8 February 2022

Inflation Expectations Take 2 to Tango

- **Will border relaxation quell or aggravate inflation?**
- **Inflation expectations in view Wednesday**
- **As market nudges OCR peak circa 2.75%**
- **SEEK job ads jump 8.5% to a record high**
- **January's PMI and ECT of note Friday**
- **Orr's speech today not market focussed**

Over successive weeks, the QSBO, then the CPI, then the labour market figures, have hammered home just how tight and inflationary the economy is – or at least was, at the end of 2021.

The coming week doesn't have any more major releases on show. However, it does have a handful of second-tier reports that will give a fix on early-2022 activity, and attitudes.

Yes, there is the much broader issue of the relaxation of the borders to contemplate for 2022, as confirmed and prescribed by the government last week. This will have important economic impacts to think through. However, it's still not clear to us whether the staged reopening of the border will reduce, or aggravate, inflationary pressures in the first instance.

The schedule on the border relaxation is not new, of course, more a short delay of what was outlined late last year (before Omicron became known about). In this sense, we have not altered our macro views on last week's news. However, we will be attuned to fine-tuning aspects of it, including as the economic data (especially the cross-border flow of people) reveals itself.

For the meantime, what we know is that inflation is all the rage. Thus, Wednesday's RBNZ quarterly survey of expectations will likely be to the fore of the markets' attention. This survey includes professional business and analyst views on inflation over the coming years. And we know the Bank is watching such measures closely, lest they become unanchored.

Helpfully, longer-term inflation expectations in the Reserve Bank's survey – by which we mean expectations of where annual CPI inflation will be in 5 years' and 10 years' time – have so far remained very close to the 2.00% level that marks the mid-point of the Bank's 1.0 to 3.0% target range.

While this might seem too far into the future to have any practical importance, the central bank clearly looks at these variables for assurance. And note these series were nudging above 2.0% when they first began being surveyed, back in 2017 (as denoted in data on the RBNZ website, under table M14).

The Bank also presented longer-run estimates of these 5-year and 10-year inflation expectations in its November Monetary Policy Statement (figure 7.7). These were running at around 2.5% during New Zealand's inflation phase of 2003-07, as evidence that they can slip their moorings.

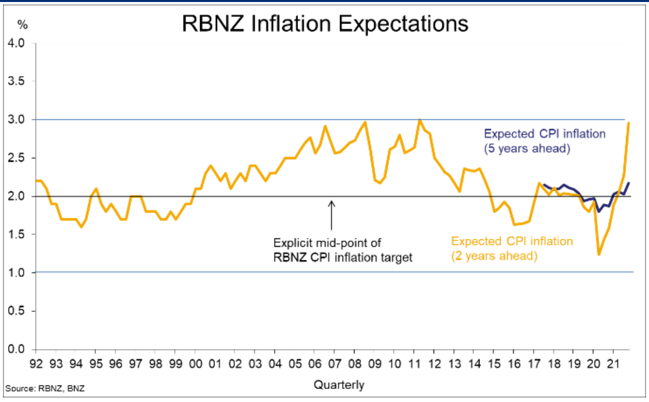
But, practically, there tends to be more focus on the RBNZ survey's 2-year view on annual CPI inflation. The idea being that by the time 2 years have passed, any transitory pressures on inflation should have either died out, or reversed out, leaving inflation by then a truer representation of the trend pulse.

As it happened, the 2-year measure of inflation expectations lifted to 2.96% in last quarter's survey. Yes, it tends to follow actual CPI inflation with a lag (in direction, if not extent). However, since the RBNZ's inflation targeting regime came in, the peak in this inflation expectations series was 3.0%, back in 2011, and it never quite got to that level during the strong inflationary phase of 2003-07, when the Bank had to tighten a lot.

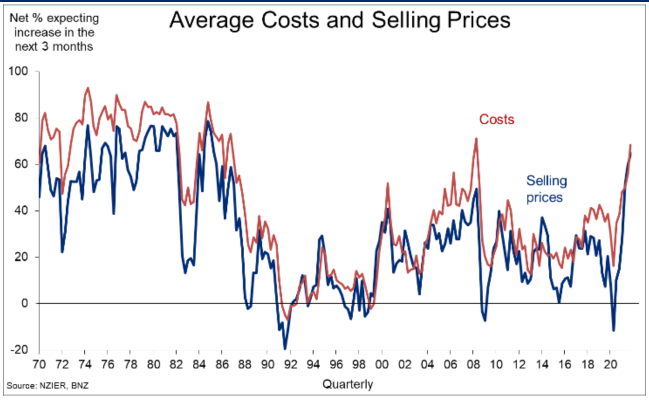
So, even if it doesn't go up any further in Wednesday's survey, or even drops a fraction, the 2-year view on inflation will still be relatively high, and a bit of a thorn in the Bank's side.

It's easier to look through the 1-year view on CPI inflation, of course. And just as well, as this hit 3.70% last quarter. Then again, it has also significantly underestimated actual CPI inflation of late, by an order of "big figures".

Threatening



Worst Yet To Come?



