the road to Damascus conversion of former arch hawk Waller, will mean all eyes on the press conference to see whether Chair Powell is starting to become more optimistic on inflation. Recall Powell in July noted "*you'd stop raising long before you got to 2 percent inflation, and you'd start cutting before you got to 2 percent inflation, too*". 6m annualised PCE inflation is now running at 2.5%, not far off the Fed's 2% inflation target.

US Core CPI - Various Measures - in 6m Annualised*



* Dotted lines represent long-run averages since 1996. 5m annualised used to show the pace of inflation
Source: National Australia Bank, U.S. Bureau of Labor Statistics (BLS), Macrobond

On the data calendar, US November CPI (Tuesday) looms large, a day ahead of the FOMC. Consensus is for a second straight month of flat prices on a headline basis, helped by falling energy prices. Core is expected to be 0.3% m/m, a tenth higher than last month, but not enough to shift the impression of ongoing progress on disinflation.

There will also be attention given to Thursday's US retail sales results for November. Market expectations are for another 0.1% decline. However, the "control group" reading – which is a preferred indicator for consumption in the GDP accounts – is anticipated to gain a further 0.2%.

CH Activity Indicators – Retail/IP/Fixed Asset

Chinese activity data for November are out on Friday. Favourable base effects will mean higher y/y growth rates are likely but, as always, the data will be watched closely for momentum which appears to have stalled over recent months. Consensus for retail is 12.5% y/y from 7.6% and industrial production 5.7% from 4.6%. Also due during the week are aggregate financing figures.

Eurozone

The final ECB policy meeting for 2023 occurs on Thursday, where policy rates will be kept on hold. We expect the ECB's new staff forecasts to show lower inflation from its September readings for 2023, 2024 and 2025, with lower GDP growth for 2023 and 2024. Core HICP forecast is likely to be lowered from 5.1% in 2023 to 5.0%, with 2024 from 2.9% to 2.2% and 2025 from 2.2% to 2.0%.

In the press conference we expect ECB President Christine Lagarde to push back on discussions of rate cuts. However, given questions on this will probably dominate, there is a reasonable chance she may stray off the agreed line and offer some crumbs about rate cuts later in 2024. Recall on 10 November Lagarde said a rate cut, "*isn't going to happen in the next couple of quarters.*"

Lagarde will also likely acknowledge that discussion was had about stopping the reinvestment of maturing PEPP assets, but that these discussions are ongoing. The line has been these will be reinvested until at least the end of 2024. We continue to believe the ECB will stop reinvesting maturities here in Q1, 2024, with the risk a March announcement delays the start until June.

Markets have moved aggressively to price around 150bps of rate cuts by end 2024 from the current 4% Deposit Rate, with a first cut 74% priced for March and more than one hike priced by April. Our call remains for 100bps of cuts in 2024, with the first easing in April.

An early release of the preliminary S&P manufacturing and services PMI data comes due to the approaching holiday period. These data and particularly services have shown stabilisation, followed by improvement to less weak activity. Services is close to recapturing the 50 boom or bust level, especially in Germany.

UK

We and the markets expect the BoE to keep policy on hold with the Bank Rate unchanged at 5.25% for the third consecutive meeting. The nine-member MPC are likely to be split once again, but perhaps less so than the 6-3 unchanged vote in November, where three members wanted a further 25bps hike. We may well see dove Swati Dhingra vote for a cut. There are no new economic forecasts in this meeting and no press conference, just the statement on the decision and the Minutes.

The BoE will continue to warn that policy is likely to need to be restrictive for an extended period and here it has been the most vocal of its G10 peers in pushing back against market pricing of rate cuts. Currently, markets are pricing between three and four 25bps cuts in 2024, with the first cut in June. NAB continues to see the first cut in September, with rates dropping 75bps over three meeting to 4.5% end-December 2024.

October wage and broader labour market data for November are released Tuesday. Average weekly earnings for the whole economy, including bonuses of 7.9% 3M/3M, y/y and 7.7% regular pay remain far too high. However, the BoE has acknowledged other labour market data, such as private payrolls are running at slightly less elevated levels. Note employment and unemployment data continue to be experimental and thereby treated with caution. October monthly GDP and trade data is also released during the week.

