Research

Markets Outlook

5 May 2025

Still No Clarity

- **US economy contracts**
- **NZ recovering, but risks aplenty**
- **Labour market still seen loosening**
- **Inflation higher in Q1 than official figures show**
- **We nudge our NZD forecasts higher**

Financial markets' extreme angst might have passed for the time being, with risk assets recently bouncing off their lows, but the economic impact of the US-driven global trade shock is only just beginning to show up in indicators.

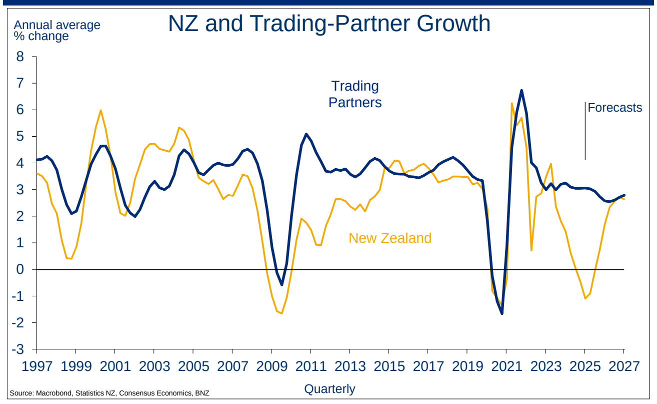
The US is facing a hit to activity and higher inflation. Last week's data saw US GDP contract in the March quarter, its first quarterly decline since 2022. Meanwhile, the core-PCE deflator – the Fed's preferred measure of inflation – rose at a 3.5% annual pace in the quarter. Lower activity and higher inflation are a horrible mix.

Consumer confidence has dropped in the US most precipitously but also in the UK and Europe. Some US measures, especially those of the forward-looking expectation variety, are around multi-decade lows.

Global PMIs that have so far been released for April have been mixed but the balance has softened. Further weakness wouldn't surprise.

Trade flows have been distorted with strength in some Asian country exports, including China, and significant gains in US imports early in 2025 ahead of the then pending tariff announcements. Some very sharp reversals are underway.

Global growth vs NZ growth



Possible US trade deals and some walking back of specific US duties may lessen the extent of the global economic shock compared to what it might have been without such things, but what remains and the shear uncertainty around recent developments and the way ahead will be a significant imposition on global growth. We would expect consensus forecasts for growth in NZ's trading partner economies to be revised lower, illustrating the clear headwind for NZ.

It is important to acknowledge the starting point of local economic growth which has been materially weaker than trading partner economies over recent years. Even though there have been signs of forward momentum developing in NZ, the recent activity picture illustrates the vulnerable condition of the economy heading into a clearly more challenging global outlook. Risks to our economic growth forecasts are downward.

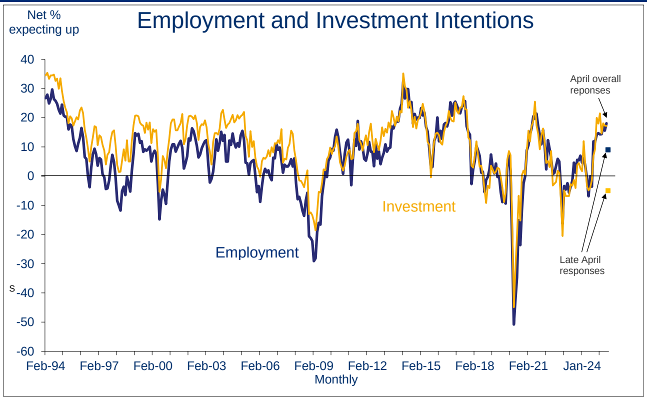
For the time being the economy is still gaining some momentum from record high commodity prices, solid export volume growth, increased housing market activity, an upturn in net migration inflows, and the support provided by easing monetary policy.

We have been firmly of the view that one of the biggest risks to local growth currently stemming from offshore is uncertainty. NZ businesses were already operating in a difficult environment thanks to weak output, spare capacity and some domestic political uncertainty. The uncertainty that President Trump has generated confuses the outlook even more. Uncertain businesses do not invest and do not hire staff.

There were some signs of this in last week's April ANZ business survey. Not that it was obvious in the investment and employment intentions indicators for the month overall. Both looked robust, at face value. But splitting the month's results into early returns and later-in-the-month returns gave a sense of a marked deterioration across the survey period. Late month responses saw employment intentions ease and investment intentions turn net negative.

If the signal of softening investment intentions is real, and we have no reason to think that it isn't, then it suggests that shelving of some expansion plans is already underway.

A sign of what's to come?



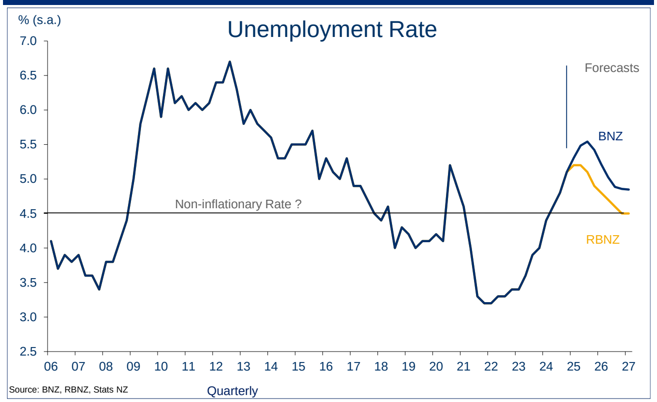
March quarter labour market statistics are due on Wednesday, which we anticipate showing further signs of market loosening.