And in thinking about where CPI inflation will go over the coming 12 months, we note there has been little, if any, sign from various business surveys that the worst of the price increases are behind us, rather that the worst of it might still be ahead of us.

So, as much as we can't overlook longer-term inflation expectations in the Reserve Bank's considerations, we also need to be careful about assuming CPI inflation will naturally fizzle out while downplaying 1-year ahead views of inflation as just another example of temporariness.

Of course, views on inflation are predicated on views of where monetary policy is getting to (and going to). And market pricing on the Official Cash Rate (OCR) keeps nudging higher. It is now pricing 25 basis point hikes at each and every RBNZ policy meeting from the 23 February MPS through to August, with a slight upside overlay. Terminal pricing is up around 2.75% in 2023.

If it wasn't for all of this, CPI inflation expectations would have to be significantly beefed up in extent and/or duration.

Our base case of the OCR is not formally as quite strong as latest market pricing is, but we can understand the latter in terms of the current risk profile.

New Zealand's economy is certainly very stretched at present, and its inflation is strong and mounting.

The idea that pressure is going to come off the labour market relatively soon was quashed by the fact SEEK job ads for January jumped 8.5%...to a record high. The strength wasn't pervasive across all industries, but it was reasonably spread geographically.

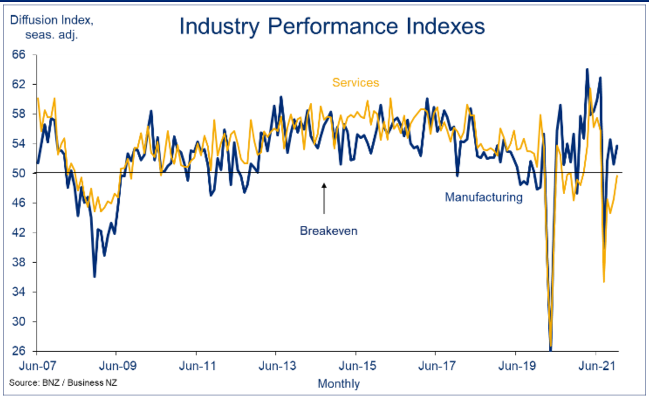
The SEEK measure of candidate availability, in being exceptionally low, also spoke of a very heated labour market into the start of 2022, with maintained downward pressure on the unemployment rate (from a record low of 3.2% late last year).

At the same time, there are undercurrents on the real economy that are not entirely reassuring, if not worrying in some respects.

We've already talked about weak consumer confidence (and we note Tony Alexander's latest survey that registered a significant drop in respondents' spending plans).

Sizable Jump to a Record High

Leading By Example



For more how economic activity is doing at the start of 2022, Friday's PMI for January is on offer. Can it stay in touch with the decent 53.7 in registered in December (when the PSI barely recovered a semblance of stability, with its 49.7)?

Soon after the PMI is published, Stats NZ is due to publish electronic card transactions for January. We don't have a clear signal on their direction, let alone quantum, so we will just take the result as it comes.

Tomorrow's ANZ truck-o-meter will also be worth a look, as a cross-check on early-2022 activity.

Also note the Q4 ready-mixed concrete figures are due Friday. We expect these will be positive on construction growth in the quarter, as an early guide to GDP. The recent trend in building consents supports this view (and goes on to suggest maintained momentum into the new year).

Finally, just for the record, note that RBNZ Governor, Adrian Orr, is speaking this afternoon but that this event is not expected to have anything relevant to financial markets. If the Bank did want to give markets a nudge (either way?) it might have arranged a speech well before now to do so, conscious that the Monetary Policy Statement is hardly more than two weeks away now.

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Global Watch

- **US CPI annual inflation seen hitting 7.3%**
- **Fed's Mester, Barkin to talk policy**
- **China loans expected to accelerate**
- **UK Q4 GDP expected to maintain strength**
- **RBA's Lowe talks Friday morning**
- **AU confidence surveys due, post Omicron peak**

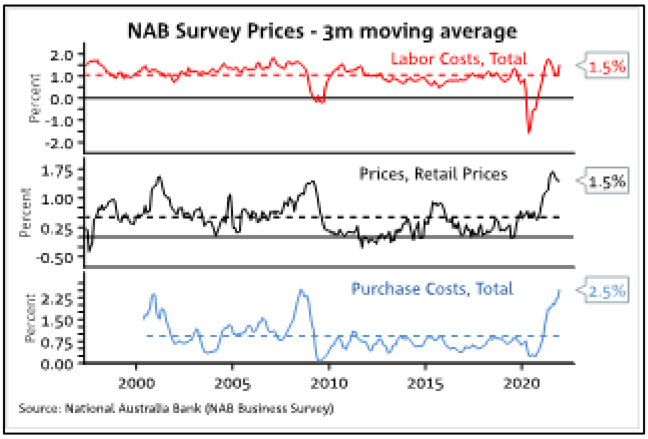
Australia

The February board decision and recent SoMP confirmed the RBA's significant reassessment of the inflation and unemployment outlook, showing sharply upgraded forecasts and noting 'material' progress towards their policy goals. The RBA remains 'patient' and sees it as "too early to conclude that inflation is sustainably in the target range." Governor Lowe gave some additional insight into what 'sustainably higher' inflation might look like, with an assessment based on wages growth and labour cost growth and the outlook and trajectory for inflation and breadth of price increases.

