Research

Markets Outlook

20 May 2024

Holding Tight

- **RBNZ expected to hold OCR at 5.50%**
- **Inflation expectations more helpful than not**
- **Generally mixed data will see Bank maintain view**
- **Large net migrant inflows rapidly cooling**
- **Clear headwind for growth; what about inflation?**

The RBNZ Monetary Policy Statement (MPS) is due for release on Wednesday at 2pm with the accompanying press conference an hour later.

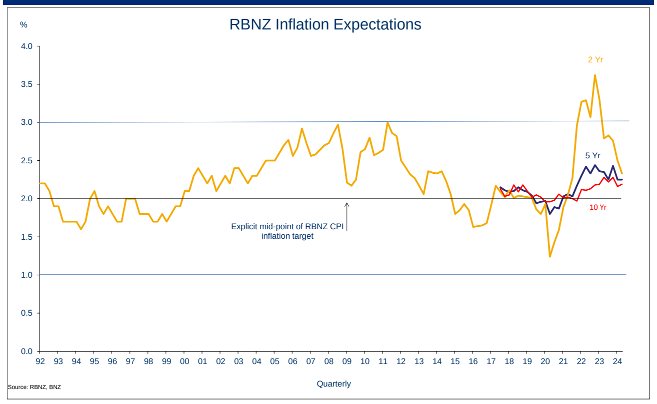
We expect the Bank to hold the OCR at 5.50%. And, as we discussed in our full MPS preview last week, we wouldn't be disapproving if the RBNZ was to repeat its previous messaging.

Near-term inflation has printed above the Bank's expectations and some details were unfavourable, but core inflation is still falling, and annual CPI inflation remains on track to be in the target band by Q3 this year.

Also, last week's Survey of Expectations report saw inflation measures that looked more helpful than not for the central bank. The 2-year ahead expectation fell to 2.33% from 2.50% to its lowest reading since September 2021 and within 10bps of its long-term average.

This offers encouragement that some large individual price movements for the likes of insurance and local authority rates is not spreading excessively into views on general inflation ahead.

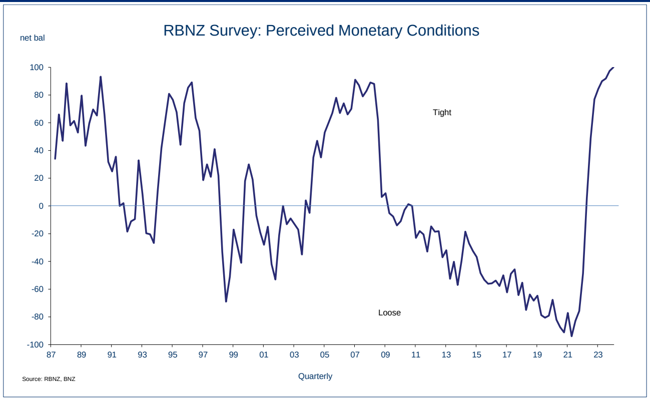
Inflation expectations behaving



We suspect the RBNZ would have been reasonably pleased to see this and 1-year ahead expectations dropping to 2.73% from 3.22%. But it would have been less pleased to see the 5-year ahead series stick at 2.25% and 10-year ahead expectations inch up 3bps to 2.19%. Note, though, that these longer-term series only have a short history so one can only wonder what might be normal or consistent with annual CPI inflation at 2%. Our take is all the medium to long term series are close to 2% and not likely to have materially altered the Bank's overall view.

It is worth noting the drop in inflation expectations over the past year is akin to monetary tightening (real interest rate rates lifting for any given level of nominal rates). Monetary conditions are certainly perceived to be tight. Indeed, for the first time since the survey started in 1987 all respondents to it perceived monetary conditions as tight.

Monetary conditions seen tight



As we also said in our MPS Preview, the real economy is underperforming the RBNZ's forecasts and looks set to continue in that vein through this year along with the unemployment rate tracking higher than the Bank's previous forecasts. A weaker growth profile signals a bigger negative output gap and less inflationary pressure.

Standing back a bit, the inflation and growth deviations from the Bank's expectations have been small and, with known unknowns like the details of the Government's Budget (out next week), we think the RBNZ will stick to the same story it delivered in February and April. If the Bank wants to send a little signal about how it sees things evolving, then a small nudge in its interest rate track would be a good way to do this but we're not sure anything will happen in this space either.

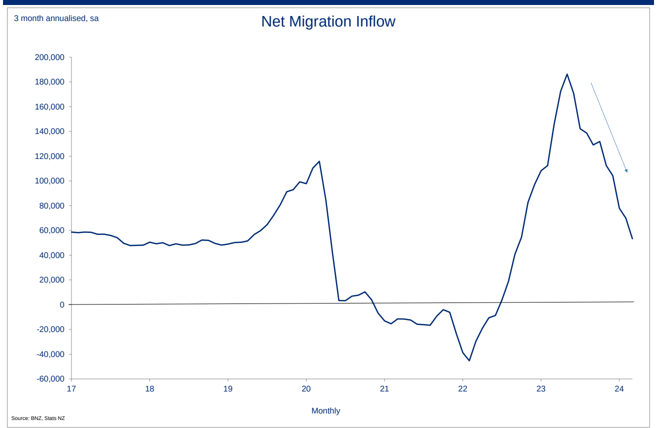
Other data released after our MPS Preview last week didn't fundamentally alter our thinking on the economy, but there was certainly a bit to think about.

We got further confirmation of our long-held assumption that annual net migration inflows peaked last year. Interestingly, in the March figures the net inflow estimates for previous months were revised lower, after a long run of upward revisions to history. We wonder if downward revisions will become the norm, as upward revisions did when net inflows were rising.

