13 May 2024

May MPS Preview

- **RBNZ view unchanged**
- **Near-term inflation worrying**
- **But activity tanking**
- **And unemployment rising**
- **Q3 CPI and Budget details keys to future actions**

“The Monetary Policy Committee today agreed to leave the Official Cash Rate (OCR) at 5.50 percent.

The New Zealand economy continues to evolve as anticipated by the Monetary Policy Committee. Current consumer price inflation remains above the Committee’s 1 to 3 percent target range. A restrictive monetary policy stance remains necessary to further reduce capacity pressures and inflation.

Globally, while there are differences across regions, economic growth remains below trend and is expected to remain subdued. However, most major central banks are cautious about easing monetary policy given the ongoing risk of persistent inflation.

Economic growth in New Zealand remains weak. While some near-term price pressures remain, the Committee is confident that maintaining the OCR at a restrictive level for a sustained period will return consumer price inflation to within the 1 to 3 percent target range this calendar year.”

The above is what the RBNZ said when it released its 10 April Monetary Policy Review. Was it to repeat this at its May 22 Monetary Policy Statement, we would not be in the slightest bit disapproving. Sure, inflation has been higher than the Reserve Bank anticipated and risks of further near-term upside remain but growth is surprising to the low side and unemployment to the high side indicating that any near term inflationary issues should dissipate in time.

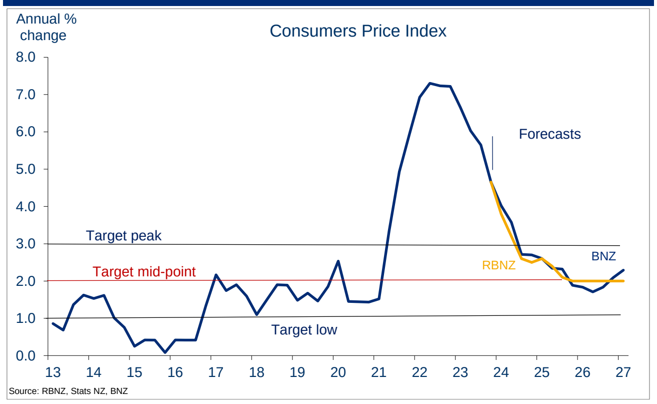
On the inflation front, the Q1 headline CPI of 0.6% was clearly above the RBNZ’s pick of 0.4%. What’s more the Bank will not be happy that annual service sector inflation climbed back up to 5.3%. But core inflation is still falling, and we still believe annual CPI inflation will be within the RBNZ’s target range in the third quarter of this year.

Today’s Selected Price Indexes, and recent movements in petrol prices, have seen us keep our Q2 CPI pick at 0.6% but rounding has nudged the annual reading 0.1% higher to 3.6%. On balance the April month data were more inflationary than we had anticipated. However, it’s difficult to know how much of the observed price movement will be sustained for the remainder of the quarter.

Moreover, we believe that falling fresh, fruit and vegetable prices, thanks to a good growing season, and declining petrol prices (in part due to the removal of the Auckland regional fuel tax) pose some downside risk to our Q3 CPI pick.

And it’s the third quarter reading that really matters. Our annual CPI forecast for Q3 is just 2.7%, the lowest since March 2021. The dropping out of last year’s Q3 increase of 1.8% from the annual calculation makes a huge difference to the annual reading before any trend decline in inflationary pressure is taken into consideration.

Inflation broadly behaved



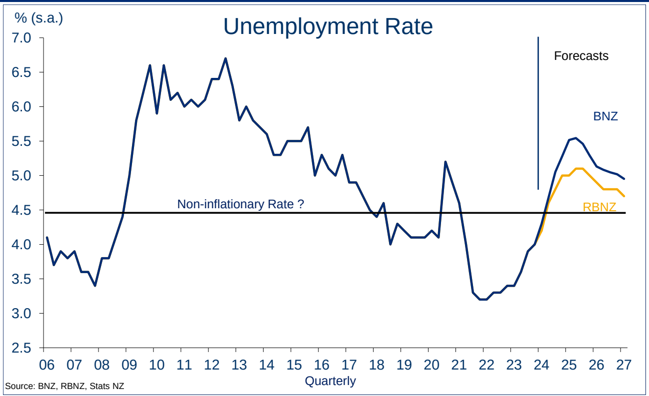
Taking all things into consideration, we are picking “just” a 0.9% CPI increase for Q3. Yes, this is still a big number but last year’s headline 1.8% seasonally adjusts to 1.2%. Assuming there is a decent adjustment for the quarter this year, it is likely the seasonally adjusted quarterly outturn is very close to the 0.5% the RBNZ would be happy with.

The RBNZ has been quite open in its commentary that it will feel much more relaxed once annual inflation is within its target band. We think a sub 3.0% reading is a necessary but not sufficient condition for the RBNZ to cut rates. With the Q3 CPI due for release on October 16 this makes the November Monetary Policy decision a live meeting for a rate change. It would be easy to lower rates then while still arguing monetary conditions remain tight. Indeed, one could argue that conditions were tightening as falling inflation pushes up real interest rates.

As for the real economy, we are convinced it is underperforming the RBNZ's expectations and will continue to do so.

For starters, the unemployment rate for Q1 came in at 4.3% compared to a RBNZ pick of 4.2%. More importantly, with migration-driven labour supply outpacing labour demand, we think the unemployment rate will rise to 5.5% well higher than the RBNZ's 5.1% peak. This will also push wage inflation below RBNZ's expectation albeit there is no clear evidence of this just yet.

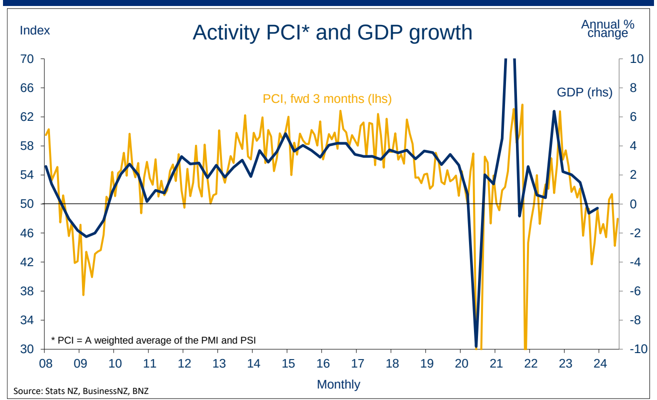
Unemployment climbing



In Q4, 2023 GDP contracted 0.1%, below the RBNZ's flat expectation. Moreover, revisions to backdata were mildly negative. More importantly, though, we will be surprised if the RBNZ doesn't lower its growth forecasts when it publishes its upcoming MPS. Back in February the Bank was forecasting 0.3% GDP growth in each of Q1 and Q2, 2024. We think we'll be lucky to see any growth at all.

