20 March 2023

Monetary Policy's Many Manifestations

- **Will latest banking issues prove disinflationary?**
- **We keep to our (conservative) OCR views for now**
- **Feb. merchandise trade perused for storm hits**
- **WMM consumer confidence; can it get any worse?**
- **RBNZ's Conway speaking Thursday 1:15pm**

With not a lot of economic data this week – local or global – markets will likely remain in thrall to the ructions running through the global financial system. It's a reminder that as much as central banks like to tie their interest rate policy intently to consumer price inflation, it has impacts on far more than consumer price inflation.

This is not to say central banks can abrogate their responsibilities for controlling inflation, when financial system strains arise. It's more to recognise that to satisfy multiple aims, which are all influenced by interest rates, things can at times get complicated and conflicting. Right now, appears to be one of those times.

A feature of the recent banking distress offshore is the way significant policy rate increases – without which inflation would be tracing a bigger bulge than it already is – have pricked a bond market bubble. A bubble that went pneumatic during the pandemic. It would appear some financial institutions were not well positioned for the revaluation of the "capital" investments they made in "safe" government bonds.

The "good" news – if it can be described this way – is that a significant proportion of the government bonds that were issued over the course of the pandemic – under various QE programmes – ended up on central bank balance sheets, rather than in the private sector.

Still, it's early days in assessing how this latest global banking sector malaise will pan out.

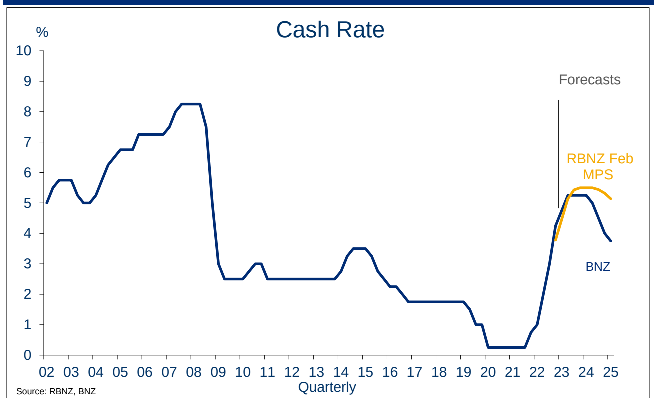
Even with the enormous credit lines already rapidly provided by the US and European monetary authorities, the current motivations are different to those during the pandemic. Those were ultimately aimed at depressing interest rates, amid massive issuance of government bonds into the market.

Comparisons to the Global Finance Crisis of 2008, meanwhile, run into the issue that that cataclysm was fundamentally about a huge quantum of poorly made, and poorly understood, lending (notably around the US housing market) amid an economic recession. In contrast, this latest world ruction seems more to do with a panicked run on bank deposits (amid virtual record low unemployment).

While these are early days in assessing this latest stress in the global financial system, how it plays out will be important for thinking about monetary policy. If it gets worse, it will, via impacts on credit provision, presumably pose a disinflationary force for central banks to factor in. Conversely, if the current banking issues are soon cauterized, central banks will refocus attention squarely on ensuring they secure victory in the inflation battle.

While things are obviously in a state of flux (albeit with the NZ TWI notably hanging tough), we haven't felt the need to change our call on the RBNZ's Official Cash Rate. A call that was conservatively pitched compared to the market, until the market reassessed.

Banking on a Peak

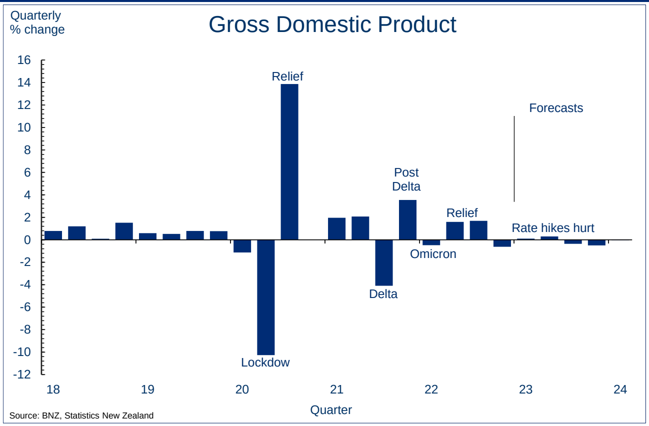


We still have a 25bp hike in mind for the 5 April Monetary Policy Review. And we still forecast another 25bps for the 24 May Monetary Policy Statement, taking the OCR to a 5.25% peak. This is starting to feel like an envelope of expectations rather than a baseline to move around. For its part, market pricing has trimmed its expectation for April to barely 5.00% and now sees a peak of around 5.25% by July.

Not that our attitude to the OCR made too much of the weaker than expected GDP figures that came to light last week. It's more an eventual recession this year that informs our cash rate view. Statistical and economic interpretation of the Q4 2022 GDP result was difficult. Still, all up, it was a decent miss to the downside, and especially compared to RBNZ expectations, which will ask questions of the economy's underlying operation and trajectory.