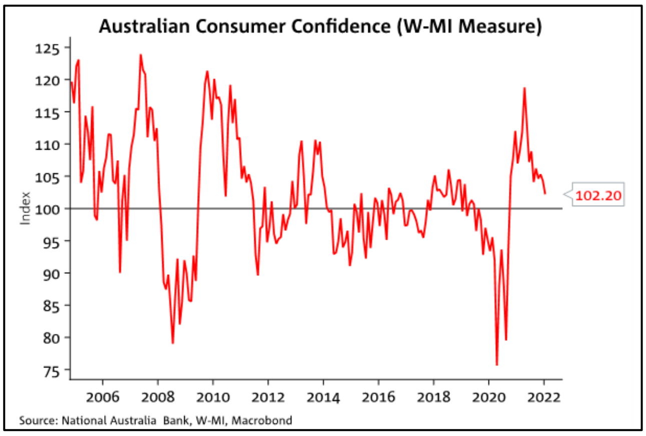
Governor Lowe appears before the House Economics Committee on Friday morning. The topics covered at these hearings can be broad ranging, but there may be some further insight to be gleaned about the thresholds the Bank is looking for and the tolerance for higher inflation in the near-term. Any discussion of the value of waiting compared to the risks of too-high inflation could be revealing about the RBA's reaction function.

The Monthly NAB Business Survey is out today. The survey has been signalling elevated price pressures. Any signal from these will be important given the RBA remains exposed to upside risk on their upgraded inflation profile in the near term.

NAB survey has been showing price pressures



Consumer confidence update due tomorrow



Omicron impacts were clear in the January Westpac-Melbourne institute consumer confidence survey, but confidence was reasonably resilient relative to previous virus impacts falling just 2.0% to 102.2. The February read is out tomorrow and will confirm, or otherwise, resilience to Omicron disruptions.

On the virus, reported case numbers have fallen back from their peaks and continue to edge lower across states, while hospitalisations have also declined from their peak. Chief Medical Officer Paul Kelly said Australia is "past our peak" in the Omicron wave. Booster coverage is increasing, rapid testing supply constraints have improved, and acute supply chain disruptions seen in early January have eased back. Those factors suggest a relatively mild and short-lived knock to activity, which makes sense given lockdowns and significant restrictions were largely absent from this wave. The RBA's assessment is similar, with Governor Lowe saying "the worst of the disruptive economic effects from Omicron now appear to be behind us, with supply chain and workforce management problems gradually being addressed".

US

The main event for markets will be Thursday's January CPI, the consensus looking for 0.4%/7.3%, another solid monthly and higher annual read after 0.5%/7.0% for December. Core CPI is expected to have grown 0.5% m/m, annual growth pushing up to 5.9% from 5.5%. Base effects will remain unhelpful until April. The UoM Consumer Sentiment survey preliminary reading is due Friday, likely steady at a still low 67.3. Fed speakers included Mester on Wednesday and Barkin on Thursday with both intending to discuss policy.

China

Mainland markets have reopened as China returns from its Lunar New Year Holiday. January aggregate social financing due some time in the week 9 February is the key data point this week. Consensus looks for New Yuan Loans to accelerate sharply in January to CNY3750bn from CNY1130bn in December, largely on a seasonal pick up in new lending at the beginning of the year.

United Kingdom

BoE Governor Bailey and Chief Economist Huw Pill speak through the week. On the data front, Q4 GDP is released Friday as well as December trade data. Q4 GDP is expected to lift another 1.1% q/q, seeing 6.4% y/y (from 6.8%).

Eurozone

It's a very quiet week for the economic calendar. The market has dramatically re-priced the risk of the ECB lifting rates this year and will be interested in any follow up commentary from ECB Governing Council members and Eurozone central bankers in the aftermath of the ECB meeting. Villeroy speaks again this week, today and Thursday. The EC is publishing its forecasts on Thursday, the market likely to take some interest in their inflation outlook, at a minimum.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Last week saw a further lurch higher in global rates after an extremely strong US nonfarm payrolls report and as the ECB executed its own hawkish pivot. NZ rates were only slightly higher last week, by around 2bps on the swap curve.

Global central banks continue to move in a more hawkish direction, putting upward pressure on bond rates. At its policy meeting last week, President Lagarde repeatedly declined to rule out a rate hike this year, a big change from December when she said this was "very unlikely". Lagarde said the ECB now believed inflation risks were to the upside and it was "getting closer" to its inflation target. The abrupt change in rhetoric from the ECB seemingly caught the market by surprise and European rates have subsequently blasted higher. The 5-year German bond rate has broken above 0% for the first time since early-2018 while the 10-year rate is up to a three-year high of 0.23%. There was also a hawkish element to the Bank of England's policy meeting with four (of nine) MPC members voting for a 50bps rate increase. Finally, the US nonfarm payrolls release was a stonker, with much higher job and wage growth reported, seeing the market increase expectations of Fed rate hikes. The market now prices more than five Fed rate hikes by the end of the year, including a 40% chance that the Fed could kick off its tightening cycle next month with a 50bps move.

