

# Research Markets Outlook

26 February 2024

## RBNZ To Aggressively Maintain Tight Conditions

- **No rate increases needed**
- **Monetary conditions are tight and doing the work**
- **RBNZ to strongly signal no relaxation anytime soon**
- **Last week's data confirms demand under duress**
- **Confidence surveys, employment data due**

The RBNZ Monetary Policy Statement on Wednesday takes centre stage. We wrote our [full preview](#) last week, going through the issues in some detail.

In summary, it seems to us there is no need for the RBNZ to raise rates further given the extent by which the labour market is easing, spare capacity is growing, and inflation, both headline and core, is falling. In addition, well established measures of inflation expectations have fallen notwithstanding newer household measures pushed higher last week.

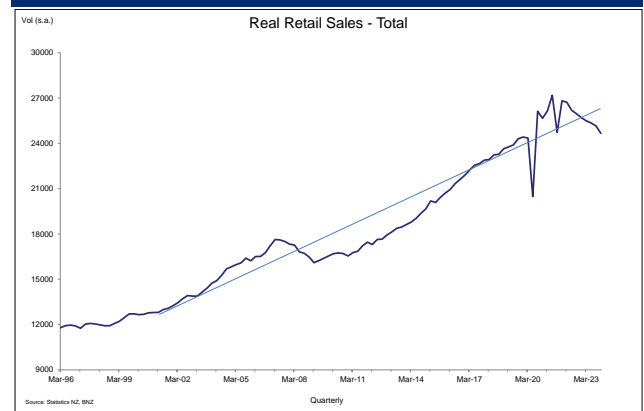
Whether the Reserve Bank sees things as we do is moot. Its rhetoric has certainly been extremely hawkish of late. So, we acknowledge there is still more of a chance the RBNZ lifts its cash rate on Wednesday than it lowers it. But we simply cannot forecast such an outcome when, in our opinion, current and forecast economic conditions do not demand a rate hike.

We do believe, nonetheless, that the Reserve Bank will aggressively justify holding interest rates at current levels for an extended period. So, the Bank's interest rate track is likely to be much the same as it was in November – namely no rate cuts until H2 2025. It seems clear that the RBNZ shows zero sign of relaxing monetary policy any time soon even in the face of recent market pricing of around four cuts to the OCR for this year.

Pushing back against near term rate cuts has been a recent theme globally, especially the Fed. Markets have pared expected Fed rate cuts this year to around the Fed's view of 75bps, abandoning the narrative late last year and early this year that the Fed could ease much more aggressively than it had projected.

We can fully understand why the RBNZ might want to forcefully push back on the idea of cuts. It's the thought of hikes that bothers us. Monetary conditions are already tight and doing their work.

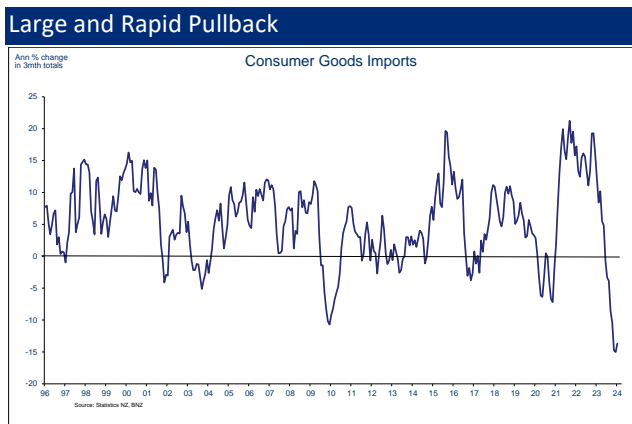
### Demand Under Duress



For more evidence of this, look no further than some of last week's data:

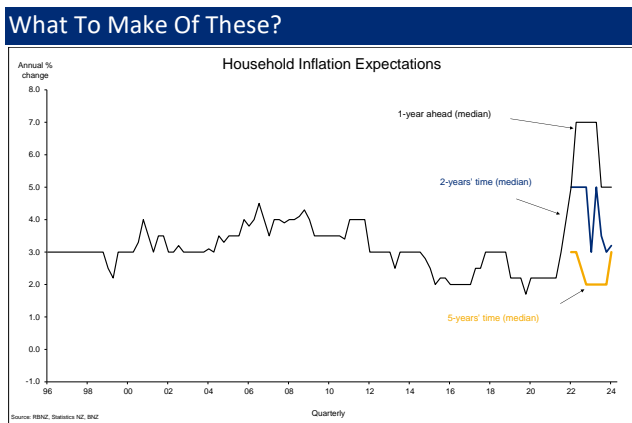
- **Q4 retail sales:** total sales volumes fell 1.9% in the quarter, with declines widespread. Sales volumes were down 4% on a year ago. Real sales per capita were down nearly 7% on a year ago, to levels last seen in March 2017. Historical revisions added to the sense of further weakness late last year with the real value of sales in Q4 a full 2.4% below the initial level published for Q3. The retail recession continues.
- **January credit card transactions:** spending in NZ on all cards was down 0.3% y/y. Spending on NZ-issued cards in NZ fell 1.2%. This is on a nominal basis. Real spending would obviously be lower and even more so on a per capita basis.
- **January merchandise trade data:** revealed a 20.2% y/y drop in imports. Some of this was petroleum products, but it was weak besides with the likes of consumption goods down 6.7% y/y and capital goods down 26.2%. These not one-offs, with smoothed data showing hefty declines in the dollar value of imports and strongly suggests softening domestic demand. Meanwhile, export values were 7.1% lower than a year ago. The overall drop in trade values suggests lower annual growth or inflation – and probably both. A narrowing annual trade deficit is another sign that previous imbalances are correcting.
- **Job insecurity:** New Zealander's see a bigger chance of losing their job over the coming 12 months. Q1 figures

show the median chance lifting to 10% from 6% a quarter earlier. Admittedly, there is limited history for this data so we treat it with caution, but it does fit with other indicators of a softening labour market.