One of those questions is whether we'll see a second successive decline in NZ GDP in this March quarter we're near to finishing (making for a technical recession). Possibly. While we formally expect a 0.1% increase in Q1 GDP, this merely shows it wouldn't take much to knock it negative. Like the impacts of the floods and cyclones in the quarter doing their worst.

Touch and Go



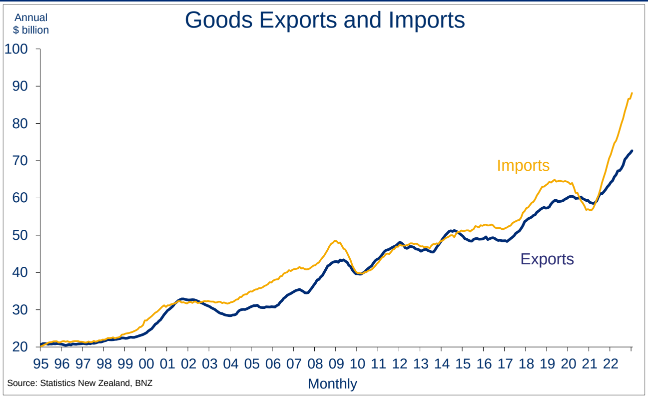
This week's local economic news will provide some insight into recent activity. It follows news from last Friday that passenger vehicle registrations fell quite a bit for February, centred on new cars, while for second-hand (imports) remained low. That was not a good look for retail trade.

Tomorrow's merchandise trade figures for February will attract particular interest. And not just for indications of weather-related disruption. The nation's enormous current account deficit, now at 8.9% of GDP, has also finally made in onto the radar of the rating agencies (well, one at least), with an expanding trade deficit very much part of this largesse.

With these things in mind, we anticipate annual growth in merchandise exports to sag to -4%, from the +14% it posted in January. For merchandise imports, we figure on an 8% annual gain, compared to 26% in January. This, by the way, presumes the second of four high-value Poseidon aircraft has not arrived in the country yet. However, the three that are still due will certainly inflame the monthly trade deficit, over the coming months.

Our expectations on exports and imports generate a monthly deficit of $1,395m for February. While this wouldn't be as big as January's deficit of $1,954m, it would be plenty enough to boost the annual (12-month) running deficit to $16.2b, from $15.5b in January.

A Source of Imbalance



Wednesday's news begins in the small hours of the morning, with the latest dairy auction. We expect a small fall in the GDT-weighted price index, at this event.

Later Wednesday morning, the Westpac McDermott Miller quarterly report on consumer confidence is due for publication. The prior report, done back in December, recorded a record low index of 75.4. While it might seem hard for it to go any lower than that, conversely there doesn't seem much cause for it to go up.

Thursday's ANZ Truck-o-meter for February will be worth a look. This especially for any insight it can provide on impacts from the recent bad weather, which closed key roads in some districts (causing re-routing, necessitating some longer journeys to get from A to B).

Thursday morning, Stats NZ publishes its latest survey information on household income and housing costs. These, covering the year to June 2022, will give compositional insights, including around rent and mortgage (principal and interest) payments.

Friday rounds off the local news with, first, the year to March 2022 regional GDP accounts. If nothing else, these will be a painful reminder of COVID's regionally diverse impacts. Friday afternoon, the RBNZ publishes February's new residential lending figures, which are bound to still be soft.

Also note that RBNZ Chief Economist, Paul Conway, is scheduled to speak on Thursday. As the Bank's press release stated, Paul will explain 1) why inflation is currently high 2) the factors affecting the outlook for inflation and 3) what the Monetary Policy Committee at the RBNZ is doing about it. While we can imagine the speech will do its best to stick to the February MPS themes, recent events could make any Q&A that occurs interesting.

craig_ebert@bnz.co.nz

Global Watch

- **Banking jitters remain front and centre**
- **Tricky backdrop for FOMC meeting this week**
- **Pricing fluid, but market just favours a 25bp Fed hike**
- **Many ECB speakers this week, post 50bp hike last week**
- **Data of less importance; PMIs due in US, EZ, and UK**
- **BoE meets: 25bp hike or a pause? UK CPI due Wednesday**
- **RBA minutes, speakers to monitor**

Australia

The data calendar is quiet this week but there is a couple of opportunities to hear from the RBA.

The March Meeting Minutes, published tomorrow, may read as a somewhat historical document, with Governor Lowe having already expanded on the RBA's March thinking in a speech last week. The discussion in the Minutes will also predate the sharp shifts in rates markets following the SVB and Credit Suisse developments.

NAB expects a pause or 25bp to complete the set of options considered in March, with the arguments in favour of 25 to have compellingly won the day. If 50 remained on the list of options, it would push back against the prospect of an imminent pause as soon as April.

Ahead of the Minutes, there is a timely speech today from Assistant Governor (Financial Markets) Chris Kent titled 'Long and Variable Lags of Monetary Policy.'