The moves higher in global bond rates this year have been led by real yields rather than inflation expectations (see second chart on the right). This makes sense considering central banks are moving towards tightening (and it is real rates that determine whether policy is loose or tight). Inflation expectations have been tracking broadly sideways over the past few months. Even though it has already increased 60bps this year, the US 10-year real yield remains extremely low on a historical basis at around -0.50%. We think these trends are likely to continue, with the US 10-year real rate likely to move towards 0% and the US 10-year nominal rate heading towards 2.50% later this year.

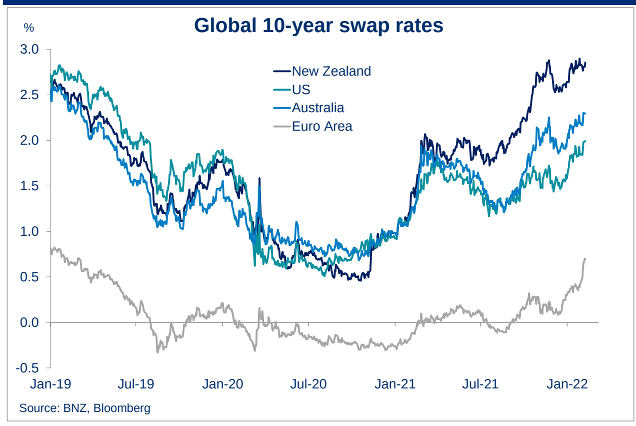
Domestic interest rates were relatively resilient to the moves offshore last week. 2 and 10-year swap rates are only 2bps higher than they were at the start of last week. The HLFS labour market report last week was not as strong as some had feared (there had been talk the unemployment rate could even print below 3%), which helped keep RBNZ rate hike expectations in check. The 2-year swap rate is hovering just under 2.50% and is near its highest level since late 2016.

There remains a significant amount of tightening priced into the New Zealand curve. The November OIS rate is just below 2.50%, implying almost seven 25bps hikes at the seven RBNZ meetings this year. With so much already priced into the NZ curve compared to other central banks, it is natural that NZ rates will tend to outperform when global rates are heading higher. That said, we still think longer-term NZ rates, especially the 10-year, will be dragged higher by global forces this year, even if they don't match the moves in the US and Europe. We think short-end NZ rates, like the 2-year, will likely move broadly sideways over the next few months.

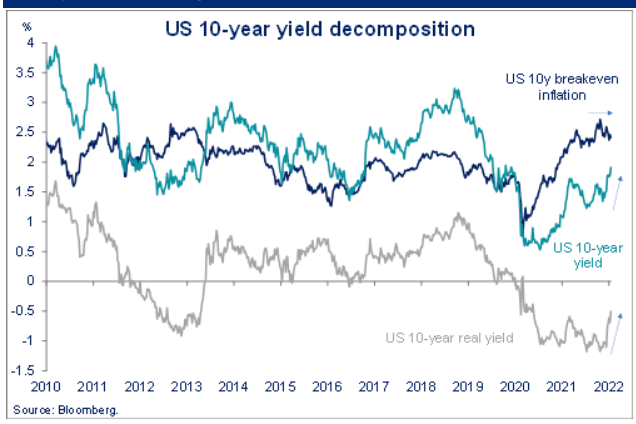
For the week ahead, the domestic focus is the RBNZ inflation expectations survey. The 2-year ahead inflation expectations series, which tends to track movements in headline inflation, is likely to increase from its last reading of 2.96%. The RBNZ has previously said that medium-term measures are a better gauge of whether inflation expectations are anchored, so the market will also be watching the 5-year and 10-year ahead series. Given the small sample size of the survey, investors shouldn't put too much weight on the result either way, although it's possible a high reading could see the market increase its chances of a 50bps move later this month (currently priced at 25%). We still think there is a decent hurdle for the RBNZ to hike rates by 50bps later this month.

Offshore the focus is on the US CPI release, with further increases in annual headline (to 7.3%) and core inflation (to 5.9%) expected. The annual rate of inflation is not expected to peak for a few months yet. We still see scope for the market to increase its pricing for Fed tightening over time.

Global rates higher last week, especially in Europe



Real yields leading the US rate move in 2022



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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Over the past week and a bit, the NZD has risen about a cent off its 16-month low to consolidate over the 0.66 mark. This has been against a backdrop of a broadly weaker USD following a recovery in risk appetite. NZD/EUR has moved significantly lower over that period to print sub-0.58 levels, following strong euro area inflation data and a much more hawkish ECB than expected. NZD/AUD is slightly weaker and found some support just below 0.93.