This morning's Performance of Services data, when combined with last week's manufacturing equivalent, suggest annual GDP growth should remain negative through much of calendar 2024 and even more negative than we are currently assuming.

Growth under water



All other things being equal, a weaker growth profile, means a deeper negative output gap and less inflationary pressure within the economy.

There is a big missing link in our, and the Reserve Bank's, growth forecasts and that is the impact of fiscal policy, especially the postulated personal tax cuts, on activity. We will not be able to include the full impact of the fiscal adjustments in our forecasts until we see the detail of the May 30 Budget. There is no doubt tax cuts will boost private consumption and GDP but this will also be at least partially offset by government cuts elsewhere. Importantly, the Budget is released after the May Monetary Policy Statement.

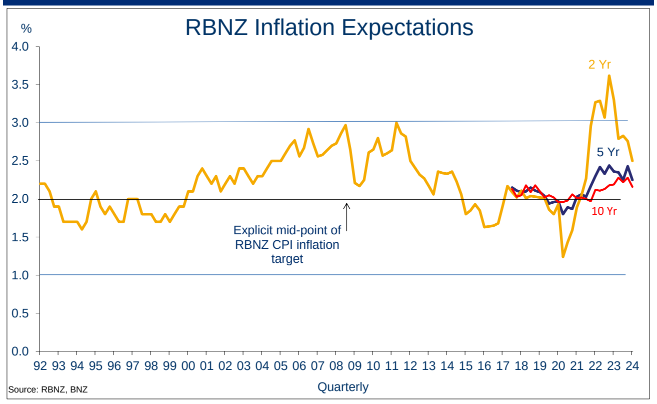
So, with significant unknowns and little deviation from expectations in the knowns, we think the RBNZ will simply stick to the same story it delivered in February and April. If the Bank wants to send a little signal about how it sees things evolving then a small nudge in its interest rate track would be a good way to do this but we're not sure anything will happen in this space either.

Back in May the rate track implied the first cut would be in Q2 of 2025. Our formal view remains that the RBNZ will eventually shift rates earlier than Q2 but, given the inflation track we are forecasting, we doubt very much the Bank would want to signal this at the upcoming meeting. Indeed, we concede that the ongoing stickiness in inflation is increasing the chance that we might have to push back our own rate cut forecast into 2025. That said, there is still a lot more that we would need to see before doing so including, as noted earlier, details of the Budget and the Q3 CPI.

The key data for this week have already been released with this morning's PSI and Selected Price Indexes but there are a couple of other things worthy of note.

This afternoon the Reserve Bank releases its latest inflation expectations series. Ideally these expectations would fall further but given what we have seen in the business surveys this may not be the case. For the record, the Q2 expectations for the 1,2,5 and 10 year ahead periods respectively were 3.22%, 2.50%, 2.27% and 2.16%.

Further progress needed

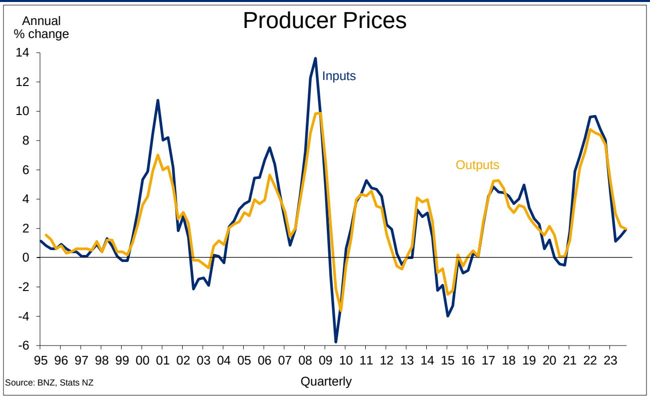


On Tuesday, we see April Electronic Card Transactions data (ECT). The monthly data are volatile so we don't have a strong view on the likely outcome. What we are confident of, however, is that annual growth in retail will remain negative for a third consecutive month. This is quite staggering given current annual CPI inflation of 4.0% and population growth of around 2.5%.

Also on Tuesday we get our latest instalment of migration and travel data. We are again looking for confirmation that net migration has peaked and tourism growth is slowing.

On Friday March quarter Business Price Indices are revealed. With the Q1 CPI already published, these indices are somewhat academic. Nonetheless, we will be seeking further evidence that business cost inflation is contained. Let's not forget annual input price inflation was just 1.9% in the year to December 2023 with output price inflation 2.0%.

Business prices behaving



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Global Watch

- **US inflation seen cooling after prior months' strength**
- **China activity indicators expected to improve**
- **AU Budget, labour market data due**
- **Japan GDP seen lower, but not expected to knock BoJ**
- **UK wage inflation expected to continue easing slowly**

Previous Week

The RBA kept rates on hold as expected last week. The post-Meeting Statement did not give a hawkish bias, keeping the "*not ruling anything in or out*" mantra from March. Markets pared the chance of a near-term hike post meeting and see the RBA broadly on hold with the first cut fully priced by August 2025.

Governor Bullock noted that the Board "*believe we have rates at the right level*" and that the Board did discuss the option of raising rates. While there was no explicit bias, Ms Bullock said the RBA needed to be "*alert and vigilant*" on inflation. One reason is that the RBA did not take much signal from the upward surprise from the recent Q1 CPI for future inflation outcomes. The RBA's forecasts overall mean little ability to absorb additional upward inflation surprises.

Sweden's Riksbank met and cut rates by 25bps and guided to two more cuts in H2 2024. The BoE also met, and while keeping rates on hold, are guiding to cuts. Governor Bailey said a June cut is, "*neither ruled out, nor a fait accompli*" and that it is "*likely that we will need to cut Bank Rate over the coming quarters and make monetary policy somewhat less restrictive over the forecast period and possibly by more so than priced into market rates*". Markets price 60bps of cuts by end of 2024.

