Research

Markets Outlook

27 May 2024

Economy Pressuring Budget

- **Economic pressures to drive larger FY25 deficit**
- **And larger funding requirements**
- **Fiscally neutral need not mean the same for RBNZ**
- **ANZ business survey pricing intentions to fall?**
- **Fonterra expected to forecast higher 24/25 milk price**

A structural deficit and cyclical pressures, that we have long pointed out, make for an awkward backdrop for a Budget. But that is the current situation, leading into the Government's Budget on Thursday.

We expect to see larger fiscal deficits and funding programme than published in the Half Year Economic and Fiscal Update (HYEFU). Finance Minister Nicola Willis has been very clear that the upcoming year's fiscal deficit will be larger than that for 2023/24. It is not clear whether this means that the deficit will be larger as a percentage of GDP, in dollar terms, or both.

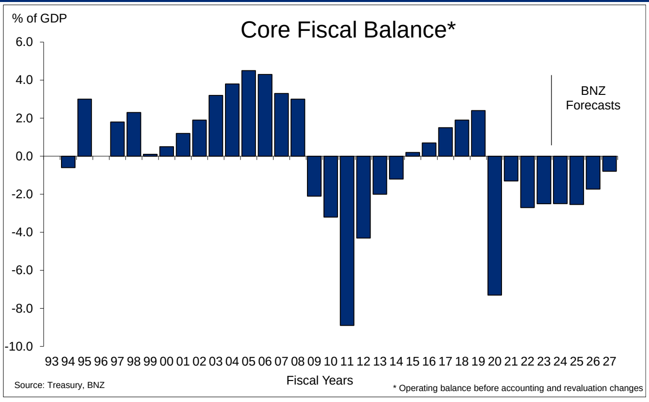
The HYEFU forecast deficit for fiscal 2024 was 2.2% of GDP and we think that economic pressures on revenue means it is more likely to end up at least a billion dollars higher when all is said and done. This being the case it is also likely that fiscal 2025's deficit will be a bare minimum of 2.5% of GDP.

At 2.5% that's a full 1.1% of GDP higher than the forecast produced at the HYEFU. This would mean a deficit roughly $5 billion higher than previously projected. This must be funded somehow, and one assumes predominately via the bond programme. Moreover, it sets the benchmark for future years which will also see heightened funding requirements potentially of a similar magnitude.

At the HYEFU, a return to fiscal surplus was slated to occur in fiscal 2027. We doubt any meaningful surplus can be achieved within the fiscal horizon, which will run to 2028, especially seeing that the minister has said it will take several years to get the books back into balance.

Medium term projection of deficit reduction would represent a disinflationary influence. But just how the central bank reads all this is difficult to know near term. It is aware of the general deterioration in the fiscal position and will be expecting larger fiscal deficits in the first instance. It is for this reason that the Bank warned at last week's MPS of the upside risk to inflation from further fiscal stimulus.

Deficits to continue



Moreover, the Bank acknowledged, as we had expected, that its forecasts already contain a chunk of the government spending cuts (though not all) but do not contain any tax cuts. The finance minister confirmed that the policies introduced into the Budget will largely mirror those announced in the election campaign so one assumes the threshold moves will go ahead as specified in the election campaign.

The government is at pains to say that its policy mix is fiscally neutral and, hence, not inflationary but this does not mean the central bank will be neutral in its incorporation of the Budget into its analysis as both the so-far-excluded tax cuts and the revenue shortfall have not yet been embedded into its numbers. At the margin, then, this takes the Bank closer to a rate hike albeit that the risk of looser fiscal policy was a key consideration in the decision making of the latest MPS.

Keep an eye also on any increase in investment spending by Government. This would not add to the deficit (at least not directly) but would add to stimulus, debt and funding requirements. The finance minister has intimated there will be a modest increase in investment spending.

Larger near-term deficits seem to be expected by the market. It is always difficult to gauge deficit and bond programme quantum, given the many moving parts, but the risks seem tilted to the upside. This gives the possibility of some modest near-term impact on market pricing, and perhaps some upward pressure on bond rates relative to swap rates depending on where rates sit on the day. But interest also lies in the broad implications for growth and inflation.