With the RBA having flagged that they are closer to the point where they can pause to assess the flow of data, a fuller expansion of their understanding of the shape and timing of passthrough is timely. When the RBA will assess that the risks of doing too little and risking a more protracted inflation fight and doing too much an unnecessarily crimping activity are sufficiently balanced to pause and assess the incoming data flow is heavily dependent on how they understand pass through.

It may also provide an opportunity to hear how the RBA is assessing banking developments offshore. Financial stability concerns and an effective tightening of financial conditions to the extent that bank lending is more constrained going forward add an additional layer of uncertainty to the task for central banks.

In March, the RBA judged that more tightening would be needed, even as Governor Lowe said he had an 'open mind' about April if the data made the case for a pause. That suggested a fairly high bar for the data to vote in favour of a pause as soon as April, and indeed the NAB Survey and Labour Force data last week were strong. Any comments from Kent about the materiality of recent ructions from offshore Banks could clarify how much the near-term focus has shifted away from the data.

NAB's view remains that the RBA will hike rates by 25bp in April and May and continue to assess that the data makes the case that the risks are not yet sufficiently balanced to pause with a cash rate at 3.6%. There is a risk the RBA pauses sooner, especially if market conditions do not settle ahead of the 4 April Meeting. The Federal Reserve's decision this week will also be instructive. NAB expects a 25bp hike (see US section below), but if the Fed does pause, it raises the chances the RBA will follow suit.

US

The market remains hinged on banking sector-led financial stability risks. Markets remain whippy and apprehensive as fears of bank contagion risk continue to swirl. At the end of last week investors remained nervous about the outlook, with more US banks under the spotlight and investors fleeing for safer havens.

One source of possible contagion risk has been suppressed, with breaking news this morning that UBS is reported to agree to buy Credit Suisse for about CHF2bn, at a fraction of Credit Suisse's closing share price on Friday. The deal was negotiated over the weekend, brokered by the Swiss government, with the Swiss National Bank offering a $100bn liquidity line to UBS as part of the deal.

In addition, this morning, the Fed, along with five other major central banks, have announced coordinated action to boost liquidity in their standing US dollar swap arrangements.

The FOMC faces a difficult choice this week given the jittery market backdrop. The recent higher-than-expected Feb CPI would likely have seen some arguing for a return to a 50bp hike had it not been for the market pressures in the wake of the Silicon Valley Bank and Credit Suisse issues. A hike of 25bps this week would illustrate a balance between the Fed's inflation-fighting credentials against market instability risks. In the new tabled economic projections, there could well be an increase in the Committee's median terminal rate from 5.1% to 5.4%, given sticky inflation, though monetary policy settings remain hostage to financial stability risks.

PMIs late in the week are expected to be a touch lower and generally muted, with consensus seeing the manufacturing PMI at 47.0 from 47.3 and the services PMI easing to 50.3 from 50.6.

China

Quiet week for China with only the loan prime rate today; consensus is for no change.

Eurozone

The coming week offers the opportunity for the market to hear from more than a dozen ECB speeches scheduled after last week's ECB 50bps rate hike. President Lagarde remarked in her press conference that if the uncertainty subsides "we have a lot more ground to cover" while also acknowledging that while no other policy option was proposed other than the 50bp hike, three or four members wanted more time for the situation to unfold.

Lagarde also made the point last week that Central Banks have two sets of tools, and can use the cash rate to target inflation outcomes, while using liquidity support and other interventions to contain financial stability risks. But it is also true that the two are not completely separable, with lesser lending appetite and tighter financial conditions at a given policy rate leaving less work for that primary demand management lever.

Friday's preliminary PMIs will offer an update on not just activity but also what businesses are reporting on demand, supply chain disinflation, wages, and pricing power.

UK

Even before the current banking crisis, NAB looked for an unchanged Bank Rate at 4.00% on Thursday given forward-looking earnings data have been beginning to roll over, containing inflation with unfolding goods disinflation and further declines in gas and oil prices of late. Market polls see Bank Rate lifting to 4.25%.

Datawise, February inflation on Wednesday is undoubtedly the highlight. The consensus is picking a still-super-high 9.9% after January's 10.1% headline; core annual inflation is seen easing to 5.7% from 5.8%. PMIs are due later in the week.

taylor.nugent@nab.com.au / doug_steel@bnz.co.nz

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Rates markets were in turmoil last week on fears of a full-on banking crisis, with a number of high-profile casualties already. The net result was lower rates across the globe and steeper curves as markets pared back future rate hikes and brought forward the timing of easier policy. Credit spreads widened. Markets were dysfunctional at times, evidenced by whippy trading, wider bid-ask spreads, and a more than 80bps trading range for the 2-year Treasury yield.

The collapse of Silicon Valley Bank just over a week ago set off a chain reaction, whacking confidence in the US banking sector, leading to further casualties and a shift in deposits towards larger, safer banks. Authorities attempted to stem contagion risk, with a new 1-year Term Funding facility set-up by the Fed. Credit Suisse came under pressure, dragging Europe's banking sector into the turmoil. A new deal just announced for UBS to take over Credit Suisse cauterises one wound but focus will remain on funding markets and the US banking sector.