Outside of central banks, there was little in the way of top-tier data. Australian Q1 Retail Volumes were broadly as expected at -0.4% q/q vs. -0.3% consensus, with the earlier monthly values providing a good guide. China inflation was marginally higher than expected but still low with CPI at +0.3% y/y and PPI at -2.5% y/y in April.

Week Ahead in Brief

US inflation data looms large. After the unhelpful run of 0.4% m/m outcomes for CPI over the past 3 months, Consensus for April is a 0.3% m/m for core, which would see the y/y rate fall back to 3.6% from 3.8%. PPI is the day before CPI this time. Retail Sales is also Wednesday and Thursday's initial jobless claims are worth a closer than usual look after the NY/California state driven increase the week before. There are also a few Fed speakers. Chair Powell appears with ECB's Knot on Tuesday, and Kashkari, Mester and Bostic are all scheduled to speak after the CPI.

In China, no change is expected for the MLF rate on Monday ahead of the raft of monthly activity readings on Friday. Retail sales is seen improving at 3.7% y/y from 3.1%, while industrial production growth is seen quickening to 5.5% from 4.5%.

Attention in Australia turns to the Budget this Tuesday, while wages and employment data are also in the spotlight. RBA chief economist Hunter speaks Thursday, likely to talk to the SoMP forecasts given the timing and touch on housing given the forum.

The Federal budget is handed down Tuesday at around 7:30pm AEST. Revenue will be upgraded again, but likely less materially than in previous updates. Overall, while NAB sees the impact on the macro-outlook as likely to be relatively contained, a slight structural loosening of policy looks inevitable.

As for data in Australia, the NAB Business Survey is on Monday. Q1 WPI on Wednesday is dated, reflecting pay increase over the 3 months to late February, but will be important for the RBA's assessment that wages growth is at its peak. NAB expects 0.9% q/q and 4.2% y/y, in line with consensus and the RBA. Employment data on Thursday is expected to see the unemployment rate tick a point higher to 3.9% in April.

Japan's Q1 GDP data on Thursday will likely show a modest contraction, but that shouldn't knock the BoJ too much with prospects looking better through the second half.

The UK is also in focus as markets look to size up the prospect of a June cut. UK wages growth is expected to continue its slow decline on Tuesday, released alongside April labour market data. Chief economist Pill speaks Tuesday, with relative hawks Greene (Thursday) and Mann (Friday) also on the circuit.

In Europe, the ZEW survey is on Monday, preliminary GDP for Q1 on Tuesday comes after the earlier advanced reading showed +0.3% q/q, and final CPI is on Friday. The EU Commission releases economic forecasts on Wednesday.

Important Events Preview

Monday 13

AU NAB Business Survey
No Preview as NAB publishes the Survey.

Tuesday 14

UK Labour Market Data; BoE's Chief Economist Pill
UK wages for March are expected to continue their very slow decline. In February, Average hourly earnings excluding bouses eased to 6% 3M y/y from 6.1% in February and a peak of 7.9% in August 2023. Gains were seen in public sector earnings, while private sector easings eased modestly. Elsewhere UK labour market data has

shown declines in the number of payrolled employees, higher jobless claims and a rise in the ILO unemployment measure to 4.2% (from 3.8% in Dec).

Elsewhere the BoE's Chief Economist delivers a keynote speech at the Institute of Charted Accounts in England and Wales Regions Economic summit.

AU Budget

The Federal government delivers the 2024-25 budget on Tuesday evening. Another revenue upgrade is likely, continuing the pattern of recent updates and delivering a surplus this financial year, though upgrades will likely be smaller than previous years.

Stage three tax cuts are well known and have been baked into official forecasts for a long time. Already known are some changes including the retrospective tweak to HECS indexation, while any detail forthcoming on 'Future Made in Australia' will be interesting.

Other detail of the cost of living relief in the budget could also have direct impacts on the measured price level for CPI, either permanent (if rent assistance is increased again) or temporary (if electricity subsidies are renewed), even as reduced pressure on households adds to broader demand. Overall, the impact on the macro outlook is likely to be relatively contained, not adding much in addition to inflation pressures even if a slight structural loosening of policy looks inevitable.

US April PPI; Fed Chair Powell

PPI is out ahead of CPI this month and means that the read through to the Fed's preferred PCE measure should be firmed up on CPI day. Consensus is for PPI to rise 0.3% m/m, with the ex food and energy measure up 0.2%.

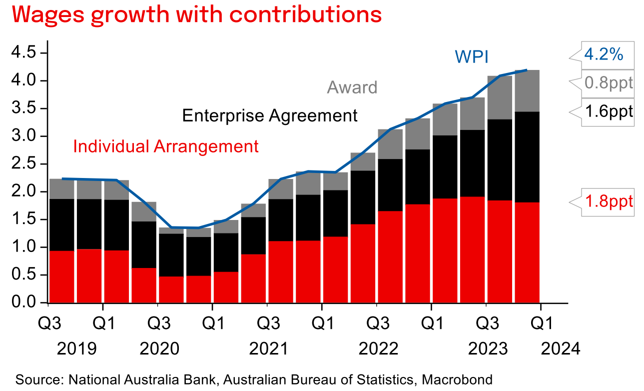
Meanwhile Fed Chair Powell is speaking alongside the ECB's Knot at a special event organised by the Netherlands' Foreign Bankers' Association.

Wednesday 15

AU Q1 WPI

NAB expect wages growth of 0.9% q/q in Q1, which would leave the y/y rate at 4.2%. That's in line with the RBA's May forecast. Q4 was on the stronger side, driven by strength in public sector wage increases, including as a result of new agreements for some education and health staff which saw both larger increases and an unusually large share of jobs receiving pay rises in the quarter. Note Q1 wages data reflects pay changes in the 3 months to late February.

The RBA assesses from their liaison program that most firms expect stable or slower wages growth in the period ahead. So far, the detail of the wages data shows that jobs with pay set by individual agreements have seen stable to marginally slower wages growth recently, while more inertial public and collective agreements have supported. Evidence that is continuing will give the RBA confidence that labour market is indeed less wage inflationary than a year ago even as the headline unemployment rate has not moved far off its lows.