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

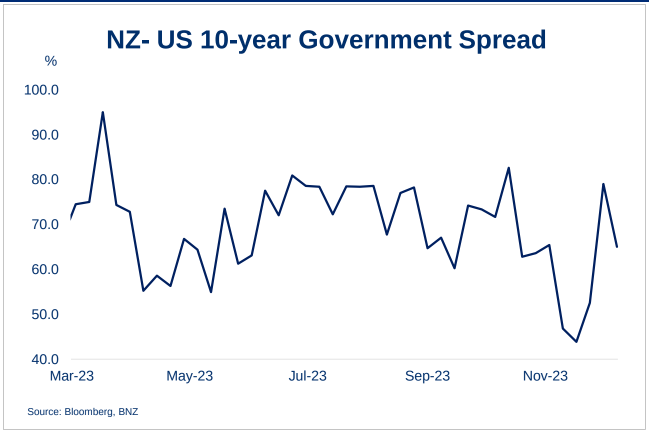
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income yields continued to move lower through last week driven by international markets in the absence of first-tier domestic economic data. 10-year government bond yields fell below 4.80% intra-week before retracing higher. The front end of the yield curve was relatively stable, with the hawkish messaging from the RBNZ's Monetary Policy Statement (MPS) the previous week, leaving the market reluctant to price in further easing. This led to a 'bull flattening' yield curve adjustment with the 2y/10y curve flattening to -36bps. The yield curve almost became positively sloped in November but has since flattened (become more inverted) as yields have fallen across the curve.

NZGBs have underperformed on a cross market basis against US treasuries and Australian government bonds since mid-November. 10-year NZ-US spreads have rebounded from below 50bps to close to 70bps and have returned to the midpoint of the 60-80bps range that has prevailed for much of 2023. The heavy supply schedule, which will ramp up into calendar 2024, suggests NZGBs should incorporate some premium to keep non-resident investors, who absorb the bulk of the supply, engaged. We have a neutral view on the NZ-US spread but have a tightening bias on NZ-AU spreads.

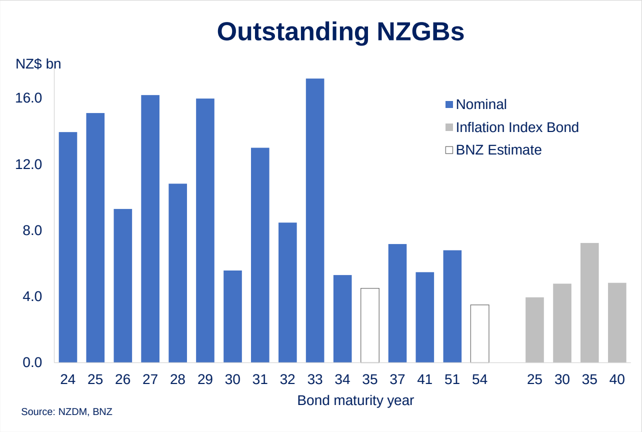
10-year NZ-US government bond spread rebounds



New Zealand Debt Management (NZDM) will tender NZGBs for the last time this year on Thursday. There is typically a one month break with the first government bond tender in the new year likely to take place on 19 January. The January tender schedule will be published on 21 December the day after the Half-Year Economic and Fiscal Update. After the NZ$500 million tender on Thursday, NZDM will have issued NZ$16.5 billion of NZGBs in H1 FY24. The bulk of the issuance has been nominal bonds with a tiny fraction – just NZ$60 million – into inflation indexed bonds.

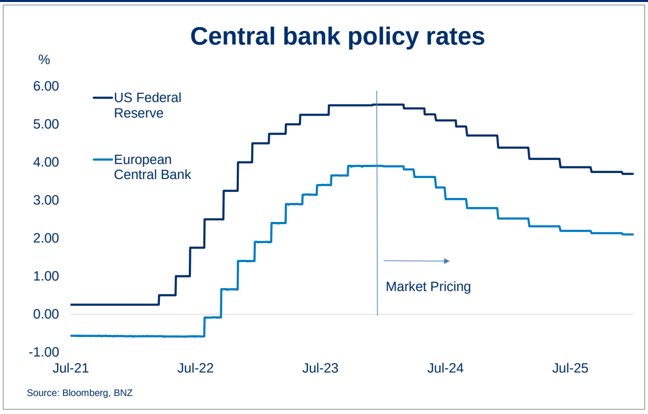
Assuming the FY24 programme which is updated alongside HYEFU remains unchanged at NZ$36 billion, this leaves a further NZ$19.5 billion for H2 FY24. Finance minister Nicola Willis commented last week that the proposed 'tax cuts will be delivered without extra borrowing'. NZDM has previously announced the funding requirement will be met, in part, by the syndication of two new nominal bond lines –a nominal May 2035 and May 2054 – which are expected before the end of FY24.

