27 September 2021

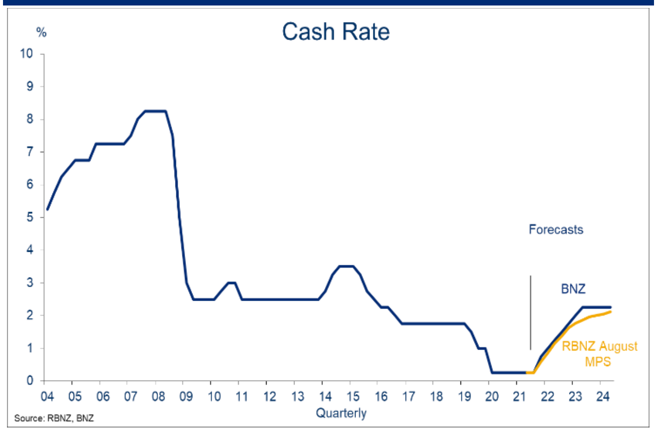
A least regretful rate rise

- **RBNZ to hike in October**
- **More to follow**
- **Uncertainty limits pace**
- **But direction is clear**
- **As supply constraints dominate**

"In the end . . . We only regret the chances we didn't take, the relationships we were afraid to have, and the decisions we waited too long to make" Lewis Carroll.

When the RBNZ delivers its Monetary Policy Review on October 6, its decision will be based on "a least regrets approach to uncertainty". Well that's what we were told when Assistant Governor Hawkesby released his "speech" of the same title on Tuesday September 21. On this basis, we can only conclude that the RBNZ will raise its cash rate by 25 basis points on the day and will signal, to the extent that it can in a Monetary Policy Review, ongoing gradual rate increases from there on in, until the cash rate returns to the apocryphal neutral.

Interest rates headed higher



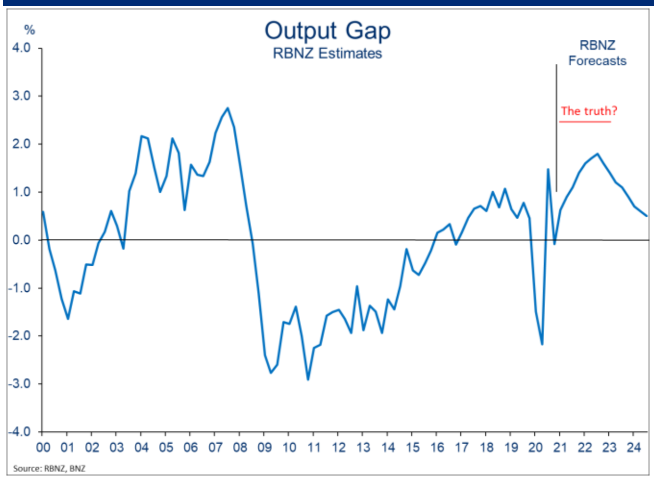
Having read (and reread) the speech, we think the key message we were supposed to glean is that the upcoming decision will be based on the following:

- the extent of any starting point shock that the RBNZ received since August;
- where the risks to the outlook are;
- how uncertain the environment is; and
- how worried is the Bank that it may fail to achieve its mandate.

So taking these in turn...

The RBNZ justified its August shift to a strong tightening bias largely due to a starting point shock. In August's case, the Bank noted surprising strength in both the employment and GDP data relative to its expectations. As the Bank turns to its October decision it also faces into two further positive demand-side starting point surprises. The most important of these is the fact that Q2 GDP growth printed at 2.8%, miles above the RBNZ's 0.7% expectation. Some of the outcome can be explained away as being anomalous but certainly not all of it. This means the economy was operating further above potential than the RBNZ had already assumed. Additionally, house prices seem to still be accelerating at a pace well in excess of the Bank's assumptions, indicating extra support for future private consumption relative to expectations.

Yet another starting point shock



In addition, we believe supply side restrictions have proven more aggressive than the RBNZ had anticipated though the impact of this is difficult to quantify. Importantly, the Reserve Bank has acknowledged that its focus has shifted from demand side concerns to the supply side. Any supply side consternation is unlikely to be alleviated any time soon.

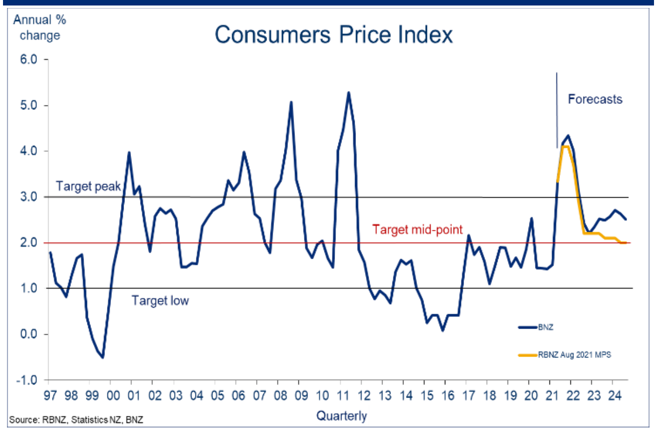
While the above factors suggest a more aggressive monetary policy stance is needed than that postulated in the August MPS, there is a large starting point negative offset, namely the re-emergence of COVID in the community and the accompanying lockdowns. However, the impact of this is also difficult to enumerate and can't really be considered as a starting point issue until such time that the impacts appear in the published data. Additionally, history suggests any impact should largely be considered as being transitory anyway.

