23 August 2021

What a difference a day makes!

- **Lockdown to again slash economic growth**
- **May be longer than many anticipate**
- **But past lessons suggest the economy will bounce back fairly quickly**
- **If we get COVID under control**
- **Major demand slump needed to dent inflation**

Boy, what a difference a day makes! From COVID-free, overheating, rate hiking to COVID-laden, Armageddon threatening, rate holding in one foul blow.

We all hoped it wouldn't happen but, equally, we all knew it was just a matter of time before COVID re-emerged on our fair shores. We've beaten back the previous COVID invasions but it leaves no certainty that we can get on top of this new, much more offensive, variant. As things stand, confidence levels are up, especially in government circles, that we can succeed again. And there is a feeling amongst the general populace that we can wait this out, but only time will tell whether this will be so or whether this is misplaced hope.

One thing is for sure, the speed at which we have locked down, and the aggressiveness of that lock down, can only work in our favour. Moreover, the compliance of New Zealanders (while it lasts) will also have a substantive bearing. And while pain will be felt, the Government is well placed to provide substantial stimulus to the economy to keep people in employment and businesses afloat, as was the case previously.

There are also fewer businesses vulnerable to failure. Big chunks of the international tourism sector are no longer there, as is the case for multiple other small businesses, especially in the retail sector.

The very fact we have been here before provides a degree of understanding and resilience that wasn't there during the first lock down. And, last but not least, there is a clear end in sight one way or t'other. In short, by the end of this year New Zealand is on track to have all those in the adult population who wish to be vaccinated. If so, the days of lockdowns are now numbered. The first lock down we experienced, there appeared no end in sight.

This is not to say the current outbreak won't be economically damaging. It will. And the extent of that damage will be dependent on how long the outbreak is, which is completely unforecastable. What is clear, though is we are not talking days but rather weeks, potentially months, before we all get back to Level 1.

On Friday, the Government announced the Level 4 lockdown will be extended until at least midnight this Tuesday, for the whole country. Initially, only Auckland and the Coromandel were slated for this. Realistically, we'd be really surprised if it didn't go for a further week or two thereafter, especially in Auckland. We will, of course, get an update on this later this afternoon when the PM tells us the next step in our journey. The expectation is that Auckland will stay at Level 4 (potentially for some time), Wellington and Coromandel will stay at four, but for less time, and the rest of the country will move to three (though maybe not just yet).

Importantly, we all know that removing restrictions is a progressive approach and, typically, it's unusual for regions to be more than one level away from each other. Importantly, then, there is very little chance, even under a best-case scenario, that the whole country will be at Level 1 within a month of the initial restrictions being imposed. A likely scenario is that the restriction reversals will be stepped for, say, two weeks at level 3 and then a further two at level 2.

If all this seems a bit extreme, don't forget that the lockdown of August 2020 saw Auckland in Level 3 for 18 days, followed by a further 22 days in Level 2. Admittedly, for most of the time, the rest of New Zealand was one Level lower. But with Delta fears, as they are, it is less likely that lower levels will be permitted so quickly.

As it happens, on April 23 of this year, Treasury released its latest best guess as to what the various level restrictions would imply for economic activity These estimates were not massively different to the estimates released way back when we went into our first lockdown. The key difference is that the impact of Level 4 is now known to be less than we had first anticipated, as much more of the economy has found a way of continuing to operate from home base.

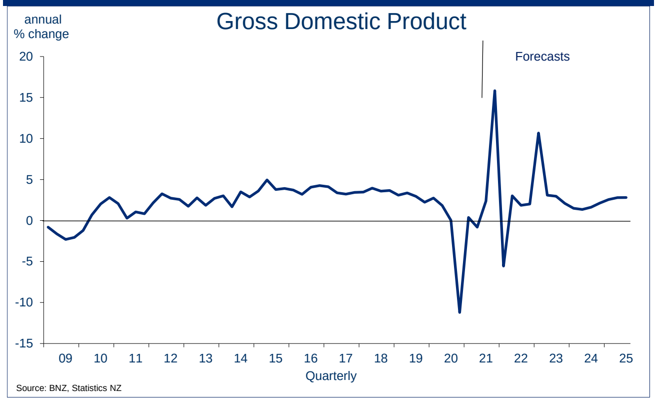
In summary, Treasury concluded that "relative to normal" activity levels would drop between 25% and 30% if the entire economy was in Level 4. The impact would reduce to a 10% to 15% decline under Level 3, 4% to 6% under Level 2, and 3% to 4% under Level 1. Assuming these are accurate estimates then any expected decline in activity now needs to be adjusted/reduced by the 3% to 4%

penalty the economy was already suffering under Level 1, which is the new normal.

We clearly don't know what the extent of the lockdown will end up like. But let's assume the whole country stays in level 4 until August 31 but then drops to Level 3. Auckland stays at Level 4 for four weeks until mid-September and then drops down the Levels by one step each fortnight. The rest of the country also drops down the levels, remaining one level below Auckland. The whole country is back in Level 1 by mid October.

Were this to be the case it would mean, at face value, that activity in the September quarter will fall around 7.0% compared to June but then increase around 8.0% in December, as the level of restrictions is lifted. The March quarter would have us back where we began. This is obviously a very simplistic way of looking at the world but it paints a picture of what the economy might look like. Of course, things will change dependant on the duration of the various restrictions. As a point of comparison, when COVID first blasted New Zealand, activity plummeted 10.8% in the second quarter of 2020 and then bounced 14.1% in the ensuing quarter.