But some other data last week gave pause for thought:

- Household inflation expectations pushed higher. For example, 2-year ahead median expectations rose to 3.2% from 3.0% and 5-year ahead expectations rose to 3.0% from 2.0%. At face value, this will be niggly for the RBNZ. That said, it is difficult to get good perspective on these results given the (recently) revamped survey does not have that much comparable history and has been reasonably wobbly. People’s perception of current inflation is 7.1% (this is the median; the average is 10.5%). On one hand, that is very high and will obviously be of concern to the central bank. On the other hand, if people perceive current inflation is running at 7.1% and expect it to drop to 3.2% in two years’ time, imagine if that rate of expected disinflation was applied to the current actual inflation rate of 4.7%.
- Producer price annual inflation in Q4 was well behaved at 2.0% for outputs and 1.9% for inputs, although the quarterly changes were perky as gains in some commodity prices coming off their lows impacted.



The sum of all that continues the theme that demand is under pressure. And this is before the impact of previous

monetary policy tightening is fully felt. We already think the output gap is negative. And it looks set to widen further. Inflation is already falling and we think it will continue to do so.

It is not just us that thinks such dynamics will lower inflation ahead. Treasury seems to be of a similar mind. Its Fortnightly Economic Update released last week was downbeat noting that ‘the economic slowdown is continuing into the new year’ and that ‘the downdraft from high interest rates appears to be dominating the updraughts coming from net migration and still-strong employment and wage growth. This is translating into easing inflation pressures’.

This followed similar type comments by Treasury Secretary McLeish at the recent Economics Forum at Waikato University including ‘the big picture is that the economy is slowing’ and ‘Demand is coming down closer to supply and that’s going to support lower inflation’.

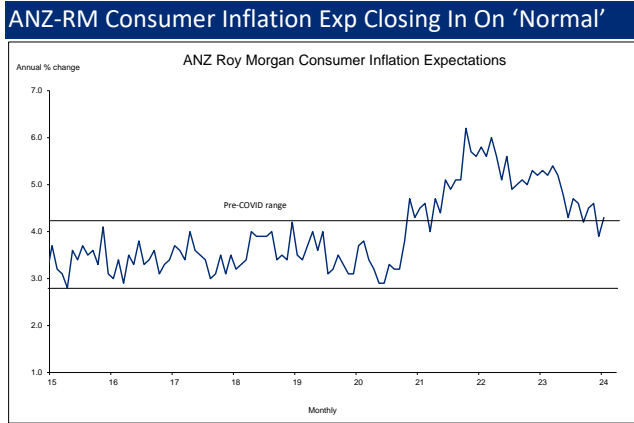
Of course, that doesn’t mean the RBNZ sees inflation falling fast enough or far enough. But it certainly supports the broad direction of travel we see.

We suspect last week’s data will have only reinforced Treasury’s big picture thoughts. Yes, the Treasury doesn’t call the shots on the level of the OCR, the Monetary Policy Committee does. However, it is interesting to hear the Treasury’s view of the world. If the Monetary Policy Committee is of a like mind, then it would make a rate hike this week that much more difficult. And if the RBNZ did hike, it would be fascinating to know what the Treasury observer on the committee makes of it.

Turning to this week’s data, business and consumer confidence surveys from ANZ on Thursday and Friday respectively will be of interest to gauge the latest pulse of the respective groups.

Businesses have been feeling a bit more chipper post the change of government, although we would really need to see activity expectations push up a bit further to be consistent with our growth forecasts for the year ahead. Inflation indicators will be monitored closely given signs of some recent stickiness, while employment and investment intentions will be checked to see if they can hold onto their recent small positives.

Consumers remain pessimistic albeit somewhat less so of late. Confidence would have to lift a fair way yet to be consistent with a lift in the likes of real retail sales. We’ll also be watching inflation expectations here too, to see if there’s any push higher like we saw in last week’s RBNZ survey. The ANZ-RM inflation expectations series has been trending lower to be near the top of the range that prevailed in the five years pre-covid (a period when actual CPI inflation averaged 1.2%).



For jobs, January’s employment indicators on Wednesday morning will give a guide to them into the New Year. Is weakness starting to creep in as suggested by lower job ads or has strong population growth enabled those businesses still looking for staff to find them more easily? The total might be close to zero growth in the month, but we wouldn’t be surprised to see lower employment compared to a year ago among youth and higher employment in more middle age groups such as has been the trend of late.

January’s building consents are released on Friday. The monthly movement is anyone’s guess but will surely be well behind year ago levels given the recent clear and strong downtrend.

January’s new residential lending data on Tuesday are likely to show slower growth if house sales in the month are any guide, while January’s credit growth figures are likely to show subdued expansion across households, agriculture, and business alike – such is the strong headwind from high interest rates.

But most focus will be on the MPS at 2pm Wednesday. Of course, it will also be worth tuning into the press conference at 3pm Wednesday and testimony to a Parliament Select Committee on Thursday morning to gain more insight into the MPC’s current thinking. And note that, separately, Governor Orr is scheduled to speak on Friday to a business audience. No notes will be published as he presents slides from the MPS, but media are allowed to attend and there will be a Q&A giving scope for some headlines.

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# Global Watch

- **Global central banks pushing back on early rate cuts**
- **US PCE deflator due: with it follow the hotter CPI?**
- **China PMIs to show soft manufacturing, better services**
- **EZ core CPI seen dipping under 3%**
- **AU CPI, retail sales data need context to be understood**

## Week In Review

Global yields continued to drift higher in what was a quiet week for data. The two biggest pieces were the FOMC Minutes and the Global PMIs. Although the FOMC Minutes were not market moving given the plethora of Fed speak recently, they do highlight that most officials are of the view that there is a greater risk of cutting rates too early, than of holding rates for too long.

The minutes noted: *“Most participants noted the risks of moving too quickly to ease the stance of policy and emphasized the importance of carefully assessing incoming data in judging whether inflation is moving down sustainably to 2 percent. A couple of participants, however, pointed to downside risks to the economy associated with maintaining an overly restrictive stance for too long”.*

As for the Global PMIs, there are signs that European data may have bottomed, supported by services, though manufacturing remains weak.

Also notable that US equities continued to rally with tech-giant NVIDIA beating lofty expectations (S&P500 +1.7%).