March's vintage of migration data put the annual net inflow at a bit over 111,000 people, significantly fewer than the peak in the year to October now estimated at around 139,000. The trend is downward, and we think it has much further to go.

Our economic forecasts assume the annual net migrant inflow roughly halves over the coming 12 to 18 months. But with the first three months of this year already annualising to that sort of level, the balance of risk would seem tilted more to the downside than to the upside.

Material slowing underway



Previously increasing net migrant inflows helped support activity growth amid substantial underlying softening. That support is now dwindling rapidly and a headwind to headline growth estimates. Yet another headwind to think about for the likes of government revenue and fiscal accounts heading into next week's Budget.

We wonder how much slowing net migration is already contributing to additional softness in the likes of the PSI over recent months, as confirmed in last week's data for April.

Likewise for April's electronic card transactions (ECT) data, which affirmed a very weak underbelly. This year's leap day and timing of Easter makes the monthly movements difficult to interpret. But compared to a year ago with total transactions down 0.7%, retail down 2.8%, and core retail down 3.0%, the message of decline is clear. These changes are in dollar terms, so the drop is that much bigger when you factor in inflation.

None of that bodes well for retail sales in the first half of the year. We think this week's Q1 retail sales figures will show real sales still trailing well behind year earlier levels. Our forecast is for a 3.3% y/y decline in sales volumes. Picking the quarterly movement is tricky (we have -0.1% q/q pencilled in) with still lots of noise including for vehicle sales with the ending of the Clean Car Discount scheme at the start of the year.

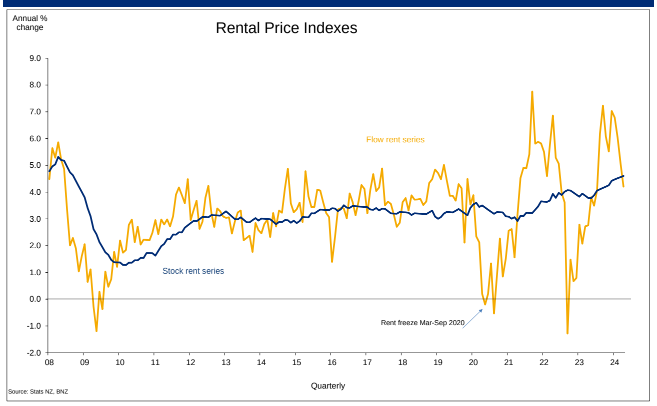
The implication of slowing net immigration on growth is clear but less obvious for inflation. There are upward and downward pressures on inflation. The net effect can be variable and ambiguous.

Less immigration may see less loosening in the labour market than would otherwise be the case such that there is less downward pressure on wage inflation. But such influences can depend on the prevailing state of the labour market.

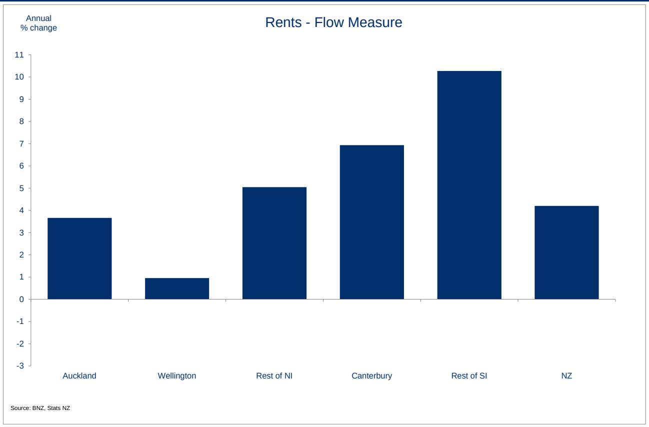
On the other side, reduced immigration may translate into less upward pressure on the housing stock and rental market. This doesn't mean rents go down, but the rate of increase may be less than it otherwise might be.

Last week's figures for April revealed annual rent inflation in the flow measure (think new rent agreements) dip back below the stock measure (think existing rent agreements). It is very early days, but this is perhaps the first sign the strong upward pressure on rent inflation may be starting to stabilise, at the margin. Lower annual rent inflation in Auckland than elsewhere (except Wellington) would fit with the idea of influence from slowing immigration.

Rent pressures changing?



Regional differences



So, as was the case when net immigration inflows were rising, there are positive and negative effects on inflation. We think the RBNZ will continue to take a balanced approach – in the first instance – as it assesses the pricing consequences of this episode of changing migrant flows, including a record net annual outflow of NZ citizens.

If net inflows continue to fall in the manor they are, and labour demand remains suppressed by other factors as is currently the case, we wouldn't be surprised to see the disinflationary factors start to outweigh the inflationary influences. This is worth watching.

We are also monitoring the local authority rate hikes as they are finalised and announced by various jurisdictions. Everyone knows large increases are coming through and we have long built that into our CPI calculations. But be that as it may, we have been wondering if we would need to revise our assumption for Q3 CPI this year higher as various plans were being discussed. That risk reduced last week with Auckland Council agreeing a 6.8% general rate increase for the next financial year. This follows the region's 7.2% increase for water which was much lower than it might have been. Given that region's large share of the national population this will provide meaningful offset to some larger increases elsewhere.

Turning to the rest of this week's data. It kicks off with the RBNZ's Survey of Household Expectations this afternoon which will provide the latest guide to household inflation expectations.

