

Research Markets Outlook

23 January 2024

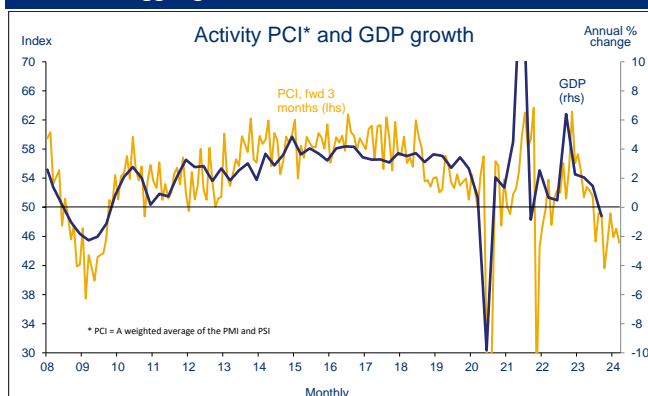
Inflation To Fall

- Annual CPI inflation seen easing to 4.7% in Q4
- Details important for RBNZ
- PSI soft in December, as growth struggles remain
- Crown financial accounts to be compared to HYEYU

Economic data out so far this year has tended to be on the soggy side in terms of economic activity and is broadly suggestive of a lower headline inflation profile than was previously the case. This week's Q4 CPI is expected to show slowing annual inflation, which will set the starting point for inflation heading into the New Year. But before reiterating and discussing our CPI views we start with the week's data that is already underway.

This morning's Performance of Services Index (PSI) is the very latest to come in on the soft side regards activity. It slipped to 48.8 in December, from 51.1 in November. Tourism related industries are supportive, but the very strong growth in visitor numbers off the Covid-induced low base is now behind us as affirmed in last week's tourism data for November. Retail trade's PSI posted another sub 50 result, adding to our thinking that spending in the festive season was disappointing and indicative of subdued domestic demand more generally.

Growth Struggling

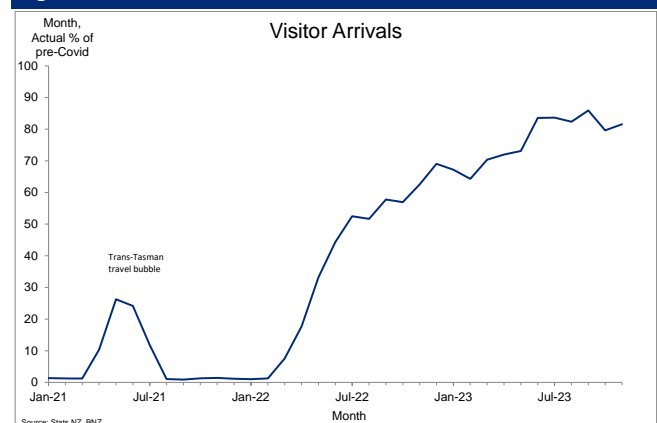


Given this, it is perhaps no surprise that the PSI has again sunk below the 50 mark which, in theory, separates growth from contraction. The softening in the PSI, alongside the ongoing weakness in the PMI last week, is bad news for near term growth. The two combined gives a composite index (PCI) that is consistent with the economy reaching a maximum annual contraction of around 2.0%.

We are not nearly that pessimistic but can envisage a trough approaching -1.0% by mid-2024.

While last week's QSBO activity indicators promised some activity improvement later this year, the PMI and PSI illustrate growth's current struggles.

Big Gains In The Past



Against this backdrop, it should come as no surprise that the PCI employment indicator points to a net reduction in numbers employed. That fits with ongoing retreat in job ads, as seen in last week's SEEK data for December. It all suggests a lowering in the marginal demand for labour.

That said, some other monthly employment indicators have been more robust, which we interpret as reflecting an increase in the ability of those businesses that are looking for staff to fill those positions. Huge net migration inflows have enabled this. Yes, last week's figures for November hinted at a net migration slowdown in the month. But, as we warned last week, it was off yet another upwardly revised base and with no guarantee that the latest hint of a slowdown is again subsequently revised away over time. With an annual net inflow of over 127,000 people, net immigration can only be described as massive.

What does seem very clear in the labour market is that net-migration-fuelled supply is outstripping demand. This was writ large in last week's QSBO difficulty in finding labour indicators, with firms now describing staff as easy to find. The SEEK data conveyed a similar message with the job applications to job ad ratio rising to unprecedented levels. And this morning's Q4 McDermott Miller Westpac

Employment Confidence Index posted its second consecutive quarter under 100 with people's perceptions about job opportunities easing. All this is consistent with our expectation that the unemployment rate will lift materially further, and wage pressure should diminish.

But, as we know, not only does net immigration push activity higher via the supply side but it also supports economic activity from the demand side. The debate will thus continue: is supply-driven disinflation going to win the battle or is demand-side inflation going to dominate? We lean towards the former but caution that demand side influences could yet slow the decline in inflation enough to worry the RBNZ.