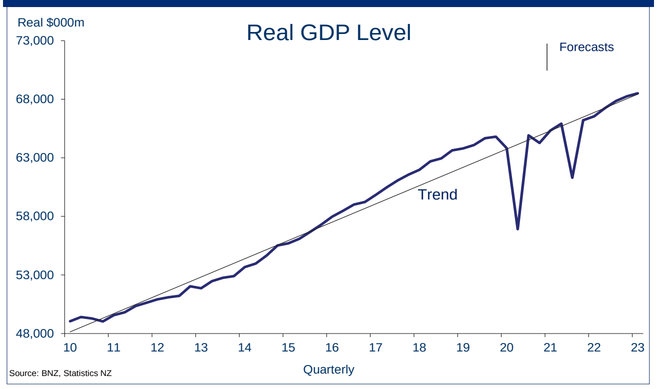
Here we go again



Of course, we all know what happened thereafter. The combination of massive fiscal and monetary policy easing resulted in the overheated economy we were experiencing less than a week ago. This time around, we expect the fiscal response to provide further ballast to the economy but do not expect the monetary authorities to come to the party in the same way. That's not to say monetary policy will stand idle. To the contrary, a cash rate at 0.25% remains ultra-stimulatory. But you won't get the marginal extra stimulus that was generated by the cash rate being slashed 75 basis points.

In fact, there remains a very good chance that, barring a complete collapse in confidence, the cash rate actually rises well before activity levels get back to where they were prior to this current shock. Reserve Bank Governor Orr has been shouting from the rooftops his concerns about domestic overheating and the fact that COVID restrictions in and of themselves would not prevent him raising interest rates unless there was a major sustained demand shock that was not compensated for by an easing in fiscal policy. Given that the Minister of Finance, Grant Robertson, has indicated that such fiscal stimulus will be forthcoming, the chances of a rate hike(s) this year still look very high. Indeed, the above scenario shows just why Orr should remain hawkish. If activity levels were to return to pre-shock levels within a matter of months, which seems a reasonable assumption given what we have experienced so far, then the capacity constraints and inflationary pressures would re-emerge very quickly leaving the RBNZ behind the curve again. In fact, even in the interim, there is a danger that the impacts of the supply shocks on labour supply and prices outweighs the opposing demand impact.

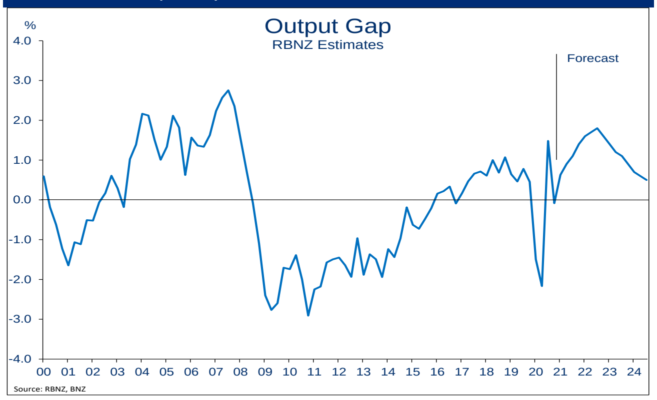
Normalisation can be rapid



For now, we remain with our view that the cash rate is raised in both October and November.

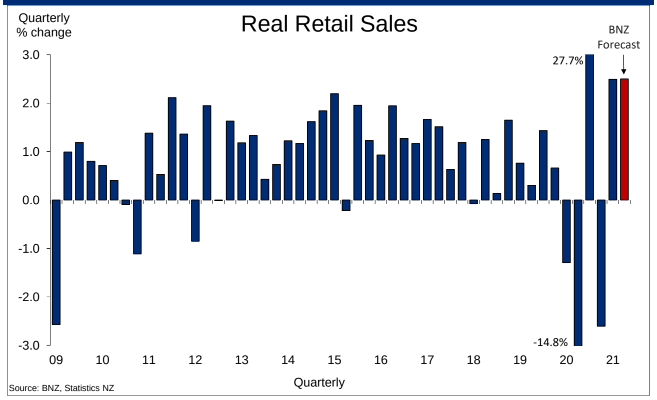
The week ahead will be dominated by COVID announcements and little interest will be shown in the week's data releases. That said, it will still be worth casting an eye over the data to garner greater insight into the starting point for the economy before the current lockdown. The stronger the starting point, the bigger the demand shock that will be required to stop the RBNZ from hiking. Don't forget that the RBNZ believed the economy was operating 0.9% above capacity in the second quarter of this year and that this would rise to 1.8% before all was done and dusted. And that, despite rising interest rates. This means a permanent 1.8% drop in demand is needed to get the economy back to a steady state.

Well above capacity



One of the interesting details buried in the RBNZ's August MPS forecasts was its assumption that private consumption will have declined 2.0% across the June quarter. Tuesday's retail sales data will provide some insight into this. Partial indicators have us penciling in a 2.5% increase in sales volumes for the quarter. This need not mean private consumption has to move in the same manner after all retail sales also rose 2.5% in the March quarter 2021 while private consumption rose an inexplicable 5.4%. However, if we are right with our sales' projection, it will impose upside risks to Q2 GDP relative to the RBNZ's expectations.