For the GDT dairy auction on Wednesday morning price indicators are highly mixed across products, but net to about square. Also note that Fonterra is due to provide its first milk price forecast for the next (2024/25) dairy season sometime before the end of May – so this week or next. Market conditions suggest something above the current forecast for the season just ending. We wouldn't be surprised to see the first forecast for the new season somewhere around the $8.25 mark as a midpoint, but accompanied by a wide forecast range given the many uncertainties prevailing.

Friday brings the RM-ANZ consumer confidence index for May. Confidence has retreated sharply over recent months. May's reading will be lined up against April's truly miserable level of 82.1. Recent petrol price declines might provide some relief, but we suspect a deteriorating labour market and concerns around job security will keep confidence at a low ebb.

April's merchandise trade data are expected to show further narrowing in the annual trade deficit. If the deficit comes in close to our $9b estimate, it would be a reduction of nearly $8b from a year earlier. For the month, we expect imports to be well behind year earlier levels reflecting softer demand, while exports are seen marginally higher supported by improved commodity prices and better horticulture volumes.

But all eyes will be on Wednesday's MPS release at 2pm and accompanying press conference at 3pm. We expect to also hear the main MPS messages from RBNZ officials when they appear before Parliament's Finance and Expenditure Select Committee on Thursday morning. Note too that Governor Orr is scheduled to talk to a business audience on Friday using slides that will be published on the day of the MPS.

doug_steel@bnz.co.nz

Global Watch

- **US CPI print provides relief**
- **China property policy provides support**
- **Many Fed speakers, FOMC minutes this week**
- **Global PMIs assessed for US/EU activity gap closing**
- **UK CPI to drop, close to 2%**
- **Japan CPI seen cooling**

Previous Week

Global yields fell following a US CPI print that did not come in hotter than expected, bucking the trend of the prior three months. This increased the probability that inflation will be behaved enough for the Fed to contemplate rate cuts as early as September. Note US data in general is now disappointing expectations. Equities rallied with the S&P500 making fresh record highs.

Stocks in China continued to push higher, despite mixed activity data, with investors focused on new measures from policy makers aimed at stabilising the housing market and boosting consumer sentiment. Policy makers announced several measures to stabilise the market on Friday. The Peoples Bank of China bank eased property lending requirements and said it would allow more flexibility for minimum mortgage rates. The support package also included central bank funding to assist the purchase of excess inventory from developers which would be converted into affordable housing. This contributed to a 10% rally in an index of property developer stocks.

In Australia, it was a big week with the Federal Budget, Q1 WPI and Labour Force. In the end it was the jobs data that was the most market moving with the unemployment rate seeing a sharp surprising rise (4.1% vs. 3.9% expected).

As for Q1 WPI, it rose 0.8% q/q and 4.1% y/y (vs. 0.9/4.2 consensus). There was a noticeable fall back in the share of people receiving a pay rise, which may suggest a shift in pay review timing. Pay rises in the private sector (for those who received a pay rise) was 4.4%.

The AU Federal Budget was not market moving as usual. While the Budget is net stimulatory, the estimated 2024-25 deficit at -1.0% of GDP (or -$28.3bn) is not aggressively adding further to inflationary pressure. Another way to look at this is to see how much spending plans are changed from the prior December MYEFO estimate – here there is an additional $9.5bn in net policy spend.

The Budget though did include a few measures that will impact on headline inflation. Energy bill relief via $300 payments will subtract 0.5ppt from CPI in Q3 2024. Including WA/QLD payments sees cumulative impact of around 0.7ppt relative to the RBA's May SoMP forecasts. Higher rent assistance will subtract about 7bps. Giving households money this way temporarily lowers measured CPI, but won't help a sustained return to at target inflation.

Week Ahead in Brief

In Australia, RBA May Minutes on Tuesday are likely to add little on top of the post-Meeting press conference and forecast update contained in the SoMP. Governor Bullock said in the press conference that the board considered a hike when opting to leave rates on hold as widely expected so there might be bit more discussion of the consideration and assessment of risks.

It is a quieter week for data globally with flash PMIs on Thursday the headliner, alongside Eurozone wage settlements and April CPI for UK, Japan and Canada. Some headlines can be expected out of the meeting of G7 finance ministers from Thursday, and Nvidia reports earnings on Wednesday.

In the US, FOMC minutes on Wednesday could give a clearer sense of the discussion in May that culminated in Powell's characterisation that there was still a level of comfort rates would ultimately prove sufficiently restrictive and the next move was likely to be down.

We have already heard from a lot of FOMC participants and will hear from a lot more through next week. In the week ahead, of most interest will be Governor Waller discussing the outlook on Wednesday and giving a keynote in Reykjavik on Friday.

Global Flash PMIs on Wednesday will be assessed for further confirmation that the relative outperformance of US activity may be closing on the back of some cooling from strong growth in the US and some pick up from weak growth elsewhere. Also of some note in Europe is Q1 negotiated wage outcomes on Thursday, but it would take a big surprise to knock the ECB away from its well telegraphed June rate cut.

A drop in energy prices should help UK inflation drop to around 2% in April data on Wednesday, while in the background slower progress is expected to continue in core and services measures. May CPI is out the day before the BoE's June meeting.

Japan's CPI on Friday is expected to cool to 2.4% from 2.7% in April, while the excluding fresh food and energy number is seen slowing to 2.4% from 2.9% which would be its lowest since October 2022. Finally, Canadian CPI on Tuesday is worth a look given the paring of BoC June rate cut pricing.

Important Events Preview

Monday 20 May

No data of note.

Tuesday 21

AU Consumer Confidence
Westpac-Melbourne Institute May consumer confidence is a week later than usual so the survey period overlaps the budget. Consumer confidence threatened to move sustainably away from its depressed levels with a sharp rise back in February, but March and April each saw small declines.