The underperformance of Australian data is also notable, though shifting seasonality has weighed during the summer and our NAB colleagues expect this to reverse.

Q4 WPI in Australia came in slightly higher than expected at 4.2% y/y vs. 4.1% consensus. Despite the slightly higher print, there is nothing in there to contest the RBA’s view that wages growth is likely to slow as the labour market becomes less tight. However, it is still unclear whether wages growth at >3½% is consistent with at target inflation. As such, NAB note it will take a realised moderation in services inflation to bring a rate cut into view. NAB views the probability of a H1 2024 cut as very low and continue to pencil in the first cut in November 2024. The same sentiment was given in the recent RBA Minutes of the February meeting.

## Week Ahead

In Australia, the Monthly CPI Indicator (Wednesday) and Retail Sales (Thursday) are the clear highlights. The important caveat around the Monthly CPI indicator is that for the first month of the quarter it is goods heavy, and thus it will overstate the progress on inflation.

For Retail Sales NAB’s internal data suggests last month’s weakness due to shifting seasonality will reverse and NAB pencils in +1.8% m/m (consensus 1.6%). Other data due in Australia includes pre-GDP partials of Construction (Wednesday), Capex (Thursday), though these recently have not been market moving.

In the US, the focus will be on PCE inflation to see to what extent the hotter than expected CPI & PPI feed through to the Fed’s preferred PCE measure. Consensus for Core PCE is 0.4% m/m, but the range is unusually wide at 0.3-0.5.

Other important US data includes the ISM Manufacturing (Friday), Durable/Capital Goods (Tuesday), and Conference Board Consumer Confidence (Tuesday). The ISM is the pick there with focus on whether the manufacturing sector is picking up as the forward indicators suggest.

In China the Official PMIs are on Friday, the first read since China came back from Lunar New Year Holidays.

Japanese CPI on Tuesday could show headline numbers back around the BoJ’s target, with consensus for 1.9% y/y, ex fresh food and energy is seen more stubborn, at 3.3%.

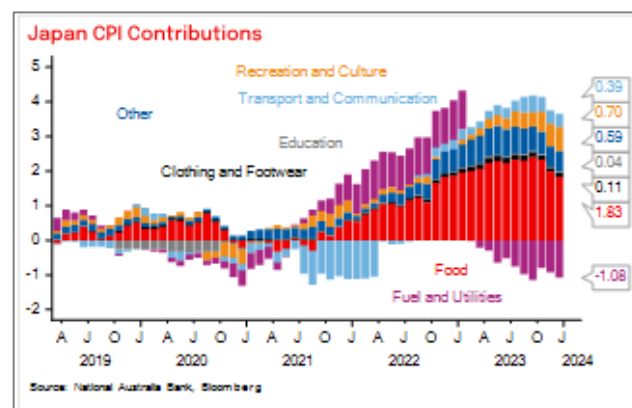
In Europe the flash CPIs (Friday) the focus, annual core inflation is seen easing to 2.9% in February from 3.3% a month earlier; German and French CPIs come out a day earlier.

## Important Offshore Events Preview

### Tuesday 27

#### JN CPI

Japan’s January CPI is expected to show headline below the BoJ’s target. Consensus is for 1.9% y/y. Combined with recent soft GDP data that hardly speaks to urgency for the BoJ to exit negative interest rate policy. But given declining energy prices watch the core-core measure excluding fresh food and energy. This is expected to slow from 3.6% to 3.3%, but remain above the BoJ’s target.



### US Durable/Capital Orders

Consensus is for a fall of 5.0% m/m after a flat December, which would be another sign of a weak start to the year after a fall in January retail sales.

### Wednesday 28

#### AU Monthly CPI Indicator

NAB forecasts January CPI rose to 3.5% y/y from 3.4% (consensus 3.6%) but note the first month of the quarter is overweight goods. NAB sees more moderation in food and goods prices than it has pencilled in is a downside risk. Travel is again the swing factor, particularly given summer seasonality. The ex travel and volatiles group could slow to 4.1% from 4.2% y/y. The RBA will have to wait until February data (on 27 March) for greater services coverage.

#### AU Construction Work Done

NAB expects another reasonable print for this pre-GDP partial, likely up 1.5% q/q (consensus 0.6%). A slight softening in residential construction in Q4 should be offset by a rebound in non-res (from a weather affected Q3) and ongoing strength in mining and public activity.

#### EZ Consumer and economic confidence surveys

The EU Commission releases its February consumer, economic, services and industrial confidence surveys. These have generally been essentially flatlining for the past nine months.

### Thursday 29

#### AU Retail Trade

NAB expects a strong rebound in retail sales for January as the shifting seasonality that weighed in December unwinds. NAB has pencilled in 1.8% m/m (consensus 1.6%).

It is also worth noting the potential impact of Taylor Swift's concerts and the leap year for next month's February data and for Q1 data in general. Seasonal adjustment packages have difficulty in seasonally adjusting a leap year.

#### AU Capex

A boost from vehicles in Q2 and Q3 is likely to unwind in Q4, seeing a fall in the plant & equipment component which feeds directly into GDP. With offsetting support from construction, NAB sees an overall fall of 0.7% q/q (consensus 0.4%).

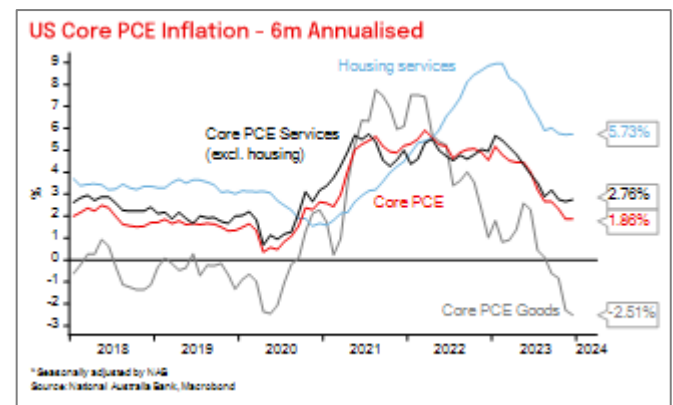
#### EZ German/French CPIs

Ahead of the wider Eurozone CPIs, Germany, France and Spain publish their numbers.