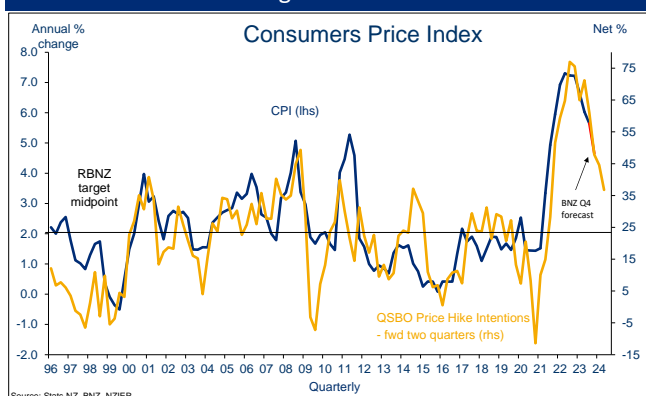
CPI tomorrow

We get the latest on inflation tomorrow, via the Q4 CPI. We see it as highly likely that annual inflation falls further from Q3's 5.6%. We have long thought this, with last week's QSBO cost and selling price indicators adding a strong 'top-down' endorsement of our view. In tomorrow's figures, it is likely to be more a case of assessing the extent of inflation easing and details. Both will matter.

We are forecasting the CPI to lift 0.5% in the quarter, which would see annual inflation ease to 4.7% in Q4. This matches the market consensus. Our view is unchanged following last week's monthly price indicators for December, which did provide some unders and overs in the details relative to our priors but didn't change the bottom line.

We reiterate here that if we are right on tomorrow's figures, the quarterly movement would be 0.3% below the RBNZ's 0.8% pick. This would be a meaningful difference. It might well have some believe that it would see the central bank moving towards a more dovish tilt.

Price Pressures Are Easing



However, it is not at all clear that the RBNZ will become more dovish if our forecast proves accurate. Last quarter, when the Q3 headline reading was below RB expectations, the Bank deferred to ongoing strength in non-tradeables inflation. There is a chance it does so again as we expect non-tradeable inflation to come in at 1.0% for the quarter (5.8% for the year), which would be 0.1 ppts above the Bank's projection. The Bloomberg market poll consensus sees non-tradeable quarterly inflation at 0.8%.

For tradeable prices, we see a 0.1% decline in Q4, driven by a 1.1% drop in food prices indicated by the already published monthly indicators. It is tradeables that we see doing most of the work in getting headline inflation down in Q4. Our view on tradeable prices is much lower than the 0.7% quarterly increase that the RBNZ published in its November MPS.

But, rightly or wrongly, the RBNZ has been more focused on non-tradeables inflation. This means a lower-than-RBNZ-expected headline CPI print need not necessarily see the RBNZ more relaxed about inflation and a sudden rush to lower rates. Of course, lower headline inflation can influence inflation expectations offering a modicum of relief in time. But it is worth recalling that the RBNZ was openly discussing the possibility of lifting rates at its previous meeting.

We (and no doubt the Bank) will also be keen to see the outcomes of the various measures of core inflation. This includes the likes of CPI excluding food and energy, where annual inflation had eased to 5.2% in Q3 2023 from its recent peak of 6.7% in Q4 2022. The details of our forecasts suggest a reasonable chance that this measure dips its toe under 4% tomorrow. We will also be assessing the other core measures like the various trimmed means, weighted median, and the RBNZ's own derived series like the sectoral factor model. The latter is scheduled to be published tomorrow afternoon. The sectoral factor model recorded annual inflation at 5.2% in Q3, its first dip in annual inflation this cycle, from the prior quarter's 5.7%.

Wherever Q4 CPI headline and details print, it will be interesting to see what RBNZ Chief Economist Paul Conway makes of those and other recent economic data in a scheduled speech next week. Even though any comments on data developments have been billed to be 'brief', with a lengthy period since the November MPS and some significant data developments hence, there will be significant interest in any remarks.

Beyond the CPI, the only other item of note on the data calendar for the remainder of this week is the Crown Financial Accounts for the 5-months to November, due out on Thursday morning. After a flicker of outperformance for the 3-months to September, the accounts pulled back closer to PREFU baselines for the 4-months to October. That said, this week's release will be the first monthly figures to line up against the new baselines set in December's HYEPU. We will also be interested in the tax take trends as another gauge on economic activity in the latter part of last year. There was certainly plenty of variety across components of the take tax through to October with corporates weak, individuals strong, and GST struggling. We would expect the 5 months to November's figures to show similar themes, but will be on the lookout for any deviations.

doug_steel@bnz.co.nz

Global Watch

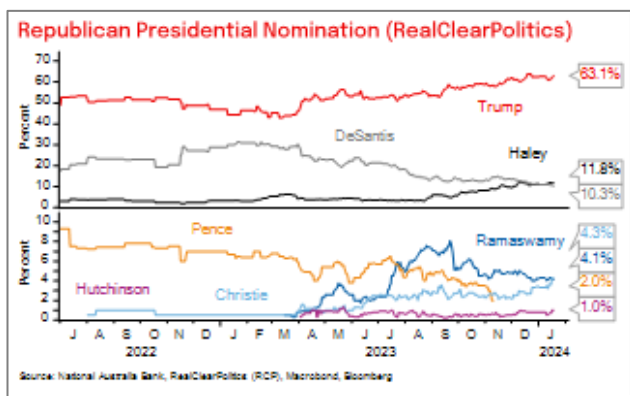
- ECB, BoJ, BoC meetings this week
- US GDP seen slowing to 2.0% in Q4
- US PCE annual core inflation expected to nudge lower
- PMIs due in EU, US, and UK
- AU NAB survey out today

