26 July 2021

Inflation Bubble Suspended?

- **Suspended trans-Tasman travel bubble adverse for activity**
- **But will it subtract or add to local inflation?**
- **Thursday's business survey to show and tell**
- **Merchandise trade still pumping in June**
- **Local vaccination programme receives much-needed boost**
- **Could RBNZ address market pricing before 18 Aug MPS?**

To what extent will the suspended trans-Tasman travel bubble take the steam out of New Zealand's inflation? That is the latest question exercising the mind of the local markets.

News last Friday that New Zealand was suspending the trans-Tasman bubble, while not unexpected, probably took many by surprise in its duration – a minimum of eight weeks. To be sure, NZ citizens/residents will be able to return from Australia without going through quarantine, but, on current indications, only for a one-week window.

While this might generate a rush of returnees, the halt of Australian visitors will be a major disappointment to parts of the economy that were finally geared for some decent improvement. Read: tourism and hospitality. Affected businesses will not (as we understand it) get any COVID-related support, as it's not a local lockdown, as such.

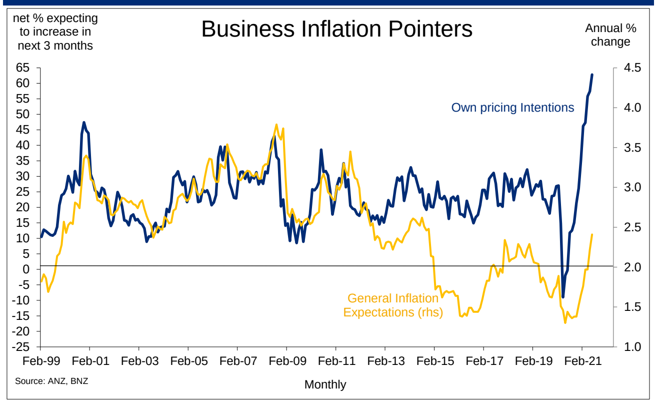
But will this untimely stymie of activity forestall New Zealand's rising tide of inflation? This is not an idle question. After all, one of the abiding messages from the pandemic to date is that it can just as much aggravate inflation as dent it. And, ultimately, it is not economic growth targets that central banks have, but inflation targets.

It might be different for Reserve Bank prognostications if New Zealand's inflation impulse was moderate and prospective. The trouble is, it's quite strong, already.

We will no doubt be reminded of this in this week's key piece of economic news – Thursday's ANZ business survey for July. While its previous read, for June, showed neutral confidence and solid own-activity (growth) expectations, it was its high-flying inflation indicators that stood out. Perhaps the latter will be taken more seriously now, after the big jump that occurred in the Q2 CPI.

Also note, however, that responses to the business survey are typically concentrated in the early part of the month. As such, they would have largely pre-dated the worst of Australia's transition into lockdown, and certainly the announced suspension of the trans-Tasman travel bubble.

Best Believe It



While no doubt having an eye on these "developments", the markets, so far at least, have remained over the line (roughly 2/3rds priced) for an initial rate hike at the 18 August Monetary Policy Statement (MPS). In addition, they largely price a second 25-point hike, to 0.75%, by November, and with a 1.00% cash rate fully priced by around May 2022.

What if the Reserve Bank was getting a little uncomfortable with this pricing in any way – perhaps in light of the situation in Australia, its consequences for the NZ economy, not to mention the outside risk of the delta variant similarly finding its way into the NZ community? Would it, or could it, come out and say something?

This is not to suggest we are expecting a response from the Bank (we think its radio silence, ever since the market reacted markedly to the 14 July MPR, has spoken volumes).

However, if the Bank was thinking about saying something before its 18 August MPS, two things spring to mind as an obstacle. The first is the sheer force of local inflation. This would likely be aggravated, if the Bank was to suggest an extension to its 0.25% OCR policy for the meantime.

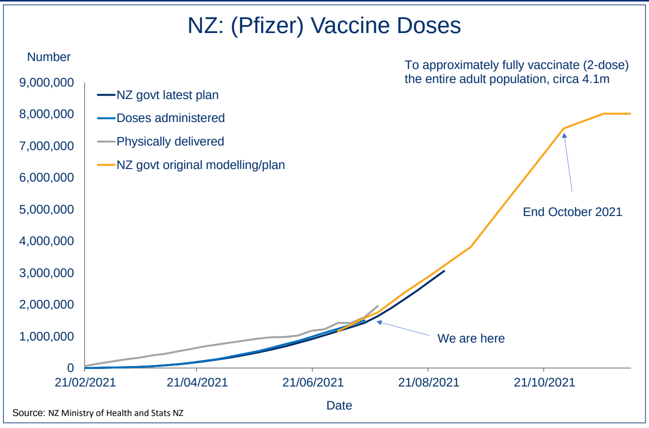
The RBNZ also needs to be careful about sending any message of delay/reservation in advance of the June quarter Household Labour Force Survey (HLFS), which is due 4 August. This could easily prove much stronger than the Bank anticipated with, for instance, a noticeable further drop in the unemployment rate, versus the relative steadiness the RBNZ anticipated.