Spending up large



Wednesday's merchandise trade data, for July, should also confirm the pre-lockdown economic momentum with annual growth of 16% for exports and 31% for imports to be confirmed. The latter is indicative of the strength in domestic demand and the combination of exports and imports is reflective of a deterioration in the broader external accounts that is consistent with an economy which was overheating.

July new residential lending data are also released on the same day. As always, it will be interesting to see if there is any moderation evident given the headwinds that government and RBNZ macroprudential policy should be providing for the sector.

The RBNZ has highlighted it will have a strong focus on sentiment indicators over the next few weeks as it awaits data on the "real" impact of the lockdown. A collapse in sentiment would certainly have the bank rethinking any decision to raise rates. We may get the first inkling of a shift in sentiment with the release of Friday's ANZ Roy Morgan survey. It will depend on when survey respondents actually answered the questionnaire and how quickly their confidence may, or may not, have been jolted by the announcement, on August 17, of the impending lockdown.

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Global Watch

- **Fed Chair Powell to talk at Jackson Hole**
- **US PCE deflator seen rising**
- **China July industrial profits due Friday**
- **EU timely surveys to reveal current economic pulse**
- **UK PMI to reveal activity in first half of August**
- **AU retail sales seen under consensus**

Australia

Retail Sales and pre-GDP partials of Construction Work Done and Capex headline the data this week. Given virus developments, all three will be seen as dated.

Vaccines remain the way for Australia to start to transition to living with the virus. Currently 28.2% of the adult population is fully vaccinated with 50.2% have had at least one dose. NAB estimates that we are likely to reach key vaccination hurdles of 70% adult vaccination by October and 80% by mid-November.

Regards the data, NAB expects a sharp decline in July Retail Sales of 3.3% m/m given lockdowns across several cities (lower than the consensus estimate of a 2.1% decline). During the month Greater Sydney was in protracted lockdown, Melbourne was in a 12-day lockdown, and snap lockdowns occurred in parts of SA and QLD.

Q2 construction and capex are both expected to increase by around 3.7% q/q. Construction figures are on Wednesday and capex is on Thursday. Both feed into Q2 GDP which is scheduled to be released on Wednesday 1 September. A miss to either construction or capex could raise the risks of a negative Q2 GDP print with NAB pencilling in a meagre Q2 GDP print of 0.2% q/q.

Weekly ABS Payrolls are on Thursday and should continue to show lockdown impacts.

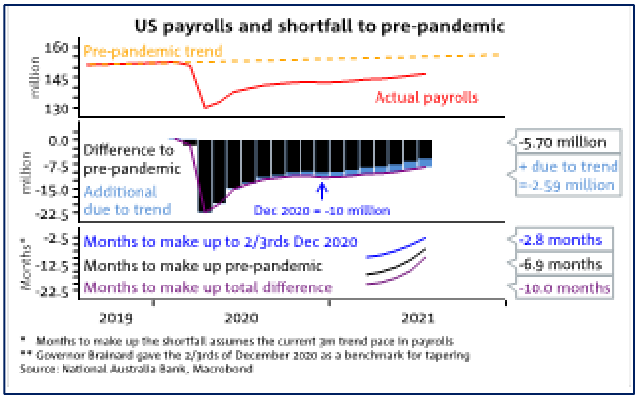
China

A quiet week data wise with only Industrial Profits on Friday. Instead, high frequency data will be watched closely given signs of domestic slowing, while China's recent virus outbreak looks to be coming under control.

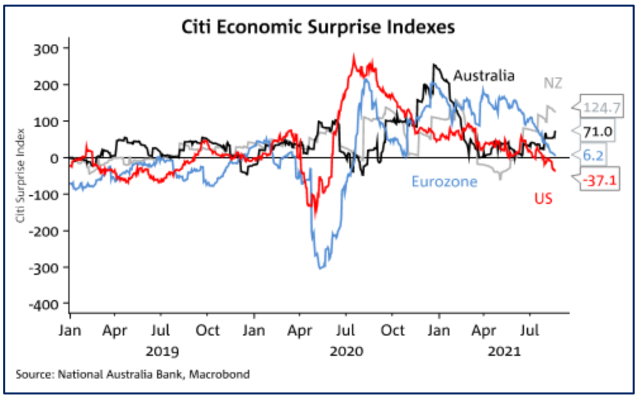
US

The Jackson Hole Symposium starts Thursday with Fed Chair Powell to be watched closely for inferences on tapering and progress on the Fed's goals of maximum employment and at target inflation under the average inflation targeting regime. It was at this event last year that Chair Powell launched the Fed's revamped maximum employment and price stability goals. Also expect a number of other Fed officials to talk on the side-lines to media, scheduled so far are Kaplan, Harker, Bullard, Bostic and Mester. The theme this year "Macroeconomic Policy in an Uneven Economy". In terms of data it is a light week with PCE for July on Friday. There'll be interest in the pace of consumer spending as well as the deflators. The core PCE deflator is expected to rise 0.3% m/m and 3.6% y/y. The other key data points include another read on Q2 GDP on Thursday, as well Durable Goods Orders.