AU RBA May Minutes
In the new set up with the post meeting press conference, the potential to learn much new from the RBA meeting minutes is more limited. The Minutes might flesh out how the Board viewed the balance of risks and the discussion of whether a rate rise was appropriate a little more, but we are unlikely to learn too much new.

CA April CPI
The BoC's preferred core inflation measures are expected to be within the BoC's 1-3% band in y/y terms (Core Trimmed 2.9%; Core Median 2.7%). The key question is if the BoC is confident enough in the inflation outlook to begin cutting rates as early as June. A softer than expected print would certainly build that confidence.

Wednesday 22

UK April CPI
UK headline CPI is widely expected to drop from 3.2% in March, with consensus at 2.1% for April. The impact of a lower energy price cap will be the main downward driver, with lower core and services prices expected too. The latter is expected to fall from 6% to 5.5%. Risk seems skewed modestly to the upside from things like higher petrol prices, but if this measure does not quite touch 2% in this release, it could well do at the next on 19 June – a day ahead of the next BoE rate meeting. The BoE has acknowledged evidence of 'persistent inflation' receding, but wages remain sticky.

US FOMC Minutes
Powell in the wake of the May FOMC didn't take the bait to put hikes seriously on the table, preferring to signal a hike is unlikely and the rates held at their current level would prove sufficiently restrictive. The minutes could give clearer sense of the discussion that helped support that assessment, but we have heard from a lot of FOMC participants already.

Thursday 23

EZ/JN/UK/US Preliminary PMIs
The increase in pace of expansion in EZ and UK services sector PMI activity in recent months suggests perhaps we should be expecting some stabilisation to catch a breath. UK services activity rose back up through 50 in November to reach a cycle high of 55 in April; a level above all its peers. In the EZ services activity has been more of a recent revival, breaking above 50 in February to 53.3 in March. Confidence is rising as real incomes improve as inflation declines. In the US services activity on this measure has slowed to the 50 breakeven recently and below that on the larger-sample ISM measure. Manufacturing activity in all has rolled over after a multi-month improvement and while it remains close to 50 in the US and UK, European manufacturing remains deep in recession, dragged down by weak readings in Germany and France in particular.

EZ ECB Q1 Negotiated Wages
EZ wages peaked at 4.69% in Q3, easing to 4.46% in Q4 2023. We expect this measure to ease to around 4¼% in Q1 2024. The move is glacial, in part due to the collective bargaining process. Other, more timely measures of wage settlements suggest pay is rising between 3.75% and 4.25%. Only an unexpected move higher would cause some on the ECB Governing Council to question its apparent commitment to a June rate cut to 3.75%.

Friday 24

JN CPI
Japan inflation is seen cooling to 2.4% from 2.7% in April, while the excluding fresh food and energy number is seen slowing to 2.4% from 2.9% which would be its lowest since October 2022. The post-pandemic inflation surge continues to fall away, but the BoJ's forecasts embed an expectation that inflation will settle around, rather than continuing to slip below, their 2% target.

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

Fixed Interest Market

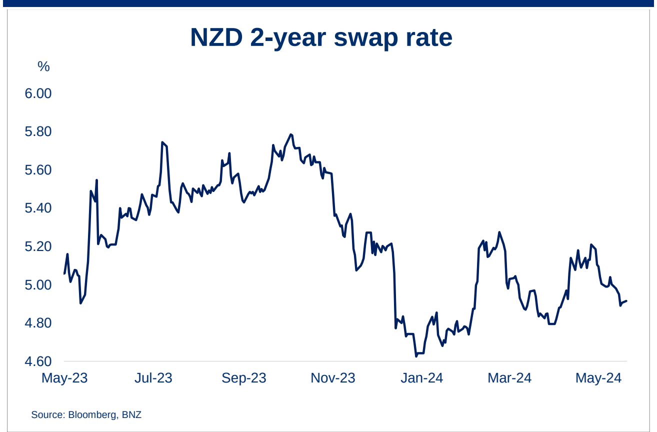
Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed interest continued lower in yield last week largely reflecting moves in offshore markets. Although US CPI was in line with expectations, after three months of consecutive upside surprises, the data was sufficient for a relief rally in global rates markets. Further weak NZ data - the services PMI reached the lowest level since the Global Financial Crisis excluding pandemic volatility - and inflation expectations slipping to the lowest level in almost three years also supported the decline in yields.

The RBNZ Monetary Policy Statement will be the focus for the market this week. The economy is evolving not to different from the Bank's forecasts, and we don't see a significant change in tone, from the statement accompanying the April Monetary Policy Review. Updated Official Cash Rate (OCR) projections are likely to closely resemble the rate track in the February Statement, which implied the first rate cut will take place in Q2-2025. The RBNZ will want to keep its options open to assess the impact of the Budget along with the key Q2 data prints.

NZ yields have steadily declined through May. 2-year swap rates, which peaked close to 5.20% in late April, are ~30bps lower. Although 2-year rates can extend further - we estimate fair value near 4.70% based on our baseline OCR scenario of cuts beginning in November - a move back below 4.8% (March low) would require a further moderation in the RBNZ's hawkish bias, which is not expected for the meeting on Wednesday.

2-year swap rates range bound for now



The yield spread between the 30-year and 10-year NZ government bond (NZGB) has widened back to the recent high above 30bps. This is challenging our view, that the congestion in the longer end of the curve that followed the May-2054 syndication, had cleared. We expect the previous high near 35bps (ref NZGB May-2051 - NZGB Apr-33) will continue to represent the top end of the range. New Zealand Debt Management's funding strategy for 2024/25 should be less skewed towards the long end of the curve. 3-year gaps appear to be favoured between 30-year lines and we expect any syndications of new maturities in 2024/25 will be 15-years and below.