A newfound concern for financial stability is something that central banks will need to account for in their fight against inflation. Financial conditions tightened considerably last week and bank lending standards will tighten considerably from here. Banks will be more reluctant to lend and focused on improving their liquidity ratios. The market significantly pared back rate hike expectations around the world and brought forward the timing and scale of future policy easing. In volatile trading conditions, the US 2-year Treasury rate traded a massive range of 3.71-4.53%, ending the week down 75bps at 3.84%.

Pricing for this week's FOMC meeting (Thursday morning NZ time) closed the week at +15bps. In the absence of any new concern about the US banking system over coming days, we expect the Fed to hike by 25bps, taking the Fed Funds target range to 4.75-5.0%. Any new financial stability concerns would see the Fed pause on the tightening cycle. It doesn't make a lot of sense to continue with its QT policy when demand from banks for liquidity is so high, working to increase bank reserves. Last week the ECB went ahead with its well-signaled 50bps hike but was unwilling to provide guidance on the path of rates from here – the central bank will be guided by the data and with one eye on financial stability considerations.

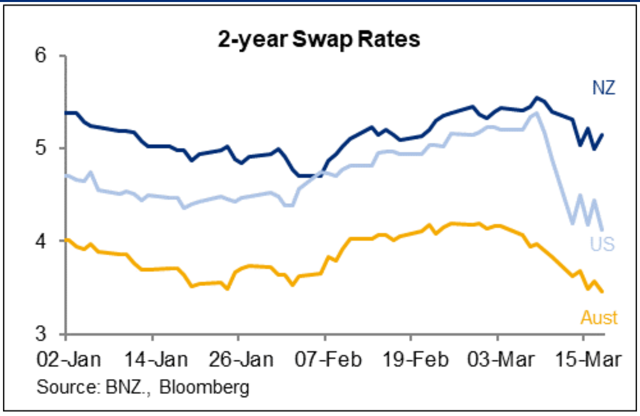
NZ markets got caught up in the turmoil but showed less volatility than other markets. The net result was "only" a 25bps fall in the 2-year swap rate to 5.14% and a 19bps fall in the 10-year rate. NZ Q4 GDP data were much weaker than the RBNZ estimated. Including downward revisions, the level of real GDP is some 1.8% lower than the RBNZ thought. Even without considering the negative global forces last week, the data plays to the view of the RBNZ not needing to be as aggressive with future rate hikes.

We left our rate hike assumptions unchanged at +25bps for the April and May meetings for a 5.25% peak, which is still lower than market pricing of a 5.35% peak, itself lower than the RBNZ's assumed 5.5%. Given last week's events the balance of risk lies to lower short-term rates. Around our view of +25bps in April, we see more chance of a pause than a larger 50bps hike. Our bias remains to receive short-end fixed rates.

Market conditions remain fragile and, despite the best efforts of authorities, we expect fears around the global banking sector to linger. This should see more volatile market conditions than usual over coming weeks. A quick containment of contagion risks around the banking sector and a return of confidence could eventually see a swift reversal of rates to the upside. But we're nowhere near that point yet.

jason.k.wong@bnz.co.nz

Short-end led turbulence in rates last week



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	5.14	5.01 - 5.49
NZ 2yr swap (%)	5.07	4.94 - 5.54
NZ 5yr swap (%)	4.49	4.37 - 4.96
NZ 10yr swap (%)	4.31	4.24 - 4.79
2s10s swap curve (bps)	-76	-83 - -66
NZ 10yr swap-govt (bps)	1	0 - 14
NZ 10yr govt (%)	4.29	4.15 - 4.70
US 10yr govt (%)	3.43	3.36 - 4.09
NZ-US 10yr (bps)	86	55 - 88
NZ-AU 2yr swap (bps)	160	118 - 173
NZ-AU 10yr govt (bps)	90	72 - 100

*Indicative range over last 3 weeks

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, against a backdrop of turbulence in fixed income markets, currency markets were well-contained by comparison. The NZD and AUD outperformed, despite weaker risk appetite, with the USD and EUR under pressure in the face of fears concerning US and European bank contagion risk. NZD/USD rose by 2.2% over the week to 0.6270. The NZD was higher on all the key crosses apart from NZD/JPY, the yen being well supported as global rates plunged. A deal brokered over the weekend for UBS to purchase Credit Suisse, announced this morning, supported risk appetite and a (so far temporary) move in the NZD above 0.63.

Last week, focus on financial stability overtook the usual economic data flow to become the lead driver of financial markets. The collapse of Silicon Valley Bank raised the specter of a full-on banking crisis. Other regional US banks came under pressure as well as Credit Suisse, which brought Europe's banking system under scrutiny as well. Authorities tried to stem contagion risk but uncertainty about the outlook for the banking sector is likely to remain an enduring theme. Bad things tend to happen towards the end of major tightening cycles, and the current cycle is following the same pattern.

While rates markets were in turmoil, currency markets were well-contained under the circumstances. While the US 2-year Treasury yield traded a range of over 80bps through the week, the NZD traded a range of less than 1½ cents of 0.6135-0.6277. The NZD was effectively buffeted by two forces. Weaker risk appetite (our index closing the week below 30%) would normally be NZD-negative, but this was more than offset by higher NZ-US rate spreads.