Australia

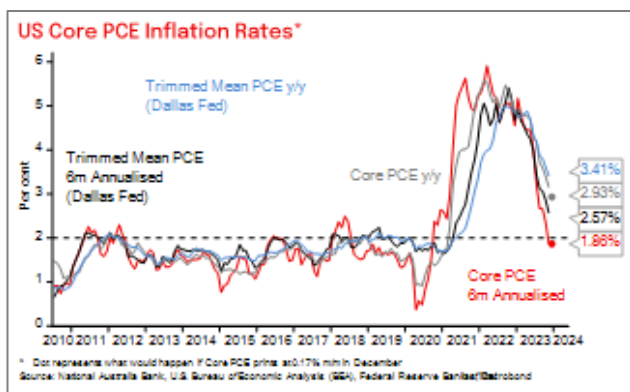
Quiet in Australia with the Australia Day Public Holiday on Friday. The only data print before then is the NAB Business Survey today and while important, we given no hints in this publication.

US

In the US, politics remains in focus with the Republican New Hampshire Primary (Tuesday) and where Haley will need to poll better if she is to present a challenge to Trump for the nomination. On polling Trump is set to sweep it, setting up a Biden v. Trump election.



Regards data, Q4 GDP (Thursday) and PCE (Friday) will be closely watched. The Atlanta Fed GDP Now measure pegs Q4 growth at 2.4% annualised, a bit ahead of the 2.0% consensus. The PCE deflator will be important, and consensus for these December data sees the core deflator at 0.2% m/m and 3.0% y/y (a nudge lower than November's 3.2%). On a six-month annualised basis this should be 1.9%. That would keep alive hopes of the US Fed cutting on inflation alone in March. PMIs are also out during the week.

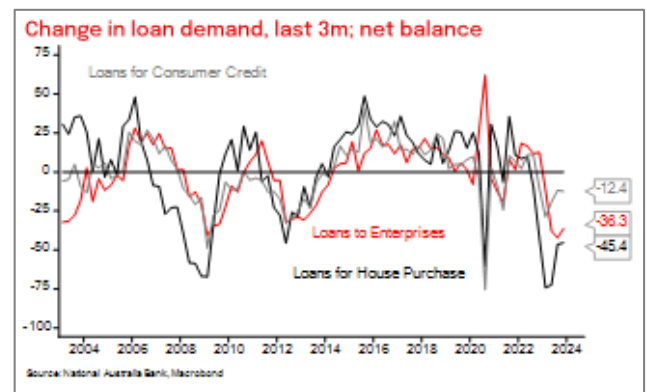


EU and UK

The ECB meets Thursday. No new forecasts are released. Despite the decline in both headline and core inflation that has exceeded the ECB's expectations, the message from a bevy of Governing Council members is that it is currently too early to consider rate cuts and even if a policy easing can be seen in 2024. ECB president Lagarde – perhaps surprisingly – has been the one to nod to the prospect of a cut 'in the summer,' providing there are no further shocks. Others have suggested by September.

A 'summer' easing could mean June or July, but not 25th January and even 3rd March looks too early. Expect therefore the ECB this week to continue with its pushback of market pricing, a caution over spring wage settlements, but being more open to a 2024 easing. NAB continues to look for the first cut in April. We expect the ECB to hint at the easing possibility at its March meeting.

The influential ECB Q4 Lending Survey is out on Tuesday and will be an input to this week's policy meeting. The prior Q3 lending survey saw a modest re-tightening of credit standards for home loans from Q2, while lending standards for businesses and consumer credit eased marginally from the prior quarter.



S&P PMIs for January are released for a range of countries. Most closely watched are those for the EU and UK. For Europe the flash release offers an early look at activity in Germany, France and then the region as a whole. The most recent PMI activity for Europe has seen an easing in the pace of manufacturing contraction to 44.4, while services has marginally improved too, but at 48.8 remains in contraction. It's fair to say markets are fairly pessimistic on this, so any improvement can reverberate. For the UK, services activity remains a bright spot, having risen to 53.4 in December – above both the EU and US. The mismatch with other UK economic activity suggests there is room for a pullback.

Japan

The Bank of Japan announces policy today. NAB expects no change. April is widely held out as the first opportunity for

any changes. Bloomberg also reported from sources that the bank will also publish an updated quarterly outlook at the meeting with board members likely to discuss cutting their forecast for core CPI in the fiscal year from April to around 2.5% from 2.8% due to falling oil prices.

Canada

The BoC is widely expected to be on hold at Wednesday's announcement. Markets fully price the first rate cut from the Bank of Canada in June.