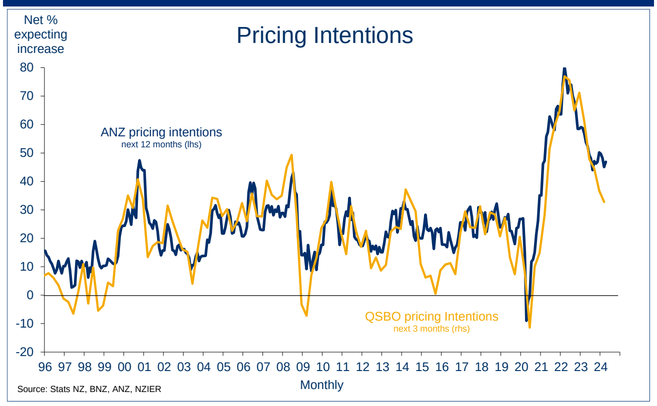
We will be assessing the Budget details for inclusion into our own forecasts, to the extent that we have not already done so. It is the balance and timing of initiatives that we will be most interested in. This is in the context of us already signalling the likelihood of lowering our near-term growth forecasts given recent activity indicators, nudging the forecast timing of the first rate cut into next year following the MPS, and recent confirmation of net migration trending firmly lower – in doing so increasing the chance of it falling below our current assumptions.

Turning to this week's data. It starts on Tuesday with Employment Indicators for April. These will be worth a look, but we are wary of interpretation given their recent gains have been at odds with a drop in official (HLFS) employment.

ANZ's business survey is out Wednesday. We haven't seen anything obvious to turn around the broad softening in real economy indicators in the previous month which were consistent with economic growth barely above zero over the coming 12 months. However, soft growth indicators need not necessarily translate into the RBNZ judging less inflationary pressure as that might depend more on whether the Bank alters its productivity growth assumptions again.

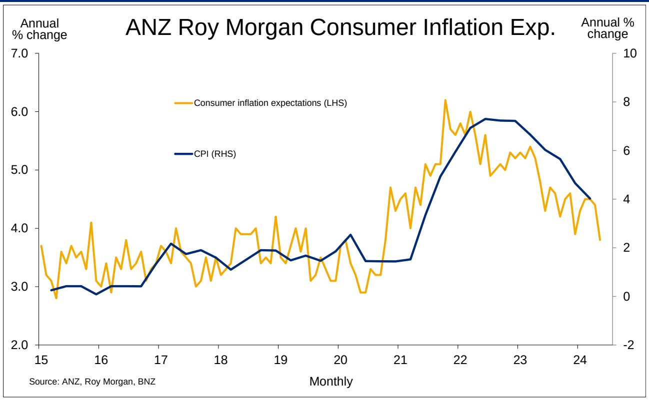
This puts more focus on the inflation gauges. These have been mixed of late with firms' inflation expectations trending lower but firms' pricing intentions above average and sticky. The latter contrasts with the likes of the QSBO. And some other, more recent business surveys, have seen pricing intentions turn net negative as firms react to a loss of pricing power amid weak demand. It is of interest to see whether the ANZ indicators budge this time around or not.

Sticky or not?



Speaking of inflation expectations, consumers' view on such things in the RM-ANZ survey last week was notable. The two-year ahead measure dropped to 3.8% from 4.4% in April. It was the lowest reading since October 2020 putting it back inside the band prevailing pre-covid. It's a wobbly series so needs to be treated with some caution. But the RBNZ has been giving a bit more attention to consumer inflation expectations so the sense of trend decline here might help give the Bank a bit more comfort that it is on top of medium-term inflation despite near term risks. Consumers' expectations are consistent with annual CPI inflation slowing further.