With funding markets in distress, financial conditions tightening and stricter lending standards ahead as banks rein in credit supply and rebuild liquidity buffers, the market took the view that the Fed's policy outlook now looks quite different. In the aftermath of Fed Chair Powell's testimony two weeks ago, the market was pricing over 100bps of hikes ahead and with only a small chance of easier policy later this year. By the end of last week, less than a full 25bp hike was priced and nearly 100bps of easing from Jun through to the end of the year.

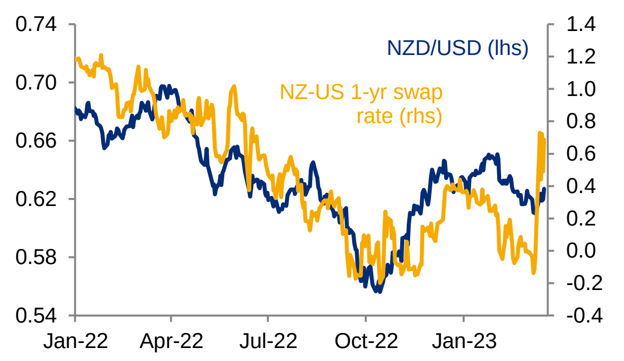
Last week's events also played to the risk of less RBNZ policy tightening ahead. Adding to the weaker global backdrop, NZ Q4 GDP data were much weaker than the RBNZ had assumed, with the level of real GDP 1.8% weaker than assumed after accounting for downward revisions to prior data. NZ rates also fell but not to the same extent as the US. After hovering around zero for the past month, the NZ-US 1-year swap rate spread widened to 70bps last week, supporting the NZD.

It is fair to say that the attention on the US banking sector has complicated the outlook for currency markets. Our projections for a higher NZD/USD exchange rate this year assumed a decent turnaround in the USD from the period where the market had clear visibility on the end of the US tightening cycle. The stronger NZD last week played to that theme, but the fact it was in the context of a possible banking crisis and tighter financial conditions means we are treating last week's move with some caution.

The NZD would typically get hit when dark clouds form over the global outlook. The plunge in US rates saved the day but that influence could prove to be short-lived. We are not rushing to change forecasts yet, but we have less, not more, confidence that the NZD can recover strongly this year despite last week's solid gain. How successful the authorities are in containing contagion risk in the banking sector now forms a key consideration for the outlook.

Ongoing focus on the plight of the banking system and funding markets will be a key driver of markets this week. The Fed's monetary policy outlook Thursday morning (NZ time) will also be of keen interest, with the market priced closer to a 25bps hike than an on-hold decision, but this pricing could easily fluctuate over coming days.

NZ-US 1-year swap spread shot higher last week



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6284	0.6090 - 0.6310
NZD/AUD	0.9354	0.9130 - 0.9370
NZD/GBP	0.5145	0.5080 - 0.5220
NZD/EUR	0.5886	0.5740 - 0.5890
NZD/JPY	82.84	81.10 - 85.30

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6190	2%
NZD/AUD	0.9300	1%

Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6535 (ahead of 0.6570)
ST Support: 0.6200 (ahead of 0.6060)

After last week's strong bounce we lift support back up to 0.62, the old support line. Resistance is still far away, at least 0.65.

NZD/AUD

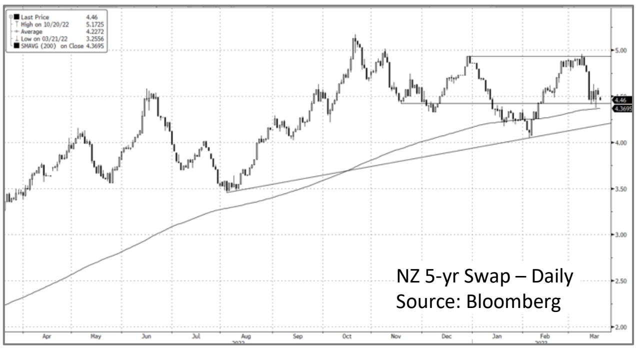
Outlook: trading range
ST Resistance: 0.94 (ahead of 0.9460)
ST Support: 0.90 (ahead of 0.8890)

The 0.93 level didn't provide much resistance, so the next level is 0.94, ahead of trendline resistance at 0.9460.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

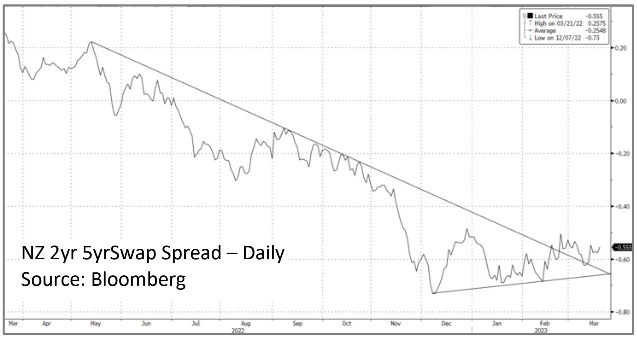
Outlook: Higher
MT Resistance: 4.935
MT Support: 4.425



Looks like a range trade. Put paid position on here with a tight stop below 4.37 200 day mov avg.