There has been plenty of news to drive currency markets over the past week and a bit. Our risk appetite index has increased 5pts to 47% after reaching a two-year low towards the end of January. This has led to broadly based weakness in safe-haven currencies like the USD and JPY. In our last weekly report we noted that the NZD looked oversold on the technical RSI (the index went below 25) and the deviation from our short-term fair value model had stretched to 5%, the largest in two years. The recovery in the NZD to back above 0.66 should be seen in that context. The NZD is no longer oversold on the RSI (with the index now at 39) and the valuation gap on our model has closed to 4%.

NZ labour market data showed the unemployment rate falling to 3.2%, its lowest level since the 1970s. And while wage inflation wasn't as high as feared, it remained elevated. Overall the data didn't perturb the market and pricing is still consistent with an RBNZ hike at all seven meetings this year.

Central bank policy updates from the ECB, BoE and RBA all moved in a hawkish direction, but it was the ECB that surprised the most. Early in the week, inflation data for the euro area significantly surprised to the upside (with the CPI at 5.1% y/y), leading the ECB to execute a hawkish pivot, with President Lagarde saying the ECB now believed inflation risks were to the upside and she repeatedly declined to rule out a rate hike this year, a big change from last year when she said this was "very unlikely".

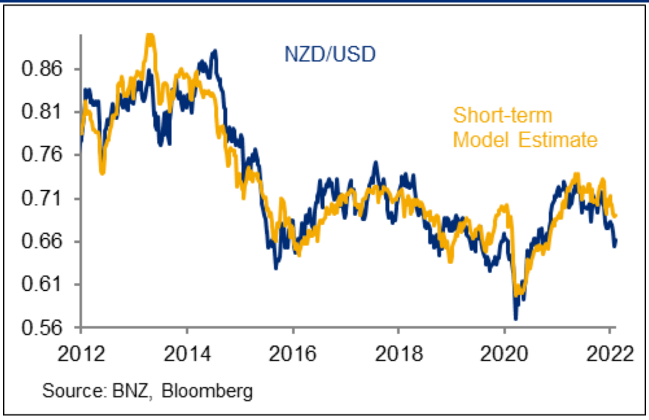
European yields have surged (Germany's 5-year rate is up 35bps over the past week and a bit), driving the euro higher. NZD/EUR fell to as low as 0.5755, a level not seen since November 2020. We had previously been thinking that the cross was likely to gravitate to 0.60-61 through much of this year, but the significant change in tack from the ECB means that the cross is likely to languish below 0.60 for some time.

More hawkish pivots from the BoE and RBA didn't have much impact on GBP or AUD, with the market well positioned in anticipating these moves. The BoE raised its policy rate for the second time this cycle, with a further series of hikes likely this year. The RBA continues to backtrack on its previous policy guidance in the face of a greater inflationary pulse. The RBA – which is now a clear outlier compared to other central banks – says that it is prepared to be patient on rate hikes, but the market rightly continues to believe that the tightening cycle will begin later this year. We see further downside potential in NZD/AUD this year.

Whereas the RBNZ stood out last year with its early move to end QE and kick off a rate hike cycle, policy tightening and signals thereof from other central banks have now become the norm. This is a tougher backdrop for the NZD to perform, as global liquidity conditions tighten, something the NZD can be sensitive to. This keeps us cautious about the NZD outlook and it will require a significant turnaround in USD sentiment to take the NZD higher. That said, we believe that the NZD can spend at least the next few weeks in a consolidation phase that will keep it above 0.66, with resistance around 0.6750-0.68.

After an action-packed couple of weeks, the economic data calendar is light, with only second-tier domestic releases. US CPI data Thursday night is expected to show another lift to a multi-decade high of 7.3% y/y, but with a slight easing in the monthly impulse, hopefully.

NZD still tracking on the cheap side of fair value



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6640	0.6530 - 0.6810
NZD/AUD	0.9315	0.9280 - 0.9450
NZD/GBP	0.4906	0.4870 - 0.4990
NZD/EUR	0.5806	0.5760 - 0.6000
NZD/JPY	76.41	75.20 - 77.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6900	-4%
NZD/AUD	0.9070	3%

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Technicals

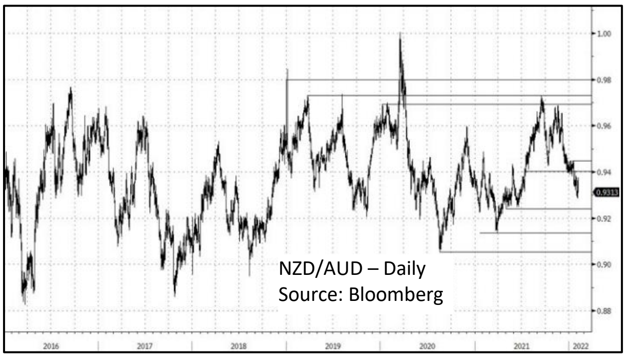
NZD/USD

Outlook:	Downside risk
ST Resistance:	0.6800 (ahead of 0.7000)
ST Support:	0.6530 (ahead of 0.6400)

The NZD is safely off the 0.6530 low but still languishing near the bottom of the year-long downward channel. Resistance is some way above, around a 0.6750-0.68 zone.