In terms of the risk to the outlook, we believe risk is weighted towards inflationary pressures proving to be stronger and more protracted than the RBNZ has assumed in its central forecast.

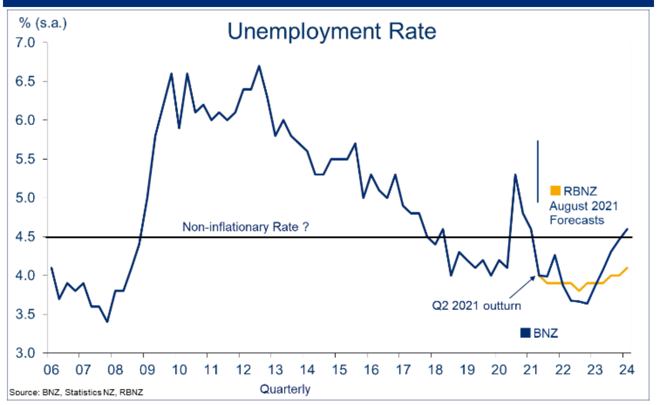
Accompanying this, we think the risks surrounding the labour market are also for it to be tighter than anticipated. Clearly, there are downside risks too, largely centred on the evolution of COVID, but bear in mind the Reserve Bank is looking at an 18 to 24 month horizon when it sets monetary policy so many of these downside risks should hopefully be mitigated within this time period.

In terms of how worried the Bank might be that it could fail to meet its mandate, it should be very worried. It’s already got inflation well above target (and likely to stay at a level that does not demand the current ongoing level of stimulus) and maximum sustainable employment appears to be well and truly achieved.

Not so temporary



Not very sustainable



However, in our opinion, the main factor that will prevent the Reserve Bank delivering the 50 point hike that many thought was likely is the question around certainty. Clearly, in the current environment, uncertainty remains highly elevated. If the RBNZ was to raise rates by 50 basis points it would have to be satisfied that the following conditions are met:

- “the outlook for the economy has been subject to large and uncertain changes
- the risks are heavily skewed in one direction and
- there is a material threat of not achieving your mandate.”

We believe the first and last conditions are met. We also believe if there was less uncertainty the risks would be heavily skewed in one direction but given the level of uncertainty that persists, this is not the case.

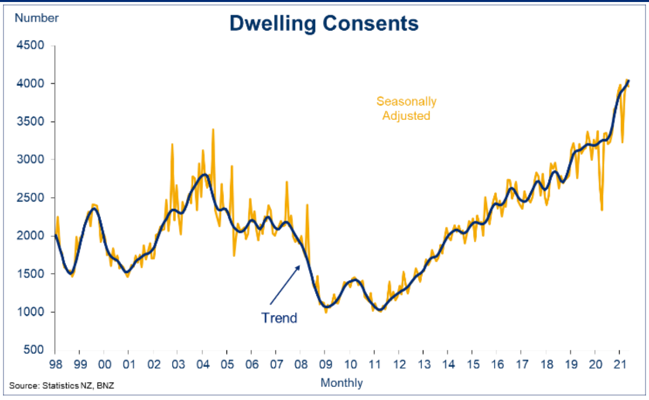
Thus we think, rightly or wrongly, the Reserve Bank will default to: “when there is a typical amount of uncertainty, and the risks are evenly balanced, then central banks globally tend to follow a smoothed path and keep their policy rate unchanged or move in 25 basis points increments”.

Our central forecasts continue to include further 25 basis point increases at both the November and February reviews. However, a 50 point move at some stage cannot be ruled out. Indeed, if by November there is greater certainty about the outlook, and the economy is in the process of bouncing back from the adverse impacts of the current lockdown, then this could cement in the prospect that risks are heavily skewed in one direction resulting in an even greater material threat to the Bank achieving its mandate. The prospects of a 50 point hike in November are strengthened by the fact that November is a full Monetary Policy Statement and offers the opportunity to explain, in depth, any decision that is made. And it’s a long wait until February for the Bank to raise rates again in the event that the economy was picking up a strong head of steam at the time.