Consumer inflation expectations lower

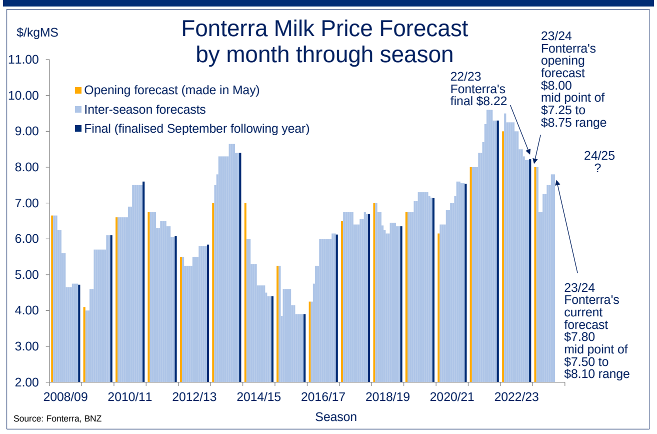


Building consents data will struggle to get attention on Budget day. But April's figures will be worth a glance to see if there has been any progress on the recent signs of a base forming post a lengthy and large decline.

Last, but not least, Fonterra is due to provide its first milk price forecast for the 2024/25 dairy season before the end of the week. The new dairy season starts on 1 June.

We expect Fonterra's new season midpoint forecast to be higher than the current $7.80 forecast for the season just ending. Recent GDT auction price gains mean we wouldn't be surprised to see a midpoint forecast for the new season of around $8.25 to $8.50. That would be better than the previous season but only back to around average on an inflation adjusted basis. Whatever Fonterra's midpoint forecast for the new season is, it is highly likely to be accompanied by a wide range reflecting the many possibilities for the season ahead. What matters more is what actually occurs so attention will quickly return to the regular GDT auctions.

Fonterra's first 2024/25 milk price forecast due



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Global Watch

- **US PCE core inflation seen easing in month**
- **China PMI services expected to nudge higher**
- **Fed's Beige Book due Wednesday; Williams speaks**
- **EZ inflation seen edging higher**
- **AU monthly CPI due; retail sales to lift**

Week in review

The UK CPI beat expectations, reducing the chances of a June rate hike (to below 10% priced from 58% last week), with markets now not fully pricing a cut until November. In the US, Fed speak and the FOMC Minutes leant on the hawkish side, while the US PMI was also much stronger than expected.

The composite US PMI index rose by 3.1pts to 54.4, its highest level since April 2022 and compared to expectations of a flat result. The gain was driven by the services sector, with that index up 3.5pts to 54.8. The read through to the hard data is far from perfect, but the data does erase some of the cooling signals in recent outcomes and contrast the month-long run of broader US data tending to surprise on the soft side.

Market pricing for the RBA has also been pushed out with markets now back to pricing around 2-3bps of rate hikes for the August meeting and very little change of cutting rates before year's end. A full cut is not priced for the RBA until July 2025.

Finally in politics, the UK government announced a snap General Election for Thursday 4 July. The Opposition labour Party has held around a 20point poll lead for some months, strongly suggesting this is Labour's election to lose.

Week Ahead in Brief

Note Monday is a holiday in both the US and UK.

In Australia, April updates for the Monthly CPI indicator and retail sales headline the calendar in the week ahead, alongside pre-GDP investment partials for Q2. From the RBA, Assistant Governor (Economic) appears in a 'fireside chat' at an Australasian Investor Relations Association conference on Thursday.

The Australian Monthly April CPI indicator (Wednesday) covers only a part of the total CPI basket, and being the first month is goods-heavy. NAB pencils in a tick lower in the headline inflation rate, back to 3.4% from 3.5%, in line with consensus. NAB looks for the underlying measure excluding fruit & veg, fuel and travel to fall back to 3.9% after its March rise. Most services prices, with the notable exception of rents, are not updated in the April indicator As usual, measured travel prices are the key uncertainty, with the early Easter expected to moderate somewhat the usual seasonal increase in April.

For Retail Sales (Tuesday), NAB's internal data points to a rebound in retail sales spending in April after the decline in March. NAB has pencilled in 0.6% m/m, above consensus for 0.2%.

Also on the Australian calendar are Q2 Capex (Thursday) and Construction Work Done (Wednesday), and April Building Approvals (Thursday) and Private Sector Credit (Friday).

Elsewhere, it is a relatively quiet calendar until Friday, when key prints are the US PCE and European preliminary CPI, as well as Chinese official PMIs, Tokyo CPI and Canadian Q1 GDP. Other data to watch out for during the week include the German IFO (Monday), the Fed's Beige Book (Wednesday), and the second release of US GDP (Thursday). The usual run of European country level inflation data ahead of Friday's Eurozone-wide measure starts in earnest with Germany on Wednesday

From central banks, Fed speak includes New York's Williams at the Economics Club of New York on Thursday. The ECB's Lane speaks on 'inflation in the eurozone' on Monday.