NZGB 10y/30y spread back at the top of the range

Non-resident investors have increased their NZGB holdings to NZ$89 billion, an increase of NZ$3 billion in April. The increase was partly attributable to the May-2035 syndication where international investors were allocated ~40% of the NZ$4.5 billion transaction. Non-resident investors have absorbed a significant portion of the supply since the borrowing programme expanded in the 2019/2020 fiscal year. Average offshore ownership across the three longest maturity bonds is close to 80%.

A further increase in the borrowing programme is expected to be announced alongside the Budget next week and ongoing non-resident investor engagement with the NZGB market is critical.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.62	5.00 - 5.65
NZ 2yr swap (%)	4.91	4.87 - 5.22
NZ 5yr swap (%)	4.41	4.37 - 4.80
NZ 10yr swap (%)	4.47	4.43 - 4.87
2s10s swap curve (bps)	-44	-44 - -32
NZ 10yr swap-govt (bps)	-14	-16 - -11
NZ 10yr govt (%)	4.61	4.57 - 5.00
US 10yr govt (%)	4.42	4.31 - 4.74
NZ-US 10yr (bps)	19	18 - 30
NZ-AU 2yr swap (bps)	76	67 - 99
NZ-AU 10yr govt (bps)	39	34 - 56

*Indicative range over last 4 weeks

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the USD was broadly weaker and the NZD outperformed, the combination sending NZD/USD up nearly 2% and higher on the key crosses. NZD/JPY rose nearly 2% to a fresh 17-year high around 95.5. Gains on other crosses were more modest, with the NZD rising ½% against the AUD and GBP, 1% against EUR and 1½% against the CAD.

There were a few tailwinds for the NZD last week that saw it trade at a two-month high of 0.6140. These tailwinds included higher risk appetite (with our index reaching a fresh high of 85%), weaker US economic activity data and signs of weaker core CPI inflation, and more optimism on China as the government took more powerful steps to address the property market downturn.

The US economic data flow continued to underwhelm, with Citigroup's US economic surprise index falling to a 16-month low, with much weaker than expected retail sales figures contributing to that theme. The key focus was on the CPI release and the in-line core result of 0.3% m/m, the smallest increase since December, came as a relief to markets, after the recent elevated prints, and will provide the Fed with additional confidence monetary policy is tight enough to eventually bring inflation back to its 2% target. The annual increase of 3.6% was the slowest pace in three years.

At the end of the week, although flagged by media earlier in the week, China announced a broad rescue package to address the significant downturn in the property market. The package of measures included significant central bank funding to help government-backed firms buy excess housing inventory from developers. Excessive pessimism on China's outlook has been a key drag on NZD performance year-to-date, and the government's renewed commitment to support the property market is certainly a positive development.

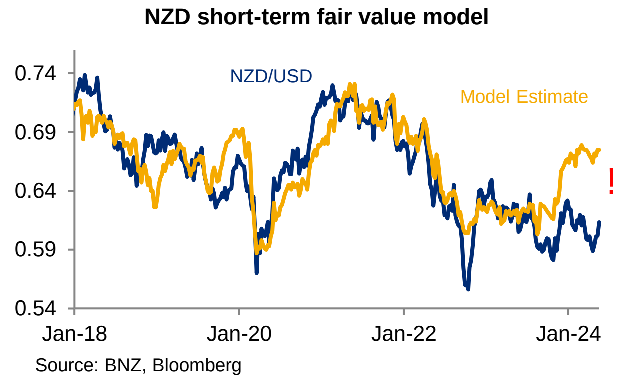
In our recent reports we have noted skewed upside for the NZD, with the currency trading very cheaply against our short-term fair value model estimate, which has averaged 0.67 this year and still sits around that level. Our Q2 target range has been 0.58-0.62, with that target range projected to lift over coming quarters. Suffice to say, we are happy to see better trading conditions develop for the NZD and we maintain a positive bias.

Not going our way in terms of forecast, was NZD/AUD lifting to a three-week high after Australian labour market data showed the unemployment rate rising to 4.1%, two-tenths higher than consensus, and weaker than expected wage inflation data. Our core view remains that much worse macroeconomic conditions in NZ versus Australia will see NZ's unemployment rate lift faster than Australia this year, ultimately resulting in lower NZ-Australia rate spreads, driving the cross rate below 0.90.

In the week ahead, the domestic focus will be on Wednesday's RBNZ Monetary Policy Statement. We think that the economy is tracking weaker than the Bank previously projected, while inflation is proving to be stickier, but ultimately weaker growth will drive down inflation. We don't envisage much change in messaging or the projected OCR track, which doesn't see rate cuts until next year. On that basis, we don't see much scope for any sustained NZD reaction from the update.

There is no top-tier US economic data released this week. There will continue to be a plethora of Fed speakers, but the market will be most interested in Governor Waller's comments, who is well regarded. Global economic releases of note include US and European PMIs, and CPI figures for the UK, Japan and Canada, which will help cement in expectations on upcoming policy decisions.