NZ Debt Management NZGB portfolio end November



It is a busy economic calendar in the week ahead, both domestically and internationally. On the domestic front Q3 GDP data will be closely monitored with the RBNZ highlighting the strength of Q2 GDP in the November MPS as a contributing factor to its hawkish tilt. The RBNZ forecast a gain of 0.3% q/q in Q3 while we expect growth to be flat on the quarter. The monthly selected price indexes will provide further information on how NZ inflation is tracking through Q4. Fixed interest markets will be attuned to how much policy makers push back against the market pricing for 2024 rate cuts at the US Federal Reserve and European Central Bank monetary policy meetings this week.

Market is pricing lower central bank rates in 2024



stuart.ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, NZD/USD fell 1.4% to 0.6120, with the market paring the scope for easier Fed policy next year, which gave the USD some broad support. However, the yen was the strongest of the majors as the BoJ flagged a possibly earlier start to rate increases and NZD/JPY fell 2.7% to 88.7. The NZD was flat to slightly weaker on the other key crosses.

Near the beginning of last week, the NZD traded at a fresh four month high of 0.6223, an overbought level on the technical RSI, before trending lower over the rest of the week to close not far off its weekly low. Global forces were in charge, with headwinds from a weaker Chinese yuan and AUD, while higher US short rates supported the USD.

The AUD weakened after the RBA left its cash rate on hold at 4.35% and repeated the final paragraph of the previous statement "whether further tightening of monetary policy is required…will depend upon the data and the evolving assessment of risks". There was nothing in the statement to support the hawks that another rate hike is on the cards and the market viewed that as a dovish development. NZD/AUD rose to as high as 0.9380, before closing week little changed just over 0.93.

Softer US ADP employment and a weaker JOLTS report proved to be a head-fake, with the key employment report at the end of the week showing slightly stronger than expected employment growth and wages, while the unemployment rate surprisingly fell 2 ticks to 3.7%. This gave US short rates a boost and supported the USD, with the market scaling back pricing for Fed Funds rate cuts next year from 134bps to 111bps through the week.

However, for FX markets, dynamics for the yen were the most interesting, with strong support after some hawkish commentary from policy makers. BoJ Governor Ueda told lawmakers that his job was going to get more challenging from year-end, helping fuel speculation of a near-term scrapping of the negative policy rate and a staged visit to PM Kishida's office added to the speculation. Deputy Governor Himino indicated that the first rate hike since 2007 might not be as harmful as some have feared.

We have long argued that BoJ policy has been a drag on yen performance and an end to its negative policy rate could trigger significant yen appreciation and NZD/JPY weakness. Timing has been elusive, but appears to be close, and the odds of a BoJ rate hike by January have increased.

EUR weakened after the ECB's Schnabel, previously considered to be on the hawkish side of the spectrum, offered some dovish comments. She noted that underlying CPI inflation was "falling more quickly than we had anticipated" and "this is quite remarkable". On policy she noted that another rate hike was "rather unlikely".

Despite the pullback in the NZD off its recent high, our short-term fair value model estimate continued to nudge higher (to 0.6560), with higher commodity prices and a lift in risk appetite to 74%, a fresh 2½-year high, more than offsetting a lower NZ-US interest rate spread. Our view remains that a 0.60-0.64 trading range is in play and our projections are consistent with a protracted downturn in the USD next year, which could ultimately see a topside break deep into 2024.

In the week ahead there are plenty of risk events that could sway currency markets, including central bank meetings from the Fed, ECB and BoE. The Fed will almost certainly keep rates unchanged for a third consecutive meeting, but could remain unwilling to declare the job done. It won't likely sanction current market pricing, which calls for cuts to begin as soon as May.

The ECB faces similar dynamics, with lower inflation encouraging an end to the tightening cycle, but the Bank is likely to show unwillingness to convey any certainty about when rate cuts might start. The BoE will also not want to encourage the market to price in easier policy at this juncture.

The key data print will be the US CPI for November, released Tuesday night, where any deviation from the consensus could have an outsized impact on markets. Rounding out the global calendar are US PPI and retail sales, Australia employment, global PMIs, and China monthly activity indicators. Domestically, the focus will be on NZ Q3 GDP, where the consensus expects sluggish 0.2% q/q growth, and we are closer to flat, below the RBNZ's 0.3% estimate.