In the week ahead all eyes will remain firmly on New Zealand COVID cases (both the number and source of) and our vaccination roll out. Currently nearly every case being reported is being directly linked to identified close contacts. If this remains so, and current low numbers do not increase, then it will heighten the likelihood that the Government might ease restrictions when Cabinet meets on Monday October 4. However, the extent of the vaccine roll out may, ultimately, be the key determinant. In order for restrictions to be lowered in Auckland, the Prime Minister has made it abundantly clear that unless the vaccination rate (for those aged over 12) continues to climb (to perhaps as much as 90%, and with wide coverage geographically and ethnically) then current restrictions could be maintained for an extended period.

As for economic data, there isn’t much of note. Thursday’s building consents for August will garner some attention but they’ll be difficult to interpret. The country didn’t go into lockdown until August 18 so the month would have been a mix of outstanding strength and then unusual weakness. Whatever the number it is likely to be above year earlier levels and be no real indication of likely activity levels in the months ahead. And even if consents did correct downwards in a semi-permanent way the backlog of work would be sufficient to keep the construction sector occupied for some time.

Construction booming



Confidence indicators will again be watched with some interest. Featured this week is Thursday's ANZ Business Opinion Survey for September. This is the completed survey for the month following the partial release on September 13. It will be interesting to see if we can detect any change in momentum from the early reading.

The ANZ's consumer confidence reading for September comes out on Friday. It's hard to see this changing much from August's sub-par reading of 109.6.

To round out the week, the latest credit aggregates (August) are released on Thursday.

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Global Watch

- **ECB forum to talk post-pandemic policy**
- **Powell the key among many Fed speakers this week**
- **China PMIs watched for Evergrande/Delta influence**
- **US inflation, confidence to monitor**
- **AU vaccination rates getting closer to allow re-opening**

Australia

Freedom Day is getting closer, which is rendering most second tier data to the rear vision mirror. NABs latest analysis is 70% full adult vaccination in NSW could be reached by October 5 with NSW briefing business that October 11 will be Freedom Day. 80% full adult vaccination is expected by October 18. Victoria, which is also in lockdown, will reach the 70% hurdle around October 20. Overall, Australia has now fully vaccinated 49.3% of the adult population (16 years plus), while 74.1% have had at least one dose.

Importantly, re-opening should see activity rebound from October, which should ensure a strong bounce for Q4 GDP after what is likely to be a very weak Q3.

The exact timing of interstate border reopening remains uncertain, but other states are likely to follow in achieving 70% and 80% vaccine targets within a few weeks of NSW and VIC.

As for the international border, Tourism Minister Tehan said recently that as vaccination target are reached, fully vaccinated people will be allowed to leave Australia without restrictions 'by Christmas at the latest', with return quarantine arrangements to vary by country.

As for data it is a week full of second-tier indicators. Retail Sales for August are out on Tuesday and are expected to fall with the consensus at -2.2% m/m, while NAB's transactions data suggests a larger -2.7% fall. The August data will capture the Victorian lockdown (from August 4), while Greater Sydney has been in lockdown since June 26.

Building Approvals and Credit Statistics are on Thursday, and Housing Finance on Friday. None should be particularly market moving. The consensus for August's Building Approvals looks for -5.0% m/m, the same as NAB's view. As for Housing Finance Approvals on Friday, it is unclear whether lockdowns have weighed given the lead time between seeking and receiving approval and then buying a dwelling. The consensus looks for -1.3% in the month, NAB is slightly weaker at -3.0% m/m. Consensus looks for a 0.5% m/m gain in August's private sector credit.

China

Soft headlines expected to continue given Evergrande's woes, with media suggesting restructuring teams are on standby. Knock on impacts to the wider construction sector are expected which could slow growth. Delta outbreaks are also continuing, posing a problem for the economy. The PMIs on Thursday may give some flavour for these themes with non-manufacturing already in contractionary territory at 47.5 and manufacturing is on the cusp on 50.1. Note National Day/Golden Week Holidays are from Friday October 1.

US

Focus to remain on the Fed with market's pulling forward rate hike pricing after the FOMC and the BoE meetings; the FOMC committee was evenly split on a 2022 rate hike. Markets now price 50% chance of a rate hike as early as September 2022 and almost fully price a hike by December 2022. Fed guidance will be closely watched and comes in spades with no less than 15 Fed speakers scheduled this week – look at Powell (he speaks to Congress with Yellen on Tuesday) and Brainard (talks Monday). As for data, the main releases book-end the week with August Durable Goods on Monday and the Personal Income, Consumption and PCE deflators on Friday. Also on Friday is the ISM Manufacturing (expected to be marginally lower at 59.5). The consumer confidence reports may be the highlight though with the Conference Board measure on Tuesday and a final version of the University of Michigan on Friday.

Eurozone

The ECB's central banking forum which is usually held in Sintra is online again this year on Tuesday and Wednesday. This year's topic is "beyond the pandemic: the future of monetary policy". The event also draws in a number of speakers from other central banks including the Fed's Powell, BoE's Bailey and the BoJ's Kuroda who are all speaking on a panel on Wednesday. The differing outlooks for the BoE and the Fed – signalling rate hikes, against the ECB and BoJ will be a highlight. Datawise it is a very quiet week with only flash CPIs on Thursday. Interest remains on outcome of close German Election result.