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

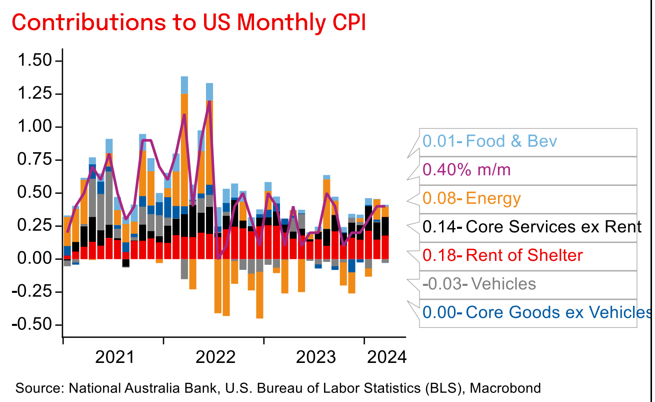
CH Medium Term Lending (no change expected)

EZ Q1 preliminary GDP, EU Commission Forecasts

Advance Q1 GDP data already pointed to the EU emerging from a very mild technical recession (-0.1% in Q3/Q4, 2023), with a 0.3% rise in Q1 2024. The risk is 0.3% is revised to 0.2% q/q. Annual growth is seen at 0.4% in Q1. It's not impossible that the H2 2023 technical recession is revised away.

US April CPI; Retail Sales; Empire Manufacturing

Consensus for US CPI is 0.4% m/m, enough to see the y/y rate slow to 3.4% from 3.5%. The core should receive more focus and is expected back at 0.3% m/m after unhelpful strong 0.4% m/m gains in January to March. That would see the y/y rate slow to 3.6% from 3.8%. The next CPI is 12 June, on the first day of the Fed's 2-day June meeting. Some sign stubborn shelter inflation is resuming its downtrend would be especially encouraging for the Fed, but something spectacular would have to happen for confidence to build in time for a June rate cut.



Source: National Australia Bank, U.S. Bureau of Labor Statistics (BLS), Macrobond

Thursday 16

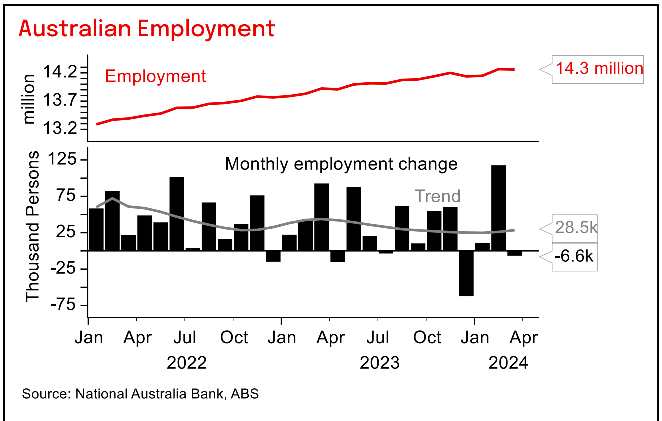
AU RBA Chief Economist Hunter

AU April Employment

Employment has been particularly volatile recently. There were some evident shifts in seasonality changing the timing of job starts over year end that saw strong employment gains and a fallback in the unemployment rate in February which was mostly held on to in March.

But beyond those impacts, employment has shown evident volatility for a while. Encouragingly, unlike in some peer economies suffering from low response rates to labour market surveys, that has been less of a challenge in Australia. Nonetheless, the unemployment rate is likely to provide a cleaner read on the evolution of labour market conditions, and one should be cautious rewriting understandings of the labour market on one month of data.

NAB expects +30k employment, which would be a continuation of recent trend growth and a bit of a rebound from the -7k in March. The March unemployment rate was 3.84 unrounded and NAB expects an unemployment rate of 3.9% in April. The RBA forecast an unemployment rate averaging 4.0% in Q2. More broadly, NAB expects the labour market will continue to cool, but a rapid deterioration is unlikely.



JN Q1 Preliminary GDP

Japanese GDP is expected to show a contraction in Q1, consensus is for a 0.4% q/q fall after the previous quarter's 0.1% rise with private consumption, business investment and trade all subtracting in the quarter.

US Initial Jobless Claims; Industrial Production

Weekly Jobless claims unexpectedly rose in the prior week, up to 231k from 209k. This was the biggest one-week increase since June last year, and the 231k headline print is the highest since last August. Much of that was due to a large rise in NY/California, so markets will be primed for some reversal on Thursday.

Friday 17

CH Monthly Activity Indicators (Retail, Industrial, FA)

Consensus sees a pickup in April for Retail and Industrial Production after a lacklustre MarchFocus will be on whether this is indeed realised – consensus sits at 5.5% y/y for Industrial Production and 3.7% y/y for Retail Sales.

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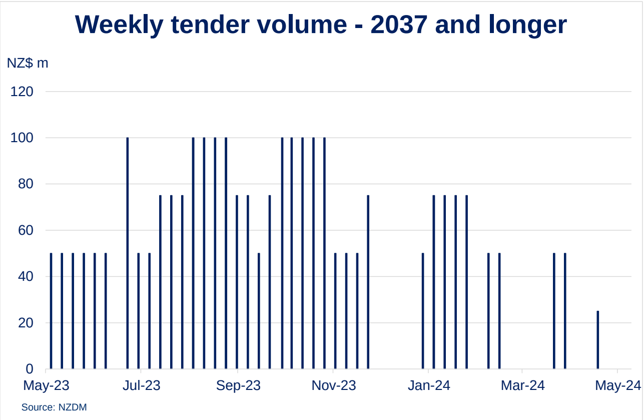
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed interest markets traded lower in yield last week with a further outperformance of government bonds relative to interest rate swaps. 10-year NZ government bonds (NZGB) closed down 10bps, at 4.73%, in an extension of the move from near 5% in late April. In the absence of domestic catalysts, NZGBs largely matched the moves in Australian bonds, which benefited from a less hawkish stance than anticipated by the RBA, at its monetary policy meeting.