#### US PCE

PCE takes centre stage to see to what extent the hotter than expected CPI & PPI feed through to the Fed's preferred inflation measure. Consensus for Core PCE is 0.4% m/m, though there is an unusually wide range from 0.3-0.5%. While six-month annualised Core PCE inflation is running at 1.9%, slightly below the Fed's 2% target, much of that progress has been driven by goods deflation. In

contrast services inflation remains high, and Fed officials seemingly want to see some further progress in services inflation before having enough confidence in inflation sustaining at 2%.



### Friday 01

#### CH Official PMIs

The PMIs are the first read on the economy following the Lunar Year Holidays. Consensus is for ongoing manufacturing softness at 49.1 from 49.2. Non-manufacturing is seen staying somewhat better at 50.8 from 50.7.

#### EZ ECB February Preliminary HICP Inflation

The ECB will release preliminary February HICP inflation. This early release should herald the restart of disinflation in the EZ after it stalled for the December and January prints. From a cycle low of 2.4% the HICP headline rate of inflation has moved back up to 2.8-2.9% y/y, while the core rate has stalled at 3.3%. The base effects will start to push headline and core inflation lower over the coming few months; NAB expects a decline to below 2% by summer in the headline. ECB President Christine Lagarde has talked about the March meeting forecasts bringing, "a big set of information". Reasonable declines for February and March, will be informative for the ECB and NAB suggests this should see markets increase rate cut pricing for April.

#### EZ January Unemployment

EZ unemployment for January is expected to remain unchanged at the 6.4% cycle and multi-decade low.

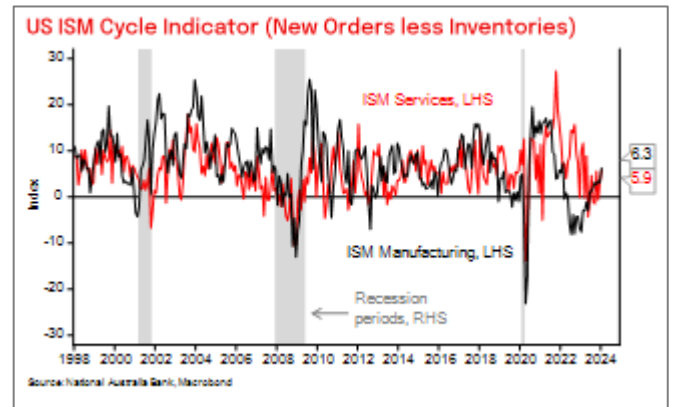
#### EZ/UK/US S&P Final February PMI Activity

Preliminary data revealed a sizeable improvement in EZ services activity back to the 50 breakeven. While there were improvements for France and Germany here, both were still sub 50 and that it was activity in the broader EZ that is driving the improvement. This upside surprise can help shift the pervading negative narrative on Europe, but of course does little to prevent the view of US outperformance when US data continues to also surprise to the upside. US service sector activity remained above 50 at 51.3 but was slower than January's 52.5. Manufacturing activity in the US however improved to 51.7, commensurate with the ongoing global improvement here,

which NAB thinks will help support the EZ. UK services activity at 54.3, remains atop it peers.

**US ISM Manufacturing**

Manufacturing conditions have been picking up with NAB’s cycle indicator, which takes the *new orders* and *inventory* indexes from the ISM, now well in expansion territory. Another positive read and it would suggest there is a mid-cycle re-acceleration within manufacturing, which would also challenge the notion of the need for aggressive rate cuts. Also of interest from the survey will be the prices paid indexes which have risen recently, and suggests the path back to sustaining inflation at 2% in the US is unlikely to be as smooth as the past seven months.



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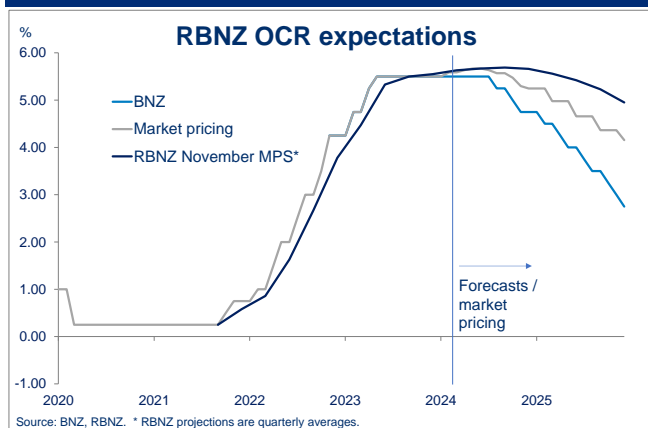
# Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed interest yields rebounded towards the highs for the year last week. The move was led by the front end and the yield curve inverted further. This is aligned with the global theme of flatter curves, as markets push back the expected timing for the beginning of the easing cycle by global central banks. In NZ, the 2y/10y curve has flattened to -55bps, which corresponds with the bottom of the range over the past 3 months. New Zealand Debt Management (NZDM) syndicated a new 30-year nominal bond – a May 2054 maturity – which saw strong demand from investors given attractive yield levels above 5%.

The focus for NZ rates in the week ahead will be the RBNZ's Monetary Policy Statement (MPS). We expect the Bank to leave rates on hold at 5.5% and maintain its hawkish tone. On balance, the evolution of domestic economic activity since the November MPS has been weaker than the RBNZ's projections. However, the central bank's focus on non-tradables inflation, which has been slow to retrace, and stronger than expected labour market data, have seen the market price in some risk of tightening in coming meetings.