UK

Ahead of Governor Bailey's participation at the ECB Forum mid-week, he's also speaking on Monday, followed Tuesday by new MPC member Catherine Mann speaking on a panel. Little in the way of key data. The August mortgage approvals and money supply report are out Wednesday, followed by final Q2 GDP on Thursday.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Long-term swap rates were higher again last week, with fresh 2½-year highs in 5-year and 10-year rates on the back of global forces. Short-term swap rates were dragged down by RBNZ Assistant Governor Hawkesby's speech, which the market interpreted as effectively ruling out a 50bps increase at the upcoming October meeting. So, going against recent trends, there was a meaningful steepening of the yield curve last week, with the 2y10y swap curve rising 12bps, to 0.74%.

As we mentioned in this commentary last week, Hawkesby's speech had the potential to be influential for short-end market pricing for the RBNZ, which at the time was finely balanced between a 25bps OCR increase in October and a 50bps move (a 40% chance of the latter was priced-in last Monday). And so it turned out. The market focused on Hawkesby's reference to central banks moving in 25bp increments when, amongst other things, "the risks are evenly balanced". Since he had earlier in the speech alluded to the RBNZ's August assessment of "more balanced risks to the outlook", the logical interpretation would appear to be that the RBNZ will raise the OCR by 25bps next month, not 50bps. This has always been our forecast, but the risk premium the market attached to a 50bps increase evaporated after the speech. October is now priced at 0.49%, implying still a very high chance of a rate increase next month. There are close to 75bps of OCR hikes priced into the next three meetings.

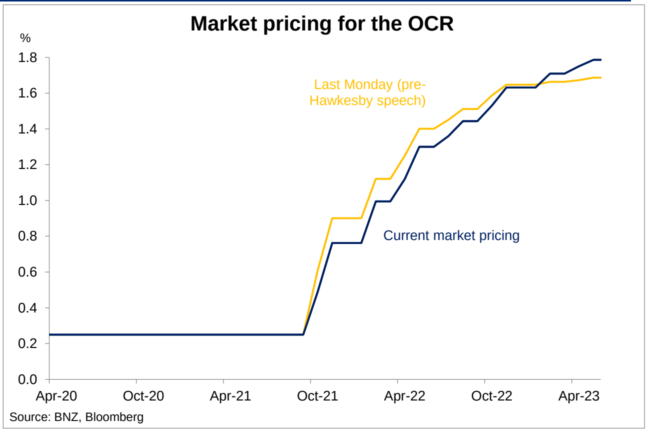
The US 10-year rate finally broke out of its two-month trading range to the topside last week, hitting 1.46% on Friday. The move higher in the US 10-year rate, which was mirrored in other major bond markets including the UK, Germany and Australia, followed hawkish central bank messaging from the Fed and the Bank of England. After the Fed's September meeting, Chair Powell alluded to a tapering announcement at the next policy meeting, in November, and crucially signalled that there was broad consensus on the committee that the tapering process will likely be completed by mid-next year, clearing the path for a possible rate rise after this point. Adding to the hawkish tone, the 'dot plot' showed 9 of the 18 committee members favour a rate increase in 2022, up from 7 previously, with the median official seeing 75bps of rate increases in both 2023 and 2024, a steeper pace of rate hikes than had been expected. The immediate market reaction was initially muted, but that gave way to a sizeable increase in rates on Thursday night as markets digested the implications for the Fed policy rate outlook.

Other central banks also appear to be moving in a hawkish direction, with Norway's central bank becoming the first developed market central bank to raise interest rates in the post-Covid era last week and the Bank of England opening the door to a possible rate rise as soon as late this year amidst much higher than expected UK inflation.

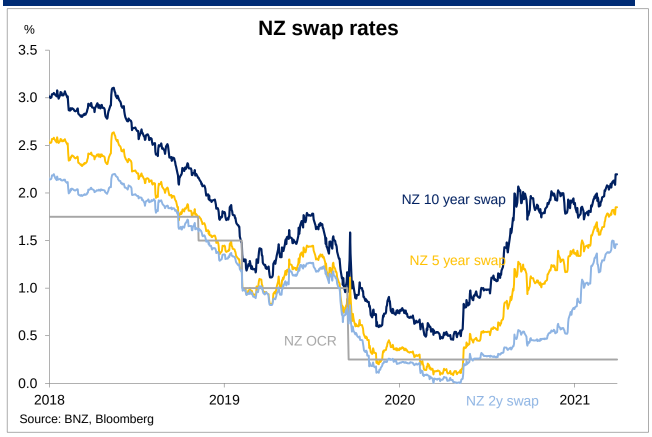
In contrast to the reaction after the June Fed meeting, the 2y10y US yield curve steepened in the wake of last week's meeting while equities rallied, and the USD depreciated. New Zealand saw an even larger steepening of the curve, with Hawkesby's speech seeing a fall in short-end NZ rates while the long-end was dragged higher by global developments.