That said, if the HLFS is surprisingly weak, the Bank might see reason and opportunity to comment on market pricing, with a view to buying more time, before getting a hiking cycle underway. Not that we think this is likely, or would be justified, but it's something to think about, nonetheless.

Meanwhile, New Zealand's vaccination programme remains important to keep track of. After a slow start, and very low inventory of the (sole) Pfizer vaccine a week or two ago, decent deliveries from abroad over the last week or so have allowed for much-improved vaccination rates over the coming weeks.

As things stand, vaccination rates amongst border workers (Group 1) is virtually complete, and amongst health and care workers (Group 2) is very high. In contrast, about 82% of Group 3 (principally pensioners and those otherwise considered vulnerable to COVID-19) have had no dose, and in Group 4 that number is approximately 95%.

Room for Pick-up



Overall, as at 20 July 2021, 924,662 people have received one dose and 628,228 their second dose. The latter comprises 12.3% of the total population and 15.4% of the adult population.

Based on latest indications, delivery of doses will reach a total of 3 million in late August, as part of the early aim of getting to about 8 million by December - enough to fully vaccinate New Zealand's adult population, of just over 4 million. In this sense, the populace might be halfway fully vaccinated by September.

Obviously, the sooner New Zealand's vaccination picks up the better, albeit that it would appear to depend crucially on the rate of receipt of the sole Pfizer vaccine.

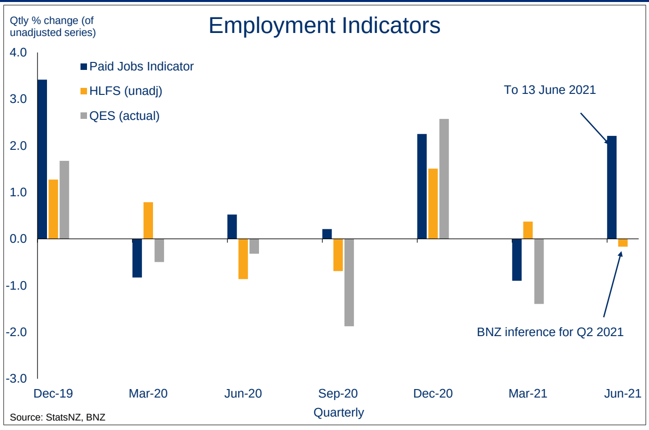
As for this week's economic data, it's underway already in the form of this morning's merchandise trade figures. For June, these affirmed annual growth of 17% for exports and 24% for imports. This delivered a monthly surplus of $261m. But this was not enough to prevent the annual balance edging slightly further into deficit, to the tune of $252m. Six months ago the annual balance was in surplus near $3.0b.

This afternoon's new residential lending figures, for June, will no doubt relay the message of a resilient housing market that is still achieving very high prices.

The quarterly Household Living-costs Price indices are usually ignored but their Q2 update, tomorrow, will be a stark reminder of just how strong the CPI was for the quarter.

Wednesday's Employment Indicators for June will help us gauge how much employment growth we can reasonably expect for the June quarter HLFS, due 4 August. Most every other indicator has been very upbeat, so we'd be surprised to see weakness in these figures.

Upside for Jobs



Friday's data will also have appeal. The morning's ANZ Roy Morgan consumer confidence report will update not only its headline index (compared to 114.1 in June) but expectations on home prices and general inflation.

New dwelling consents, even with their 2.8% fall in May, were still extremely strong as a level. So, June's lot, due 10:45am Friday, will have to compete with that. We are also keeping a keen eye on non-residential consents, given the broad pressure bearing upon the construction sector already.

As for Friday afternoon's credit aggregates, there will no doubt be still-rapid expansion in the stock of housing credit. The more interesting credit news might be in business and agriculture trends for June.

craig_ebert@bnz.co.nz

Global Watch

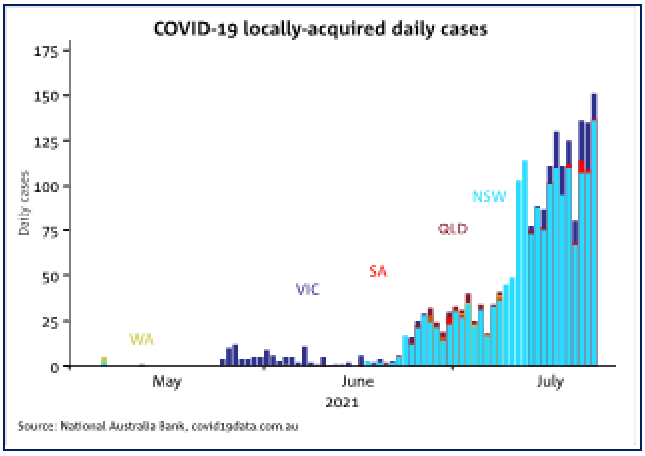
- **FOMC meeting in focus for any taper discussion**
- **US, EZ Q2 GDP expected to accelerate**
- **China PMIs seen stable in July**
- **EZ headline CPI higher; core lower**
- **Watching UK virus developments**
- **AU restrictions vary; Q2 CPI to lift on base effects**

Australia

The virus outbreak continues to dominate attention in Australia. The Victoria Government is yet to decide if the state will exit lockdown on Tuesday night. South Australian case numbers are encouraging. The SA lockdown is currently scheduled to end on Tuesday. Case growth in NSW has not decelerated despite measures put in place so far, with more detail about the path forward expected this week as the response pivots to targeting vaccination.