China

In China it is almost New Year, with the lead up to the holiday season starting on Friday.

tapas.strickland@nab.com.au / doug_steel@bnz.co.nz

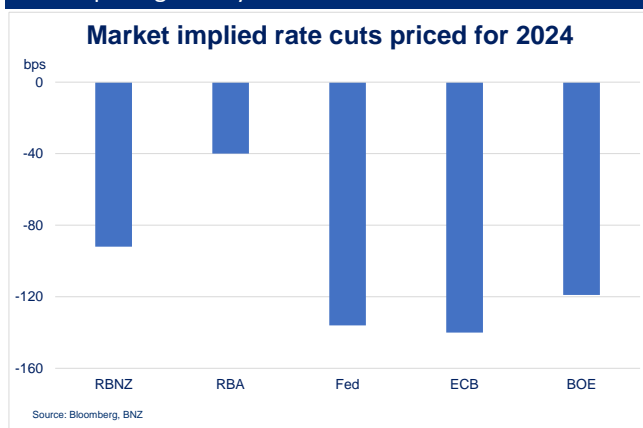
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income markets have extended the move higher in yield since the start of the year. 10-year government bond yields have increased close to 30bps from the January low near 4.30%. The front end of the yield curve has outperformed amid evidence of easing inflation pressures and weak economic activity. The NZIER Quarterly Survey of Business Opinion indicated a continued moderation in inflation pressures and weak manufacturing and services PMIs, which are both below 50, highlight the ongoing headwinds facing economic activity.

Even after adjustment higher in yield, rolling 3-month returns for 10-year NZGBs continue to look stretched because of the significant rally through the last 2 months of 2023. We expect a period of consolidation with bond yields likely to settle into a range near-term. Market pricing implies close to 90bps of cuts to the Official Cash Rate by the end of the year. This is more than our projection for 75bps of cuts beginning at the August Monetary Policy Statement. Q4 inflation data will be the main domestic focus for NZ rates markets this week.

Market pricing for key central banks



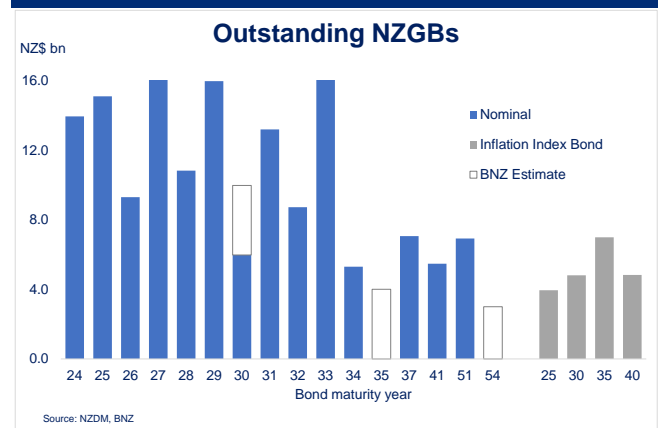
Global policy makers have continued to push back against the amount of easing implied by overnight index swap markets. At the start of 2024, there was 25bps of cuts priced by the US Federal Reserve (Fed) for the March FOMC. This has now been reduced to 11bps. Fed speakers, while cautiously endorsing easier monetary policy, have outlined that they would need to see more progress on inflation and the market should not expect near-term rate cuts.

US economic data has remained resilient with retail sales and jobless claims beating expectations last week. Current economic data does not support the ~130bps of easing priced for 2024 and the market is incorporating some premium for a sharper slowdown than is currently

anticipated. Q4 GDP and the PCE deflator, which is the Fed's preferred inflation measure are released this week. There will be no Fed speakers given the blackout period ahead of the January FOMC. Monetary policy meetings by the Bank of Japan and European Central Bank this week are not likely to be market moving.

Tendering of NZ government bonds restarted last week after the summer break and was met with tepid demand. New Zealand Debt Management (NZDM) received a total of NZ\$733 million of demand for the NZ\$500 million of nominal bonds offered. This was the lowest coverage ratio for a weekly tender since February last year when one of the lines wasn't fully allocated.

NZDM NZGB portfolio



NZDM expects to syndicate two new nominal NZGB lines – May 2035 and May 2054 maturities – as well as undertake a syndicated tap of a shorter dated nominal bond before the end of the fiscal year. The month ahead tender schedule – released tomorrow at 08:00 (NZT) for February – is often used by NZDM to signal timing for upcoming syndications. We expect a syndication will be announced to take place in February, subject to market conditions. While it is evenly balanced between the 2 new bond lines, we expect NZDM will opt for the 2054 maturity in February.

There are several potential syndication windows in February. Of these, the week beginning 20 February looks the most likely. The 10y/30y curve has moved steadily higher and has reached the steepest level in more than a year above 30bps. The steepening in the NZGB 10y/30y curve has been larger than comparator markets like Australia and the US since finding a base in mid-November partly reflecting some concession for supply into the new 30-year bond.

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZFWFDS Bloomberg pg BNZ9

Against a backdrop of a broadly stronger USD, last week the NZD fell 2% to 0.6115, after a brief excursion below 0.61. It wasn't the worst major, with the yen falling slightly more, but the NZD was weaker on the other crosses, including a fall in NZD/AUD of 0.7% to 0.9270. The new week has begun on a soft note, with the NZD trading at fresh lows for the year at 0.6080, and a further nudge down on the crosses.