The ultra long end of the NZGB curve remains heavy and has underperformed in the recent rally. The 10y/30y yield spread has traded back to the recent highs amid limited demand for the ultra-long end being indicated by market participants. New Zealand Debt Management have slowed issuance into this maturity bucket since the May-2054 syndication in February, which appeared to satiate investor demand for long end bonds, for the time being.

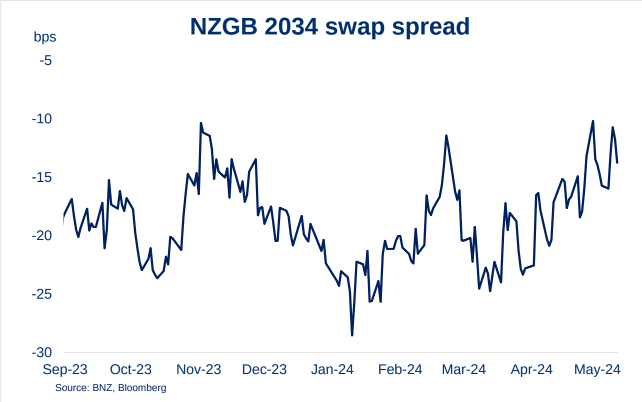
NZDM weekly tender volumes into longer maturities



There is close to NZ$900 million of NZGB coupon payments on 15 May which is likely to contribute to demand for bonds. In addition, the 15 May 2024 nominal bond will mature this week. There is NZ$13.8 billion outstanding and the RBNZ owns NZ$5.1 billion in its Large Scale Asset Purchase Portfolio (LSAP). The total size of the RBNZ's government bond holdings in the LSAP portfolio will decline to NZ$30 billion after the maturity, down from a peak of NZ$54 billion.

The 15 May 2024 bond maturity will contribute to a significant index extension for the S&P/NZX New Zealand Government Bond Index. We estimate the index duration will increase by 0.8. The combination of NZGB coupon payments and bond maturity should result in investors reinvesting these flows out the yield curve.

10-year swap spreads at top of range



NZGBs have outperformed swaps over the past few weeks. 10-year swap spreads have traded back to the top end of the -25/-10bps range from the past 6 months. While NZGB demand technicals are supportive in coming days as noted above, supply considerations will return to focus ahead of the Budget on May 30. Finance Minister Nicola Willis said the current economic situation is 'challenging for the government books' in a speech on 9 May. We think the topside of the range at -10bps will continue to form strong resistance for further bond outperformance.

The main risk event for global rates markets this week is US CPI data. After a series of three consecutive monthly upside surprises for the core measure, the market will be on edge for further evidence of stubborn inflationary pressures and how it could impact the ~40bps of Fed rate cuts priced for this year. Consumers' expectations for five-to-10 year inflation have drifted higher, and are now just below the 3.2% cyclical peak and well above the 2.7% average of the 2010s, which will be closely monitored by US policy makers.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.63	5.00 - 5.65
NZ 2yr swap (%)	5.02	4.95 - 5.22
NZ 5yr swap (%)	4.54	4.46 - 4.80
NZ 10yr swap (%)	4.61	4.53 - 4.87
2s10s swap curve (bps)	-41	-44 - -32
NZ 10yr swap-govt (bps)	-13	-16 - -11
NZ 10yr govt (%)	4.74	4.64 - 5.00
US 10yr govt (%)	4.50	4.42 - 4.74
NZ-US 10yr (bps)	24	18 - 30
NZ-AU 2yr swap (bps)	74	67 - 107
NZ-AU 10yr govt (bps)	42	38 - 57

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week there were only small net movements in most major currencies, against a backdrop of a quiet economic calendar. The NZD consolidated just over the 0.60 mark and closed the week slightly higher around 0.6020. NZD cross movements were modest, with the only significant move being NZD/JPY recovering 2% to 93.8, as the yen lost some of its gains from official intervention during the previous week.

Even though the economic calendar was light, last week the recent run of weaker US economic data continued, sending Citigroup's US economic surprise index – which tracks economic surprises on a moving average basis – to a fresh 15-month low. Initial jobless claims rose a hefty 22k to 231k, the largest weekly increase since last June and the highest level since August. US consumer sentiment was much weaker than expected. The recent data flow supports a view that high US rates are biting, some cracks are opening in the economy, growth will slow, and the next move by the Fed will be a cut, not a hike.

The RBA kept its policy rate unchanged at 4.35% but the tone of the statement was less hawkish than widely anticipated, keeping the previous language of "not ruling anything in or out" regarding the policy outlook. The Bank did not take much signal from the upside surprise to Q1 CPI inflation, but Governor Bullock said it needed to be "alert and vigilant" on inflation, while adding she "believes we have rates at the right level". This message sent NZD/AUD modestly higher, consolidating just over 0.91. Australia is the only major developed country where we see a possibility of another rate hike this cycle, with a lower hurdle rate compared to other nations.

The Bank of England made another shift in a dovish direction, with deputy Governor Ramsden voting for an immediate rate cut, alongside perennial dove Dhingra. Governor Bailey said a June rate cut was neither "ruled out" or a "fait accompli", but adding "It's likely that we will need to cut bank rates over the coming quarters… possibly more so than currently priced into market rates." NZD/GBP pushed up through 0.48.

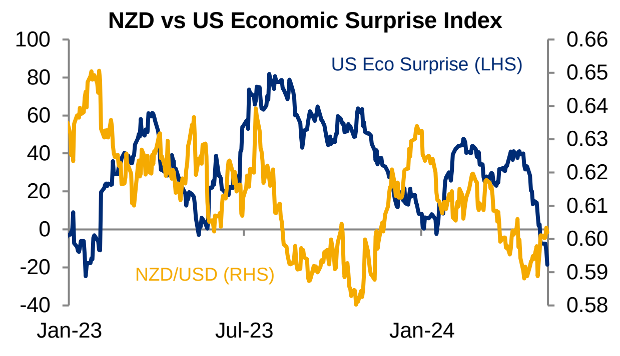
Overall, there was nothing out last week to change our view on the outlook. NZD/USD is near the middle of the 0.58-0.62 trading range we have been projecting for Q2. The NZD remains very cheap on our short-term fair value model, so we are happy to suggest that risks are more skewed to the upside than downside from here, with US inflation metrics and monetary policy outlook remaining a key driver of currency markets.