Greater Sydney is currently in lockdown until at least July 30, but with case numbers remaining above 100 for the past few days and showing no signs of declining an extension seems a sure bet. Premier Berejiklian has indicated a shifting focus to increased, and more targeted vaccination. A flagged roadmap for what the next three months will look like for Greater Sydney will be a key focus with the hit to Q3 economic activity likely to be severe.

NSW case numbers not declining so far



The risk of future lockdowns remains until much higher vaccination rates are achieved. The prospect of quickly re-attaining zero community cases in NSW is also fading, redoubling the importance of the vaccine rollout. Vaccination thresholds for moving from aggressive suppression involving lockdowns to living with the virus, are yet to be released. NSW is urging a refocus of the vaccination program to be consistent with their assessment of a 'national emergency situation.' That includes encouraging increased take up of the AstraZeneca vaccine which is less supply constrained. On NAB's calculations, it seems plausible 80% adult population vaccination can be achieved by November given supply guidance and if vaccine hesitance and rollout bottlenecks are low.

As for data, Q2 CPI on Wednesday is the headline. NAB sees 0.6%q/q for headline (consensus 0.7%q/q), supported by a 6.9%q/q increase in automotive fuel prices and a rebound in electricity prices in Perth as an earlier subsidy mostly unwound in the quarter. Headline y/y rates are expected to increase from 1.1%y/y to 3.7%q/q due to base effects. Free childcare subtracted from CPI in Q2 2020 before adding to CPI in Q3 and Q4 as prices normalised. That is expected to see y/y rates fall back sharply over H2 2021 as the contribution from those price normalisations wash out of the numbers.

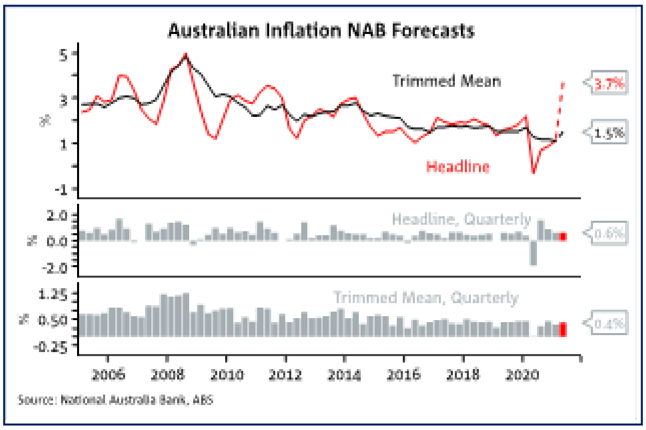
Base effects (though milder) are also expected to see trimmed mean annual inflation move higher from 1.1%y/y to 1.5%y/y as the weak Q2 2020 drops out of the calculation, but remain muted with trimmed mean pencilled in at 0.4%q/q (consensus 0.5%q/q).

HomeBuilder drives some uncertainty in the quarterly print. The subsidy is recorded as a decline in the price of new dwellings in the quarter the grant is paid. NAB expects more grants to have been paid in Q2 than in Q1, weighing on inflation. So far, HomeBuilder has almost fully offset price increases due to strong demand and supply chain disruptions.

Private sector credit for June on Friday is the only other data of note (NAB and Consensus 0.4%m/m).

The RBA's Debelle speaks at the FX Markets US Conference 2021 on Tuesday evening, but, given the audience, he is unlikely to say much of interest for the Australian market.

Annual inflation to spike higher on base effects



China

A quiet week ahead with industrial profits on Tuesday, ahead of July PMIs later in the week. The official manufacturing PMI is expected to remain broadly stable at 50.8 from 50.9.

US

The centrepiece is clearly Wednesday's FOMC meeting. The market is on alert for when the Fed will signal and start tapering asset purchases, with Chair Powell's press conference likely to contain some discussion. NAB expects tapering to start around the turn of the year. There's also the potential for disagreement among FOMC members – some calling for tapering now such as Kaplan and Bullard. The first estimate of Q2 GDP is out on Thursday, the quarterly annualised rate is expected to accelerate from 6.4% to 8.5%. Also out on Tuesday is June's durable goods orders and July's Consumer Confidence. US earnings season continues, with Apple, Microsoft and Amazon this week.