Our core views haven't changed. We think the short end of the NZ curve is well priced for a series of RBNZ OCR rate hikes and we no longer see the risks as clearly tilted to the upside. We still expect global rates to track higher over the coming year, with the breakout in the US 10-year rate last week reinforcing our conviction in this view. NZ long-term rates should be dragged higher by global trends but we think they are likely to outperform key offshore benchmarks, such as the US and Australia (i.e. NZ long-term rates should rise by less than those in the US and Australia since there is already much more tightening priced in for the RBNZ than for the Fed and the RBA). One near-term downside risk to our view of higher long-term rates is the evolving situation at Evergrande, which has the potential to cause market volatility and a broader retrenchment in risk appetite if there is a disorderly default on its large debt obligations.

Near-term OCR expectations came down last week



New highs for 5-year and 10-year NZ rates



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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, currency movements were modest despite some notable events. NZD/USD traded a range of just over one cent and ended near the bottom end at just over 0.70, to post a modest loss overall. On the crosses, the NZD showed small falls against the EUR and AUD and small gains against JPY and GBP. The 0.2% decline for NZD/AUD was the first weekly decline after 14 successive weekly increases, a possible sign of exhaustion in its upward trend.

There were two notable themes for the week. Firstly, focus on troubled large Chinese property developer Evergrande – which has total liabilities north of USD300bn – intensified ahead of coupon payments due on its yuan and USD-denominated bonds. While the yuan coupon payment was "negotiated" (likely capitalised), the USD coupon wasn't paid but has a 30-day grace period before being in default. The most likely scenario is that the company and its debt will need to be restructured, and the large number of creditors that include retail investors, suppliers, and employees might get offered some government help to avoid a cascading negative economic impact. Amidst the current information vacuum on the government's likely involvement, this is a new negative risk factor that could linger through the coming month or longer, ostensibly a headwind for risk currencies like the NZD.

Secondly, focus turned to G10 monetary policy and its turning point towards removal of policy stimulus. Norway became the first major developed country to raise its policy rate while the Bank of England and US Fed both tilted policy guidance in a more hawkish direction. The BoE could kick off its rate hike cycle earlier than previously expected, perhaps early next year. The US Fed strongly signalled that the decision to taper asset purchases will likely be made in November and that QE will likely come to an end by mid-2022. This timetable was at the early end of market expectations. Furthermore, some members also brought forward their rate hike projections.

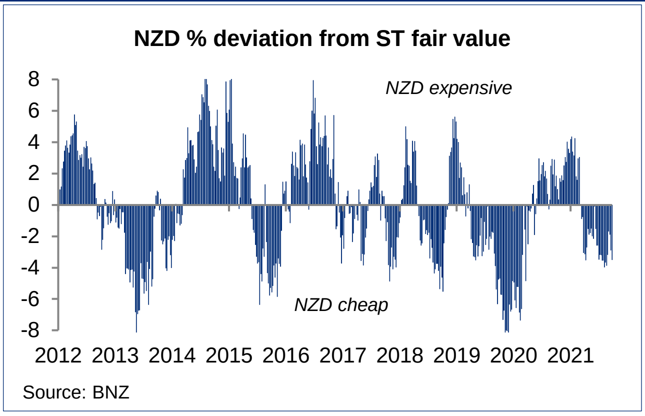
In previous reports, including last week's update, we noted how US Fed policy has had a more important bearing on the NZD than RBNZ monetary policy this year. Indeed, the NZD took a notable step down following the June FOMC update, which surprised the market in a hawkish direction. Last week's FOMC forecast update didn't have the same impact, but with a series of RBNZ rate hikes well priced and market pricing for Fed rate hikes on the light side (just 60bps of hikes over the next two years) if the market brought forward US rate hikes, then that could be negative for NZD/USD.

However, much will depend on the driving force behind any change in Fed policy expectations. Earlier rate hikes brought about because of a much higher inflation trajectory, are not necessarily USD-positive because real, rather than nominal, interest rates are more important for the currency. We would be more worried about our higher NZD/USD projections if earlier US rate hikes were brought about because of a much stronger economic and employment backdrop.

Still, last week's events, at face value look net negative for the NZD outlook and make us less comfortable with our current positive NZD/USD projections. There are no obvious short-term triggers that look to send the NZD/USD on a higher trajectory. Our short-term fair value model estimate has been mostly stuck between 0.72-0.73 for the past few months.