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6124	0.6000 - 0.6220
NZD/AUD	0.9314	0.9190 - 0.9380
NZD/GBP	0.4880	0.4810 - 0.4910
NZD/EUR	0.5690	0.5510 - 0.5730
NZD/JPY	88.77	87.70 - 91.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6560	-7%
NZD/AUD	0.9000	3%

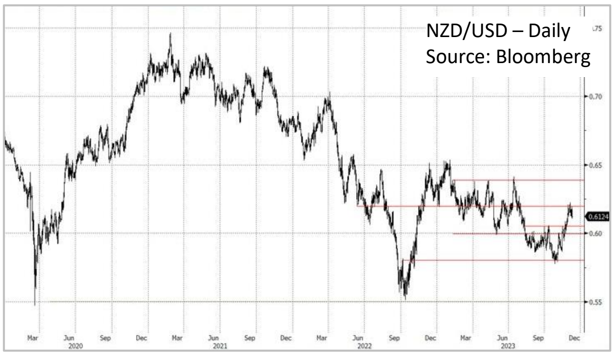
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook:	Upside risk
ST Resistance:	0.64 (ahead of 0.65)
ST Support:	0.6050 (ahead of 0.60)

A healthy pullback after the recent RSI overbought signal; support at 0.6050, ahead of 0.60.



NZD/AUD

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

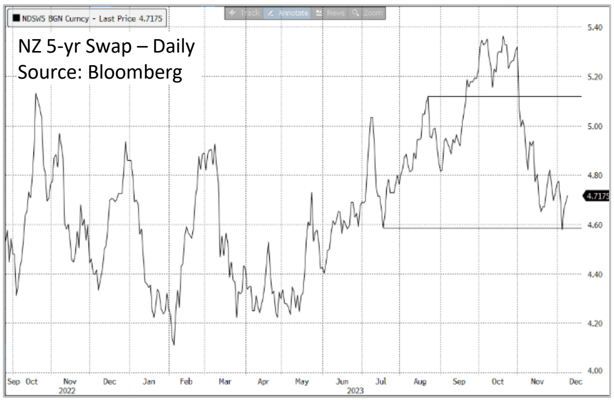
Still range bound and within the narrowing wedge formation. Support at 0.9150, resistance at 0.94.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook:	Neutral
MT Resistance:	5.12
MT Support:	4.58

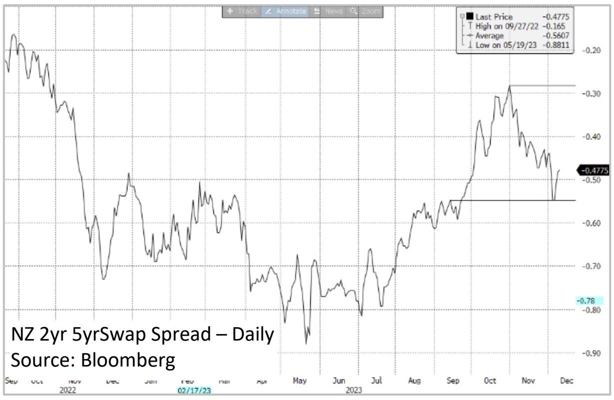
MT support held last week as 5-year swap moved lower as a part of the global rate rally before bouncing. From these levels we remain neutral but may look to put on a paid position should we move lower back towards the support.



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

Outlook:	Neutral
MT Resistance:	-0.28
MT Support:	-0.55

2x5 swap spread was volatile last week as the curve bull flattened through our support in a primarily 5-year led move. The new support becomes -0.55 as we await further technical signals.



matthew.herbert@bnz.co.nz

Quarterly Forecasts

Forecasts as at 11 December 2023

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts: Sep-23 onwards (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	-0.4	0.2	0.6
Retail trade (real s.a.)	-2.0	-0.5	-0.8	-1.3	-0.9	0.0	-0.5	0.2	0.6	0.8
Current account (ytd, % GDP)	-7.9	-8.3	-8.8	-8.2	-7.5	-7.4	-6.6	-6.1	-6.0	-5.9
CPI (q/q)	1.7	2.2	1.4	1.2	1.1	1.8	0.6	0.7	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	4.2	3.7	3.2
GDP (production s.a., y/y))	0.7	6.6	2.4	2.2	1.8	0.3	0.6	0.3	-0.4	0.2