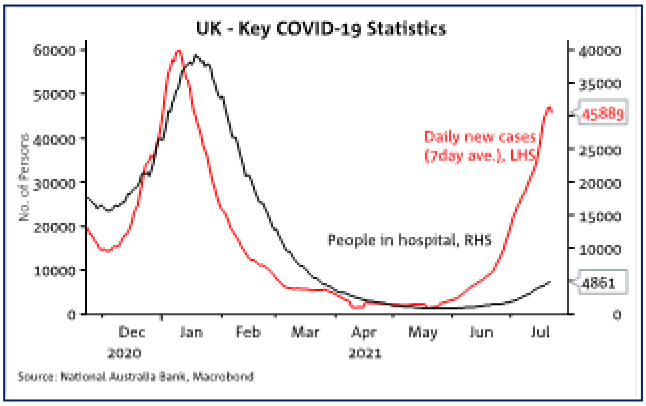
Eurozone

EZ consumer, economic, industrial and services confidence is due on Thursday. Preliminary July inflation data is released on Friday. While headline HICP is expected to rise to 2.0% y/y, core inflation is seen easing to 0.7% y/y from 0.9%. The first reading of Q2 GDP is on Friday and is expected to rise by 1.5% q/q for 13.2% y/y.

UK

The world continues to watch and learn from the UK's vaccination experiment as the virus 'pingdemic' which is inflicting increasing havoc on businesses as staff are forced into self-isolation, but so far the government shows no sign of allowing fully vaccinated citizens to avoid repeated self-isolation if 'pinged' by the NHS app unless they are critical workers. Markets will also continue to monitor the escalating row over the N. Ireland protocol with the EU. It is not NAB's base case but were the UK to act unilaterally and suspend the protocol via activating Article 16, the risk of retaliation and broader-based trade tariffs would be a concern to growth for both the UK and the EU.

Eyes on the UK to see Delta impact



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

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Despite the chorus of concern around the spread of the delta variant, leading to a brief plunge in equities and rates last Monday/Tuesday, the US 10-year rate was essentially unchanged last week, hovering just below 1.30%. Likewise, US and European equity markets ended at fresh highs at the end of last week. NZ rates and OCR expectations experienced a modest pullback last week.

Given the uncertainty around the economic outlook, including the extent to which vaccines continue to work effectively against Covid-19 variants, such volatility shouldn't be at all unexpected. Initial signs in the UK and Israel, both of which have high vaccination rates in their adult populations, is reasonably encouraging so far, in that hospitalisation rates remain relatively low despite the surge in new case numbers. But the market is likely to remain cautious that the virus could mutate again or that restrictions need to be re-imposed.

Long-term global rates are consistent with a pessimistic medium-to-long term outlook for growth and central banks not being able to raise interest rates very far. For instance, the US cash rate is priced to only reach around 1.5% in 5-10 years' time (compared to a 2.5% peak in the most recent cycle) while the market prices the OCR to eventually get to 1.75%-2% over that time frame. We continue to think long-term interest rates are more vulnerable to scenarios where higher inflation proves more than just temporary, ultimately forcing central banks to respond more forcefully. In contrast, there is only so far that already low long-term interest rates would likely fall under downside scenarios. We think this is an asymmetry to be mindful of given the extremely high uncertainty around the outlook.

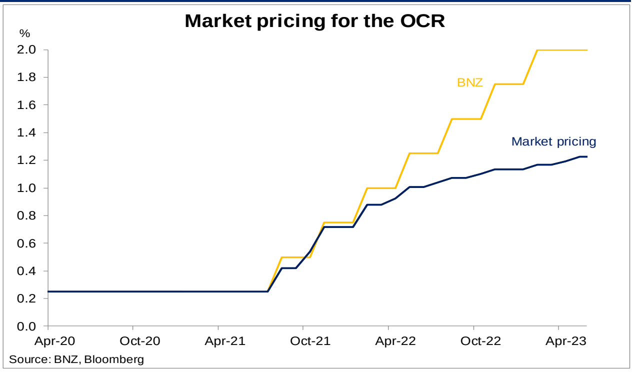
In the short-term, market positioning remains a headwind for long-term rates moving higher. The JP Morgan survey shows net short positioning in the US has reduced over the past six weeks but remains historically extended (see chart). We still expect global long-term rates to head higher this year, although it may yet take some time for market positioning to normalise and concerns around the delta variant to lessen.

Outside the US, rates were lower last week, with the German 10-year yield falling 7bps, to -0.42%, the Australian 10-year yield 9bps, to 1.20%, and the NZ 10-year yield 10bps, to 1.64%, despite the RBNZ's QE bond buying ending on Wednesday. The ongoing lockdowns in Greater Sydney, Victoria and South Australia have seen the market push back the expected timing of RBA policy tightening, with the first cash rate hike pushed back to 2023. The market pared back its RBNZ OCR tightening expectations reflecting these developments in Australia and some profit-taking in NZ rates after the recent, post-RBNZ and NZ CPI, moves higher.

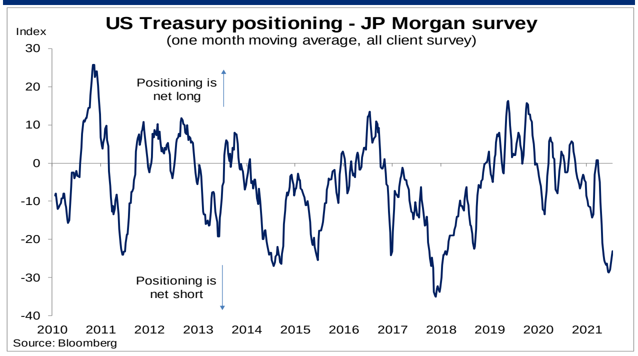
The market prices around a 70% chance of an August RBNZ OCR hike, down from around 90% immediately after the NZ Q2 CPI release, and just less than two hikes by the end of the year. It is notable that market expectations for the OCR tail off from around mid-2022, after it is priced to reach around 1%. This likely reflects a view among some in the market that OCR hikes will have a powerful effect in slowing the economy, given high debt levels, and some scepticism that RBNZ policy may be able to diverge significantly from the likes of the Fed and RBA. We think the risk is the RBNZ raises the OCR by more than what is being discounted leading to NZ short-term rates increasing by more than markets currently expect.