NZD/AUD

Outlook:	Downside risk
ST Resistance:	0.9450 (ahead of 0.9600)
ST Support:	0.9240 (ahead of 0.9140)



The trend is still to the downside, with initial support around 0.9240 and little resistance ahead of 0.9450.

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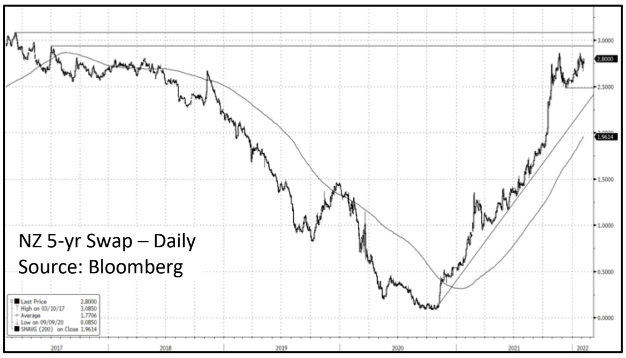
NZ 5-year Swap Rate

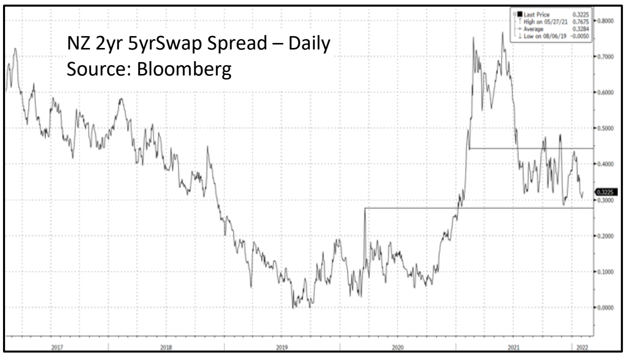
Outlook:	Neutral
ST Resistance:	3.09
ST Support:	2.48



Market is still in consolidation phase. Staying neutral until we get a new strong technical signal.

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

Outlook:	Steeper
ST Resistance:	0.45
ST Support:	0.28



Support has held look for move to +45.

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Quarterly Forecasts

Forecasts as at 8 February 2022

Key Economic Forecasts

Quarterly % change unless otherwise specified Forecasts

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
GDP (production s.a.)	13.9	-0.4	1.5	2.4	-3.7	2.0	3.0	1.8	0.4	0.4
Retail trade (real s.a.)	28.4	-2.3	2.3	3.3	-8.1	5.0	5.0	0.8	0.6	0.4
Current account (ytd, % GDP)	-0.7	-0.8	-2.5	-3.3	-4.6	-5.6	-5.8	-6.1	-6.1	-5.8
CPI (q/q)	0.7	0.5	0.8	1.3	2.2	1.4	1.2	0.7	0.9	0.4
Employment	-0.7	0.6	0.7	1.0	1.9	0.1	0.3	0.2	0.2	0.2
Unemployment rate %	5.3	4.9	4.6	4.0	3.3	3.2	3.0	3.0	3.0	3.1
Avg hourly earnings (ann %)	3.7	4.6	4.1	4.5	3.6	4.1	4.6	5.1	5.1	4.8
Trading partner GDP (ann %)	-0.9	0.8	6.7	9.7	4.2	3.6	3.8	4.0	4.9	4.5
CPI (y/y)	1.4	1.4	1.5	3.3	4.9	5.9	6.3	5.6	4.2	3.2
GDP (production s.a., y/y))	1.2	0.5	3.3	17.9	-0.3	2.1	3.7	3.0	7.4	5.7

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
2020	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
	Sep	0.25	0.50	1.35	1.75	1.20	1.60	1.95	0.15	1.30	0.41
	Dec	0.65	0.80	2.15	2.40	2.10	2.45	2.60	0.20	1.45	0.89
Forecasts											
2022	Mar	1.00	1.35	2.55	2.70	2.45	2.75	2.90	0.50	2.00	0.70
	Jun	1.50	1.85	2.65	2.95	2.65	2.85	3.15	0.75	2.20	0.75
	Sep	2.00	2.25	2.70	3.05	2.75	2.90	3.25	1.00	2.35	0.70
	Dec	2.25	2.50	2.75	3.10	2.80	2.95	3.30	1.25	2.50	0.60
2023	Mar	2.50	2.65	2.75	3.10	2.80	2.95	3.30	1.50	2.50	0.60
	Jun	2.50	2.65	2.75	3.10	2.80	2.95	3.30	1.75	2.50	0.60
	Sep	2.50	2.65	2.65	3.10	2.70	2.85	3.30	2.00	2.50	0.60

Exchange Rates (End Period)