We forecast HLFS employment to be flat in Q1, which would see employment 0.6% lower than a year ago. This would see the unemployment rate rise to 5.3% from 5.1% in Q4, assuming minimal downward movement in the participation rate.

That said, the ongoing slump in youth employment, as indicated by last week's filled jobs data, does raise the risk that participation falls more than we have assumed which could yet deliver a lower unemployment rate.

Whatever the specifics, QSBO indicators look consistent with further loosening in the labour market as so recent filled jobs data.

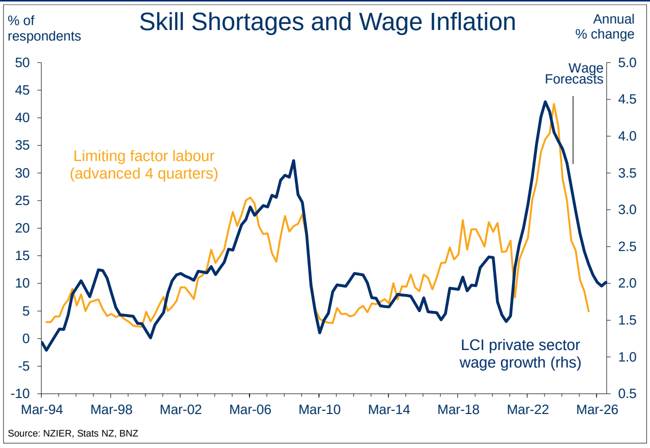
Unemployment rising



We thus remain of the view that the unemployment rate will eventually peak higher than the RBNZ projects despite our Q1 labour market forecasts being broadly similar to what the RBNZ projected in its February 2025 MPS. The bank forecast flat employment in the March quarter but with an expected tick down in the participation rate delivering an unemployment rate of 5.2%.

A softer labour market is putting downward pressure on wage growth. We expect wage inflation to continue trending lower. Our 0.5% q/q forecast increase in the private sector LCI would see annual inflation ease to 2.7% from 3.0% in Q4. This is a tick lower than the RBNZ's 0.6%/2.8% projection.

Wage inflation easing



A tick difference here and there on the major labour market indicators compared to the RBNZ's projections are not likely to have a major influence on the Bank's policy thinking, given the offshore turmoil. But a marginally higher unemployment rate and marginally lower unit labour cost inflation would at least provide some offset to CPI inflation coming in a touch faster than the Bank expected.

The small Q1 CPI surprise to the RBNZ would have been another tick higher had Stats NZ incorporated higher vehicle relicensing fees in the quarter. And the upside surprise to the Bank on non-tradable inflation would have been greater (even though it was heavily influenced by a policy-driven change in tertiary education fees).

Stats NZ advised last week that it will not revise the Q1 CPI data. But had it included the higher relicensing fees, Q1 CPI inflation would have been 1.0% q/q and 2.6% y/y instead of the (still) official inflation figures of 0.9% q/q and 2.5%. Higher relicensing fees will be included in Q2.

Everything else constant, this would raise the chance of annual CPI inflation peaking above the RBNZ's 2.7% estimate later in the year. But all things are not equal and there is every chance that falling petrol prices will act as an offset as early as Q2. We continue to forecast annual inflation falling quickly back to around 2% in 2026.

Beyond all the decimal points, uncertainty offshore still reins. And, as we outlined last week, central banks have an extremely difficult job making sense of the economic outlook and the appropriate policy response.

The Bank of Japan is the latest to meet amid the confusion with Governor Ueda signaling its policy outlook hinges on tariff negotiations and BoJ board members having different assumptions regarding US tariffs. Precisely no clarity. And that is the overarching reality.

For the RBNZ rising headline inflation and the associated risk that inflation expectations start trending upward could well give it pause for thought. But expectations of ongoing global chaos driving growth-denting uncertainty and the Bank could easily get spooked into more aggressive easing than currently expected.

The situation is fluid with many moving parts, including currency movements. We have revised our foreign exchange forecasts, effectively building in previously discussed risks of a weaker US dollar. This sees a higher profile for the NZD/USD. Currently, the NZTWI, at 69.3, is sitting around 2.7% above previous RBNZ projections. Against a backdrop of a stronger NZD, all other things constant it offers a bit more scope for the RBNZ to take the OCR lower, should that be required.

Our rate forecasts continue to show ongoing 25bp OCR reductions, to a low of 2.75%. But really, nothing can be ruled in or out with any degree of confidence. Our view is consistent with the Bank's recent policy announcement and description of downside risks.

We get to hear from the RBNZ on Wednesday via its Financial Stability Report (FSR). This is the Bank's regular assessment of the soundness and efficiency of the NZ financial system, with risk identification a key part. Some pre-release articles from the report are possible, as has been the case over recent times. The full report will be released Wednesday at 9am, with the press conference at 1pm. There will also be RBNZ FSR testimony to Parliament Thursday morning, from 8am.

Monetary policy is not a focus of the FSR, but any comment from RBNZ officials at the press conference on the likes of recent global trade and economic developments could have folk inferring monetary policy implications.