The two key events this week are the July FOMC meeting, with the market on alert for when the Fed will signal and start tapering of asset purchases, and Australia's Q2 CPI release. Australian core inflation is expected to remain depressed, at just 1.5% y/y, although it is worth noting that many other countries, NZ included, have seen upside surprises to inflation. RBA and Fed rate expectations continue to exert some influence on market pricing for the OCR beyond 2021.

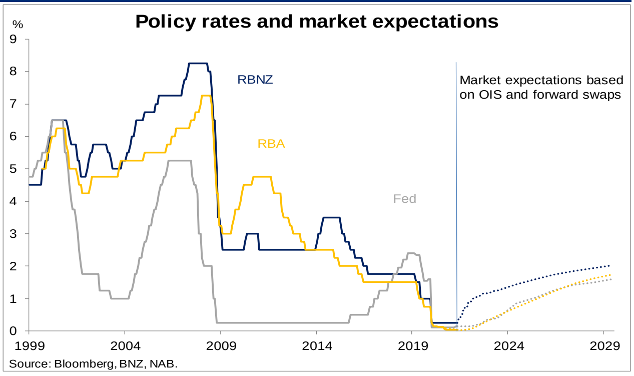
Market pricing for the OCR tails off from mid-2022



Market positioning remains a headwind for US rates rising



Markets price cash rates to rise to low levels in the long-run



nick.smyth@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD hit a fresh year-to-date low of 0.6881 early last week on a temporary hit to risk appetite before recovering nearly a cent to 0.6975, but still down 0.4% for the week. Despite some intra-week volatility, weekly changes on the crosses were fairly muted, being all within 0.2% against the AUD, JPY, EUR and GBP.

The spread of the delta variant of COVID19 remains a lingering concern for the global economic outlook and a significant headwind for the performance of commodity currencies like the NZD. It is a key headwind for developing market economies and case numbers are exploding even in well-vaccinated regions like the UK, EU and US. We see the spread of the delta variant as a genuine threat to the global economic recovery over the short-term but are hopeful that as the global vaccination rollout gathers pace, the recovery can ultimately get back on track.

We have not made any change to our NZD projections since December last year but last week we took the opportunity to refresh them, taking onboard the recent headwinds. We made a wide-ranging upgrade to our near-term USD projections, with most of the burden falling on NZD, AUD, EUR and GBP.

Our end-Q3 NZD target is reduced from 0.75 to 0.72. This assumes COVID concerns fade before the end of the current quarter. However, we recognise that if we're a month or two out on this dynamic then the NZD would likely continue to struggle to perform right through the quarter. We have only made a minor tweak thereafter, reducing our end-Q4 target only by a cent to 0.75. A peak of 0.76 is still in our forecasts, and our March-22 projection is left at this level.

Underlying this projection remains an optimistic view that the spread of the virus is brought under control and there is no major outbreak in NZ. The longer the spread persists, the greater the chance of new variants, but we assume greater vaccination rates will ultimately bring an end to lockdown restrictions and allow most forms of economic activity to return to normal. Clearly if we're wrong here, then commodity currencies like the NZD would face greater headwinds than expected.

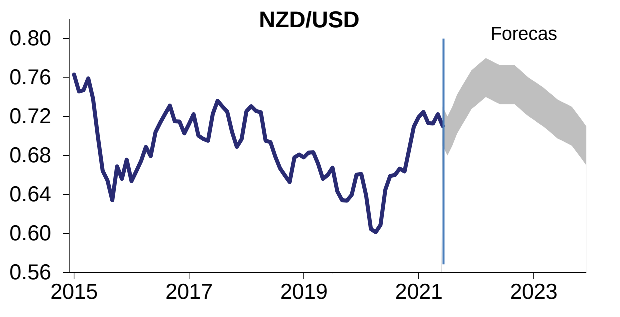
The AUD has been even weaker than the NZD of late, reflecting the outbreak of COVID19 across many States and the reluctance of the RBA to recognise that some policy normalisation might be appropriate in coming years. Our near-term downgrades to the AUD have been slightly greater than the NZD, meaning that a further modest lift in the NZD/AUD is quite possible over the rest of the year.

We have pitched our central forecasts at the 0.95-0.96 level through the next few quarters, recognising that the cross can sustain a slightly higher trading range than seen so far this year, supported by higher NZ-Australia rate spreads. We are reluctant to aggressively raise forecasts here. The cross is trading above fair value on our short-term and long-term models, the former reflecting the fact that the cross isn't fully reflecting the strong outperformance of Australian versus NZ commodity prices over the past year. Furthermore, we see current lockdowns in Australia as a short-term hurdle – and NZ could easily suffer the same fate with an equally poor vaccination rate – while a return of the reflation trade could ultimately inject a bit more upside for the AUD than NZD.