In the week ahead there will be plenty to keep the market on its toes. As well as the Evergrande saga remaining in the backdrop, we can add US political risk, with votes for the Democrats' large tax-and-spend packages and a continuing resolution to keep the US government funded. Central banks will continue to be in the spotlight, with a raft of Fed speakers, including Chair Powell, and the ECB's central banking forum, which in some years has been market moving. NZ's economic calendar remains light and globally we'll be interested in China's PMIs and the US ISM manufacturing survey at the end of the week.

NZD on the cheap side of fair value since March



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.7008	0.6980 - 0.7160
NZD/AUD	0.9658	0.9570 - 0.9730
NZD/GBP	0.5127	0.5110 - 0.5170
NZD/EUR	0.5976	0.5970 - 0.6050
NZD/JPY	77.56	76.30 - 78.60

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7270	-4%
NZD/AUD	0.9200	5%

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Technicals

NZD/USD

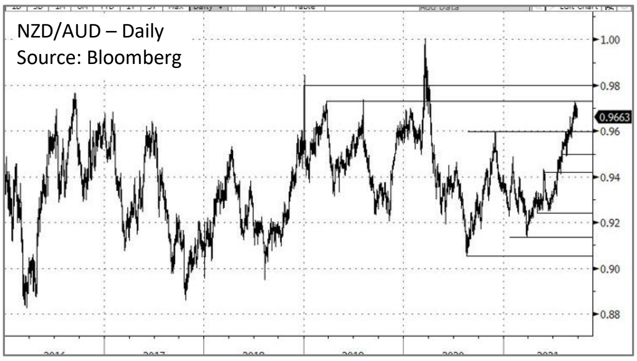
Outlook:	Trading range
ST Resistance:	0.7140 (ahead of 0.7315)
ST Support:	0.6900 (ahead of 0.6800)

A series of lower highs and lower lows this year raises the possibility of a downward trend, requiring a break above 0.7140 to disprove that, which we note as a possible resistance level. Key support levels remain 0.68 and 0.69.

NZD/AUD

Outlook:	Trading range
ST Resistance:	0.9730 (ahead of 0.9800)
ST Support:	0.9500 (ahead of 0.9430)

The first weekly fall after 14 consecutive weekly gains should be noted, with the recent high near 0.9730 now the resistance level. The first level of support might kick in around 0.95.



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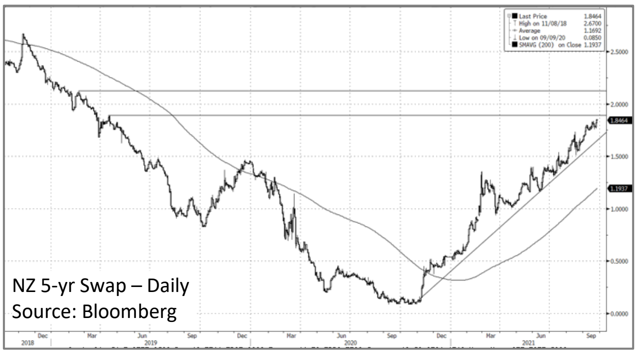
NZ 5-year Swap Rate

Outlook:	Higher
MT resistance:	1.89
MT support:	1.67

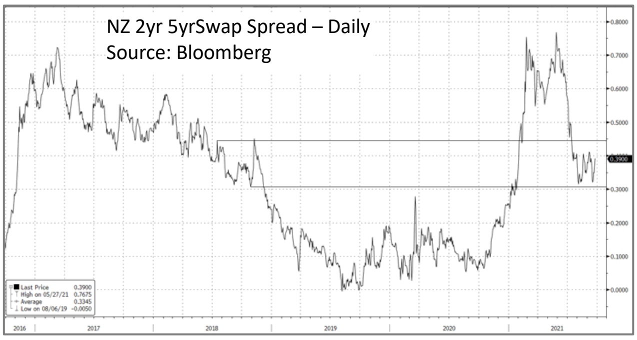
I have raised support to trendline support at 1.67. Nearing 1.89 target should this be breached next resistance level is 2.12.



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

Outlook:	Steeper
MT resistance:	0.45
MT support:	0.31

Still looking for 0.31 to hold take profit around 0.45. Stop on a close below 0.31.



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Quarterly Forecasts

Forecasts as at 27 September 2021

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded): Sep-21 to Sep-22

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
GDP (production s.a.)	-9.9	13.9	-1.0	1.4	2.8	-7.0	7.0	0.0	1.5	0.4
Retail trade (real s.a.)	-15.5	27.8	-2.2	2.8	3.3	-12.0	13.0	1.0	0.8	0.6
Current account (ytd, % GDP)	-1.5	-0.7	-0.8	-2.5	-3.3	-4.6	-5.4	-5.8	-6.5	-6.6
CPI (q/q)	-0.5	0.7	0.5	0.8	1.3	1.5	0.6	0.5	0.4	0.8
Employment	-0.4	-0.6	0.7	0.6	1.1	-0.2	0.2	0.7	0.6	0.5
Unemployment rate %	4.1	5.3	4.8	4.6	4.0	4.0	4.3	3.9	3.7	3.7
Avg hourly earnings (ann %)	2.4	3.7	4.6	4.1	4.5	2.8	3.7	4.0	4.3	4.9
Trading partner GDP (ann %)	-5.3	-0.9	0.8	6.7	9.7	4.2	3.7	4.2	4.4	5.0
CPI (y/y)	1.5	1.4	1.4	1.5	3.3	4.2	4.3	4.0	3.1	2.4
GDP (production s.a., y/y))	-10.2	1.4	0.1	2.9	17.4	-4.2	3.6	2.2	1.0	9.0