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

Outlook: Less inverted
MT Resistance: -0.305
MT Support: -0.73



Spread is breaking trendline here so look for less inversion to continue, target -30.5.

pete_mason@bnz.co.nz

Quarterly Forecasts

Forecasts as at 20 March 2023

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Mar-23 to Mar-24

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (production s.a.)	3.5	-0.5	1.6	1.7	-0.6	0.1	0.3	-0.4	-0.5	0.0
Retail trade (real s.a.)	9.1	-1.5	-2.3	0.6	-0.6	0.2	-0.4	-0.3	-0.5	-0.1
Current account (ytd, % GDP)	-6.0	-6.8	-8.0	-8.5	-8.9	-8.8	-9.1	-9.4	-9.6	-9.2
CPI (q/q)	1.4	1.8	1.7	2.2	1.4	1.7	1.1	1.7	0.5	0.6
Employment	0.0	0.0	-0.1	1.3	0.1	0.2	0.0	-0.2	-0.3	-0.2
Unemployment rate %	3.2	3.2	3.3	3.3	3.4	3.4	3.5	3.8	4.2	4.7
Avg hourly earnings (ann %)	4.1	5.3	7.0	8.6	8.1	7.9	7.4	6.1	6.3	5.8
Trading partner GDP (ann %)	4.5	3.9	2.2	3.7	2.1	2.3	3.6	2.7	3.2	3.1
CPI (y/y)	5.9	6.9	7.3	7.2	7.2	7.2	6.5	6.1	5.1	3.9
GDP (production s.a., y/y))	3.3	0.9	0.4	6.4	2.2	2.8	1.5	-0.6	-0.5	-0.6

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
2021	**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	0.15	1.55	0.87
2022	**Mar**	0.90	1.25	2.60	2.75	2.65	2.95	3.00	0.50	1.95	0.83
	Jun	1.83	2.24	3.55	3.68	3.83	3.92	3.95	1.50	2.90	0.76
	Sep	2.83	3.33	3.65	3.77	4.12	3.95	3.95	3.00	3.10	0.67
	Dec	3.17	3.66	3.94	4.03	4.46	4.25	4.25	4.75	3.60	0.61
Forecasts											
2023	**Mar**	4.75	5.30	4.06	4.15	5.43	4.34	4.35	5.30	3.75	0.40
	Jun	5.25	5.50	4.08	4.15	5.43	4.26	4.35	5.80	3.75	0.40
	Sep	5.25	5.40	3.91	4.10	5.37	4.11	4.30	5.30	3.70	0.40
	Dec	5.25	5.40	3.71	3.90	5.18	3.85	4.10	4.80	3.50	0.40
2024	**Mar**	5.25	5.30	3.65	3.90	4.81	3.72	4.10	4.30	3.50	0.40
	Jun	5.00	4.90	3.54	3.90	4.38	3.60	4.10	3.80	3.50	0.40
	Sep	4.50	4.40	3.27	3.65	3.98	3.34	3.85	3.55	3.25	0.40
	Dec	4.00	4.05	3.10	3.65	3.56	3.26	3.85	3.30	3.25	0.40

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	0.63	0.67	1.07	1.22	132	0.63	0.93	0.59	0.51	82.9	71.6
Jun-23	0.67	0.74	1.12	1.27	122	0.67	0.91	0.60	0.53	81.7	73.4
Sep-23	0.69	0.76	1.15	1.29	119	0.69	0.91	0.60	0.54	82.1	74.5
Dec-23	0.70	0.78	1.17	1.33	115	0.70	0.90	0.60	0.53	80.5	74.7
Mar-24	0.70	0.78	1.18	1.34	112	0.70	0.90	0.59	0.52	78.4	74.2
Jun-24	0.70	0.78	1.19	1.36	110	0.70	0.90	0.59	0.52	77.0	73.8
Sep-24	0.71	0.79	1.21	1.39	108	0.71	0.90	0.59	0.51	76.7	74.5
Dec-24	0.72	0.80	1.23	1.41	108	0.72	0.90	0.59	0.51	77.8	75.1
Mar-25	0.72	0.80	1.24	1.42	108	0.72	0.90	0.58	0.51	77.8	75.0
Jun-25	0.71	0.79	1.22	1.40	106	0.71	0.90	0.58	0.51	75.3	74.4
Sep-25	0.70	0.78	1.21	1.38	105	0.70	0.90	0.58	0.51	73.5	73.7
TWI Weights						13.8%	16.5%	9.8%	3.1%	6.1%	