Relative to our forecasts, there is too much monetary policy easing priced into the NZ curve (almost two full cuts) and too little priced into the US curve (less than two full cuts). This suggests some scope for NZ-US short rate spreads to widen a little heading into year-end, a supportive factor for NZD/USD at the margin.

The key focus this week will be the US CPI for April, with PPI data more important this cycle, coming a day ahead of the CPI release. Retail sales will be released at the same time as the CPI. After three positive surprises in a row for the CPI, a fourth would deal a blow to Fed rate cut expectations and send the USD higher. A negative surprise would work in the opposite direction. The details will matter greatly, given market sensitivity to this release.

Elsewhere, key data releases include UK labour market data, Australia's employment report and wage inflation data, Euro area and Japan GDP for Q1 and China monthly activity indicators. Most of these have the potential to perturb the market.

NZD/USD off its recent low, helped by weaker US dataflow



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6021	0.5880 - 0.6050
NZD/AUD	0.9117	0.9070 - 0.9200
NZD/GBP	0.4808	0.4700 - 0.4820
NZD/EUR	0.5589	0.5510 - 0.5600
NZD/JPY	93.75	90.80 - 95.40

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6750	-11%
NZD/AUD	0.8890	3%

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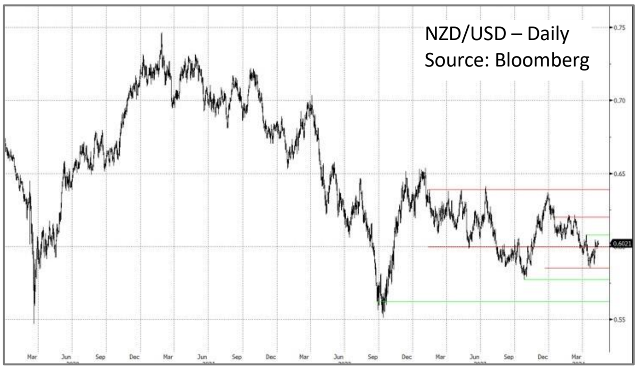
Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6080 (ahead of 0.62)
ST Support: 0.5850 (ahead of 0.5775)

Near term support/resistance still seen as 0.5850/0.6080.



NZD/AUD

Outlook: Downside risk
ST Resistance: 0.92 (ahead of 0.93)
ST Support: 0.9050 (ahead of 0.90)

Downward momentum broken last week, but we're still watching 0.9050 as a short-term level of support, ahead of 0.90. Resistance at 0.92.

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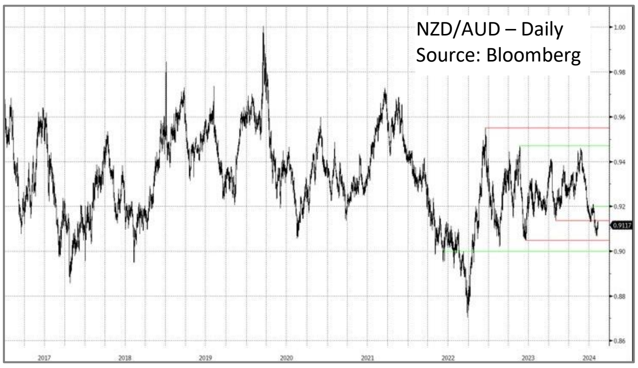
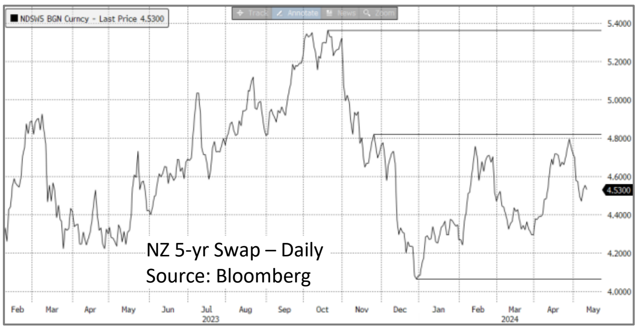


NZ 5-year Swap Rate

Outlook: Neutral
MT Resistance: 4.82
MT Support: 4.06

5 year swap remains in a tight range and in the absence of domestic drivers is moving alongside global rates. We remain neutral for the time being and await further technical signals.



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

Outlook: Neutral
MT Resistance: -0.38
MT Support: -0.59

The 2y-5y swap spread remains in the middle of the range. We are shifting our outlook to neutral as technical indicators offer very little in terms of directional guidance. We may look to fade any moves towards our support or resistance.

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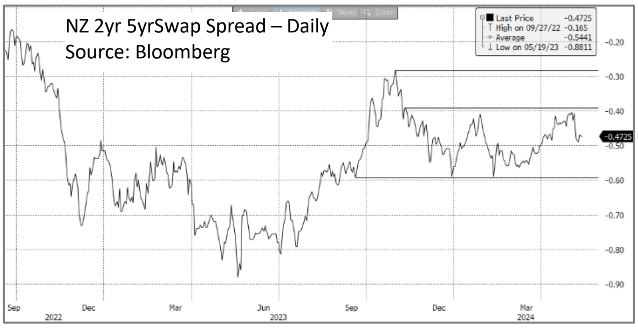

Quarterly Forecasts

Forecasts as at 13 May 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
GDP (production s.a.)	-0.3	-0.1	-0.1	0.0	0.6	0.7	0.7	0.8	0.8	0.8
Retail trade (real s.a.)	-0.8	-1.9	0.2	0.0	0.4	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-7.4	-6.9	-6.3	-6.3	-6.3	-5.7	-5.4	-5.1	-5.0	-4.8
CPI (q/q)	1.8	0.5	0.6	0.6	0.9	0.5	0.5	0.4	0.9	0.0
Employment	0.0	0.4	-0.2	0.0	0.1	0.2	0.3	0.5	0.6	0.7
Unemployment rate %	3.9	4.0	4.3	4.7	5.1	5.3	5.5	5.5	5.5	5.3
Avg hourly earnings (ann %)	7.1	6.6	4.8	4.1	3.0	3.3	3.9	3.4	3.2	3.0
Trading partner GDP (ann %)	3.1	3.3	3.2	2.9	2.8	2.8	2.9	3.0	3.0	3.0
CPI (y/y)	5.6	4.7	4.0	3.6	2.7	2.7	2.6	2.3	2.3	1.9
GDP (production s.a., y/y))	-0.6	-0.3	0.0	-0.5	0.4	1.2	2.0	2.8	3.0	3.1