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	0.25	0.60	1.60	1.90	1.45	1.80	2.10	0.15	1.50	0.40
Dec	0.75	0.95	2.05	2.35	1.80	2.15	2.45	0.15	1.80	0.55
2022 Mar	1.00	1.20	2.40	2.60	2.05	2.50	2.70	0.15	2.00	0.60
Jun	1.25	1.45	2.60	2.85	2.30	2.70	2.95	0.15	2.20	0.65
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 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	0.73	1.17	1.37	111	0.70	0.97	0.60	0.51	77.6	74.8
Dec-21	0.75	0.78	1.23	1.43	109	0.75	0.95	0.61	0.52	81.5	76.5
Mar-22	0.76	0.80	1.24	1.46	109	0.76	0.95	0.61	0.52	82.8	77.2
Jun-22	0.75	0.80	1.26	1.48	109	0.75	0.94	0.60	0.51	82.0	76.3
Sep-22	0.75	0.80	1.28	1.52	109	0.75	0.94	0.59	0.50	82.0	76.2
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	74.4
Jun-23	0.72	0.77	1.26	1.50	108	0.72	0.93	0.57	0.48	77.5	73.9
Sep-23	0.71	0.76	1.25	1.47	107	0.71	0.93	0.57	0.48	76.0	73.5
Dec-23	0.69	0.75	1.24	1.47	107	0.69	0.92	0.56	0.47	73.8	71.7
Mar-24	0.69	0.75	1.24	1.46	106	0.69	0.92	0.56	0.47	73.1	72.0
TWI Weights						13.6%	18.7%	10.4%	4.1%	6.1%	