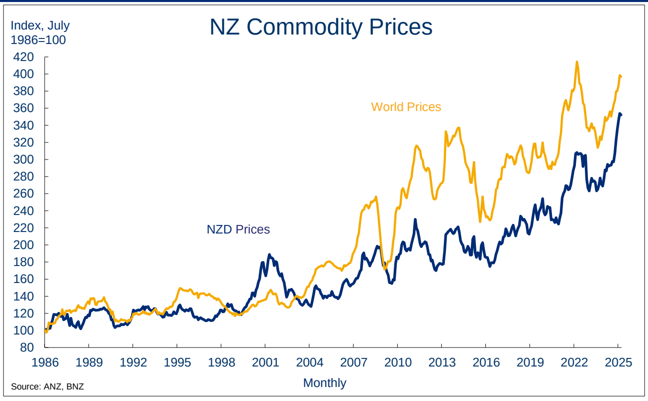
Fiscal policy is also relevant for the outlook for the cash rate. To the extent that the upcoming budget shows more fiscal restraint than prior guidance, it would allow more room for monetary easing, other things constant. But there is much to consider around the fiscal outlook, including the fiscal-year-to-date starting point.

The Government Financial Statements for the 9 months to March are scheduled for release on Thursday, which is probably too late to formally include in the Budget figures due on 22 May. But they will assist in understanding of how the fiscal accounts have been tracking against HYEFU baselines. This week's figures will be lined up against the previous month's financial-year-to-date figures that had the OBEGALx deficit running $1.6b smaller than the Treasury's HYEFU forecasts. Even on the prospect of some expense variation unwinding, stronger than expected revenue though to February suggests there was some underlying positive variance to deficit baselines in the order of $1b.

We also get some commodity price updates during the week – in what has been a clear bright spot for the economy over the past year. The ANZ commodity price index is expected to show a moderate dip in NZ dollar prices in the month, as markedly lower aluminium prices and a firmer NZD weigh. Even with a circa 1.4% m/m decline, prices would still be up an impressive 18.0% on a year earlier albeit that annual inflation here now looks past its peak.

Dairy prices have been one of the standouts in the primary space helping drive a significant lift in revenues to the sector this season. The next GDT auction on Wednesday morning will give the very latest on pricing. Early indicators look price supportive.

A big plus



doug_steel@bnz.co.nz

Global Watch

- **FOMC universally expected to hold**
- **BoE expected to cut 25bps**
- **Trade data for China & the US to show tariff impacts**
- **Norges Bank & Riksbank also seen on hold**

Week in Review

In the US, Q1 GDP fell an annualised 0.3%. The adding up comprised a historically unprecedented 5.3ppt drag from net exports as imports surged. Those imports theoretically should show up in consumption, investment, or inventory accumulation. But the negative print overstates the US slowdown. Volatility and measurement challenges in trade and inventories data point to either revisions, or payback in Q2. Private domestic final demand was much stronger at 3.0% saar.

In Europe, the EZ managed to eke out 0.4% q/q growth in Q1, above the 0.2% consensus and an acceleration from the prior quarter. That is unlikely to sustain, and some support came from export demand (the surge in US imports had to come from somewhere). The BoJ held rates steady as expected, but language in the statement had a cautious undertone with the Bank noting "risks to prices skewed to downside for fy2025, 2026."

In Australia, Q1 CPI was a tenth above consensus at 0.7% q/q for the policy relevant trimmed mean measure. Strong health inflation was the proximate culprit, but the result was in line with the RBA's February forecast. There is ongoing disinflation across the breadth of market services categories and housing components have cooled from their mid 2024 pace. Data on Friday showed flat retail volumes in Q1, consistent with some downside risk to the RBA's near-term consumption forecasts.

Week Ahead

Globally, focus is on central banks, with the FOMC and BoE this week, and the usual focus on swings in trade and broader US policy expectations.

In the US, the FOMC meets on Wednesday and is set to hold rates as it weighs a slower growth outlook against inflation concerns. There are no new projections, but Powell's commentary will be watched closely. Also look out for commentary from other FOMC participants later in the week, including a panel with Willams and Waller.

It is a quieter data calendar in prospect after a stacked last week, with Services ISM (Monday) and jobless claims (Thursday). Full trade data for March will also be parsed for more detail on what drove the earlier reported import surge. Earnings season continues, but most of the big US names have already reported.

The BoE meets Wednesday where consensus sees a 25bp cut. Governor Bailey and Chief Economist Pill both speak (separately) the following day.

In Europe, outside of final PMIs (Monday) it is light on the data calendar. There are a couple of ECB speakers on the docket, including Schnabel on Friday. The Norwegian and Swedish central banks both meet Wednesday and are expected to hold rates steady.

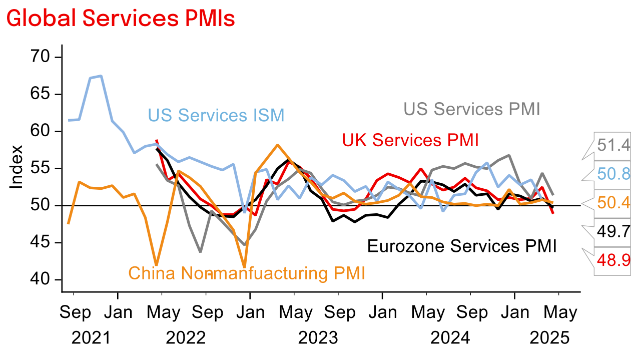
In China, the Caixin services PMI is Monday, credit data is due sometime in the week from Friday, and trade data for April is Friday. That could show early signs of export declines, though shipments to the US only fell sharply late in the month.

In Australia, data flow is limited to second tier building approvals and monthly household spending indicator outcomes. There is nothing scheduled from the RBA until their May 19-20 meeting. Major banks are also reporting, with WBC (Monday), NAB (Wednesday) and ANZ (Thursday).

Important Events Preview

Monday 5

US Services ISM (April)
The earlier services PMI fell back in April but remains above the ISM reading. Markets will be sensitive to indications of economic momentum in the less trade-exposed services economy in April.