## Market pricing for the Official Cash Rate

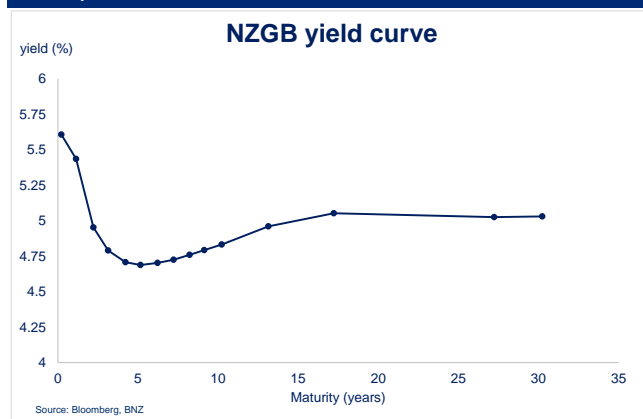


Overnight index swaps imply close to a 30% chance of a 25bps hike on Wednesday with the probability rising to nearly 50% by the April Monetary Policy Review. With monetary policy settings already restrictive, and the lagged impact of previous tightening still transmitting through the economy, we continue to expect an earlier pivot towards easing than is priced by the market. Our preferred implementation of this view is a cross market position against front end Australian rates, which removes broader market directionality, and the headwind from negative carry and roll from NZD 2-year swap rates.

The 2054 syndication saw strong demand from investors likely attracted by the recent move higher in yields. The orderbook at final guidance exceeded NZ\$19 billion, which is the largest ever for a NZGB syndication. NZDM issued NZ\$4

billion, which was previously indicated as the volume cap for the transaction. The 2054 was issued at a spread of 1 basis point to the May-2051 bond, which was towards the tighter end of initial price guidance. The NZGB curve is flat to modestly inverted beyond the May-2041 maturity, with a similar curve shape observed in both US and Australian government bond markets.

## NZGB yield curve extension



Robust investor demand for the new line provides a positive backdrop given the still-heavy government issuance programme for the remainder of the fiscal year. We expect NZDM will target an April window for its next syndication, which is expected to be a new May 2035 nominal bond. There is likely to be ongoing demand for NZGB duration as bond benchmarks incorporate the new 2054 at the end of the month. Bonds have outperformed interest rate swaps since the start of February, but NZGB supply forms a headwind for further performance, once month-end rebalancing demand is complete.

## Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.73	5.66 - 5.79
NZ 2yr swap (%)	5.25	4.72 - 5.28
NZ 5yr swap (%)	4.70	4.22 - 4.76
NZ 10yr swap (%)	4.71	4.31 - 4.79
2s10s swap curve (bps)	-54	-57 - -43
NZ 10yr swap-govt (bps)	-9	-18 - -8
NZ 10yr govt (%)	4.79	4.44 - 4.92
US 10yr govt (%)	4.25	3.81 - 4.35
NZ-US 10yr (bps)	55	47 - 65
NZ-AU 2yr swap (bps)	120	72 - 123
NZ-AU 10yr govt (bps)	60	39 - 68

\*Indicative range over last 4 weeks

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# Foreign Exchange Market

Reuters pg BNZFWDS Bloomberg pg BNZ9

Last week the NZD outperformed and we suggest it might have been caused by some nerves heading into this week’s RBNZ MPS, with NZ-global rate spreads widening. NZD/USD rose 1.2% to 0.62, with gains of 0.6%-1.4% on the NZD crosses. NZD/AUD traded at a fresh nine-month high and closed the week up 0.7% to 0.9440. NZD/JPY traded at a fresh nine-year high, closing the week up 1.4% to 93.3.

Regular readers will be aware of our view that the NZD is expected to trade in a 0.60-0.64 range until further notice. Last week, the currency revisited the mid-point of the range for the first time since mid-January. NZ-global rate spreads widened ahead of Wednesday’s RBNZ MPS, with the rates market trading cautiously ahead of that risk event, providing the NZD with a tailwind.

At Friday’s close, the OIS market had priced in a 30% chance of a 25bps hike and a 65% chance that a hike will be delivered by May. We remain firmly of the view that further tightening is unnecessary, in the context of the very weak economy and receding inflation pressures. NZ’s improving trade balance, driven by a slump in imports, is testament to the recessionary conditions currently facing the economy. Ditto plunging retail sales, which fell 4% y/y in Q4 in real terms or nearly 7% on a per capita basis. It is hard to believe that demand-push pressures are currently driving inflation, necessitating higher interest rates.

That said, a rate hike can’t be completely ruled out and the RBNZ will remain committed to achieving its 2% inflation goal, suggesting some vigilance from the central bank. Thus, the Statement will read hawkish compared to the message of most other central banks. However, an on-hold decision and rate projections that show little revision – indicative of still some chance of another rate hike and no easing until well into next year – won’t be hawkish enough and could see the NZD retreat this week, alongside short-term rates.

While the RBNZ will be the domestic focus for the market, the rest of the economic calendar is busy. The ANZ business outlook survey, due Thursday, will be too late to influence the RBNZ’s message.

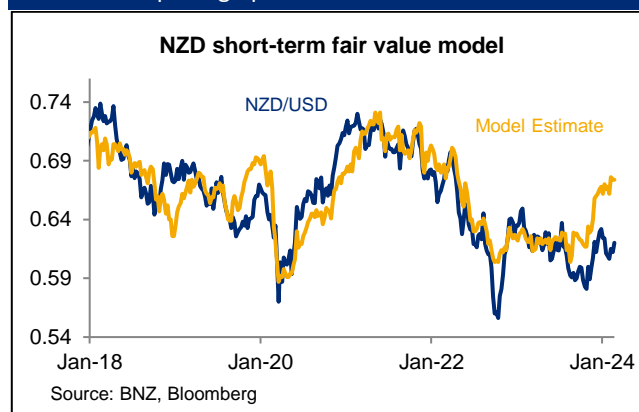
In the US, the core PCE deflator is expected to show an increase of 0.4% m/m, higher than the recent run-rate, with good guidance on that uplift provided by recent CPI and PPI data. The ISM manufacturing survey will also be of some interest. Elsewhere, CPI figures for Japan, Germany and the euro area will be released and the monthly Australian CPI indicator as well. Canadian GDP, China PMIs and Australian retail sales round out the calendar.

Lately we haven’t written much about our NZD/USD fair value model estimate. For the record, fair value has been

grinding higher since late last year on the back of contributions from all three components – higher risk appetite, higher NZ commodity prices and higher NZ-US real interest rate spreads. Over the past few weeks, fair value has pushed above the 0.67 mark. This sees the NZD trading historically very cheap on this model.