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

Annual Forecasts

Forecasts as at 20 March 2023	March Years Actuals 2021	2022	Forecasts 2023	2024	2025	December Years Actuals 2021	2022	Forecasts 2023	2024	2025
GDP - annual average % change										
Private Consumption	-0.4	6.0	1.7	0.0	1.2	7.5	2.9	-0.6	0.7	2.1
Government Consumption	7.6	8.0	2.3	-1.5	-3.3	8.2	4.5	-0.8	-4.3	1.4
Total Investment	-1.7	10.6	2.5	-0.5	0.5	12.4	3.6	-0.3	-0.2	2.0
Stocks - ppts cont'n to growth	-0.2	0.6	0.2	-0.3	0.0	1.3	-0.1	-0.2	-0.1	0.0
GNE	0.6	8.1	2.7	-0.4	0.1	10.1	3.4	0.0	-0.5	1.9
Exports	-18.0	2.4	6.4	7.1	5.6	-2.6	-1.0	11.4	6.0	4.9
Imports	-16.0	17.6	4.6	4.2	2.0	15.1	4.4	5.1	2.1	3.0
Real Expenditure GDP	0.0	4.8	2.9	-0.1	0.9	6.0	2.2	0.9	0.2	2.3
GDP (production)	**-0.7**	**5.2**	**2.9**	**-0.1**	**0.9**	**6.0**	**2.4**	**0.8**	**0.2**	**2.3**
GDP - annual % change (q/q)	*4.2*	*0.9*	*2.8*	*-0.6*	*2.3*	*3.3*	*2.2*	*-0.5*	*1.5*	*2.1*
Output Gap (ann avg, % dev)	-1.3	1.4	1.9	0.2	-0.5	1.5	1.9	0.7	-0.7	0.0
Nominal Expenditure GDP - $bn	328	358	386	393	406	352	380	392	401	420
Prices and Employment - annual % change										
CPI	1.5	6.9	7.2	3.9	2.5	5.9	7.2	5.1	2.5	2.2
Employment	0.1	2.5	1.6	-0.7	0.3	3.3	1.3	-0.3	-0.2	1.7
Unemployment Rate %	4.6	3.2	3.4	4.7	5.6	3.2	3.4	4.2	5.6	5.6
Wages - ahote (private sector)	4.1	5.3	7.9	5.8	3.6	4.1	8.1	6.3	4.0	2.8
Productivity (ann av %)	-1.2	2.3	1.3	-0.1	1.2	4.0	0.4	0.2	0.8	1.3
Unit Labour Costs (ann av %)	3.8	4.0	6.0	6.7	3.1	2.0	6.2	7.0	4.1	1.8
House Prices	24.1	13.8	-15.0	-2.5	3.8	27.2	-13.1	-6.9	3.3	4.1
External Balance										
Current Account - $bn	-8.9	-24.2	-34.1	-36.1	-30.4	-21.1	-33.8	-37.5	-32.5	-28.6
Current Account - % of GDP	-2.7	-6.8	-8.8	-9.2	-7.5	-6.0	-8.9	-9.6	-8.1	-6.8
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-1.4	-2.7	-0.9	-0.1	0.4					
Net Core Crown Debt (excl NZS Fund Assets)	29.8	36.9	40.8	41.2	37.5					
Bond Programme - $bn (Treasury forecasts)	45.0	20.0	28.0	30.0	30.0					
Bond Programme - % of GDP	13.7	5.6	7.2	7.6	7.4					
Financial Variables (1)										
NZD/USD	0.71	0.69	0.65	0.70	0.72	0.68	0.63	0.70	0.72	0.69
USD/JPY	109	119	125	112	108	114	135	115	108	105
EUR/USD	1.19	1.10	1.10	1.18	1.24	1.13	1.06	1.17	1.23	1.21
NZD/AUD	0.93	0.93	0.91	0.90	0.90	0.95	0.94	0.90	0.90	0.90
NZD/GBP	0.51	0.52	0.53	0.52	0.51	0.51	0.52	0.53	0.51	0.51
NZD/EUR	0.60	0.62	0.59	0.59	0.58	0.60	0.60	0.60	0.59	0.57
NZD/YEN	77.5	81.5	81.0	78.4	77.8	77.4	85.6	80.5	77.8	72.5
TWI	74.8	73.9	72.5	74.2	75.0	73.0	72.9	74.7	75.1	73.0
Overnight Cash Rate (end qtr)	0.25	1.00	4.75	5.25	3.75	0.75	4.25	5.25	4.00	2.25
90-day Bank Bill Rate	0.33	1.45	5.30	5.30	3.65	0.92	4.55	5.40	4.05	2.40
5-year Govt Bond	1.00	2.90	4.05	3.65	2.95	2.20	4.30	3.70	3.10	2.55
10-year Govt Bond	1.75	3.20	4.15	3.90	3.65	2.35	4.25	3.90	3.65	3.65
2-year Swap	0.50	3.00	5.43	4.81	3.07	2.22	5.21	5.18	3.56	2.40
5-year Swap	1.15	3.20	4.50	3.79	3.13	2.56	4.62	3.85	3.30	2.76
US 10-year Bonds	1.60	2.10	3.75	3.50	3.25	1.45	3.60	3.50	3.25	3.25
NZ-US 10-year Spread	0.15	1.10	0.40	0.40	0.40	0.90	0.65	0.40	0.40	0.40