Source: National Australia Bank, Institute for Supply Management (ISM), China Federation of Logistics & Purchasing, Account house, Bloomberg, Macrobond

Tuesday 6

AU Building Approvals
Building approvals have trended high recently, led by a rebound in apartments and townhouses. Our colleagues at NAB pencil in a decline in March, with cyclone impacts possible in Queensland.

CH Caixin Services PMI
Last week's official services PMI dropped slightly with signs of spillover from tariffs. A national Statistics Bureau

spokesperson noted that the decline was led by maritime transport and capital market services. The Caixin Services PMI provides an alternate read.

US Trade Balance

The final release may be more interesting than usual after the March advanced release showed a further surge in imports. The final numbers provide a more granular breakdown. The import surge through Q1 was driven by pharma and computing equipment, categories that are not subject to the broad-based tariffs or full China tariffs, but the advanced March read suggested a surge in consumption goods. This data will clarify what and where from.

Wednesday 7

US FOMC Meeting

The FOMC will be on hold in May as FOMC officials continue to wait on more clarity about the outlook for both the labour market and employment. Expect Powell in the press conference to downplay the negative Q1 GDP print and point to still robust private final sales to domestic purchasers, and the still resilient hard data on the labour market. There are no new projections at this meeting.

Thursday 8

SW Riksbank

NO Norges Bank

UK Bank of England

NAB have long forecast the BoE to deliver the second cut of this year and fourth in this cycle at the 8 May meeting. That will take Bank Rate down to 4.25%. In line with the Feb meeting when rates were last cut, NAB expect meetings when new forecasts are published and when MPC members agree on the direction that dove Dhingra will once again be joined by former hawk Mann in calling for a larger 50bps reduction. Indeed, NAB think there is a high chance a third member joins them. While NAB see the BoE waiting until Aug to ease again, they acknowledge the risks are rising the BoE moves to ease policy restriction more swiftly with a further 25bp cut in Jun as well as Aug.

A short-term rise in inflation argues against a 50bps cut in May.

US Jobless Claims

Jobless claims will continue to be watched for any signs of higher layoffs. The 18k increase last release to 241k can be largely attributed to the timing of holidays in New York. But Challenger job cuts remain elevated and there was a larger leap in continuing claims that bears watching.

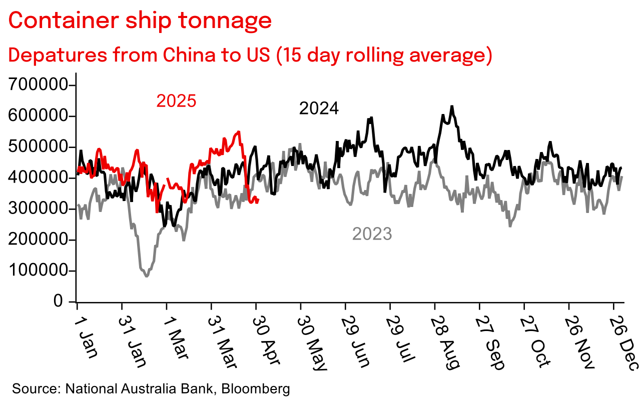
Friday 9

UK BoE's Bailey and Pill

CA Employment (April)

CH Trade Balance (April)

China trade data will likely show a fall in exports in April, but timely data suggests it wasn't until into the second half of the month that shipments fell sharply.



US/EZ Hoover Monetary Policy Conference

From the FOMC, Williams and Waller both speak on a panel. ECB's Schnabel is also set to speak.

Saturday 10

CH CPI & PPI

matt_brunt@bnz.co.nz

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg: BNZ

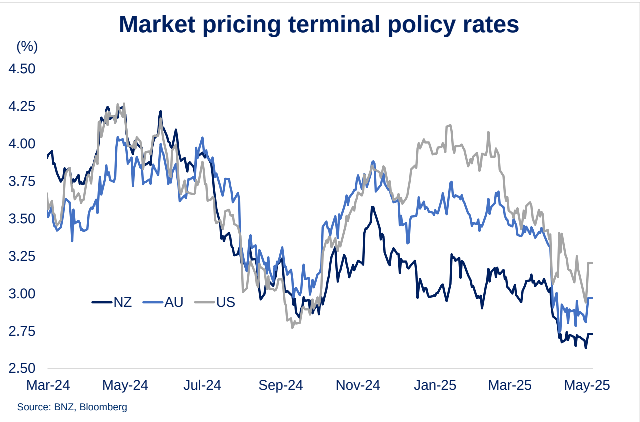
After the volatility in global fixed income markets through April, the new month has begun on a calmer footing. Front and intermediate NZ swap rates consolidated near the cycle lows during last week. There was little in the scheduled economic data to materially alter the outlook for RBNZ monetary policy and path for the Official Cash Rate (OCR).

Statistics NZ identified an error in the Q1 CPI release which would have increased the quarterly print by 0.1% to 1.0%. The data will not be revised, and the change will be incorporated into the Q2 release. This means the adjustment factors for inflation indexed bonds, which were published after the CPI release, will not be impacted.

Although the announcement points towards a marginally less favourable inflation backdrop – the error was contained in the non-tradables basket, and our updated forecasts project annual headline inflation reaching a 2.7% peak in the June quarter, compared with September previously – concerns about the domestic and global growth backdrop are likely to contain the upside for NZ rates.