The weaker NZD last week reflected further backlash against the exceptional strength towards the end of last year. During 2024 to date it has been a case of the NZD trying to discover its natural support level. We have previously suggested 0.60-0.64 as an appropriate trading range, but there might well be some initial support just under 0.61.

Fundamentally, the USD is getting some support as the market pares rate cut expectations for 2024, amidst a sign of ongoing economic resilience. Key US activity releases printed stronger than expected, spanning retail sales, consumer sentiment, housing market indicators and the labour market. Retail sales for the control group, which feeds into GDP, rose an annualised 4.4% in Q4, down from 6.2% in Q3 but hardly suggesting a consumer in trouble. Initial jobless claims fell to a 16-month low. Lower mortgage rates over recent months are helping generate a recovery in housing market activity. Respected Fed Governor Waller talked about potential rate cuts but rates "lowered mechanically and carefully".

NZ data remained weak, with retail card spending falling 2.0% m/m in December, and the manufacturing PMI suggesting substantial contraction in activity in the sector. The new monthly price indicators pointed to disinflationary forces continuing, and a likely lower CPI print for Q4 compared to RBNZ estimates. Last week NZ's 2-year swap rate rose 3bps against a 24bps lift in the US 2-year bond rate.

Last week we published a summary of our [NZD outlook for 2024](#), with no change in view since we highlighted the (positive) turning point in the NZD early November. As we saw late last year, ultimately we see the USD vulnerable to the US monetary policy outlook. This could see the NZD break the topside of the current 0.60-0.64 range we see prevailing. That said, there remains a number of prevailing headwinds for the NZD this year. At some stage we must consider the prospect of a Trump victory in the November US presidential election which would be ostensibly NZD-negative.

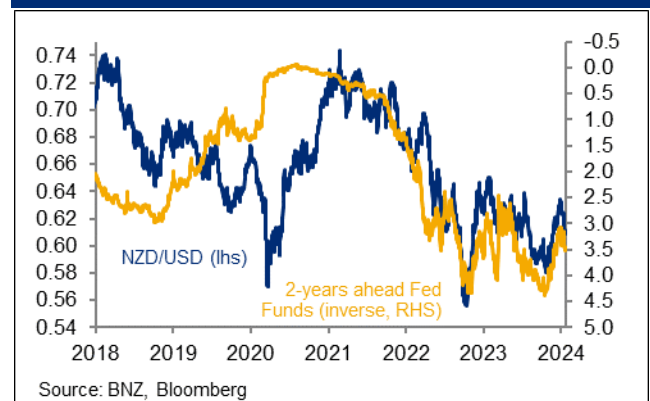
In the week ahead, the domestic focus will be on the Q4 CPI release tomorrow, where the consensus sits at 0.5 q/q, below the RBNZ's 0.8%. As important will be the suite of core measures, which we will be looking to show further

signs of lower inflation. Overall, we see no smoking gun for the RBNZ to contemplate a rate hike next month, as threatened at the November MPS.

The BoJ meets later today and is expected to keep policy unchanged, with a strong consensus that April will be the timing of the Bank moving away from its long-held negative policy rate. The ECB and Bank of Canada also meet, with no likely changes in policy from either central bank. The ECB is likely to continue to push against market expectations that the Bank could ease as early as April. Last week President Lagarde said that it was likely the ECB will cut rates in summer.

On the global economic calendar, global PMIs are released but the key focus will be on US Q4 GDP – expected to moderate to an annualised 2% growth rate – and the PCE deflators towards the end of the week.

NZD still highly correlated with 2-yr ahead US policy rate



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6083	0.6080 - 0.6290
NZD/AUD	0.9256	0.9230 - 0.9350
NZD/GBP	0.4788	0.4790 - 0.4970
NZD/EUR	0.5588	0.5590 - 0.5750
NZD/JPY	90.05	88.70 - 91.00

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models		
	Model Est.	Actual/FV
NZD/USD	0.6620	-8%
NZD/AUD	0.8980	3%

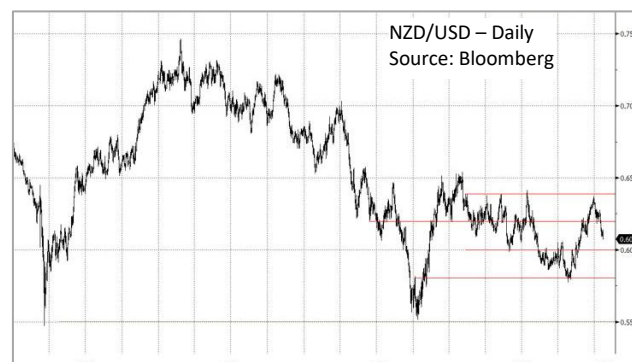
Jason.k.wong@bnz.co.nz

Technical

NZD/USD

Outlook: Trading range
 ST Resistance: 0.64 (ahead of 0.65)
 ST Support: 0.60 (ahead of 0.58)

0.60-0.64 looks to be the bigger range, familiar territory last year.