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	5.30	5.30	5.50	5.45	5.40	5.85	4.60	0.70
2024 Mar	5.50	5.60	5.00	5.05	5.20	5.20	5.20	5.85	4.40	0.65
Jun	5.50	5.50	4.70	4.80	4.85	4.90	4.95	5.60	4.20	0.60
Sep	5.25	5.00	4.45	4.60	4.45	4.70	4.80	5.35	4.00	0.60
Dec	4.75	4.75	4.10	4.30	4.00	4.35	4.50	4.85	3.75	0.55
2025 Mar	4.50	4.25	3.75	4.00	3.55	4.00	4.20	4.35	3.50	0.50
Jun	4.00	3.75	3.65	4.00	3.20	3.90	4.20	3.85	3.50	0.50
Sep	3.50	3.15	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	0.61	0.66	1.08	1.25	145	0.61	0.93	0.57	0.49	88.6	71.3
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
Jun-26	0.68	0.75	1.21	1.37	114	0.68	0.91	0.56	0.50	77.5	73.2
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 11 December 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	0.8	0.4	2.5	7.4	3.2	1.1	-0.2	2.2
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	-1.3	-2.9	4.2	12.3	4.1	0.1	-4.1	3.2
Stocks - ppts cont'n to growth	0.5	-0.1	-1.1	1.0	0.0	1.4	-0.3	-1.4	1.1	0.1
GNE	8.0	2.6	-1.0	0.0	2.7	10.2	3.4	-0.6	-0.8	2.3
Exports	2.5	6.0	5.1	2.9	5.3	-2.7	-0.2	8.8	2.7	5.2
Imports	17.3	4.7	-2.8	-0.4	3.8	14.8	4.7	-0.6	-1.8	3.2
Real Expenditure GDP	4.8	2.9	1.1	0.8	3.0	6.1	2.3	1.4	0.5	2.8
GDP (production)	**5.2**	**2.9**	**0.8**	**0.8**	**3.0**	**6.0**	**2.7**	**1.2**	**0.3**	**2.8**
GDP - annual % change (q/q)	*1.1*	*2.2*	*0.3*	*2.2*	*3.1*	*3.3*	*2.4*	*0.6*	*1.1*	*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	425	448	353	381	407	420	443
Prices and Employment - annual % change										
CPI	6.9	6.7	4.2	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	0.4	0.9	3.9	0.5	-1.3	0.0	1.1
Unit Labour Costs (ann av %)	4.0	6.2	7.0	4.0	2.2	2.0	6.2	7.4	4.9	2.3
House Prices	13.8	-12.1	2.6	8.6	13.4	27.2	-11.1	-1.6	6.7	13.4
External Balance										
Current Account - $bn	-23.6	-31.8	-25.2	-21.9	-14.4	-20.6	-33.4	-27.0	-23.5	-16.4
Current Account - % of GDP	-6.6	-8.2	-6.1	-5.2	-3.2	-5.8	-8.8	-6.6	-5.6	-3.7
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	6.7					
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	4.50	2.75	0.75	4.25	5.50	4.75	2.75
90-day Bank Bill Rate	1.45	5.16	5.60	4.25	2.90	0.92	4.55	5.60	4.75	2.90
5-year Govt Bond	2.90	4.40	5.00	3.75	3.50	2.20	4.30	5.30	4.10	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	5.20	3.55	3.00	2.22	5.21	5.50	4.00	3.00
5-year Swap	3.20	4.50	5.20	4.00	3.75	2.56	4.62	5.45	4.35	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 11 December			
UK	Rightmove House Prices YoY Dec			-1.30%
CH	Aggregate Financing CNY Nov	2600.0b		1850.0b
	Tuesday 12 December			
US	NY Fed 1-Yr Inflation Expectations Nov			3.57%
NZ	Card Spending Total MoM Nov		0.30%	-0.30%
NZ	Net Migration SA Oct			7510
AU	RBA's Bullock-Speech			
AU	NAB Business Confidence Nov			-2
UK	Payrolled Employees Mthly Chng Nov	5k		33k
GE	ZEW Survey Expectations Dec	8		9.8
	Wednesday 13 December			
US	NFIB Small Business Optimism Nov	90.7		90.7
US	CPI Ex Food and Energy YoY Nov	4.00%		4.00%
EC	ECB's Villeroy Speaks in Frankfurt			
NZ	Current Account GDP Ratio YTD 3Q	-7.40%	-7.40%	-7.50%
NZ	Food Prices MoM Nov		-0.50%	-0.90%
JN	Tankan Large Mfg Index 4Q	10		9
AU	CBA Household Spending MoM Nov			-1.00%
UK	Monthly GDP (MoM) Oct	-0.10%		0.20%
UK	Industrial Production MoM Oct	-0.10%		0.00%
UK	Trade Balance GBP/Mn Oct	-£2500m		-£1574m
EC	Industrial Production SA MoM Oct	-0.30%		-1.10%
	Thursday 14 December			
US	PPI Ex Food and Energy YoY Nov	2.20%		2.40%
US	FOMC Rate Decision (Upper Bound) Dec 13	5.50%		5.50%
US	Fed Chair Powell's Press Conference			
NZ	GDP SA QoQ 3Q	0.20%	flat	0.90%
JN	Core Machine Orders MoM Oct	-0.40%		1.40%
AU	Employment Change Nov	11.0k		55.0k
AU	Unemployment Rate Nov	3.80%		3.70%
AU	RBA's Jones-Speech			