In addition, the NZ dollar is 2.7% higher on a trade weighted basis, relative to the RNBZ's projection at the February Monetary Policy Statement and will help dampen inflation pressures at the margin. The market is pricing a 2.70% terminal OCR, which aligns with our forecast of a 2.75% trough in August, though risks remain skewed lower. Q1 labour market data, which is released this week, is expected to reveal a further rise in the unemployment rate to 5.3%, the highest level in nine years.

Terminal policy rates are stabilising after the April fall



A pre-Budget speech by Finance Minister Nicola Willis presented a still challenging fiscal backdrop. She said the Treasury has reduced its growth projections for 2025 and 2026 which will impact forecast revenues and 'threaten our already difficult return to surplus and debt reduction'. The government's operating allowances have been reduced, signalling restraint, and it is expected the operating balance will continue to forecast a surplus in 2028/2029.

The government borrowing programme will be updated alongside the Budget on 22 May. The fiscal accounts have largely been tracking in line with the Half Year Economic and Fiscal Update from December. The interim financial statements for the nine months to March will be released this week. Given the tone of Willis's speech, risks appear skewed towards a higher funding requirement, though NZ Debt Management have a range of options, and it need not necessarily flow through to the bond programme.

Move lower in 10-year NZGB ASW stalling

10y NZGB asset swap spreads are consolidating after retracing from the cyclical highs reached amid the April volatility. There are limited catalysts for further near-term narrowing as investors look ahead to the Budget. However, we continue to think spreads have reached a medium-term cyclical peak, as net supply is projected to decline as a proportion of GDP in coming years.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	3.40	3.40 - 3.59
NZ 2yr swap (%)	3.07	3.03 - 3.32
NZ 5yr swap (%)	3.43	3.37 - 3.67
NZ 10yr swap (%)	3.94	3.84 - 4.25
2s10s swap curve (bps)	87	87 - 95
NZ 10yr swap-govt (bps)	-50	-62 - -42
NZ 10yr govt (%)	4.44	4.38 - 4.73
US 10yr govt (%)	4.31	3.86 - 4.59
NZ-US 10yr (bps)	13	13 - 47
NZ-AU 2yr swap (bps)	-20	-26 - -5
NZ-AU 10yr govt (bps)	22	12 - 36

*Indicative range over last 4 weeks

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Currency markets had another week of consolidation, with modest net movements, on further signs of trade war de-escalation. NZD/USD showed a small fall of less than 0.3% to about 0.5950. The AUD outperformed on hope of a trade war détente between the US and China, unwinding recent underperformance. NZD/AUD fell about 1% to 0.9225. The yen was the weakest of the majors after the BoJ's dovish update, seeing NZD/JPY up over ½% to 86.2.

The trade war remains a key focus for the market and the de-escalation thematic that began late April has carried through into early May. As flagged earlier by media, President Trump backtracked on auto tariffs, providing some relief to automakers to soften the blow. The White House talked up the number of trade deals being negotiated. China wasn't in the mix, but there was chatter that the US was trying to engage with China at multiple levels to begin talks. On Friday, China's Commerce Ministry released a statement saying it was evaluating the possibility of trade talks with the US.

US economic data were mixed. The US ISM manufacturing index barely fell in April, against the negative mood of the Fed's regional surveys. Q1 GDP fell an annualised 0.3%, largely reflecting surging imports as businesses front-ran higher tariffs, while domestic demand indicators were more resilient. The employment report showed a steady labour market heading into the trade war. On the negative side, shipping and port data highlighted a plunge in forward bookings for coming weeks as trade between the US and China has all but stopped. And consumer confidence plunged further, taking expectations down to levels normally associated with economic recession.

Last week we put through an upgrade to NZD/USD projections as previously flagged, with the expected recovery running ahead of schedule. Our new central forecasts show the upswing in the NZD continuing this year, with a new target of 0.65 by year-end, with further upside into 2026/27. While there are several different scenarios to consider under the current uncertain US policy backdrop, we are drawn to one that focuses on cyclical and structural forces driving a broadly weaker USD over the coming two years. Even if there is further rollback of US import tariffs, we look for a sustained period of capital flows out of the US as investors re-allocate away from the country.

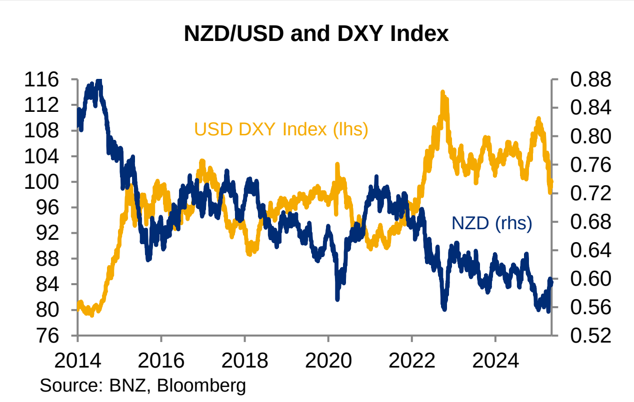
The period of consolidation can continue for now, while volatility could easily return to the market. Technically, the next key line of resistance is just under 0.64, while key support remains at 0.55.

On the crosses, we are neutral on NZD/AUD, with projections flat at 0.9250, consistent with a 0.90-95 trading range. In a world where investors would like to diversify away from the US, Europe would be front of the queue and inflows should be supportive for the euro. Thus, we don't rule out the chance of NZD/EUR falling back to earlier lows before an expected recovery ensues.

On NZD/GBP, from a recent nine-year low, we are neutral on the cross rate over the near-term and look for a recovery from later this year. We continue to see scope for a weaker NZD/JPY cross rate over the medium term. Last week, the BoJ was added to the list of central banks adopting a more cautious attitude to policy, given trade war uncertainty. But the yen continues to have appealing safe-haven characteristics and remains the cheapest of the majors.