Fed close to substantial further progress…



…but US data no longer surprising to the upside



Eurozone

There are several up to date readings on the tempo of the Eurozone economy, starting Monday with the flash August PMIs and what it says about demand, bottlenecks, and Delta variant concerns. The Manufacturing PMI is tipped to dip to 61.8 from 62.9, but the Services index to be fractionally higher at 60.1, up from 59.8. Germany's Ifo survey for August, out Wednesday, is expected to reveal a dip in expectations, but resilient current conditions. That's followed by INSEE's French Business Confidence survey.

UK

Two big data pieces are on the radar screens that track the course of the UK economy. Friday's already released July Retail Sales report was unexpectedly weak (-2.5% on the month), so saying 'Freedom Day' (July 19) did not unleash a burst of new spending. Monday's PMIs will offer an up to date view of activity in the first half of August.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Last week saw a big fall in NZ rates after the emergence of community cases of the Delta variant in New Zealand and the RBNZ's subsequent decision not to raise the OCR on Wednesday. On the week, the 2-year swap rate was down 17bps, to 1.17%, while the 10-year swap rate was down 12bps, to 1.86%.

How quickly things change. As of Tuesday morning, the market was pricing a 20% chance that the RBNZ would raise the OCR by 50bps at its August MPS. By Wednesday morning, after the government had put the country back in a Level 4 lockdown, a 25bp hike was seen as less than a sure thing. And, as we know now, the RBNZ decided not to raise the OCR at the MPS that afternoon, framing the decision as a delay to the start of the rate hike cycle rather than aborting it altogether.

Despite the on-hold decision, the tone of the MPS and the subsequent post-meeting comments from Governor Orr have been decidedly hawkish. Governor Orr has emphasised that the OCR is a long way below 'neutral', seen as around 2%, that it would take a significant shock to demand in the economy to see him reconsider his tightening plans, and that the economy coming out of lockdown was not a precondition for OCR rate hikes. The OCR track from the MPS is consistent with a good chance of hikes at each of the upcoming two meetings, in October and November, with the OCR projected to reach 2.14% by the end of the forecast horizon, in Q3 2024.

The market is sceptical of RBNZ rate hikes during a period over which lockdown restrictions impart a material economic impact. Pricing for the October meeting implies around a 50% chance of an OCR hike. We expect pricing for the October meeting to fluctuate in the coming weeks on Covid-19 case numbers and what those imply for the likely duration of the lockdown. We are still pencilling an OCR hike in October at this stage.

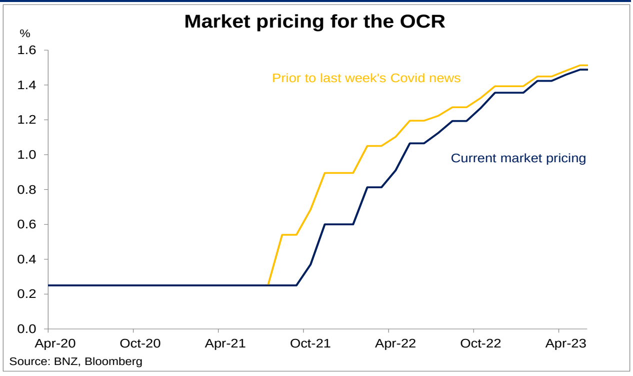
OCR expectations for late 2022 and 2023 have been less affected (see Chart 1), which we think makes sense. With vaccination now being rolled out, and the RBNZ clearly signalling its intent to get the OCR somewhere close to neutral, a delayed start to the tightening cycle may well see a quicker pace of hikes next year than markets had previously been pricing. The market prices the OCR to get to around 1.35% and 1.60% at year-end 2022 and 2023 respectively. This is below our forecasts and those of the RBNZ, which have the OCR getting above 2% in 2023, but that was the case even before this lockdown, with the market seemingly sceptical that the RBNZ will need to lift the OCR this high to cool of the economy.

We have kept our wholesale rates forecasts largely intact at this stage given all we have done is push out the timing of our forecast OCR hiking cycle by one meeting. Clearly, if this turns out to be an extended lockdown and, especially if demand-side indicators in the economy weaken sharply, then the rate hike cycle could be delayed further, which would likely translate to lower wholesale rates (at least at the short-end of the curve) than our forecasts.

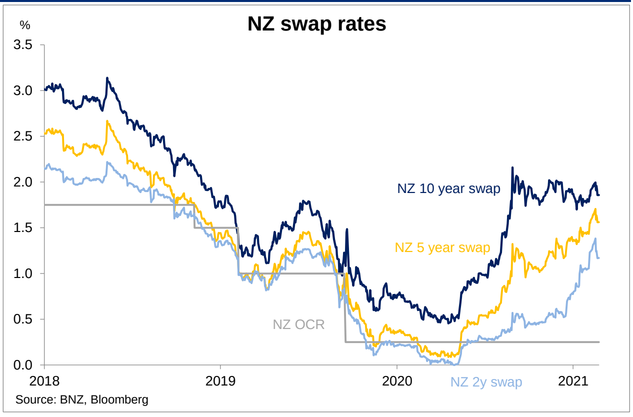
In the near-term, we think short-term wholesale rates are unlikely to increase very far, with case numbers still on the rise and little visibility for the market around how long the lockdown might last. Once we get to the point where the market sees the end of the lockdown in sight, we would expect wholesale rates to gravitate higher again.