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 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	5.63	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024 Mar	5.50	5.64	4.41	4.64	4.91	4.38	4.40	5.60	4.20	0.44
Forecasts										
Jun	5.50	5.65	4.60	4.90	4.55	4.65	4.70	5.75	4.50	0.40
Sep	5.50	5.50	4.40	4.75	4.15	4.45	4.65	5.50	4.25	0.50
Dec	5.25	5.25	4.15	4.60	3.75	4.20	4.50	5.25	4.10	0.50
2025 Mar	5.00	4.75	4.10	4.60	3.45	4.15	4.60	4.75	4.00	0.60
Jun	4.50	4.25	3.95	4.50	3.25	4.00	4.50	4.50	3.90	0.60
Sep	4.00	3.75	3.85	4.40	3.20	3.90	4.40	4.25	3.80	0.60
Dec	3.50	3.50	3.90	4.35	3.30	3.95	4.35	4.00	3.75	0.60

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	0.60	0.66	1.08	1.25	156	0.60	0.91	0.56	0.48	93.8	71.0
Jun-24	0.60	0.65	1.07	1.25	150	0.60	0.92	0.56	0.48	90.0	70.9
Sep-24	0.61	0.67	1.09	1.28	146	0.61	0.91	0.56	0.48	89.1	71.2
Dec-24	0.62	0.69	1.11	1.30	143	0.62	0.90	0.56	0.48	88.7	71.5
Mar-25	0.64	0.71	1.13	1.31	140	0.64	0.90	0.56	0.49	88.9	72.4
Jun-25	0.65	0.72	1.14	1.32	137	0.65	0.90	0.57	0.49	89.1	73.2
Sep-25	0.66	0.74	1.16	1.34	134	0.66	0.89	0.57	0.49	88.4	73.4
Dec-25	0.67	0.75	1.17	1.35	131	0.67	0.89	0.57	0.50	87.8	74.0
Mar-26	0.66	0.74	1.18	1.36	129	0.66	0.89	0.56	0.49	85.1	73.1
Jun-26	0.65	0.73	1.18	1.36	129	0.65	0.89	0.55	0.48	83.9	72.4
TWI Weights						14.5%	17.7%	9.5%	3.4%	5.6%	

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

Annual Forecasts

Forecasts as at 13 May 2024	March Years					December Years				
	Actuals		Forecasts			Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.0	0.9	2.5	7.4	3.3	0.3	0.2	2.3
Government Consumption	7.9	2.0	-0.3	-2.6	1.4	7.8	4.9	-1.1	-2.6	0.9
Total Investment	10.2	2.1	-2.0	-3.2	4.1	12.0	3.4	-1.1	-4.4	3.0
Stocks - ppts cont'n to growth	0.5	0.0	-1.2	1.0	0.0	1.4	-0.4	-1.1	0.7	0.2
GNE	7.9	2.5	-1.9	0.3	2.7	10.0	3.4	-1.5	-0.8	2.4
Exports	2.5	6.0	7.6	5.1	5.4	-2.7	-0.2	10.0	6.5	5.1
Imports	17.3	4.3	-2.1	0.8	3.9	14.8	4.6	-0.3	-0.7	3.7
Real Expenditure GDP	4.7	2.8	0.3	1.5	3.0	5.9	2.2	0.6	1.3	2.7
GDP (production)	**4.6**	**2.7**	**0.1**	**0.8**	**3.0**	**5.6**	**2.4**	**0.6**	**0.3**	**2.8**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.0*	*2.0*	*3.2*	*2.6*	*2.2*	*-0.3*	*1.2*	*3.1*
Output Gap (ann avg, % dev)	1.3	1.8	-0.4	-0.9	0.2	1.5	1.9	0.1	-0.9	-0.1
Nominal Expenditure GDP - $bn	359	388	410	429	453	353	381	405	423	447
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.6	1.8	5.9	7.2	4.7	2.7	1.9
Employment	2.5	3.0	1.3	0.6	2.5	3.3	1.7	2.7	0.1	2.1
Unemployment Rate %	3.2	3.4	4.3	5.5	5.1	3.2	3.4	4.0	5.3	5.3
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.3	3.0
Productivity (ann av %)	1.8	0.5	-2.4	0.4	1.2	3.6	0.2	-2.3	-0.2	1.4
Unit Labour Costs (ann av %)	4.6	6.5	8.5	3.8	2.0	2.4	6.5	8.8	4.9	2.0
House Prices	13.8	-12.1	1.8	7.6	9.6	27.2	-11.1	-1.5	4.8	10.1
External Balance										
Current Account - $bn	-23.6	-31.8	-26.0	-23.3	-20.3	-20.6	-33.4	-27.8	-24.3	-21.4
Current Account - % of GDP	-6.6	-8.2	-6.3	-5.4	-4.5	-5.8	-8.8	-6.9	-5.7	-4.8
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.8	-1.7	-0.8					
Net Core Crown Debt (ex NZS)	32.3	34.4	39.3	40.6	41.0					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	36.0	34.0					
Bond Programme - % of GDP	5.6	7.2	9.3	8.4	7.5					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.61	0.64	0.66	0.68	0.63	0.62	0.62	0.67
USD/JPY	119	134	150	140	129	114	135	144	143	131
EUR/USD	1.10	1.07	1.09	1.13	1.18	1.13	1.06	1.09	1.11	1.17
NZD/AUD	0.93	0.93	0.93	0.90	0.89	0.95	0.94	0.93	0.90	0.89
NZD/GBP	0.52	0.51	0.48	0.49	0.49	0.51	0.52	0.49	0.48	0.50
NZD/EUR	0.62	0.58	0.56	0.56	0.56	0.60	0.60	0.57	0.56	0.57
NZD/YEN	81.5	83.0	91.1	88.9	85.1	77.4	85.6	89.5	88.7	87.8
TWI	73.9	71.0	71.2	72.4	73.1	73.0	72.9	72.0	71.5	74.0
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	5.64	4.75	3.00	0.92	4.55	5.63	5.25	3.50
5-year Govt Bond	2.90	4.40	4.60	4.10	3.90	2.20	4.30	4.50	4.15	3.90
10-year Govt Bond	3.20	4.35	4.60	4.60	4.35	2.35	4.25	4.65	4.60	4.35
2-year Swap	3.00	5.15	4.91	3.45	3.45	2.22	5.21	4.93	3.75	3.30
5-year Swap	3.20	4.50	4.40	4.15	4.00	2.56	4.62	4.43	4.20	3.95
US 10-year Bonds	2.10	3.65	4.20	4.00	3.75	1.45	3.60	4.00	4.10	3.75
NZ-US 10-year Spread	1.10	0.70	0.40	0.60	0.60	0.90	0.65	0.65	0.50	0.60