In the week ahead, the Fed and BoE will be giving policy updates. The market sees no chance of a Fed rate cut, in the face of higher inflation pressure. But the central bank will be alert to the rising chance of economic recession. A key message is likely to be weighing up those offsetting inflation and growth forces and sitting on the sidelines for now, much to the chagrin of President Trump. Another 25bps rate cut is fully priced for the BoE, which would see the policy rate fall to a still high 4.25%. Uncertainty about the outlook will remain a key theme.

NZD upside potential if/as USD falls



Cross Rates and Recent Ranges

	Current	Last 3-weeks range*
NZD/USD	0.5949	0.5890 - 0.6030
NZD/AUD	0.9214	0.9220 - 0.9390
NZD/GBP	0.4485	0.4420 - 0.4520
NZD/EUR	0.5262	0.5170 - 0.5290
NZD/JPY	86.07	83.90 - 86.40

*Indicative range over last 3 weeks, rounded figures

Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6030 (ahead of 0.62)
ST Support: 0.58 (ahead of 0.55)

No change, with the first level of resistance at the recent high around 0.6030, ahead of 0.62. The 0.55 mark remains the key support level, but some earlier support might come around 0.58.

NZD/AUD

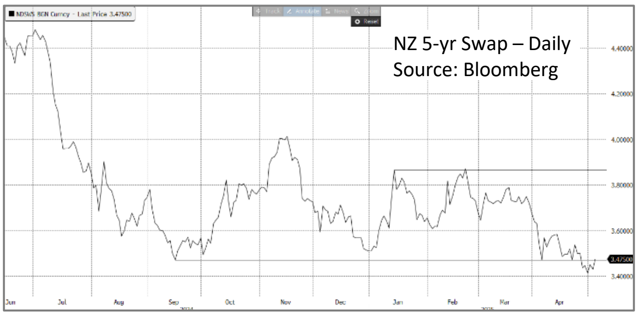
Outlook: Trading range
ST Resistance: 0.9390 (ahead of 0.9470)
ST Support: 0.9070 (ahead of 0.8950)

We tighten up the support and resistance levels to 0.9070/0.9390.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

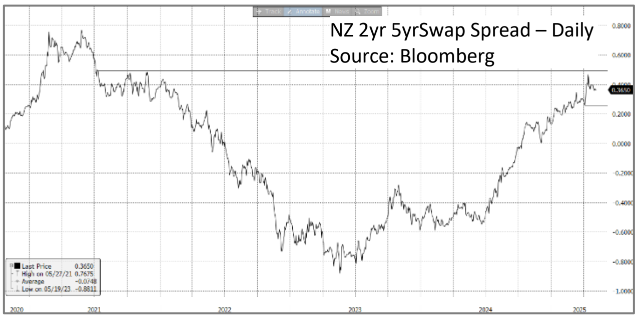
Outlook: Lower
ST Resistance: 3.85
ST Support: 3.47



5-year swap temporarily broke lower last week; however, it has failed to hold the level. We continue to favour a break lower again but will watch closely to see if last week was simply a false break.

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

Outlook: Neutral
ST Resistance: 0.50
ST Support: 0.25



2x5 year swap spread continues to sit middle of the range with no directional bias. We remain neutral at these levels.

matthew.herbert@bnz.co.nz

Quarterly Forecasts

Forecasts as at 5 May 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (production s.a.)	0.7	0.3	0.4	0.6	0.7	0.8	0.7	0.6	0.5	0.5
Retail trade (real s.a.)	0.9	0.0	0.6	1.0	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.2	-5.5	-4.6	-4.3	-3.9	-3.8	-4.0	-4.1	-4.1	-4.1
CPI (q/q)	0.5	0.9	0.5	0.7	0.4	0.5	0.2	0.7	0.5	0.4
Employment	-0.1	0.0	0.2	0.4	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.3	5.5	5.5	5.4	5.2	5.0	4.9	4.9	4.8
Pr. avg hourly earnings (ann %)	4.0	4.5	4.2	3.6	2.9	3.0	3.1	3.2	3.4	3.3
Trading partner GDP (ann %)	3.2	3.1	2.8	2.6	2.4	2.5	2.7	2.8	2.8	2.8
CPI (y/y)	2.2	2.5	2.7	2.7	2.6	2.2	1.8	1.8	2.0	1.9
GDP (production s.a., y/y)	-1.1	-1.2	0.3	1.9	2.0	2.5	2.8	2.8	2.6	2.3

Interest Rates

Historical data - qtr average		Government Stock		Swaps			US Rates		Spread
Forecast data - end quarter	**Cash**	**90 Day Bank Bills**	**5 Year**	**10 Year**	**2 Year**	**5 Year**	**10 Year**	**SOFR 3 month**	**US 10 yr**	**NZ-US Ten year**
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Forecasts										
Jun	3.25	3.00	3.50	4.45	2.90	3.30	4.05	4.30	4.25	0.20
Sep	2.75	2.90	3.50	4.45	3.00	3.40	4.15	3.80	4.25	0.20
Dec	2.75	2.90	3.50	4.30	3.15	3.50	4.10	3.55	4.00	0.30
2026 Mar	2.75	2.90	3.60	4.30	3.40	3.65	4.15	3.30	4.00	0.30
Jun	2.75	2.90	3.80	4.40	3.70	3.90	4.30	3.05	4.00	0.40
Sep	2.75	3.30	3.95	4.40	3.95	4.10	4.35	3.05	4.00	0.40
Dec	3.25	3.55	4.00	4.40	4.10	4.20	4.40	3.05	4.00	0.40