Fair value gap closes, but remains much wider than usual



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6132	0.5880 - 0.6140
NZD/AUD	0.9163	0.9070 - 0.9180
NZD/GBP	0.4829	0.4700 - 0.4840
NZD/EUR	0.5643	0.5510 - 0.5650
NZD/JPY	95.40	90.80 - 95.60

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

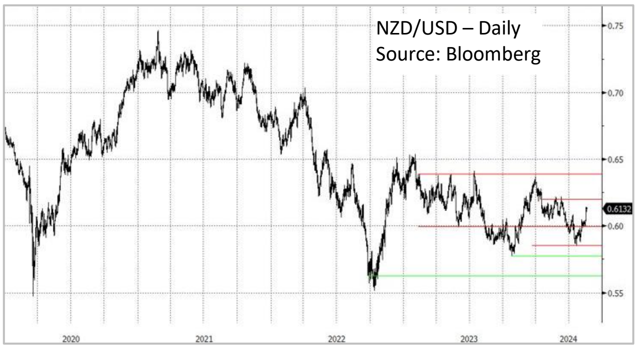
	Model Est.	Actual/FV
NZD/USD	0.6750	-9%
NZD/AUD	0.8880	3%

Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.62 (ahead of 0.6390)
ST Support: 0.60 (ahead of 0.5850)



After recent positive momentum, near term resistance is lifted to 0.62, with support lifting to 0.60.

NZD/AUD

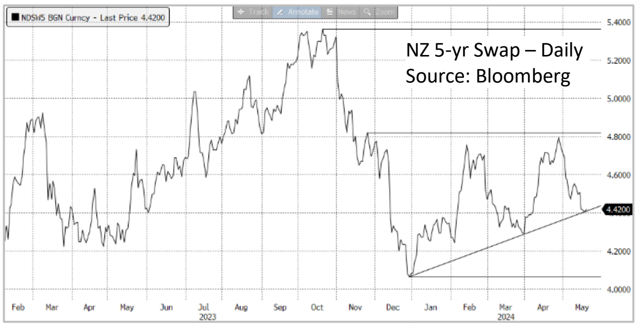
Outlook: Downside risk
ST Resistance: 0.92 (ahead of 0.93)
ST Support: 0.9050 (ahead of 0.90)

Might see some resistance around 0.92, with support remaining at 0.9050.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

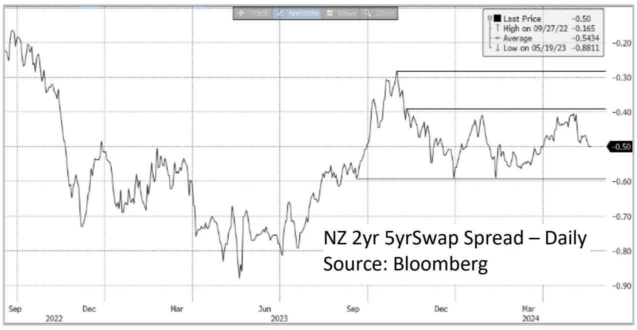
Outlook: Neutral
MT Resistance: 4.82
MT Support: 4.06



5 year swap dipped lower last week on the back of a global rate move. There may be some support on an upward trend line in the very short term, however we will need to see if this holds at the current level.

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

Outlook: Neutral
MT Resistance: -0.38
MT Support: -0.59



The 2y-5y swap spread offers no new technical signals this week.

matthew.herbert@bnz.co.nz

Quarterly Forecasts

Forecasts as at 20 May 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
GDP (production s.a.)	-0.3	-0.1	-0.1	0.0	0.6	0.7	0.7	0.8	0.8	0.8
Retail trade (real s.a.)	-0.8	-1.9	-0.1	-0.5	0.4	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-7.4	-6.9	-6.4	-6.3	-6.3	-5.8	-5.5	-5.2	-5.1	-4.8
CPI (q/q)	1.8	0.5	0.6	0.6	0.9	0.5	0.5	0.4	0.9	0.0
Employment	0.0	0.4	-0.2	0.0	0.1	0.2	0.3	0.5	0.6	0.7
Unemployment rate %	3.9	4.0	4.3	4.7	5.1	5.3	5.5	5.5	5.5	5.3
Avg hourly earnings (ann %)	7.1	6.6	4.8	4.1	3.0	3.3	3.9	3.4	3.2	3.0
Trading partner GDP (ann %)	3.1	3.3	3.2	2.9	2.8	2.8	2.9	3.0	3.0	3.0
CPI (y/y)	5.6	4.7	4.0	3.6	2.7	2.7	2.6	2.4	2.3	1.9
GDP (production s.a., y/y))	-0.6	-0.3	0.0	-0.5	0.4	1.2	2.0	2.8	3.0	3.1