Offshore, the focus is on Fed Chair Powell's speech at Jackson Hole on Friday night. Following the last two very strong payrolls reports, the market has started to come around to the view that Fed tapering could be announced at the September meeting, with a chance that Powell could hint at this at Jackson Hole. US and global long-term rates remain rangebound for now, at very low levels, with the market seemingly concerned about the global growth outlook amidst the surge in Delta cases overseas. We suspect a tapering announcement is fairly well priced in now, so we're not convinced it would necessarily drive much of an increase in the US 10-year rate. But, ultimately, we still think the likely direction for global long-term rates over the next year is higher from here.

Market pushes back the timing, but not the end point, of OCR hikes



NZ rates correct lower last week



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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Commodity currencies underperformed last week on weaker risk appetite, as investors became increasingly nervous about the global economic impact of the spread of the delta variant of COVID19. The AUD, NZD, NOK and CAD were the four worst-performing majors, in that order, while investors flocked to the "safety" of the USD. AUD/USD fell by 3.2% while NZD/USD fell by 2.9%. The AUD, NZD, CAD and EUR all printed fresh lows for the year against the USD, with the BBDXY USD index rising to its highest level since November.

Other forces on the NZD during the week included a community outbreak of COVID19 centred in Auckland, leading to a highly restrictive level 4 lockdown across the country, and the RBNZ choosing to keep policy on hold with the first case announced some 24 hours before its policy update.

Turning first to global forces, these clearly remain negative for the NZD. The weekly average of our risk appetite index was just over 60%, the weakest reading in three months. The spread of the delta variant across the world represents a setback for the global economic recovery. Lockdowns across China; the partial shutdown of the world's third largest port there adding to global supply chain interruptions; factory shutdowns in South East Asia, a hub of global manufacturing; and more cautious consumer behaviour even in well-vaccinated regions are, amongst other factors, leading to reduced output and suppressing domestic demand across the world.

This dynamic is leading to reduced risk sentiment and lower global commodity prices – Bloomberg's commodity price index has fallen to a two-month low – and represents a major headwind for commodity currencies like the NZD. The 7-day average of new cases of COVID19 in the US has topped 150,000, the highest level since January. Hospitalisations are surging, up 43% in the past two weeks, on track to exceed the January peak. Risk appetite could easily get a lot worse over coming weeks and push the NZD lower.

We are less concerned about the COVID19 outbreak in NZ. Restrictions are tight enough to contain the spread and the economic hit will likely prove temporary.

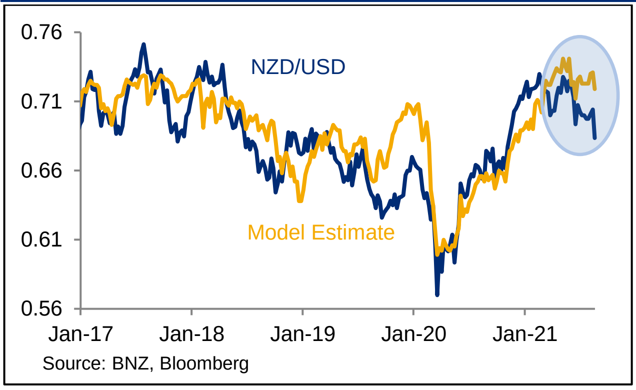
And while the expected RBNZ rate hike didn't eventuate, the Bank has given strong guidance of its desire to return the OCR to at least neutral, estimated to be 2%, as soon as practically possible. Governor Orr indicated that there would need to be a significant change in view to prevent the rate hike cycle kicking off from the next opportunity at the early-October meeting. The NZ 1-year swap rate collapsed 25bps last week, but we expect a sharp reversal once the dust settles.

The combination of lower risk appetite, lower commodity prices and a lower NZ-US rate spread saw our short-term fair value model estimate fall by 1.6% to just under 0.72. As this was much less than the 2.9% fall in the spot NZD, the gap between spot and fair value fell to its cheapest in 19 months at nearly 5%, suggesting some "overshooting" to the downside is taking place.

The technical RSI is still above 30, suggesting that the overshoot is more fundamental than technical so far. We note support at the 0.68 level, although a break of that to the downside opens up a big gap to the next support zone around 0.65-0.66. While we recognise the possibility of near-term downside risk for the NZD, the combination of the passing of risk around the spread of the delta variant and RBNZ rate hikes could easily unleash a sharp recovery of the NZD into year-end.

In the week ahead, the key event is Fed Chair Powell's address at the Jackson Hole Symposium scheduled Friday night, NZ time. It remains to be seen whether he gives any clarity on the timing of tapering of bond purchases and future rate hikes. The outlook very much remains data dependent.

NZD overshooting FV to the downside, opening value gap



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6834	0.6810 - 0.7090
NZD/AUD	0.9588	0.9460 - 0.9600
NZD/GBP	0.5018	0.4980 - 0.5090
NZD/EUR	0.5843	0.5830 - 0.6010
NZD/JPY	75.02	74.60 - 77.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7190	-5%
NZD/AUD	0.9100	5%

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Technicals

NZD/USD

Outlook:	Trading range
ST Resistance:	0.7100 (ahead of 0.7315)
ST Support:	0.6800 (ahead of 0.65-0.66)

A new year-to-date low has seen the support level reduce to 0.6800, with a wide gap to the following support level in a 0.65-0.66 zone.

NZD/USD – Daily
Source: Bloomberg

NZD/AUD

Outlook:	Trading range
ST Resistance:	0.9600 (ahead of 0.9700)
ST Support:	0.9430 (ahead of 0.9300)

The grind higher is starting to threaten the December peak of 0.96, the next level of resistance.