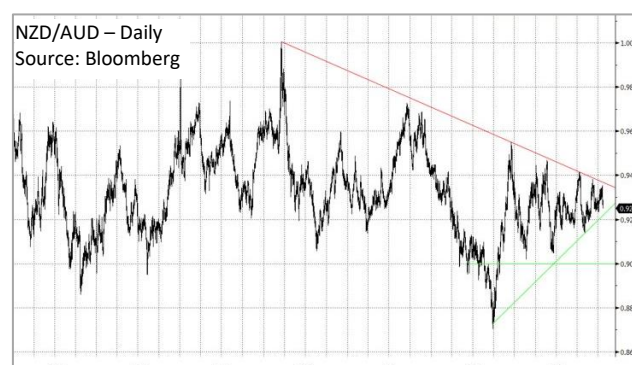


NZD/AUD

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: Lower
 MT Resistance: 4.58
 MT Support: 4.05

The NZ 5y swap rate remained relatively steady last week. While we continue to favour another dip lower, a sustained break above the downward channel would move our outlook to a more neutral status.

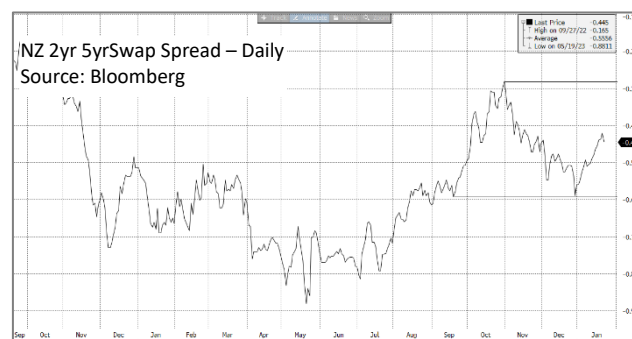


NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: Steeper
 MT Resistance: -0.28
 MT Support: -0.59

2x5 swap spread was little changed last week albeit slightly higher. We maintain our bias for a steeper curve.

matthew.herbert@bnz.co.nz



Quarterly Forecasts

Forecasts as at 23 January 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP (production s.a.)	1.8	-0.6	-0.2	0.5	-0.3	-0.1	-0.4	-0.1	0.6	0.7
Retail trade (real s.a.)	-0.5	-0.8	-1.3	-0.9	0.0	0.5	0.2	0.6	0.8	0.9
Current account (ytd, % GDP)	-8.3	-8.8	-8.2	-7.6	-7.6	-7.1	-6.8	-6.7	-6.4	-6.0
CPI (q/q)	2.2	1.4	1.2	1.1	1.8	0.5	0.6	0.6	1.3	0.1
Employment	1.4	0.6	1.0	1.0	-0.2	0.3	-0.1	0.0	0.1	0.3
Unemployment rate %	3.2	3.4	3.4	3.6	3.9	4.3	4.5	5.0	5.4	5.7
Avg hourly earnings (ann %)	8.6	8.1	8.2	7.7	7.1	7.0	6.2	5.5	4.4	4.3
Trading partner GDP (ann %)	3.7	2.1	2.9	3.5	3.1	3.1	2.7	2.8	2.7	2.8
CPI (y/y)	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.6	3.0	2.7
GDP (production s.a., y/y)	6.4	2.3	2.1	1.5	-0.6	-0.1	-0.3	-0.8	0.0	0.8

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	Libor	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2022 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
Dec	5.50	5.60	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
Forecasts										
2024 Mar	5.50	5.60	5.05	5.05	5.20	4.95	4.85	5.80	4.40	0.65
Jun	5.50	5.50	4.80	4.80	4.85	4.70	4.60	5.55	4.20	0.60
Sep	5.25	5.00	4.55	4.60	4.45	4.50	4.50	5.30	4.00	0.60
Dec	4.75	4.75	4.20	4.30	4.00	4.15	4.20	4.80	3.75	0.55
2025 Mar	4.50	4.25	3.80	4.00	3.55	3.85	4.00	4.30	3.50	0.50
Jun	4.00	3.75	3.70	4.00	3.20	3.75	4.00	3.80	3.50	0.50
Sep	3.50	3.15	3.60	3.95	3.00	3.75	4.05	3.30	3.50	0.45
Dec	2.75	2.90	3.55	3.90	3.00	3.70	4.00	3.05	3.50	0.40

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.61	0.66	1.09	1.27	148
Mar-24	0.62	0.69	1.13	1.31	145
Jun-24	0.64	0.71	1.16	1.35	138
Sep-24	0.64	0.72	1.17	1.34	135
Dec-24	0.65	0.73	1.18	1.35	130
Mar-25	0.67	0.75	1.19	1.35	125
Jun-25	0.69	0.77	1.21	1.37	120
Sep-25	0.71	0.78	1.22	1.37	118
Dec-25	0.71	0.78	1.23	1.38	116
Mar-26	0.69	0.76	1.23	1.38	115
Jun-26	0.68	0.75	1.21	1.37	114