(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
	Monday 20 March			
AU	RBA's Kent speaks			
JN	BOJ Summary of Opinions (March. MPM)			
UK	Rightmove House Prices YoY Mar			3.90%
GE	PPI YoY Feb	14.50%		17.80%
EC	Trade Balance SA Jan			-18.1b
	Tuesday 21 March			
EC	ECB's Lagarde, Centeno speak			
NZ	Trade Balance NZD Feb		-1395m	-1954m
AU	RBA Minutes of March Policy Meeting			
GE	ZEW Survey Expectations Mar	15		28.1
	Wednesday 22 March			
US	Philadelphia Fed Non-Manufacturing Activity Mar			3.2
EC	ECB's Lagarde, Villeroy speak			
NZ	GDT dairy auction, gdt price index			-0.70%
US	Existing Home Sales Feb	4.20m		4.00m
NZ	Westpac Consumer Confidence 1Q			75.6
AU	Westpac Leading Index MoM Feb			-0.08%
UK	CPI YoY Feb	9.90%		10.10%
EC	ECB's Lagarde, Villeroy, Lane speak			
	Thursday 23 March			
UK	CBI Trends Total Orders Mar	-15		-16
UK	CBI Trends Selling Prices Mar	37		40
EC	ECB's Rehn, Wunsch, Panetta, Nagel speak			
CA	Bank of Canada Releases Summary of Deliberations			
US	FOMC Rate Decision (Upper Bound) Mar-22	5.00%	5.00%	4.75%
NZ	ANZ Truckometer Heavy MoM Feb			0.80%
SZ	SNB Policy Rate Mar-23	1.50%		1.00%
EC	ECB's Stournaras, Holzman speak			

		Median	Fcast	Last
	Friday 24 March			
UK	Bank of England Bank Rate Mar-23	4.25%	4.00%	4.00%
US	Current Account Balance 4Q	-$214.0b		-$217.1b
US	Initial Jobless Claims Mar-18	200k		192k
US	Chicago Fed Nat Activity Index Feb	0.1		0.23
US	Continuing Claims Mar-11	1690k		1684k
US	New Home Sales Feb	650k		670k
UK	BOE's Mann speaks			
EC	Consumer Confidence Mar P	-18.2		-19
EC	ECB's Centeno, Lane speak			
AU	Judo Bank Australia PMI Mfg Mar P			50.5
AU	Judo Bank Australia PMI Services Mar P			50.7
JN	Natl CPI YoY Feb	3.30%		4.30%
UK	GfK Consumer Confidence Mar	-36		-38
EC	ECB's De Cos, Nagel speak			
NZ	New Residential Lending, y/y Feb			-40.50%
UK	Retail Sales Inc Auto Fuel MoM Feb	0.20%		0.50%
GE	S&P Global Germany Services PMI Mar P	51.1		50.9
EC	S&P Global EZ Manufacturing PMI Mar P	49		48.5
EC	S&P Global Eurozone Services PMI Mar P	52.5		52.7
UK	S&P Global/CIPS UK Manufacturing PMI MarP	50		49.3
UK	S&P Global/CIPS UK Services PMI Mar P	53		53.5
GE	Germany Sovereign Rating to be reviewed by S&P			
	Saturday 25 March			
EC	ECB's Centeno speaks			
US	Durable Goods Orders Feb P	1.00%		-4.50%
US	S&P Global US Manufacturing PMI Mar P	47		47.3
US	S&P Global US Services PMI Mar P	50.3		50.6
US	Kansas City Fed Services Activity Mar			1
UK	BOE's Mann speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	4.75	4.75	4.25	1.00
1mth	4.94	4.96	4.75	1.17
2mth	5.01	5.06	4.91	1.37
3mth	5.14	5.19	5.00	1.56
6mth	5.35	5.41	5.26	2.02
GOVERNMENT STOCK				
04/23	4.89	4.89	4.76	2.18
04/25	4.75	4.86	4.63	2.82
04/27	4.48	4.52	4.34	2.98
04/29	4.42	4.43	4.30	3.11
05/31	4.41	4.39	4.31	3.15
04/33	4.38	4.37	4.34	3.17
04/37	4.56	4.50	4.51	3.28
05/41	4.67	4.56	4.58	3.37
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	88	91	73	72
Europe 5Y	101	95	78	79

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.07	5.31	5.14	3.01
3 years	4.79	5.00	4.85	3.17
4 years	4.61	4.80	4.66	3.24
5 years	4.49	4.67	4.56	3.27
10 years	4.31	4.48	4.47	3.34
FOREIGN EXCHANGE				
NZD/USD	0.6271	0.6220	0.6253	0.6886
NZD/AUD	0.9346	0.9330	0.9052	0.9307
NZD/JPY	82.68	82.84	83.94	82.27
NZD/EUR	0.5866	0.5795	0.5852	0.6251
NZD/GBP	0.5135	0.5105	0.5193	0.5229
NZD/CAD	0.8607	0.8540	0.8412	0.8672
TWI	71.6	70.7	70.8	74.1

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Mike Jones
BNZ Chief Economist
+64 9-956 0795

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