NZD/AUD – Daily
Source: Bloomberg

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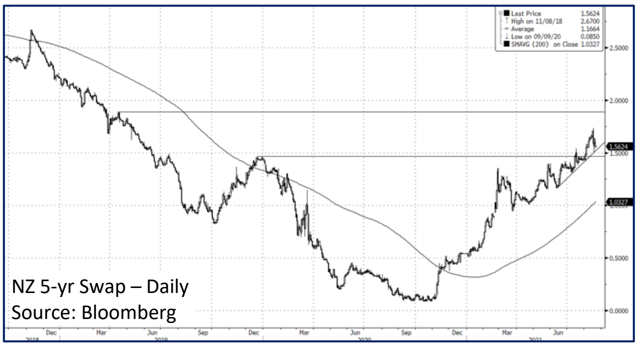
NZ 5-year Swap Rate

Outlook: Higher
MT resistance: 1.89
MT support: 1.46

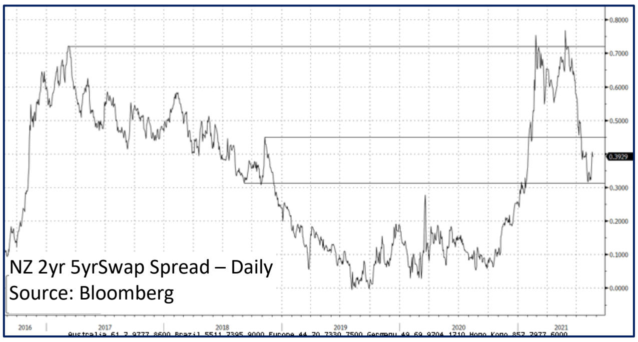
Rally looks corrective, stop thru 1.46. Trendline support at 1.52 horizontal at 1.46.


NZ 5-yr Swap – Daily
Source: Bloomberg

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

Outlook: Steeper
MT resistance: 0.45
MT support: 0.31

Been a nice bounce from 31 to 39 level Take profit around 45 then trade a breakout.


NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

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Quarterly Forecasts

Forecasts as at 23 August 2021

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts: Jun-21 onwards (shaded)

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
GDP (production s.a.)	-1.5	-10.8	14.1	-1.0	1.6	0.9	0.5	0.6	0.5	1.1
Retail trade (real s.a.)	-1.3	-14.8	27.7	-2.6	2.5	2.5	1.0	0.5	0.6	0.8
Current account (ytd, % GDP)	-2.8	-1.8	-0.8	-0.8	-2.2	-3.4	-4.2	-4.7	-4.5	-4.8
CPI (q/q)	0.8	-0.5	0.7	0.5	0.8	1.3	1.5	0.6	0.5	0.4
Employment	1.0	-0.4	-0.6	0.7	0.6	1.1	0.5	0.4	0.5	0.6
Unemployment rate %	4.2	4.1	5.3	4.8	4.6	4.0	3.9	3.7	3.5	3.3
Avg hourly earnings (ann %)	3.2	2.4	3.7	4.6	4.1	4.5	3.7	3.7	4.0	4.3
Trading partner GDP (ann %)	-2.4	-5.3	-0.9	0.7	6.3	9.8	4.5	4.1	4.5	4.6
CPI (y/y)	2.5	1.5	1.4	1.4	1.5	3.3	4.2	4.3	4.0	3.1
GDP (production s.a., y/y))	0.0	-11.2	0.4	-0.8	2.4	15.8	2.1	3.7	2.5	2.7

Interest Rates

Historical data - qtr average
Forecast data - end quarter

		Government Stock			Swaps			US Rates		Spread
	Cash	**90 Day Bank Bills**	**5 Year**	**10 Year**	**2 Year**	**5 Year**	**10 Year**	**Libor 3 month**	**US 10 yr**	**NZ-US Ten year**
2019 Dec	1.00	1.15	1.05	1.40	1.10	1.20	1.50	1.95	1.80	-0.40
2020 Mar	0.75	1.05	1.00	1.35	1.00	1.10	1.40	1.55	1.40	-0.03
Jun	0.25	0.30	0.40	0.85	0.25	0.40	0.80	0.60	0.70	0.15
Sep	0.25	0.30	0.25	0.65	0.15	0.25	0.60	0.25	0.65	0.02
Dec	0.25	0.25	0.25	0.70	0.15	0.30	0.75	0.20	0.85	-0.15
2021 Mar	0.25	0.30	0.75	1.40	0.40	0.85	1.50	0.20	1.30	0.09
Jun	0.25	0.35	1.00	1.75	0.55	1.20	1.90	0.15	1.60	0.17
Forecasts										
Sep	0.25	0.60	1.60	1.95	1.40	1.80	2.15	0.15	1.50	0.45
Dec	0.75	0.95	2.10	2.40	1.75	2.20	2.50	0.15	1.80	0.60
2022 Mar	1.00	1.20	2.40	2.70	2.00	2.50	2.80	0.15	2.00	0.70
Jun	1.25	1.45	2.60	2.90	2.25	2.70	3.00	0.15	2.20	0.70
Sep	1.50	1.75	2.80	3.05	2.50	2.90	3.15	0.15	2.35	0.70
Dec	1.75	2.00	2.95	3.20	2.65	3.05	3.30	0.15	2.50	0.70
2023 Mar	2.00	2.25	3.00	3.25	2.65	3.10	3.35	0.15	2.65	0.60