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.61	0.93	0.56	0.48	90.1	71.1
Mar-24	0.62	0.90	0.55	0.47	89.9	71.0
Jun-24	0.64	0.90	0.55	0.47	88.3	72.1
Sep-24	0.64	0.89	0.55	0.48	86.4	71.3
Dec-24	0.65	0.89	0.55	0.48	84.5	71.3
Mar-25	0.67	0.89	0.56	0.50	83.8	72.5
Jun-25	0.69	0.90	0.57	0.50	82.8	73.8
Sep-25	0.71	0.91	0.58	0.52	83.8	75.4
Dec-25	0.71	0.91	0.58	0.51	82.4	75.3
Mar-26	0.69	0.91	0.56	0.50	79.4	73.6
Jun-26	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 23 January 2024	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	0.4	0.5	2.4	7.4	3.3	0.7	-0.1	2.2
Government Consumption	7.9	2.0	-1.2	-3.5	1.4	7.8	4.9	-1.5	-3.9	0.9
Total Investment	10.2	2.1	-1.7	-2.2	4.2	12.0	3.4	-1.0	-3.2	3.1
Stocks - ppts cont'n to growth	0.5	-0.1	-0.3	0.2	0.0	1.4	-0.4	-0.5	0.4	0.0
GNE	7.9	2.4	-1.4	-0.8	2.7	10.0	3.4	-1.0	-1.7	2.2
Exports	2.5	6.0	4.2	3.7	5.5	-2.7	-0.2	8.0	3.4	5.5
Imports	17.3	4.6	-0.1	0.2	3.8	14.8	4.6	1.5	-0.5	3.2
Real Expenditure GDP	4.7	2.7	-0.5	-0.1	3.0	5.9	2.2	0.2	-0.8	2.7
GDP (production)	4.5	2.8	0.1	0.5	3.0	5.5	2.4	0.7	-0.1	2.7
<i>GDP - annual % change (q/q)</i>	<i>0.7</i>	<i>2.1</i>	<i>-0.3</i>	<i>1.9</i>	<i>3.1</i>	<i>2.5</i>	<i>2.3</i>	<i>-0.1</i>	<i>0.8</i>	<i>3.1</i>
Output Gap (ann avg, % dev)	1.3	1.9	-0.4	-1.3	-0.2	1.5	1.9	0.1	-1.3	-0.5
Nominal Expenditure GDP - \$bn	359	388	414	435	459	353	381	408	429	453
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.8	2.1	5.9	7.2	4.7	2.7	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 %)	1.7	0.6	-1.8	0.1	0.9	3.5	0.3	-1.8	-0.3	1.0
Unit Labour Costs (ann av %)	4.6	6.4	7.6	4.3	2.2	2.4	6.4	8.0	5.3	2.4
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	-28.3	-23.7	-16.6	-20.6	-33.4	-29.0	-25.5	-18.4
Current Account - % of GDP	-6.6	-8.2	-6.8	-5.4	-3.6	-5.8	-8.8	-7.1	-6.0	-4.1
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	38.0	36.0	34.0					
Bond Programme - % of GDP	5.6	7.2	9.2	8.3	7.4					
Financial Variables ⁽¹⁾										
NZD/USD	0.69	0.62	0.62	0.67	0.69	0.68	0.63	0.62	0.65	0.71
USD/JPY	119	134	145	125	115	114	135	144	130	116
EUR/USD	1.10	1.07	1.13	1.19	1.23	1.13	1.06	1.09	1.18	1.23
NZD/AUD	0.93	0.93	0.90	0.89	0.91	0.95	0.94	0.93	0.89	0.91
NZD/GBP	0.52	0.51	0.47	0.50	0.50	0.51	0.52	0.49	0.48	0.51
NZD/EUR	0.62	0.58	0.55	0.56	0.56	0.60	0.60	0.57	0.55	0.58
NZD/YEN	81.5	83.0	89.9	83.8	79.4	77.4	85.6	89.5	84.5	82.4
TWI	73.9	71.0	71.0	72.5	73.6	73.0	72.9	72.0	71.3	75.3
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	5.63	4.75	2.90
5-year Govt Bond	2.90	4.40	5.05	3.80	3.50	2.20	4.30	4.50	4.20	3.55
10-year Govt Bond	3.20	4.35	5.05	4.00	3.90	2.35	4.25	4.65	4.30	3.90
2-year Swap	3.00	5.15	5.20	3.55	3.00	2.22	5.21	4.93	4.00	3.00
5-year Swap	3.20	4.50	4.95	3.85	3.75	2.56	4.62	4.43	4.15	3.70
US 10-year Bonds	2.10	3.65	4.40	3.50	3.50	1.45	3.60	4.00	3.75	3.50
NZ-US 10-year Spread	1.10	0.70	0.65	0.50	0.40	0.90	0.65	0.65	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		Median	Fcast	Last
Tuesday 23 January				NZ N.Z. Government 5-Month Financial Statements			
NZ Performance Services Index Dec			51.2	GE IFO Expectations Jan	84.8		84.3
AU NAB Business Confidence Dec			-9	Friday 26 January			
EC ECB Bank Lending Survey				UK CBI Retailing Reported Sales Jan	-20		-32
JN BOJ Policy Balance Rate Jan-23	-0.10%	-0.10%	-0.10%	EC ECB Main Refinancing Rate Jan-25	4.50%	4.50%	4.50%
JN BOJ 10-Yr Yield Target Jan-23	0.00%	0.00%	0.00%	EC ECB Marginal Lending Facility Jan-25	4.75%	4.75%	4.75%
Wednesday 24 January				EC ECB Deposit Facility Rate Jan-25	4.00%	4.00%	4.00%
US Philadelphia Fed Non-Manufacturing Activity Jan			6.3	US Chicago Fed Nat Activity Index Dec			0.03
EC Consumer Confidence Jan P	-14.3		-15	US GDP Annualized QoQ 4Q A	2.00%		4.90%
US Richmond Fed Manufact. Index Jan	-6		-11	US Durable Goods Orders Dec P	1.40%		5.40%
US Richmond Fed Business Conditions Jan			0	US Initial Jobless Claims Jan-20	200k		187k
NZ CPI QoQ 4Q	0.50%	0.50%	1.80%	US Continuing Claims Jan-13	1825k		1806k
NZ CPI YoY 4Q	4.70%	4.70%	5.60%	US New Home Sales Dec	649k		590k
NZ CPI Tradeable QoQ 4Q	0.10%	-0.10%	1.80%	JN BOJ Minutes of Dec. Meeting			
NZ CPI Non Tradeable QoQ 4Q	0.80%	1.00%	1.70%	UK GfK Consumer Confidence Jan	-21		-22
AU Judo Bank Australia PMI Mfg Jan P			47.6	GE GfK Consumer Confidence Feb	-24.6		-25.1
AU Judo Bank Australia PMI Services Jan P			47.1	EC ECB's Panetta Speaks			
AU Westpac Leading Index MoM Dec			0.07%	EC ECB Survey of Professional Forecasters			
JN Trade Balance Dec	-¥122.6b		-¥776.9b	EC ECB's Kazaks, Vujcic speak			
GE HCOB Germany Services PMI Jan P	49.3		49.3	Saturday 27 January			
EC HCOB EZ Manufacturing PMI Jan P	44.7		44.4	US Personal Income Dec	0.30%		0.40%
EC HCOB Eurozone Services PMI Jan P	49		48.8	US Personal Spending Dec	0.50%		0.20%
UK S&P Global UK Manufacturing PMI Jan P	46.7		46.2	US Real Personal Spending Dec	0.30%		0.30%
UK S&P Global UK Services PMI Jan P	53.2		53.4	US PCE Deflator MoM Dec	0.20%		-0.10%
Thursday 25 January				US PCE Deflator YoY Dec	2.60%		2.60%
UK CBI Trends Total Orders Jan	-23		-23	US PCE Core Deflator MoM Dec	0.20%		0.10%
UK CBI Trends Selling Prices Jan	5		7	US PCE Core Deflator YoY Dec	3.00%		3.20%
CA Bank of Canada Rate Decision Jan-24	5.00%		5.00%	US Pending Home Sales MoM Dec	2.00%		0.00%
US S&P Global US Manufacturing PMI Jan P	47.6		47.9	US Kansas City Fed Services Activity Jan			-10
US S&P Global US Services PMI Jan P	51.4		51.4	CH Industrial Profits YoY Dec			29.50%