We speculate that our model isn’t capturing the significant pessimism around China, that has acted as a deadweight on Asia-Pacific currencies like the NZD. This has made us reluctant to thump the table and call the NZD a screaming buy, but it does give us some comfort in our view that any break of the 0.60-0.64 trading range is more likely to come via the topside rather than the downside. Our projections show the NZD appreciating over the next year or two. But we continue to believe that a dovish pivot by the Fed is a necessary factor for that to play out. Some near-term patience is required in that regard.

### Some value opening up in the NZD



### Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6197	0.6050 - 0.6220
NZD/AUD	0.9444	0.9310 - 0.9460
NZD/GBP	0.4890	0.4800 - 0.4910
NZD/EUR	0.5725	0.5630 - 0.5730
NZD/JPY	93.27	89.80 - 93.50

\*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models		
	Model Est.	Actual/FV
NZD/USD	0.6760	-8%
NZD/AUD	0.9180	3%

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# Technicals

## NZD/USD

Outlook: Trading range  
 ST Resistance: 0.6280 (ahead of 0.64)  
 ST Support: 0.6040 (ahead of 0.60)

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

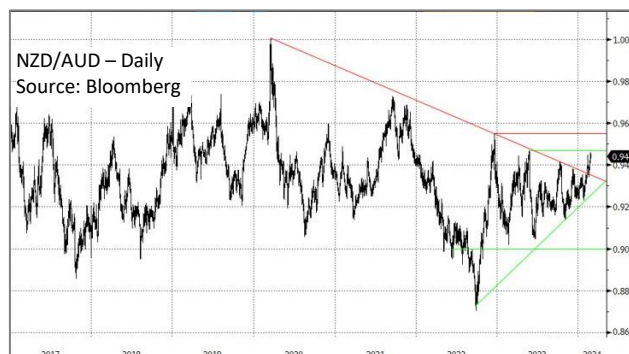


## NZD/AUD

Outlook: Trading range  
 ST Resistance: 0.9470 (ahead of 0.9550)  
 ST Support: 0.9350 (ahead of 0.9250)

The topside of the wedge nows looks to have been sustainably broken. Next line of resistance is 0.9470, ahead of 0.9550.

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## NZ 5-year Swap Rate

Outlook: Neutral  
 MT Resistance: 4.76  
 MT Support: 4.59

5y swap bounced higher last week with 4.59 proving to show support. This week’s RBNZ meeting sees a technical break being likely given the tight range. We sit neutral and await the outcome.

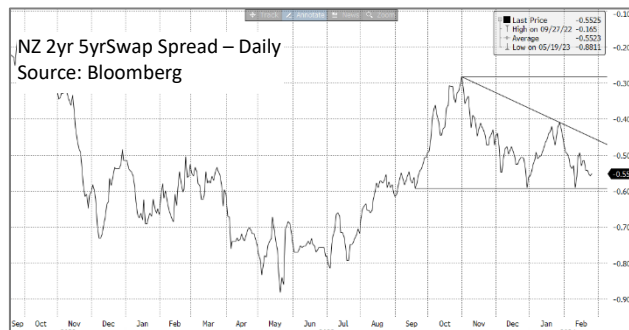


## NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: Neutral  
 MT Resistance: -0.46  
 MT Support: -0.59

2x5 swap spread drifted flatter last week but remained in our descending triangle pattern. We remain neutral technically.

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# Quarterly Forecasts

Forecasts as at 26 February 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.)	-0.9	-1.0	-0.8	-0.6	-0.8	-1.9	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	-6.6	-6.2	-5.8
CPI (q/q)	2.2	1.4	1.2	1.1	1.8	0.5	0.6	0.6	1.1	0.5
Employment	1.4	0.7	1.1	1.0	-0.1	0.4	0.1	0.0	0.1	0.2
Unemployment rate %	3.3	3.4	3.4	3.6	3.9	4.0	4.4	4.9	5.2	5.5
Avg hourly earnings (ann %)	8.6	8.1	8.2	7.7	7.1	6.6	5.8	5.1	4.0	4.3
Trading partner GDP (ann %)	3.7	2.1	2.9	3.5	3.1	3.2	2.7	2.8	2.7	2.9
CPI (y/y)	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.6	2.9	2.9
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 NZ-US Ten year
		90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	
<b>2022 Sep</b>	2.83	3.33	3.65	3.77	4.12	3.95	3.95	3.00	3.10	0.67
<b>Dec</b>	4.00	4.27	4.34	4.31	5.10	4.67	4.55	4.50	3.80	0.49
<b>2023 Mar</b>	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
<b>Jun</b>	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
<b>Sep</b>	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
<b>Dec</b>	5.50	5.63	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
<b>Forecasts</b>										
<b>2024 Mar</b>	5.50	5.60	5.00	4.90	5.30	4.90	4.65	5.80	4.40	0.50
<b>Jun</b>	5.50	5.65	4.80	4.70	4.95	4.70	4.50	5.30	4.20	0.50
<b>Sep</b>	5.50	5.50	4.50	4.50	4.55	4.45	4.40	4.80	4.00	0.50
<b>Dec</b>	5.25	5.25	4.20	4.25	4.10	4.15	4.15	4.55	3.75	0.50
<b>2025 Mar</b>	5.00	4.75	3.90	4.10	3.70	3.95	4.10	4.05	3.50	0.60
<b>Jun</b>	4.50	4.25	3.75	4.10	3.35	3.80	4.10	3.80	3.50	0.60
<b>Sep</b>	4.00	3.75	3.60	4.10	3.10	3.75	4.20	3.30	3.50	0.60
<b>Dec</b>	3.50	3.50	3.55	4.10	3.00	3.70	4.20	3.05	3.50	0.60