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	0.65	1.13	1.33	145	0.60	0.92	0.53	0.45	86.2	69.4
Jun-25	0.61	0.66	1.18	1.37	138	0.61	0.92	0.52	0.45	84.2	70.3
Sep-25	0.63	0.68	1.24	1.43	130	0.63	0.93	0.51	0.44	81.9	71.2
Dec-25	0.65	0.70	1.23	1.41	125	0.65	0.93	0.53	0.46	81.3	72.5
Mar-26	0.65	0.70	1.23	1.41	125	0.65	0.93	0.53	0.46	81.3	72.5
Jun-26	0.68	0.73	1.26	1.45	119	0.68	0.93	0.54	0.47	80.9	74.1
Sep-26	0.68	0.73	1.27	1.46	118	0.68	0.93	0.54	0.47	80.2	73.9
Dec-26	0.68	0.73	1.28	1.47	117	0.68	0.93	0.53	0.46	79.6	73.7
Mar-27	0.69	0.74	1.26	1.45	116	0.69	0.93	0.55	0.48	80.0	74.6
						TWI Weights					
						15.6%	18.4%	9.2%	3.9%	5.5%	

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

Annual Forecasts

Forecasts as at 5 May 2025	March Years					December Years				
	Actuals					Actuals				
	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026
GDP - annual average % change										
Private Consumption	3.4	1.0	0.1	2.1	2.8	4.2	1.0	0.2	1.4	2.9
Government Consumption	2.7	2.0	-0.8	0.6	0.0	5.2	0.8	0.0	0.4	0.2
Total Investment	3.3	-1.1	-4.9	0.4	5.8	4.2	-0.1	-4.6	-1.7	5.6
Stocks - ppts cont'n to growth	0.3	-1.6	0.4	0.6	0.1	0.0	-1.4	0.2	0.5	0.2
GNE	3.7	-0.9	-0.6	2.3	3.1	4.5	-0.8	-0.8	1.5	3.2
Exports	5.6	8.6	3.5	4.5	3.9	-0.8	11.4	4.2	5.3	3.7
Imports	4.4	-1.3	2.9	5.2	4.9	4.6	-0.6	2.4	4.9	5.0
Real Expenditure GDP	3.9	1.4	-0.6	2.0	2.6	3.2	1.9	-0.1	1.1	2.7
GDP (production)	**3.5**	**1.4**	**-1.1**	**1.7**	**2.6**	**2.9**	**1.8**	**-0.5**	**0.8**	**2.7**
GDP - annual % change (q/q)	*3.0*	*1.4*	*-1.2*	*2.5*	*2.3*	*3.1*	*0.9*	*-1.1*	*2.0*	*2.6*
Output Gap (ann avg, % dev)	2.0	1.0	-1.1	-0.8	0.0	1.9	1.2	-0.6	-1.0	-0.1
Nominal Expenditure GDP - $bn	394	418	430	451	473	386	413	427	445	468
Prices and Employment - annual % change										
CPI	6.7	4.0	2.5	2.2	1.9	7.2	4.7	2.2	2.6	2.0
Employment	3.1	1.0	-0.6	1.9	2.3	1.7	2.8	-1.1	1.2	2.5
Unemployment Rate %	3.4	4.4	5.3	5.2	4.8	3.4	4.0	5.1	5.4	4.9
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	4.5	3.0	3.3	8.1	6.6	4.0	2.9	3.4
Productivity (ann av %)	1.3	-1.1	-0.3	1.0	0.2	0.7	-1.2	-0.2	0.7	0.3
Unit Labour Costs (ann av %)	5.7	7.1	4.8	2.6	3.1	6.0	7.6	4.9	3.2	2.9
House Prices (stratified, qtr)	-12.8	2.8	-0.6	7.0	5.4	-13.8	0.6	-0.9	6.8	6.1
External Balance										
Current Account - $bn	-33.8	-27.6	-23.5	-17.3	-19.2	-35.6	-28.6	-26.4	-17.4	-19.2
Current Account - % of GDP	-8.6	-6.6	-5.5	-3.8	-4.1	-9.2	-6.9	-6.2	-3.9	-4.1
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-3.0	-2.3	-0.9					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	39.3	42.4	45.1	45.1	46.5					
Bond Programme - $bn (Treasury forecasts)	28.0	39.3	40.0	40.0	38.0					
Bond Programme - % of GDP	7.1	9.4	9.3	8.9	8.0					
Financial Variables (1)										
NZD/USD	0.62	0.61	0.57	0.67	0.69	0.63	0.62	0.57	0.65	0.68
USD/JPY	134	150	149	120	116	135	144	154	125	117
EUR/USD	1.07	1.09	1.08	1.25	1.26	1.06	1.09	1.05	1.23	1.28
NZD/AUD	0.93	0.93	0.91	0.93	0.93	0.94	0.93	0.91	0.93	0.93
NZD/GBP	0.51	0.48	0.44	0.47	0.48	0.52	0.49	0.45	0.46	0.46
NZD/EUR	0.58	0.56	0.53	0.54	0.55	0.60	0.57	0.55	0.53	0.53
NZD/YEN	83.0	91.1	85.4	80.4	80.0	85.6	89.5	88.4	81.3	79.6
TWI	71.0	71.2	67.9	73.6	74.6	72.9	72.0	68.5	72.5	73.7
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.75	3.50	4.25	5.50	4.25	2.75	3.25
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	4.05	4.55	5.63	4.26	2.90	3.55
5-year Govt Bond	4.40	4.60	4.00	3.60	4.05	4.30	4.50	3.90	3.50	4.00
10-year Govt Bond	4.35	4.60	4.50	4.30	4.40	4.25	4.65	4.45	4.30	4.40
2-year Swap	5.15	4.91	3.35	3.40	4.15	5.21	4.93	3.53	3.15	4.10
5-year Swap	4.50	4.40	3.65	3.65	4.25	4.62	4.43	3.63	3.50	4.20
US 10-year Bonds	3.65	4.20	4.25	4.00	4.00	3.60	4.00	4.40	4.00	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.30	0.40	0.65	0.65	0.05	0.30	0.40