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
2022 Sep	2.83	3.33	3.65	3.77	4.12	3.95	3.95	3.00	3.10	0.67
Dec	4.00	4.27	4.34	4.31	5.10	4.67	4.55	4.50	3.80	0.49
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.63	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024 Mar	5.50	5.64	4.41	4.64	4.91	4.38	4.40	5.60	4.20	0.44
Forecasts										
Jun	5.50	5.65	4.60	4.90	4.55	4.65	4.70	5.75	4.50	0.40
Sep	5.50	5.50	4.40	4.75	4.15	4.45	4.65	5.50	4.25	0.50
Dec	5.25	5.25	4.15	4.60	3.75	4.20	4.50	5.25	4.10	0.50
2025 Mar	5.00	4.75	4.10	4.60	3.45	4.15	4.60	4.75	4.00	0.60
Jun	4.50	4.25	3.95	4.50	3.25	4.00	4.50	4.50	3.90	0.60
Sep	4.00	3.75	3.85	4.40	3.20	3.90	4.40	4.25	3.80	0.60
Dec	3.50	3.50	3.90	4.35	3.30	3.95	4.35	4.00	3.75	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	0.60	0.66	1.08	1.25	156	0.60	0.91	0.56	0.48	93.8	71.0
Jun-24	0.60	0.65	1.07	1.25	150	0.60	0.92	0.56	0.48	90.0	70.9
Sep-24	0.61	0.67	1.09	1.28	146	0.61	0.91	0.56	0.48	89.1	71.2
Dec-24	0.62	0.69	1.11	1.30	143	0.62	0.90	0.56	0.48	88.7	71.5
Mar-25	0.64	0.71	1.13	1.31	140	0.64	0.90	0.56	0.49	88.9	72.4
Jun-25	0.65	0.72	1.14	1.32	137	0.65	0.90	0.57	0.49	89.1	73.2
Sep-25	0.66	0.74	1.16	1.34	134	0.66	0.89	0.57	0.49	88.4	73.4
Dec-25	0.67	0.75	1.17	1.35	131	0.67	0.89	0.57	0.50	87.8	74.0
Mar-26	0.66	0.74	1.18	1.36	129	0.66	0.89	0.56	0.49	85.1	73.1
Jun-26	0.65	0.73	1.18	1.36	129	0.65	0.89	0.55	0.48	83.9	72.4
TWI Weights						14.5%	17.7%	9.5%	3.4%	5.6%	

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

Annual Forecasts

Forecasts as at 20 May 2024	March Years Actuals 2022	2023	Forecasts 2024	2025	2026	December Years Actuals 2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.0	0.6	2.5	7.4	3.3	0.3	0.0	2.2
Government Consumption	7.9	2.0	-0.3	-2.6	1.4	7.8	4.9	-1.1	-2.6	0.9
Total Investment	10.2	2.1	-2.0	-3.2	4.1	12.0	3.4	-1.1	-4.4	3.0
Stocks - ppts cont'n to growth	0.5	0.0	-1.2	1.0	0.0	1.4	-0.4	-1.1	0.7	0.2
GNE	7.9	2.5	-1.9	0.1	2.7	10.0	3.4	-1.5	-0.9	2.4
Exports	2.5	6.0	7.6	5.1	5.4	-2.7	-0.2	10.0	6.5	5.1
Imports	17.3	4.3	-2.1	0.8	3.9	14.8	4.6	-0.3	-0.7	3.7
Real Expenditure GDP	4.7	2.8	0.3	1.3	3.0	5.9	2.2	0.6	1.2	2.6
GDP (production)	**4.6**	**2.7**	**0.1**	**0.8**	**3.0**	**5.6**	**2.4**	**0.6**	**0.3**	**2.8**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.0*	*2.0*	*3.2*	*2.6*	*2.2*	*-0.3*	*1.2*	*3.1*
Output Gap (ann avg, % dev)	1.3	1.8	-0.4	-0.9	0.2	1.5	1.9	0.1	-0.9	-0.1
Nominal Expenditure GDP - $bn	359	388	410	429	453	353	381	405	423	447
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.6	1.8	5.9	7.2	4.7	2.7	1.9
Employment	2.5	3.0	1.3	0.6	2.5	3.3	1.7	2.7	0.1	2.1
Unemployment Rate %	3.2	3.4	4.3	5.5	5.1	3.2	3.4	4.0	5.3	5.3
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.3	3.0
Productivity (ann av %)	1.8	0.5	-2.4	0.4	1.2	3.6	0.2	-2.3	-0.2	1.4
Unit Labour Costs (ann av %)	4.6	6.5	8.5	3.8	2.0	2.4	6.5	8.8	4.9	2.0
House Prices	13.8	-12.1	2.7	4.8	7.7	27.2	-11.1	-0.7	3.6	6.9
External Balance										
Current Account - $bn	-23.6	-31.8	-26.0	-23.5	-20.4	-20.6	-33.4	-27.8	-24.4	-21.6
Current Account - % of GDP	-6.6	-8.2	-6.4	-5.5	-4.5	-5.8	-8.8	-6.9	-5.8	-4.8
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.8	-1.7	-0.8					
Net Core Crown Debt (ex NZS)	32.3	34.4	39.3	40.6	41.0					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	36.0	34.0					
Bond Programme - % of GDP	5.6	7.2	9.3	8.4	7.5					
Financial Variables [(1)]										
NZD/USD	0.69	0.62	0.61	0.64	0.66	0.68	0.63	0.62	0.62	0.67
USD/JPY	119	134	150	140	129	114	135	144	143	131
EUR/USD	1.10	1.07	1.09	1.13	1.18	1.13	1.06	1.09	1.11	1.17
NZD/AUD	0.93	0.93	0.93	0.90	0.89	0.95	0.94	0.93	0.90	0.89
NZD/GBP	0.52	0.51	0.48	0.49	0.49	0.51	0.52	0.49	0.48	0.50
NZD/EUR	0.62	0.58	0.56	0.56	0.56	0.60	0.60	0.57	0.56	0.57
NZD/YEN	81.5	83.0	91.1	88.9	85.1	77.4	85.6	89.5	88.7	87.8
TWI	73.9	71.0	71.2	72.4	73.1	73.0	72.9	72.0	71.5	74.0
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	5.00	3.25	0.75	4.25	5.50	5.25	3.50
90-day Bank Bill Rate	1.45	5.16	5.64	4.75	3.00	0.92	4.55	5.63	5.25	3.50
5-year Govt Bond	2.90	4.40	4.60	4.10	3.90	2.20	4.30	4.50	4.15	3.90
10-year Govt Bond	3.20	4.35	4.60	4.60	4.35	2.35	4.25	4.65	4.60	4.35
2-year Swap	3.00	5.15	4.91	3.45	3.45	2.22	5.21	4.93	3.75	3.30
5-year Swap	3.20	4.50	4.40	4.15	4.00	2.56	4.62	4.43	4.20	3.95
US 10-year Bonds	2.10	3.65	4.20	4.00	3.75	1.45	3.60	4.00	4.10	3.75
NZ-US 10-year Spread	1.10	0.70	0.40	0.60	0.60	0.90	0.65	0.65	0.50	0.60