## Exchange Rates (End Period)

### USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
<b>Current</b>	0.62	0.66	1.08	1.27	150
<b>Mar-24</b>	0.62	0.66	1.09	1.29	147
<b>Jun-24</b>	0.64	0.69	1.13	1.33	142
<b>Sep-24</b>	0.64	0.71	1.16	1.36	138
<b>Dec-24</b>	0.65	0.72	1.17	1.37	135
<b>Mar-25</b>	0.67	0.73	1.18	1.38	130
<b>Jun-25</b>	0.69	0.75	1.19	1.39	125
<b>Sep-25</b>	0.71	0.77	1.21	1.41	120
<b>Dec-25</b>	0.71	0.78	1.22	1.42	118
<b>Mar-26</b>	0.69	0.78	1.23	1.43	116
<b>Jun-26</b>	0.68	0.76	1.23	1.43	115

### NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
<b>Current</b>	0.62	0.94	0.57	0.49	93.3	72.6
<b>Mar-24</b>	0.62	0.93	0.57	0.48	91.1	71.8
<b>Jun-24</b>	0.64	0.92	0.56	0.48	90.4	72.6
<b>Sep-24</b>	0.64	0.91	0.55	0.47	88.7	72.3
<b>Dec-24</b>	0.65	0.90	0.56	0.47	87.8	72.3
<b>Mar-25</b>	0.67	0.91	0.56	0.48	86.5	72.8
<b>Jun-25</b>	0.69	0.92	0.58	0.50	86.3	74.5
<b>Sep-25</b>	0.71	0.92	0.59	0.50	85.2	75.8
<b>Dec-25</b>	0.71	0.91	0.58	0.50	83.8	75.3
<b>Mar-26</b>	0.69	0.89	0.56	0.49	80.5	73.6
<b>Jun-26</b>	0.68	0.90	0.55	0.48	78.2	72.7

### TWI Weights

13.8% 16.5% 9.8% 3.1% 6.1%

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

# Annual Forecasts

Forecasts as at 26 February 2024	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
<b>GDP - annual average % change</b>										
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	3.8	5.5	-2.7	-0.2	7.9	3.6	5.4
Imports	17.3	4.6	-0.6	-0.8	3.8	14.8	4.6	1.2	-1.8	3.2
Real Expenditure GDP	4.7	2.7	-0.4	0.3	3.0	5.9	2.2	0.2	-0.3	2.7
<b>GDP (production)</b>	<b>4.5</b>	<b>2.8</b>	<b>0.1</b>	<b>0.5</b>	<b>3.0</b>	<b>5.5</b>	<b>2.4</b>	<b>0.7</b>	<b>-0.1</b>	<b>2.7</b>
<i>GDP - annual % change (q/q)</i>	0.7	2.1	-0.3	1.9	3.1	2.5	2.3	-0.1	0.8	3.1
Output Gap (ann avg, % dev)	1.3	1.8	-0.3	-1.0	0.1	1.5	1.9	0.2	-1.0	-0.2
Nominal Expenditure GDP - \$bn	359	388	414	435	459	353	381	408	429	453
<b>Prices and Employment - annual % change</b>										
CPI	6.9	6.7	4.0	2.7	2.0	5.9	7.2	4.7	2.9	1.8
Employment	2.5	3.0	1.4	0.6	2.5	3.3	1.7	2.4	0.4	2.1
Unemployment Rate %	3.2	3.4	4.4	5.7	5.3	3.2	3.4	4.0	5.5	5.5
Wages - ahote (private sector)	5.3	8.2	5.8	3.9	3.0	4.1	8.1	6.6	4.3	3.0
Productivity (ann av %)	1.7	0.6	-2.3	-0.1	1.2	3.5	0.2	-2.1	-0.9	1.3
Unit Labour Costs (ann av %)	4.6	6.4	8.7	5.1	2.0	2.4	6.4	8.6	6.6	2.0
House Prices	13.8	-12.1	2.6	8.6	13.4	27.2	-11.1	-1.6	6.7	13.4
<b>External Balance</b>										
Current Account - \$bn	-23.6	-31.8	-28.1	-23.2	-19.1	-20.6	-33.4	-29.0	-24.7	-20.2
Current Account - % of GDP	-6.6	-8.2	-6.8	-5.3	-4.2	-5.8	-8.8	-7.1	-5.8	-4.5
<b>Government Accounts - June Yr, % of GDP</b>										
OBEGAL (core operating balance)	-2.7	-2.4	-2.8	-1.7	-0.8					
Net Core Crown Debt	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					
<b>Financial Variables <sup>(1)</sup></b>										
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	147	130	116	114	135	144	135	118
EUR/USD	1.10	1.07	1.09	1.18	1.23	1.13	1.06	1.09	1.17	1.22
NZD/AUD	0.93	0.93	0.93	0.91	0.89	0.95	0.94	0.93	0.90	0.91
NZD/GBP	0.52	0.51	0.48	0.48	0.49	0.51	0.52	0.49	0.47	0.50
NZD/EUR	0.62	0.58	0.57	0.56	0.56	0.60	0.60	0.57	0.56	0.58
NZD/YEN	81.5	83.0	91.1	86.5	80.5	77.4	85.6	89.5	87.8	83.8
TWI	73.9	71.0	71.8	72.8	73.6	73.0	72.9	72.0	72.3	75.3
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	5.00	3.25	0.75	4.25	5.50	5.25	3.50
90-day Bank Bill Rate	1.45	5.16	5.60	4.75	3.00	0.92	4.55	5.63	5.25	3.50
5-year Govt Bond	2.90	4.40	5.00	3.90	3.60	2.20	4.30	4.50	4.20	3.55
10-year Govt Bond	3.20	4.35	4.90	4.10	4.10	2.35	4.25	4.65	4.25	4.10
2-year Swap	3.00	5.15	5.30	3.70	3.15	2.22	5.21	4.93	4.10	3.00
5-year Swap	3.20	4.50	4.90	3.95	3.85	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	0.50	0.60	0.60	0.90	0.65	0.65	0.50	0.60
<sup>(1)</sup> 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
<b>Monday 26 February</b>				NZ Household credit, y/y Jan			3.00%
EC				GE Unemployment Claims Rate SA Feb	5.80%		5.80%
UK				<b>Friday 01 March</b>			
<b>Tuesday 27 February</b>				NZ CoreLogic House Prices YoY Feb			-2.70%
UK	CBI Retailing Reported Sales Feb	-31	-50	GE CPI YoY Feb P	2.60%		2.90%
UK	BOE's Pill speaks			AU CoreLogic House Px MoM Feb			0.40%
EC	ECB's Stouraras speaks			US Personal Income Jan	0.40%		0.30%
US	New Home Sales Jan	684k	664k	US Personal Spending Jan	0.20%		0.70%
EC	ECB's Lagarde speaks			US Real Personal Spending Jan	-0.10%		0.50%
JN	Natl CPI YoY Jan	1.90%	2.60%	US PCE Deflator MoM Jan	0.30%		0.20%
US	Fed's Schmid speaks			US PCE Deflator YoY Jan	2.40%		2.60%
NZ	New residential lending, y/y Jan		3.60%	US PCE Core Deflator MoM Jan	0.40%		0.20%
GE	GfK Consumer Confidence Mar	-29	-29.7	US PCE Core Deflator YoY Jan	2.80%		2.90%
<b>Wednesday 28 February</b>				US Initial Jobless Claims Feb-24	210k		201k
US	Durable Goods Orders Jan P	-5.00%	0.00%	US Continuing Claims Feb-17	1874k		1862k
UK	BOE's Ramsden speaks			US MNI Chicago PMI Feb	48		46
US	S&P CoreLogic CS US HPI YoY NSA Dec		5.14%	US Pending Home Sales MoM Jan	1.10%		8.30%
US	Fed's Barr speaks			US Fed's Bostic, Goolsbee, Mester speak			
US	Richmond Fed Manufact. Index Feb	-8	-15	NZ ANZ Consumer Confidence Index Feb			93.6
US	Conf. Board Consumer Confidence Feb	115	114.8	NZ Building Permits MoM Jan			3.70%
US	Richmond Fed Business Conditions Feb		-3	AU Judo Bank Australia PMI Mfg Feb F			47.7
US	Dallas Fed Services Activity Feb		-9.3	JN Jobless Rate Jan	2.40%		2.40%
NZ	Employment indicators, m/m Jan		0.20%	NZ RBNZ Governor Orr speaks to Canterbury Chamber			
AU	Construction Work Done 4Q	0.60%	1.50%	1.30%	US Fed's Williams speaks		
AU	CPI YoY Jan	3.60%	3.50%	3.40%	CH Manufacturing PMI Feb	49	49.2
NZ	RBNZ OCR and MPS Feb-28	5.50%	5.50%	5.50%	CH Non-manufacturing PMI Feb	51	50.7
EC	ECB's Muller speaks			CH Caixin China PMI Mfg Feb	50.6		50.8
EC	Consumer Confidence Feb F		-15.5	EC HCOB Eurozone Manufacturing PMI Feb F	46.1		46.1
EC	Economic Confidence Feb	96.5	96.2	UK S&P Global UK Manufacturing PMI Feb F	47.1		47.1
<b>Thursday 29 February</b>				EC CPI Estimate YoY Feb	2.50%		
US	GDP Annualized QoQ 4Q S	3.30%	3.30%	EC CPI Core YoY Feb P	2.90%		3.30%
UK	BOE's Mann speaks			EC Unemployment Rate Jan	6.40%		6.40%
US	Fed's Bostic, Collins, Williams speak			EC ECB's Holzmann speaks			
NZ	RBNZ Gov Orr speaks at Parliament Select Committee on MPS			<b>Saturday 02 March</b>			
JN	Retail Sales MoM Jan	0.50%	-2.90%	UK BOE's Pill speaks			
JN	Industrial Production MoM Jan P	-7.00%	1.40%	US S&P Global US Manufacturing PMI Feb F	51.5		51.5
NZ	ANZ Business Confidence Feb		36.6	US Construction Spending MoM Jan	0.20%		0.90%
UK	Lloyds Own Price Expectations Feb		56	US U. of Mich. Sentiment Feb F	79.6		79.6
AU	Retail Sales MoM Jan	1.60%	1.80%	-2.70%	US ISM Manufacturing Feb	49.5	49.1
AU	Private Capital Expenditure 4Q	0.40%	-0.70%	0.60%	US Fed's Waller, Logan speak		
AU	Private Sector Credit MoM Jan	0.40%	-0.70%	0.40%	US Kansas City Fed Services Activity Feb		-2
JN	BOJ Board Takata speaks			US Fed's Bostic, Daly, Kugler speak			