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.68	0.71	1.17	1.36	110
Sep-21	0.72	0.76	1.21	1.41	109
Dec-21	0.75	0.78	1.23	1.43	109
Mar-22	0.76	0.80	1.24	1.46	109
Jun-22	0.75	0.80	1.26	1.48	109
Sep-22	0.75	0.80	1.28	1.52	109
Dec-22	0.74	0.80	1.30	1.54	109
Mar-23	0.73	0.79	1.28	1.52	108
Jun-23	0.72	0.77	1.26	1.50	108
Sep-23	0.71	0.76	1.25	1.47	107
Dec-23	0.69	0.75	1.24	1.47	107

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.68	0.96	0.58	0.50	75.0	73.4
Sep-21	0.72	0.96	0.60	0.51	78.8	75.2
Dec-21	0.75	0.95	0.61	0.52	81.5	76.6
Mar-22	0.76	0.95	0.61	0.52	82.8	77.3
Jun-22	0.75	0.94	0.60	0.51	82.0	76.4
Sep-22	0.75	0.94	0.59	0.50	82.0	76.3
Dec-22	0.74	0.93	0.57	0.48	80.7	75.1
Mar-23	0.73	0.92	0.57	0.48	78.8	74.5
Jun-23	0.72	0.93	0.57	0.48	77.5	74.0
Sep-23	0.71	0.93	0.57	0.48	76.0	73.6
Dec-23	0.69	0.92	0.56	0.47	73.8	71.8
TWI Weights	13.3%	19.2%	10.5%	4.1%	6.4%	

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

Annual Forecasts

Forecasts
as at 23 August 2021

	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023
GDP - annual average % change										
Private Consumption	2.9	-0.7	9.6	3.3	2.0	3.6	-1.9	10.7	3.2	2.4
Government Consumption	6.1	6.3	4.5	1.8	1.3	5.4	6.4	5.3	2.2	1.2
Total Investment	1.3	-4.7	13.8	4.2	-0.6	3.2	-7.4	14.6	5.0	0.1
Stocks - ppts cont'n to growth	-0.5	-0.2	0.8	-0.1	0.0	-0.7	-0.8	1.6	-0.3	0.0
GNE	2.5	-0.5	10.2	3.1	1.3	3.0	-2.5	11.9	3.1	1.6
Exports	-0.3	-15.9	4.3	10.9	8.2	2.3	-11.8	-4.2	9.7	10.8
Imports	1.2	-16.2	17.8	10.0	5.4	2.2	-16.4	15.0	9.5	7.1
Real Expenditure GDP	2.1	-0.4	5.7	2.8	1.6	3.0	-1.2	6.0	2.7	2.0
GDP (production)	**1.7**	**-2.3**	**5.7**	**3.0**	**1.6**	**2.4**	**-2.9**	**5.7**	**2.9**	**2.0**
GDP - annual % change (q/q)	*0.0*	*2.4*	*2.5*	*3.0*	*1.6*	*1.8*	*-0.8*	*3.7*	*3.1*	*1.4*
Output Gap (ann avg, % dev)	1.6	-2.1	0.9	1.5	0.9	2.0	-2.2	0.8	1.4	1.0
Nominal Expenditure GDP - $bn	322	325	355	371	384	319	322	350	367	380
Prices and Employment - annual % change										
CPI	2.5	1.5	4.0	2.3	2.7	1.9	1.4	4.3	2.1	2.6
Employment	2.5	0.3	2.5	1.7	1.1	1.2	0.7	2.6	2.0	0.9
Unemployment Rate %	4.2	4.6	3.5	3.5	4.2	4.0	4.8	3.7	3.3	4.1
Wages - ahote	3.2	4.1	4.0	4.0	2.8	3.8	2.6	4.6	3.7	4.1
Productivity (ann av %)	-0.3	-2.8	3.4	1.0	0.6	0.5	-4.1	4.0	0.7	0.7
Unit Labour Costs (ann av %)	3.4	5.5	3.1	3.1	2.7	2.5	6.6	2.1	3.8	2.8
House Prices	7.8	22.0	8.5	2.3	2.0	4.6	17.0	15.7	2.8	2.0
External Balance										
Current Account - $bn	-9.1	-7.2	-15.9	-18.0	-14.8	-10.6	-2.4	-16.4	-19.4	-15.7
Current Account - % of GDP	-2.8	-2.2	-4.5	-4.9	-3.8	-3.3	-0.8	-4.7	-5.3	-4.1
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-7.3	-2.8	-3.6	-0.9	0.3					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	34.0	43.0	48.0	48.0					
Bond Programme - $bn (Treasury forecasts)	29.0	45.0	30.0	25.0	25.0					
Bond Programme - % of GDP	9.0	13.8	8.4	6.7	6.5					
Financial Variables [(1)]										
NZD/USD	0.60	0.71	0.76	0.73	0.69	0.66	0.71	0.75	0.74	0.69
USD/JPY	108	109	109	108	107	109	104	109	109	107
EUR/USD	1.11	1.19	1.24	1.28	1.24	1.11	1.22	1.23	1.30	1.24
NZD/AUD	0.97	0.93	0.95	0.92	0.92	0.96	0.94	0.95	0.93	0.92
NZD/GBP	0.49	0.51	0.52	0.48	0.47	0.50	0.53	0.52	0.48	0.47
NZD/EUR	0.55	0.60	0.61	0.57	0.56	0.59	0.58	0.61	0.57	0.56
NZD/YEN	65.1	77.5	82.8	78.8	73.8	72.0	73.6	81.5	80.7	73.8
TWI	68.9	74.8	77.3	74.5	71.8	72.8	74.3	76.6	75.1	71.8
Overnight Cash Rate (end qtr)	0.25	0.25	1.00	2.00	2.25	1.00	0.25	0.75	1.75	2.25
90-day Bank Bill Rate	0.71	0.33	1.20	2.25	2.40	1.23	0.26	0.95	2.00	2.40
5-year Govt Bond	0.80	1.00	2.40	3.00	3.00	1.25	0.40	2.10	2.95	3.00
10-year Govt Bond	1.15	1.75	2.70	3.25	3.30	1.60	0.90	2.40	3.20	3.30
2-year Swap	0.65	0.50	2.00	2.65	2.65	1.25	0.28	1.75	2.65	2.65
5-year Swap	0.80	1.15	2.50	3.05	3.10	1.40	0.49	2.20	3.05	3.10
US 10-year Bonds	0.90	1.60	2.00	2.65	3.00	1.85	0.90	1.80	2.50	3.00
NZ-US 10-year Spread	0.25	0.15	0.70	0.60	0.30	-0.25	0.00	0.60	0.70	0.30