(1) *Average for the last month in the quarter*

Source: Statistics NZ, BNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Monday 13 May			
NZ	Performance Services Index Apr			47.5
NZ	Food Prices MoM Apr			-0.50%
AU	NAB Business Confidence Apr			1
NZ	2Yr Inflation Expectation 2Q			2.50%
	Tuesday 14 May			
US	Fed's Mester, Jefferson speak			
US	NY Fed 1-Yr Inflation Expectations Apr			3.00%
NZ	REINZ housing report Apr			
NZ	Card Spending Total MoM Apr			0.10%
NZ	Net Migration SA Mar			7630
GE	CPI YoY Apr F	2.20%		2.20%
UK	ILO Unemployment Rate 3Mths Mar	4.30%		4.20%
UK	BOE Chief Economist Huw Pill speaks			
GE	ZEW Survey Expectations May	46		42.9
US	NFIB Small Business Optimism Apr	88.2		88.5
	Wednesday 15 May			
US	PPI Ex Food and Energy YoY Apr	2.30%		2.40%
US	Fed's Cook speaks			
EC	Fed Chair Powell, ECB's Knot speak			
AU	Wage Price Index QoQ 1Q	0.90%	0.90%	0.90%
EC	ECB's Muller speaks			
EC	GDP SA QoQ 1Q P	0.30%		0.30%
EC	Employment YoY 1Q P			1.20%
EC	Industrial Production SA MoM Mar	0.50%		0.80%
EC	EU Commission Economic Forecasts			
EC	ECB's Villeroy speaks			
	Thursday 16 May			
US	Empire Manufacturing May	-10		-14.3
US	CPI Ex Food and Energy YoY Apr	3.60%		3.80%
US	Retail Sales Advance MoM Apr	0.40%		0.70%
US	Retail Sales Ex Auto and Gas Apr	0.10%		1.00%
US	Business Inventories Mar	-0.10%		0.40%
US	NAHB Housing Market Index May	51		51
UK	Fed's Ben Bernanke testifies on BOE			
US	Fed's Kashkari speaks			
US	Fed's Bowman speaks			
AU	RBA's Hunter speaks			

		Median	Fcast	Last
JN	GDP SA QoQ 1Q P	-0.40%		0.10%
AU	Unemployment Rate Apr	3.90%	3.90%	3.80%
AU	Employment Change Apr	23.7k	30.0k	-6.6k
JN	Industrial Production MoM Mar F			3.80%
EC	ECB's De Cos speaks			
UK	BOE's Megan Greene speaks			
EC	ECB's Nagel speaks			
EC	ECB Publishes Financial Stability Review			
	Friday 17 May			
EC	ECB's Villeroy speaks			
US	Initial Jobless Claims May 11	220k		231k
US	Continuing Claims May 04	1783k		1785k
US	Housing Starts Apr	1420k		1321k
US	New York Fed Services Business Activity May			-0.6
US	Philadelphia Fed Business Outlook May	7.5		15.5
US	Manufacturing (SIC) Production Apr	0.10%		0.50%
US	Fed's Barr Testifies to Senate Banking			
US	Fed's Harker speaks			
US	Fed's Mester speaks			
US	Fed's Bostic speaks			
NZ	PPI Output QoQ 1Q			0.70%
CH	Used Home Prices MoM Apr			-0.53%
CH	Industrial Production YoY Apr	5.50%		4.50%
CH	Retail Sales YoY Apr	3.70%		3.10%
CH	Fixed Assets Ex Rural YTD YoY Apr	4.70%		4.50%
CH	Surveyed Jobless Rate Apr	5.20%		5.20%
EC	ECB's Vasle speaks			
EC	ECB's Guindos speaks			
EC	ECB's Vujcic speaks			
UK	BOE's Catherine Mann speaks			
EC	CPI YoY Apr F	2.40%		2.40%
EC	CPI Core YoY Apr F	2.70%		2.70%
	Saturday 18 May			
EC	ECB's Vasle, Holzmann, Kazaks speak			
US	Fed's Waller speaks			
US	Fed's Daly speaks			
	Sunday 19 May			
US	Fed's Kugler speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	5.25
1mth	5.60	5.60	5.60	5.51
2mth	5.61	5.62	5.63	5.55
3mth	5.63	5.63	5.65	5.58
6mth	5.59	5.59	5.59	5.67
GOVERNMENT STOCK				
05/26	4.82	4.76	4.86	4.16
04/29	4.58	4.57	4.63	3.99
05/31	4.63	4.65	4.70	4.02
05/34	4.73	4.77	4.82	4.11
04/37	4.90	4.93	4.96	4.27
05/41	5.03	5.06	5.07	4.37
05/51	5.03	5.05	5.05	4.29
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	51	50	57	81
Europe 5Y	53	53	60	86

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.03	4.99	5.08	4.95
3 years	4.77	4.73	4.83	4.58
4 years	4.62	4.59	4.70	4.37
5 years	4.56	4.53	4.64	4.26
10 years	4.63	4.61	4.66	4.17
FOREIGN EXCHANGE				
NZD/USD	0.6022	0.6009	0.5904	0.6242
NZD/AUD	0.9115	0.9073	0.9163	0.9313
NZD/JPY	93.81	92.48	91.07	84.95
NZD/EUR	0.5589	0.5581	0.5557	0.5739
NZD/GBP	0.4807	0.4785	0.4744	0.4982
NZD/CAD	0.8234	0.8213	0.8140	0.8405
TWI	70.8	70.8	70.4	71.1

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