	USD Forecasts NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.66	0.71	1.14	1.35	115	0.66	0.93	0.58	0.49	76.3	71.2
Mar-22	0.68	0.72	1.12	1.35	116	0.68	0.94	0.60	0.50	78.5	72.7
Jun-22	0.69	0.73	1.13	1.36	115	0.69	0.94	0.61	0.51	79.4	73.9
Sep-22	0.70	0.75	1.15	1.37	113	0.70	0.93	0.61	0.51	79.1	74.4
Dec-22	0.72	0.77	1.17	1.38	113	0.72	0.92	0.61	0.52	80.8	75.3
Mar-23	0.72	0.78	1.19	1.39	112	0.72	0.92	0.61	0.52	80.6	75.3
Jun-23	0.72	0.78	1.20	1.40	111	0.72	0.92	0.60	0.51	79.9	75.1
Sep-23	0.72	0.78	1.24	1.42	108	0.72	0.92	0.58	0.51	77.8	73.9
Dec-23	0.71	0.77	1.25	1.43	108	0.71	0.92	0.57	0.50	76.7	73.0
Mar-24	0.70	0.76	1.25	1.43	107	0.70	0.92	0.56	0.49	74.9	72.3
Jun-24	0.70	0.76	1.24	1.42	106	0.70	0.91	0.56	0.49	73.7	71.8
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 8 February 2022	March Years Actuals 2020	2021	March Years Forecasts 2022	2023	2024	December Years Actuals 2019	2020	December Years Forecasts 2021	2022	2023
GDP - annual average % change										
Private Consumption	2.5	0.4	3.4	4.1	2.0	3.1	-1.1	5.8	3.0	2.2
Government Consumption	5.4	7.5	8.1	2.1	0.9	4.6	6.9	9.0	3.2	1.0
Total Investment	2.6	-4.8	6.9	6.3	-0.8	4.4	-7.0	8.3	6.3	-0.1
Stocks - ppts cont'n to growth	-0.2	-0.3	1.1	-0.4	-0.1	-0.5	-0.9	1.7	-0.4	-0.2
GNE	2.8	0.2	6.3	3.6	1.0	3.1	-1.9	8.8	3.2	1.2
Exports	0.3	-17.8	5.5	9.4	7.1	2.4	-12.7	-3.1	6.2	11.0
Imports	1.1	-16.1	18.3	8.7	4.7	2.1	-16.1	15.1	8.6	6.6
Real Expenditure GDP	2.6	-0.3	3.7	3.7	1.3	3.2	-1.0	4.5	3.1	1.7
GDP (production)	**2.2**	**-1.3**	**5.4**	**4.7**	**1.3**	**2.8**	**-1.9**	**5.3**	**4.9**	**1.6**
GDP - annual % change (q/q)	*0.6*	*3.3*	*3.7*	*2.9*	*1.7*	*2.3*	*0.5*	*2.1*	*5.7*	*1.2*
Output Gap (ann avg, % dev)	1.3	-1.8	0.7	2.1	0.6	1.7	-2.0	0.4	2.1	0.9
Nominal Expenditure GDP - $bn	324	327	355	380	394	320	324	349	375	390
Prices and Employment - annual % change										
CPI	2.5	1.5	6.3	2.9	2.4	1.9	1.4	5.9	3.2	2.4
Employment	2.5	0.2	3.3	0.7	0.6	1.2	0.6	3.7	0.9	0.4
Unemployment Rate %	4.2	4.6	3.0	3.1	3.8	4.1	4.9	3.2	3.1	3.7
Wages - ahote	3.2	4.1	4.6	4.5	2.8	3.8	2.6	4.6	4.1	4.8
Productivity (ann av %)	0.2	-1.8	2.4	3.5	0.9	0.9	-3.1	3.2	3.0	1.1
Unit Labour Costs (ann av %)	2.9	4.4	3.6	1.0	2.5	2.1	5.6	2.5	1.6	2.6
House Prices	7.8	24.1	11.0	-5.9	0.0	4.6	17.0	20.9	-3.2	-2.5
External Balance										
Current Account - $bn	-7.6	-8.2	-20.5	-19.8	-18.4	-9.3	-2.7	-19.5	-22.0	-19.4
Current Account - % of GDP	-2.3	-2.5	-5.8	-5.2	-4.7	-2.9	-0.8	-5.6	-5.8	-5.0
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-7.3	-1.3	-5.7	-1.0	0.0					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	30.1	38.0	41.0	41.0					
Bond Programme - $bn (Treasury forecasts)	29.0	45.0	30.0	25.0	25.0					
Bond Programme - % of GDP	9.0	13.8	8.5	6.6	6.3					
Financial Variables [(1)]										
NZD/USD	0.60	0.71	0.68	0.72	0.70	0.66	0.71	0.68	0.72	0.71
USD/JPY	108	109	116	112	107	109	104	114	113	108
EUR/USD	1.11	1.19	1.12	1.19	1.25	1.11	1.22	1.13	1.17	1.25
NZD/AUD	0.97	0.93	0.94	0.92	0.92	0.96	0.94	0.95	0.92	0.92
NZD/GBP	0.49	0.51	0.50	0.52	0.49	0.50	0.53	0.51	0.52	0.50
NZD/EUR	0.55	0.60	0.60	0.61	0.56	0.59	0.58	0.60	0.61	0.57
NZD/YEN	65.1	77.5	78.5	80.6	74.9	72.0	73.6	77.4	80.8	76.7
TWI	68.9	74.8	72.7	75.3	72.3	72.8	74.3	73.0	75.3	73.0
Overnight Cash Rate (end qtr)	0.25	0.25	1.00	2.50	2.25	1.00	0.25	0.75	2.25	2.50
90-day Bank Bill Rate	0.71	0.33	1.35	2.65	2.40	1.23	0.26	0.92	2.50	2.65
5-year Govt Bond	0.80	1.00	2.55	2.75	2.40	1.25	0.40	2.20	2.75	2.55
10-year Govt Bond	1.15	1.75	2.70	3.10	2.95	1.60	0.90	2.35	3.10	3.05
2-year Swap	0.65	0.50	2.45	2.80	2.40	1.25	0.28	2.22	2.80	2.60
5-year Swap	0.80	1.15	2.75	2.95	2.60	1.40	0.49	2.56	2.95	2.75
US 10-year Bonds	0.90	1.60	2.00	2.50	2.50	1.85	0.90	1.45	2.50	2.50
NZ-US 10-year Spread	0.25	0.15	0.70	0.60	0.45	-0.25	0.00	0.90	0.60	0.55