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

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Monday 05 May			
AU	ANZ-Indeed Job Advertisements MoM Apr			0.40%
EC	Sentix Investor Confidence May	-11.5		-19.5
	Tuesday 06 May			
US	S&P Global US Services PMI Apr F	51.2		51.4
US	ISM Services Index Apr	50.3		50.8
NZ	ANZ Commodity Price MoM Apr			-0.40%
AU	Building Approvals MoM Mar	-1.80%	-3.00%	-0.30%
AU	Household Spending YoY Mar	3.90%		3.30%
AU	Household Spending MoM Mar	0.20%	0.30%	0.20%
AU	Caixin China PMI Services Apr	51.8		51.9
EC	ECB's Panetta Speaks			
GE	HCOB Germany Services PMI Apr F	48.8		48.8
EC	HCOB Eurozone Services PMI Apr F	49.7		49.7
UK	S&P Global UK Services PMI Apr F	48.9		48.9
	Wednesday 07 May			
US	Trade Balance Mar	-$136.7b		-$122.7b
NZ	Dairy GDT auction			
NZ	RBNZ Financial Stability Report			
NZ	Unemployment Rate 1Q	5.30%	5.30%	5.10%
NZ	Employment Change QoQ 1Q	0.10%	0.00%	-0.10%
NZ	Employment Change YoY 1Q	-0.50%	-0.60%	-1.10%
NZ	Pvt Wages Inc Overtime QoQ 1Q	0.50%	0.50%	0.60%
NZ	RBNZ News Conference on FinStab Report			
GE	Factory Orders MoM Mar	1.00%		0.00%
EC	Retail Sales MoM Mar	-0.10%		0.30%
	Thursday 08 May			
US	FOMC Rate Decision (Upper Bound) 7-May	4.50%		4.50%
NZ	Government 9-Month Financial Statements			
JN	BOJ Minutes of March Meeting			
GE	Industrial Production SA MoM Mar	1.00%		-1.30%
GE	Trade Balance SA Mar	18.7b		17.7b
NO	Deposit Rates 8-May	4.50%		4.50%
SW	Riksbank Policy Rate 8-May	2.25%		2.25%
UK	Bank of England Bank Rate 8-May	4.25%		4.50%
	Friday 09 May			
US	Initial Jobless Claims 3-May	230k		241k
US	Continuing Claims 26-Apr	1892k		1916k
UK	DMP 3M Output Price Expectations Apr	4.00%		3.90%
UK	DMP 1 Year CPI Expectations Apr	3.50%		3.40%
US	Wholesale Trade Sales MoM Mar			2.40%
US	NY Fed 1-Yr Inflation Expectations Apr			3.58%
JN	Scheduled FT Pay - Same Base YoY Mar	2.20%		1.90%
JN	Cash Earnings - Same Sample Base YoY Mar	2.70%		2.40%
JN	Household Spending YoY Mar	0.20%		-0.50%
EC	ECB's Rehn Speaks			
UK	BOE's Bailey & Pill Speak			
US	Fed's Williams & Barr Speak			
CH	Exports YoY Apr	2.00%		12.40%
CH	Imports YoY Apr	-5.90%		-4.30%
	Saturday 10 May			
CA	Unemployment Rate Apr	6.80%		6.70%
US	Fed's Williams, Waller & Others Speak			
EC	ECB's Schnabel & Simkus Speak			
CH	PPI YoY Apr	-2.60%		-2.50%
CH	CPI YoY Apr	0.10%		-0.10%

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	3.50	3.50	3.75	5.50
1mth	3.58	3.62	3.59	5.60
2mth	3.49	3.49	3.53	5.62
3mth	3.40	3.43	3.47	5.63
6mth	3.24	3.26	3.28	5.59
GOVERNMENT STOCK				
04/27	3.25	3.23	3.29	4.63
05/30	3.80	3.77	3.78	4.59
05/32	4.14	4.14	4.12	4.70
05/35	4.44	4.45	4.39	4.82
04/37	4.66	4.65	4.62	4.93
05/41	4.91	4.89	4.87	5.06
05/54	5.16	5.11	5.09	5.08
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	64	67	77	50
Europe 5Y	65	66	80	53

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.11	3.07	3.10	4.99
3 years	3.22	3.19	3.19	4.73
4 years	3.35	3.32	3.30	4.59
5 years	3.48	3.45	3.41	4.53
10 years	3.99	3.97	3.89	4.61
FOREIGN EXCHANGE				
NZD/USD	0.5952	0.5979	0.5540	0.6009
NZD/AUD	0.9223	0.9296	0.9256	0.9073
NZD/JPY	86.17	84.91	81.89	92.48
NZD/EUR	0.5266	0.5235	0.5080	0.5581
NZD/GBP	0.4488	0.4449	0.4353	0.4785
NZD/CAD	0.8215	0.8268	0.7891	0.8213
TWI	69.4	69.7	66.9	70.8

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

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