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

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

Key Upcoming Events

	Forecast	Median	Last
Monday 23 August			
Aus, Services PMI (Markit), Aug 1st est			44.2
Aus, Manufacturing PMI (Markit), Aug 1st			56.9
Euro, Consumer Confidence, Aug 1st est		-4.9	-4.4
Euro, PMI Manufacturing, Aug 1st est		62.0	62.8
Euro, PMI Services, Aug 1st est		59.5	59.8
UK, CBI Industrial Trends, August		+16	+17
UK, Markit/CIPS Manuf Survey, Aug 1st est		59.5	60.4
UK, Markit/CIPS Services, Aug 1st est		59.1	59.6
US, Existing Home Sales, July		5.83m	5.86m
US, Markit PSI, Aug 1st est		59.2	59.9
US, Markit PMI, Aug 1st est		62.3	63.4
Tuesday 24 August			
NZ, Retail Trade, Q2 vol s.a.	+2.5%	+2.0%	+2.5%
Germ, GDP, Q2 2nd est		+1.5%	+1.5%P
US, New Home Sales, July		699k	676k
Wednesday 25 August			
NZ, Merchandise Trade, July	-$221m		+$261m
NZ, New Residential Lending, July y/y			+59%
Aus, Construction Work Done, Q2		+2.7%	+2.4%

	Forecast	Median	Last
Wednesday (continued)			
Germ, IFO Index, August		100.0	101.2
UK, CBI Retailing Reported Sales, August		+20	+23
US, Durables Orders, Jul 1st est		-0.3%	+0.9%
Thursday 26 August			
Aus, Private New Capex, Q2		+2.5%	+6.3%
Euro, M3, July y/y		+7.6%	+8.3%
US, Jobless Claims, week ended 14/08		350k	348k
US, GDP, Q2 saar 2nd est		+6.7%	+6.5%P
Friday 27 August			
NZ, ANZ-RM Consumer Confidence, August			113.1
NZ, Employment Indicators, July			+1.0%
Aus, Retail Sales, July 1st est		-2.1%	-1.8%
China, Industrial Profits, July y/y			+20.0%
US, International Goods Trade, Jul advance		-$90.6b	-$91.2b
US, "Jackson Hole" Conference, 1st full day			
US, Mich Cons Confidence, Aug 2nd est		70.6	70.2P
US, Personal Spending, July		+0.4%	+1.0%
Saturday 28 August			
US, "Jackson Hole" Conference (continues)			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.25	0.25	0.25	0.25
1mth	0.28	0.55	0.32	0.27
2mth	0.33	0.61	0.39	0.27
3mth	0.39	0.67	0.45	0.28
6mth	0.59	0.86	0.61	0.26
GOVERNMENT STOCK				
04/23	0.83	1.02	0.73	0.07
04/25	1.13	1.28	1.00	0.14
04/27	1.31	1.45	1.19	0.30
04/29	1.49	1.62	1.38	0.46
05/31	1.59	1.71	1.49	0.58
04/33	1.79	1.90	1.69	0.71
04/37	2.06	2.17	1.97	0.95
05/41	2.33	2.43	2.25	1.23
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	50	49	49	66
Europe 5Y	47	46	47	54

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	1.17	1.37	1.06	0.09
3 years	1.36	1.51	1.22	0.08
4 years	1.48	1.62	1.35	0.10
5 years	1.56	1.69	1.45	0.14
10 years	1.86	2.00	1.79	0.49
FOREIGN EXCHANGE				
NZD/USD	0.6835	0.7019	0.7004	0.6527
NZD/AUD	0.9584	0.9567	0.9484	0.9112
NZD/JPY	75.06	76.69	77.29	69.17
NZD/EUR	0.5842	0.5960	0.5933	0.5537
NZD/GBP	0.5018	0.5069	0.5068	0.4997
NZD/CAD	0.8769	0.8826	0.8786	0.8627
TWI	73.4	74.8	74.2	71.1

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