In the week ahead, the key releases that could cause some currency volatility include the Australian Q2 CPI on Wednesday and US FOMC policy update early Thursday morning NZ time. The AUD remains depressed by dovish RBA policy expectations so a much stronger than expected CPI print, as seen in a number of other countries, would at least temporarily support the AUD and send NZD/AUD lower.

On the FOMC update, we don't expect much change to the policy statement but the market will be sensitive to the tone of Chair Powell's press conference and whether the decision to taper bond purchases is any closer. We don't think any decision will be made at this meeting, but there is always the chance of some currency volatility on the day.

NZD projected to peak higher over coming year



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6981	0.6880 - 0.7060
NZD/AUD	0.9475	0.9310 - 0.9490
NZD/GBP	0.5072	0.5010 - 0.5120
NZD/EUR	0.5929	0.5850 - 0.5990
NZD/JPY	77.16	75.30 - 78.80

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7230	-3%
NZD/AUD	0.9120	4%

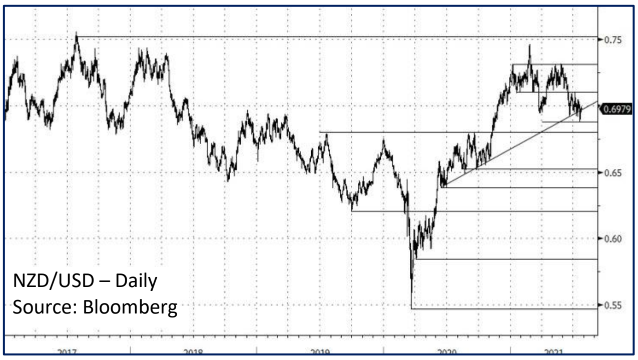
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.7100 (ahead of 0.7315)
ST Support: 0.6880 (ahead of 0.6800)

Support around 0.6920-6940 broke last week so the low around 0.6880 becomes the new support level. We still see resistance at 0.71.



NZD/AUD

Outlook: Trading range
ST Resistance: 0.9485 (ahead of 0.9600)
ST Support: 0.9240 (ahead of 0.9135)

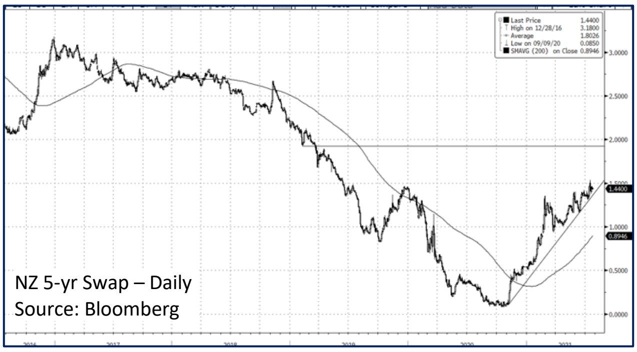
Resistance at the February high around 0.9485 was met last week and therefore remains an important level, ahead of 0.9600. Support is well south at 0.9240.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook: Higher
MT resistance 1.92
MT support 1.37

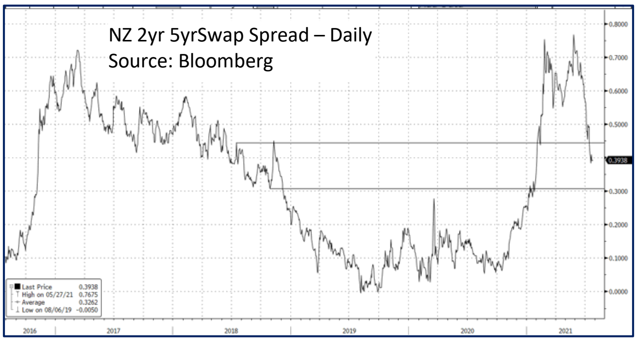
Break higher opens up topside target 1.92. Trendline support at 1.37 now stop on a close through that.



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

Outlook: Neutral
MT resistance 0.45
MT support 0.31

Support at 0.31. Neutral at present and will see if 0.31 holds.



pete_mason@bnz.co.nz

Quarterly Forecasts

Forecasts as at 26 July 2021

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	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	0.7	0.6	0.7	0.5	1.1
Retail trade (real s.a.)	-1.3	-14.8	27.7	-2.6	2.5	2.5	0.6	0.5	0.6	0.8
Current account (ytd, % GDP)	-2.8	-1.8	-0.8	-0.8	-2.2	-3.2	-3.8	-4.0	-3.8	-4.1
CPI (q/q)	0.8	-0.5	0.7	0.5	0.8	1.3	1.3	0.5	0.5	0.3
Employment	1.0	-0.2	-0.7	0.6	0.5	0.5	0.3	0.4	0.5	0.7
Unemployment rate %	4.3	4.0	5.2	4.9	4.7	4.5	4.4	4.2	4.1	3.8
Avg hourly earnings (ann %)	3.7	2.9	3.9	4.6	3.0	3.5	2.7	2.9	4.0	4.3
Trading partner GDP (ann %)	-2.4	-5.3	-0.9	0.7	6.3	9.8	5.4	4.6	4.8	4.9
CPI (y/y)	2.5	1.5	1.4	1.4	1.5	3.3	4.0	4.1	3.7	2.7
GDP (production s.a., y/y))	0.0	-11.2	0.4	-0.8	2.4	15.6	2.0	3.7	2.6	2.9