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

Source: Statistics NZ, BNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Monday 20 May			
NZ	Household Inflation Expectations			
US	Fed's Bostic speaks			
	Tuesday 21 May			
US	Fed's Bostic, Barr, Waller, Jefferson, Mester speak			
AU	RBA Minutes of May Policy Meeting			
GE	PPI YoY Apr	-3.10%		-2.90%
EC	ECB's Lagarde speaks			
EC	Trade Balance SA Mar	20.0b		17.9b
UK	CBI Trends Total Orders May	-20		-23
UK	CBI Trends Selling Prices May	25		27
	Wednesday 22 May			
US	Philadelphia Fed Non-Manufacturing Activity May			-12.4
US	Fed's Barkin, Waller, Williams, Bostic, Collins, Barr speak			
NZ	GDT Dairy Auction			1.80%
UK	BOE's Bailey speaks			
JN	Trade Balance Apr	-¥297.0b		¥366.5b
JN	Core Machine Orders MoM Mar	-2.00%		7.70%
NZ	RBNZ Official Cash Rate 1/05/2022	5.50%	5.50%	5.50%
UK	CPI YoY Apr	2.10%		3.20%
UK	CPI Services YoY Apr	5.40%		6.00%
EC	ECB's Lagarde speaks			
	Thursday 23 May			
UK	BOE's Breeden speaks			
US	Fed's Goolsbee speaks			
US	Existing Home Sales Apr	4.22m		4.19m
US	FOMC Meeting Minutes 1/05/2001			
NZ	RBNZ Governor at Parliament Select Committee on MPS			
NZ	Retail Sales Ex Inflation QoQ 1Q	-0.10%	-0.10%	-1.90%
AU	Judo Bank Australia PMI Mfg May P			49.6
AU	Judo Bank Australia PMI Services May P			53.6
GE	HCOB Germany Services PMI May P	53.5		53.2
EC	HCOB Eurozone Manufacturing PMI May P	46.1		45.7
EC	HCOB Eurozone Services PMI May P	53.6		53.3
UK	S&P Global UK Manufacturing PMI May P	49.5		49.1
UK	S&P Global UK Services PMI May P	54.7		55
EC	ECB Publishes 1Q Negotiated Wage Data			
UK	BOE Chief Economist Huw Pill Speaks on Panel			
	Friday 24 May			
US	Chicago Fed Nat Activity Index Apr	0.13		0.15
US	Initial Jobless Claims 1/05/2018	220k		222k
US	Continuing Claims 1/05/2011	1791k		1794k
EC	ECB's Villeroy speaks			
US	S&P Global US Manufacturing PMI May P	49.9		50
US	S&P Global US Services PMI May P	51.4		51.3
EC	Consumer Confidence May P	-14.2		-14.7
US	New Home Sales Apr	679k		693k
US	Fed's Bostic speaks			
NZ	ANZ Consumer Confidence Index May			82.1
NZ	Trade Balance NZD Apr			588m
UK	GfK Consumer Confidence May	-18		-19
JN	Natl CPI YoY Apr	2.40%		2.70%
NZ	New Residential Lending Apr			0.00%
UK	Retail Sales Inc Auto Fuel MoM Apr	-0.50%		0.00%
GE	GDP SA QoQ 1Q F	0.20%		0.20%
EC	ECB's Schnabel speaks			
IC	ECB's Vasle, Muller speak			
EC	ECB's De Cos speaks			
	Saturday 25 May			
US	Durable Goods Orders Apr P	-0.70%		2.60%
US	Fed's Waller speaks			
US	U. of Mich. Sentiment May F	67.7		67.4
US	Kansas City Fed Services Activity May			9
EC	ECB's Centeno speaks			
	Sunday 26 May			
EC	ECB's Cipollone speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	5.25
1mth	5.60	5.60	5.60	5.68
2mth	5.60	5.62	5.63	5.75
3mth	5.61	5.63	5.65	5.83
6mth	5.57	5.59	5.61	6.01
GOVERNMENT STOCK				
05/26	4.69	4.81	4.94	4.63
04/29	4.44	4.57	4.73	4.38
05/31	4.49	4.62	4.80	4.37
05/34	4.60	4.72	4.93	4.42
04/37	4.75	4.89	5.08	4.54
05/41	4.87	5.02	5.19	4.62
05/51	4.87	5.02	5.18	4.49
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	49	51	54	77
Europe 5Y	51	53	58	81

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	4.92	4.98	5.14	5.44
3 years	4.64	4.72	4.90	5.00
4 years	4.49	4.57	4.77	4.73
5 years	4.42	4.51	4.71	4.58
10 years	4.48	4.59	4.76	4.43
FOREIGN EXCHANGE				
NZD/USD	0.6132	0.6017	0.5919	0.6287
NZD/AUD	0.9161	0.9105	0.9178	0.9452
NZD/JPY	95.48	93.98	91.64	87.13
NZD/EUR	0.5641	0.5576	0.5556	0.5814
NZD/GBP	0.4828	0.4791	0.4793	0.5055
NZD/CAD	0.8347	0.8223	0.8109	0.8491
TWI	71.7	71.0	70.3	72.3

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
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