[(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

All times and dates NZT

		Median	Fcast	Last
Tuesday				
JN	Household Spending YoY Dec	0.00%	--	-1.30%
UK	BRC Sales Like-For-Like YoY Jan	--	--	0.60%
AU	NAB Business Confidence Jan	--	--	-12
NZ	RBNZ's Orr Speaks			
JN	Eco Watchers Survey Outlook SA Jan	45.8	--	49.4
Wednesday				
US	NFIB Small Business Optimism Jan	97.5	--	98.9
US	Trade Balance Dec	-$83.0b	--	-$80.2b
EC	ECB's Villeroy speaks in Paris			
NZ	ANZ Truckometer Heavy MoM Jan	--	--	-0.60%
NZ	2Yr Inflation Expectation 1Q	--	--	2.96%
GE	Trade Balance Dec	11.0b	--	12.0b
US	Revisions: CPI			
CH	Aggregate Financing CNY Jan	5400.0b	--	2370.0b
CH	Money Supply M2 YoY Jan	9.20%	--	9.00%
Thursday				
UK	BOE's Pill speaks			
US	Wholesale Trade Sales MoM Dec	--	--	1.30%
CA	BoC's Macklem speaks			
US	Fed’s Mester Speaks			
Thursday continued				
	Household Living Costs 4Q			
UK	BoE's Bailey speaks			
EC	EC publishes Economic Forecasts			
Friday				
EC	ECB's Guindos, Villeroy, Lane Speak			
US	CPI MoM Jan	0.4%	--	0.4%
US	Initial Jobless Claims Feb-05	230k	--	238k
US	Continuing Claims Jan-29	1617k	--	1628k
NZ	BusinessNZ Manufacturing PMI Jan	--	--	53.7
NZ	Card Spending Total MoM Jan	--	--	0.019
NZ	Ready-mixed Concrete Production 4Q			
AU	RBA's Lowe-Testimony			
US	Fed’s Barkin speaks			
GE	CPI YoY Jan F	4.9%	--	4.9%
UK	GDP QoQ 4Q P	1.1%	--	1.1%
UK	Monthly GDP (MoM) Dec	-0.5%	--	0.9.%
UK	Industrial Production MoM Dec	0.1%	--	1.0%
CH	BoP Current Account Balance 4Q P	--	--	$73.6b
Saturday				
US	U. of Mich. Sentiment Feb P	67.3	--	67.2

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.75	0.75	0.75	0.25
1mth	0.94	0.94	0.80	0.26
2mth	1.05	1.05	0.88	0.28
3mth	1.16	1.17	0.96	0.29
6mth	1.39	1.43	1.22	0.30
GOVERNMENT STOCK				
04/23	1.73	1.74	1.54	0.28
04/25	2.31	2.31	2.21	0.61
04/27	2.45	2.45	2.35	0.90
04/29	2.54	2.54	2.47	1.21
05/31	2.58	2.58	2.52	1.43
04/33	2.62	2.62	2.63	1.63
04/37	2.77	2.77	2.80	1.98
05/41	2.88	2.89	2.97	2.31
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	63	58	52	51
Europe 5Y	66	58	51	48

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.48	2.47	2.25	0.37
3 years	2.66	2.65	2.49	0.53
4 years	2.76	2.75	2.62	0.70
5 years	2.80	2.78	2.68	0.87
10 years	2.85	2.82	2.83	1.48
FOREIGN EXCHANGE				
NZD/USD	0.6637	0.6638	0.6786	0.7242
NZD/AUD	0.9311	0.9312	0.9412	0.9355
NZD/JPY	76.34	76.14	78.24	75.73
NZD/EUR	0.5799	0.5889	0.5969	0.5974
NZD/GBP	0.4901	0.4909	0.4977	0.5241
NZD/CAD	0.8400	0.8422	0.8533	0.9191
TWI	71.2	71.0	72.6	75.1

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