		Median	Fcast	Last
	Thursday 14 December continued			
JN	Industrial Production MoM Oct F			1.00%
SZ	SNB Policy Rate Dec 14	1.75%		1.75%
	Friday 15 December			
UK	Bank of England Bank Rate Dec 14	5.25%		5.25%
EC	ECB Main Refinancing Rate Dec 14	4.50%		4.50%
US	Retail Sales Advance MoM Nov	-0.10%		-0.10%
US	Retail Sales Control Group Nov	0.20%		0.20%
US	Initial Jobless Claims Dec 09	221k		220k
EC	ECB Lagarde Holds Press Conference			
US	Business Inventories Oct	0.00%		0.40%
NZ	BusinessNZ Manufacturing PMI Nov			42.5
AU	Judo Bank Australia PMI Mfg Dec P			47.7
AU	Judo Bank Australia PMI Services Dec P			46
UK	GfK Consumer Confidence Dec	-22		-24
CH	Industrial Production YoY Nov	5.70%		4.60%
CH	Retail Sales YoY Nov	12.50%		7.60%
CH	Fixed Assets Ex Rural YTD YoY Nov	3.00%		2.90%
CH	Surveyed Jobless Rate Nov	5.00%		5.00%
EC	HCOB EZ Manufacturing PMI Dec P	44.5		44.2
EC	HCOB EZ Services PMI Dec P	49		48.7
UK	S&P Global/CIPS UK Mfg PMI Dec P	47.5		47.2
UK	S&P Global/CIPS UK Services PMI Dec P	51		50.9
EC	Trade Balance SA Oct			9.2b
UK	BOE's Ramsden speaks			
EC	Labour Costs YoY 3Q			4.50%
	Saturday 16 December			
EC	ECB Speakers (Numerous)			
US	Empire Manufacturing Dec	2		9.1
US	Manufacturing (SIC) Production Nov	0.50%		-0.70%
US	S&P Global US Manufacturing PMI Dec P	49.3		49.4
US	S&P Global US Services PMI Dec P	50.7		50.8

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	4.25
1mth	5.57	5.58	5.59	4.32
2mth	5.60	5.61	5.61	4.42
3mth	5.63	5.63	5.63	4.51
6mth	5.67	5.66	5.68	5.05
GOVERNMENT STOCK				
04/25	5.24	5.23	5.31	4.62
04/27	4.83	4.81	5.02	4.27
04/29	4.76	4.79	5.03	4.14
05/31	4.84	4.88	5.12	4.09
04/33	4.88	4.94	5.17	4.10
04/37	5.06	5.12	5.30	4.25
05/41	5.13	5.19	5.33	4.32
05/51	5.08	5.14	5.25	4.21
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	62	62	67	78
Europe 5Y	67	67	74	89

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.23	5.17	5.37	5.18
3 years	4.98	4.91	5.14	4.84
4 years	4.83	4.78	5.02	4.61
5 years	4.76	4.72	4.97	4.48
10 years	4.77	4.79	5.03	4.28
FOREIGN EXCHANGE				
NZD/USD	0.6120	0.6165	0.5877	0.6382
NZD/AUD	0.9312	0.9311	0.9215	0.9460
NZD/JPY	88.75	90.75	89.16	87.87
NZD/EUR	0.5686	0.5689	0.5494	0.6056
NZD/GBP	0.4877	0.4880	0.4787	0.5200
NZD/CAD	0.8313	0.8346	0.8112	0.8702
TWI	71.4	71.9	69.8	73.6

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

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