Historical Data

	Today	Week Ago	Month Ago	Year Ago		Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS					SWAP RATES				
Call	5.50	5.50	5.50	4.25	2 years	4.75	4.71	4.74	5.02
1mth	5.58	5.58	5.58	4.50	3 years	4.46	4.42	4.45	4.63
2mth	5.62	5.61	5.61	4.70	4 years	4.34	4.29	4.30	4.44
3mth	5.65	5.64	5.64	4.90	5 years	4.30	4.25	4.24	4.35
6mth	5.58	5.57	5.58	5.29	10 years	4.43	4.38	4.31	4.27
GOVERNMENT STOCK					FOREIGN EXCHANGE				
04/25	5.10	5.04	5.02	4.52	NZD/USD	0.6076	0.6139	0.6328	0.6504
04/27	4.52	4.36	4.37	4.13	NZD/AUD	0.9246	0.9323	0.9272	0.9232
04/29	4.46	4.29	4.29	4.05	NZD/JPY	89.94	90.34	90.09	84.66
05/31	4.61	4.45	4.40	4.03	NZD/EUR	0.5582	0.5644	0.5730	0.5974
04/33	4.71	4.55	4.46	4.09	NZD/GBP	0.4780	0.4857	0.4973	0.5274
04/37	4.94	4.80	4.68	4.29	NZD/CAD	0.8190	0.8284	0.8349	0.8696
05/41	5.05	4.90	4.77	4.38					
05/51	5.04	4.89	4.73	4.27	TWI	71.1	71.8	72.6	72.5
GLOBAL CREDIT INDICES (ITRXX)									
Nth America 5Y	55	56	56	72					
Europe 5Y	59	61	59	79					

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.