## Historical Data

	Today	Week Ago	Month Ago	Year Ago		Today	Week Ago	Month Ago	Year Ago
<b>CASH AND BANK BILLS</b>					<b>SWAP RATES</b>				
Call	5.50	5.50	5.50	4.75	2 years	5.25	5.19	4.77	5.44
1mth	5.66	5.64	5.59	4.82	3 years	4.94	4.89	4.51	5.19
2mth	5.70	5.68	5.63	5.02	4 years	4.77	4.75	4.39	5.00
3mth	5.73	5.71	5.66	5.13	5 years	4.70	4.68	4.36	4.89
6mth	5.77	5.74	5.61	5.38	10 years	4.71	4.72	4.49	4.71
<b>GOVERNMENT STOCK</b>					<b>FOREIGN EXCHANGE</b>				
05/26	4.97	4.94	4.59	4.79	NZD/USD	0.6200	0.6150	0.6133	0.6167
04/29	4.70	4.69	4.39	4.63	NZD/AUD	0.9453	0.9403	0.9277	0.9152
05/31	4.75	4.76	4.53	4.63	NZD/JPY	93.32	92.32	90.46	84.00
05/34	4.86	4.88	4.68	4.68	NZD/EUR	0.5727	0.5705	0.5661	0.5813
04/37	4.99	5.02	4.83	4.79	NZD/GBP	0.4893	0.4883	0.4826	0.5113
05/41	5.09	5.12	4.95	4.86	NZD/CAD	0.8370	0.8296	0.8227	0.8372
05/51	5.06	5.11	4.94	4.74	TWI	72.6	72.1	71.5	70.8
<b>GLOBAL CREDIT INDICES (ITRXX)</b>									
Nth America 5Y	52	53	54	76					
Europe 5Y	54	56	59	79					

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