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

Annual Forecasts

Forecasts as at 27 September 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	2.7	0.2	5.2	4.7	1.9	3.4	-1.3	7.1	3.9	2.2
Government Consumption	6.1	6.5	5.8	1.9	1.3	5.4	6.3	6.8	2.5	1.2
Total Investment	1.3	-4.4	6.2	5.6	-0.9	3.2	-7.0	7.9	5.7	-0.4
Stocks - ppts cont'n to growth	-0.5	-0.1	0.4	0.3	-0.1	-0.7	-0.8	1.1	0.2	-0.1
GNE	2.4	0.2	6.6	4.6	1.1	2.9	-2.0	8.9	4.3	1.3
Exports	0.3	-17.8	6.2	12.1	5.6	2.5	-12.6	-3.3	10.1	9.1
Imports	1.2	-16.1	18.1	11.2	3.9	2.1	-16.0	14.6	11.3	5.8
Real Expenditure GDP	2.1	-0.3	3.2	4.2	1.3	3.0	-1.1	3.9	3.6	1.7
GDP (production)	**1.7**	**-1.4**	**4.4**	**3.6**	**1.3**	**2.4**	**-2.1**	**4.5**	**3.5**	**1.5**
GDP - annual % change (q/q)	*0.1*	*2.9*	*2.2*	*2.5*	*1.7*	*1.8*	*0.1*	*3.6*	*2.2*	*1.3*
Output Gap (ann avg, % dev)	1.4	-1.5	0.4	1.5	0.4	1.9	-1.7	0.3	1.5	0.6
Nominal Expenditure GDP - $bn	322	325	348	367	380	319	322	344	364	376
Prices and Employment - annual % change										
CPI	2.5	1.5	4.0	2.3	2.7	1.9	1.4	4.3	2.2	2.6
Employment	2.5	0.3	1.8	1.8	1.1	1.2	0.7	1.6	2.2	1.0
Unemployment Rate %	4.2	4.6	3.9	3.9	4.6	4.0	4.8	4.3	3.6	4.5
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	-1.9	2.7	1.7	0.1	0.5	-3.3	3.3	1.7	0.2
Unit Labour Costs (ann av %)	3.3	4.5	3.7	2.4	3.1	2.5	5.7	2.6	2.9	3.3
House Prices	7.8	22.0	10.1	1.3	2.0	4.6	17.0	17.7	1.5	2.0
External Balance										
Current Account - $bn	-7.6	-8.2	-20.3	-22.0	-19.8	-9.3	-2.7	-18.6	-23.9	-20.7
Current Account - % of GDP	-2.4	-2.5	-5.8	-6.0	-5.2	-2.9	-0.8	-5.4	-6.6	-5.5
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-7.3	-2.8	-5.0	-1.5	0.0					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	32.0	42.0	45.0	42.0					
Bond Programme - $bn (Treasury forecasts)	29.0	45.0	30.0	25.0	25.0					
Bond Programme - % of GDP	9.0	13.8	8.6	6.8	6.6					
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	77.2	74.4	71.7	72.8	74.3	76.5	75.1	71.7
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	2.05	2.95	3.00
10-year Govt Bond	1.15	1.75	2.60	3.25	3.30	1.60	0.90	2.35	3.20	3.30
2-year Swap	0.65	0.50	2.05	2.65	2.65	1.25	0.28	1.80	2.65	2.65
5-year Swap	0.80	1.15	2.50	3.05	3.10	1.40	0.49	2.15	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	0.60	0.60	0.30	-0.25	0.00	0.55	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 27 September			
UK, Bailey Speaks, Economists' Society			
US, Fed Speakers, Brainard/Williams			
US, Durables Orders, Aug 1st est		+0.6%	-0.1%
Tuesday 28 September			
NZ, Employment Indicators, August			+0.8%
Aus, Retail Sales, Aug 1st est		-2.5%	-2.7%
China, Industrial Profits, Aug y/y			+16.4%
US, Consumer Confidence, September		115.0	113.8
US, International Goods Trade, Aug advance		-$87.3b	-$86.4b
US, Powell/Yellen Testify, Senate Banking Cmte			
Wednesday 29 September			
Euro, Economic Confidence, September		116.9	117.5
US, Pending Home Sales, August		+1.0%	-1.8%
US, Powell Speaks, ECB Forum			
Thursday 30 September			
NZ, ANZ Business Survey, Sept final			-6.8P
NZ, Credit Aggregates, Aug (household y/y)			+11.0%
NZ, Building Consents, Aug (res, #)			+2.1%
Aus, Building Approvals, August		-5.0%	-8.6%
Aus, Private Sector Credit, August		+0.5%	+0.7%
China, PMI (Caixin), September		49.5	49.2
China, PMI (NBS), September		50.2	50.1
China, Non-manufacturing PMI, September		50.8	47.5
Jpn, Retail Sales, August		-1.8%	+1.1%
Jpn, Industrial Production, Aug 1st est		-0.5%	-1.5%
Euro, Unemployment Rate, August		7.5%	7.6%
Germ, CPI, Sep y/y 1st est		+4.2%	+3.9%
UK, GDP, Q2 2nd est		+4.8%	+4.8%P
US, Jobless Claims, week ended 25/09		330k	351k
US, GDP, Q2 saar 3rd est		+6.6%	+6.6%P
US, Chicago PMI, August		65.0	66.8
Friday 1 October			
NZ, ANZ-RM Consumer Confidence, September			109.6
NZ, CoreLogic House Prices, Sep y/y			+27.0%
Aus, CoreLogic HPI, September			+1.5%
Aus, Housing Finance, Aug $		-1.3%	+0.2%
Jpn, Tankan (lge manuf), Q3		+13	+14
Jpn, Unemployment Rate, August		2.9%	2.8%
Euro, CPI, Sep y/y 1st est		+3.3%	+3.0%
Germ, Retail Sales, August		+1.5%	-5.1%
US, Construction Spending, August		+0.3%	+0.3%
US, Personal Spending, August		+0.6%	+0.3%
US, ISM Manufacturing, September		59.5	59.9

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.25	0.25	0.25	0.25
1mth	0.42	0.46	0.28	0.28
2mth	0.52	0.57	0.37	0.29
3mth	0.62	0.67	0.46	0.31
6mth	0.79	0.88	0.64	0.29
GOVERNMENT STOCK				
04/23	1.01	1.11	0.91	-0.05
04/25	1.33	1.44	1.24	-0.03
04/27	1.54	1.63	1.42	0.12
04/29	1.72	1.79	1.60	0.32
05/31	1.82	1.89	1.72	0.46
04/33	1.94	2.02	1.94	0.63
04/37	2.18	2.28	2.23	0.86
05/41	2.41	2.53	2.51	1.14
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	51	54	46	58
Europe 5Y	49	51	45	60

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	1.45	1.50	1.29	0.04
3 years	1.63	1.66	1.47	0.03
4 years	1.75	1.75	1.57	0.05
5 years	1.84	1.82	1.64	0.10
10 years	2.19	2.13	1.96	0.47
FOREIGN EXCHANGE				
NZD/USD	0.7008	0.7027	0.6999	0.6554
NZD/AUD	0.9660	0.9693	0.9593	0.9268
NZD/JPY	77.58	76.91	76.94	69.14
NZD/EUR	0.5977	0.5991	0.5933	0.5618
NZD/GBP	0.5129	0.5146	0.5087	0.5107
NZD/CAD	0.8866	0.9011	0.8823	0.8763
TWI	74.8	74.9	74.5	71.3

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