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
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	0.50	0.70	1.60	1.95	1.35	1.70	2.05	0.15	1.50	0.45
Dec	0.75	0.95	1.95	2.30	1.65	2.05	2.40	0.15	1.80	0.50
2022 Mar	1.00	1.20	2.25	2.60	1.90	2.35	2.70	0.15	2.00	0.60
Jun	1.25	1.45	2.50	2.80	2.15	2.60	2.90	0.15	2.20	0.60
Sep	1.50	1.75	2.70	3.00	2.35	2.80	3.10	0.15	2.35	0.65
Dec	1.75	2.00	2.85	3.15	2.50	2.95	3.25	0.15	2.50	0.65
2023 Mar	2.00	2.15	2.90	3.25	2.50	3.00	3.35	0.15	2.65	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	0.70	0.74	1.18	1.38	111	0.70	0.95	0.59	0.51	77.2	74.3
Sep-21	0.72	0.76	1.21	1.41	109	0.72	0.96	0.60	0.51	78.8	75.2
Dec-21	0.75	0.78	1.23	1.43	109	0.75	0.95	0.61	0.52	81.5	76.6
Mar-22	0.76	0.80	1.24	1.46	109	0.76	0.95	0.61	0.52	82.8	77.3
Jun-22	0.75	0.80	1.26	1.48	109	0.75	0.94	0.60	0.51	82.0	76.4
Sep-22	0.75	0.80	1.28	1.52	109	0.75	0.94	0.59	0.50	82.0	76.3
Dec-22	0.74	0.80	1.30	1.54	109	0.74	0.93	0.57	0.48	80.7	75.1
Mar-23	0.73	0.79	1.28	1.52	108	0.73	0.92	0.57	0.48	78.8	74.5
Jun-23	0.72	0.77	1.26	1.50	108	0.72	0.93	0.57	0.48	77.5	74.0
Sep-23	0.71	0.76	1.25	1.47	107	0.71	0.93	0.57	0.48	76.0	73.6
Dec-23	0.69	0.75	1.24	1.47	107	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 26 July 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	4.0	11.1	8.1	2.3	-11.8	-4.4	9.9	10.8
Imports	1.2	-16.2	17.9	9.9	5.4	2.2	-16.4	15.1	9.4	7.1
Real Expenditure GDP	2.1	-0.4	5.7	2.8	1.6	3.0	-1.2	5.9	2.8	2.0
GDP (production)	**1.7**	**-2.3**	**5.6**	**3.0**	**1.6**	**2.4**	**-2.9**	**5.6**	**3.0**	**1.9**
GDP - annual % change (q/q)	*0.0*	*2.4*	*2.6*	*2.9*	*1.6*	*1.8*	*-0.8*	*3.7*	*3.1*	*1.3*
Output Gap (ann avg, % dev)	1.6	-2.1	0.7	1.4	0.7	2.0	-2.2	0.6	1.2	0.9
Nominal Expenditure GDP - $bn	322	325	355	371	384	319	322	350	367	380
Prices and Employment - annual % change										
CPI	2.5	1.5	3.7	2.3	2.7	1.9	1.4	4.1	2.1	2.6
Employment	2.6	0.3	1.7	2.0	1.1	1.2	0.8	1.8	2.3	0.9
Unemployment Rate %	4.3	4.7	4.1	3.7	4.4	4.1	4.9	4.2	3.5	4.3
Wages - ahote	3.7	3.0	4.0	4.0	2.8	4.3	2.6	4.6	2.9	4.1
Productivity (ann av %)	-0.3	-2.9	4.2	0.9	0.5	0.5	-4.1	4.6	0.9	0.6
Unit Labour Costs (ann av %)	3.5	5.3	-0.4	2.4	2.3	2.5	6.9	-1.0	2.5	2.3
House Prices	7.8	20.7	9.6	2.3	2.0	4.6	15.5	17.2	2.8	2.0
External Balance										
Current Account - $bn	-9.1	-7.2	-13.3	-16.4	-14.7	-10.6	-2.4	-14.1	-17.3	-15.3
Current Account - % of GDP	-2.8	-2.2	-3.8	-4.4	-3.8	-3.3	-0.8	-4.0	-4.7	-4.0
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	2.00	1.00	0.25	0.75	1.75	2.00
90-day Bank Bill Rate	0.71	0.33	1.20	2.15	2.15	1.23	0.26	0.95	2.00	2.15
5-year Govt Bond	0.80	1.00	2.25	2.90	2.95	1.25	0.40	1.95	2.85	2.95
10-year Govt Bond	1.15	1.75	2.60	3.25	3.30	1.60	0.90	2.30	3.15	3.30
2-year Swap	0.65	0.50	1.90	2.50	2.50	1.25	0.28	1.65	2.50	2.50
5-year Swap	0.80	1.15	2.35	2.95	3.05	1.40	0.49	2.05	2.95	3.05
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	0.60	0.60	0.30	-0.25	0.00	0.50	0.65	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 26 July			
NZ, Merchandise Trade, June	+$261m		+$469m
NZ, New Residential Lending, June y/y			+107%
Germ, IFO Index, July		103.6	104.0
US, New Home Sales, June		800k	769k
Tuesday 27 July			
Aus, RBA's Debelle Speaks, US FX Conference			
China, Industrial Profits, June y/y			+36.4%
Euro, M3, June y/y		+8.2%	+8.4%
UK, CBI Retailing Reported Sales, July			+25
US, Consumer Confidence, July		124.0	127.3
US, Shiller Home Price Index, May y/y			+14.6%
US, Durables Orders, Jun 1st est		+21.0%	2.3%
Wednesday 28 July			
NZ, Employment Indicators, June			+0.4%
Aus, CPI Trimmed Mean, Q2		+0.5%	+0.3%
Aus, CPI, Q2		+0.7%	+0.6%
US, FOMC Policy Announcement		0.25%	0.25%
US, International Goods Trade, Jun advance		-$88.0b	-$88.1b
Thursday 29 July			
NZ, ANZ Business Survey, July			-0.6
Aus, Terms of Trade, Q2			
Euro, Economic Confidence, July		118.5	117.9

	Forecast	Median	Last
Germ, Unemployment Rate, July s.a.		5.8%	5.9%
Germ, CPI, Jul y/y 1st est		+3.2%	+2.3%
US, Jobless Claims, week ended 24/07		380k	419k
US, GDP, Q2 saar 1st est		+8.5%	+6.4%
Friday 30 July			
NZ, Credit Aggregates, Jun (household y/y)			+10.7%
NZ, Building Consents, June (res, #)			-2.8%
NZ, ANZ-RM Consumer Confidence, July			114.1
Aus, Producer Prices, Q2 y/y			+0.2%
Aus, Private Sector Credit, June		+0.4%	+0.4%
Jpn, Retail Sales, June		+2.9%	-0.4%
Jpn, Industrial Production, June 1st est		+5.0%	-6.5%
Jpn, Unemployment Rate, June		3.0%	3.0%
Euro, Unemployment Rate, June		7.9%	7.9%
Euro, CPI, July y/y 1st est		+2.0%	+1.9%
Germ, GDP, Q2 1st est		+2.1%	-1.8%
US, Personal Spending, June		+0.7%	flat
US, Chicago PMI, July		63.3	66.1
US, Employment Cost Index, Q2		+0.9%	+0.9%
Saturday 31 July			
China, Non-manufacturing PMI, July			53.5
China, PMI (NBS), July		50.8	50.9
US, Fed's Brainard Speaks, Rebuilding Economy			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.25	0.25	0.25	0.25
1mth	0.32	0.32	0.26	0.27
2mth	0.39	0.40	0.30	0.30
3mth	0.46	0.47	0.34	0.30
6mth	0.61	0.62	0.37	0.33
GOVERNMENT STOCK				
04/23	0.74	0.79	0.52	0.32
04/25	1.02	1.08	0.95	0.38
04/27	1.20	1.27	1.27	0.54
04/29	1.40	1.47	1.59	0.71
05/31	1.51	1.61	1.83	0.83
04/33	1.71	1.78	2.01	0.95
04/37	1.99	2.07	2.34	1.20
05/41	2.28	2.36	2.64	1.51
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	48	52	48	70
Europe 5Y	46	49	46	60

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	1.05	1.06	0.79	0.22
3 years	1.21	1.23	1.04	0.23
4 years	1.34	1.36	1.24	0.26
5 years	1.44	1.46	1.41	0.33
10 years	1.79	1.81	1.94	0.69
FOREIGN EXCHANGE				
NZD/USD	0.6978	0.6944	0.7034	0.6684
NZD/AUD	0.9473	0.9453	0.9303	0.9350
NZD/JPY	77.12	76.00	77.84	70.44
NZD/EUR	0.5928	0.5885	0.5901	0.5688
NZD/GBP	0.5072	0.5078	0.5068	0.5189
NZD/CAD	0.8765	0.8854	0.8684	0.8927
TWI	74.3	73.9	74.1	73.0

Contact Details

BNZ Research

Stephen Toplis	**Craig Ebert**	**Doug Steel**	**Jason Wong**	**Nick Smyth**
Head of Research	Senior Economist	Senior Economist	Senior Markets Strategist	Senior Interest Rates Strategist
+64 4 474 6905	+64 4 474 6799	+64 4 474 6923	+64 4 924 7652	+64 4 924 7653

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
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

National Australia Bank

Ivan Colhoun	**Alan Oster**	**Ray Attrill**	**Skye Masters**
Global Head of Research	Group Chief Economist	Head of FX Strategy	Head of Fixed Income Research
+61 2 9237 1836	+61 3 8634 2927	+61 2 9237 1848	+61 2 9295 1196

Wellington
Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

New York
Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Sydney
Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

Hong Kong
Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

London
Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761