Important Events Preview

Monday 27
No data of note; US and UK Holiday.

Tuesday 28

AU April Retail Sales
NAB looks for solid monthly gain in retail sales in April, pencilling in 0.6% m/m following the 0.4% fall reported in April. While the consumer remains under pressure and trend growth in retail sales remains sluggish, NAB's internal data suggests some pick up in April indicative of some goods spending categories.

Wednesday 29

AU April CPI indicator
NAB expects the April CPI indicator to dip to 3.4% y/y from 3.5%. More interesting will be the measure excluding volatile fruit & veg, fuel, and holiday travel. NAB pencils in a fall back to 3.9% after a rise to 4.1% in March. The usual caveat is that the Monthly Indicator is not the full CPI and reflects only a partial update of the prices in the CPI basket. April is the first month of the quarter and is heavily skewed towards goods prices.

AU Construction Work Done
NAB expects a small positive around 0.5% q/q for construction work in Q1 overall, after a 0.7% in Q4. Residential construction declined in Q4 and NAB expects that to continue, led by falling alterations & addition, while non-residential construction has been volatile. Public construction has been an offsetting source of strength,

particularly public engineering construction, and this should continue.

Thursday 30

AU Capex
NAB has pencilled in a 1.1% q/q rise for private sector capex, slightly up from 0.8% in Q4 on the back of a pickup in machinery & equipment.

US Trade Balance, 2nd read on Q1 GDP, Jobless Claims

Friday 31

CH Official PMIs
The manufacturing PMI is seen little changed from April in only modestly expansionary territory, while the non-manufacturing PMI may edge higher after dipping to 51.2 in April.

JN Tokyo May CPI
Tokyo's CPI gives an early read on the national figure, which showed the core measure excluding fresh food and energy stable at 2.4% in April. Tokyo is running a little below the national average, but is expected to see the headline rate move higher to 2.1% from 1.8%, which should presage a lift in the national measure out in a few weeks.

EZ Preliminary CPI
Preliminary EZ HICP inflation for May is forecast to nudge a little higher from its 2.4% annual cycle low. The impact of the early Easter argues for higher services inflation while some German transport base effects sees the consensus look for a 0.2% m/m rise in the headline rate for 2.6% y/y. The core rate is seen rising a tenth to 2.8% y/y, also supported by base effects. If the consensus proves right (and NAB sees the risk skewed to the upside for services in particular) this would be a further argument for a delay after a June rate cut before more.

US Personal Consumption and Expenditure
Estimates for the key core PCE deflator have clustered near 0.25. No surprise then that the early forecasts are split between a 0.2% and a 0.3% outcome to follow last month's 0.32% gain. A return to a 0.2%, as per the consensus median, after the push higher through Q1 would be good news for the Fed, though a fall in airfares is likely to help in the month, and many will be looking at the second decimal place.

Alongside the inflation gauge are spending and income data. With income and spending both seen moderating to 0.3% m/m growth.

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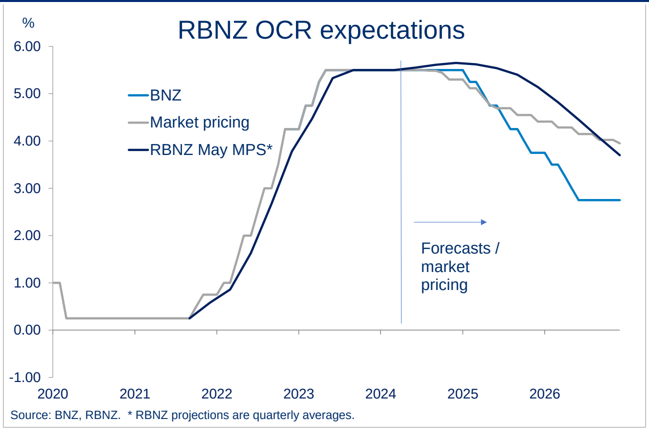
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income yields moved higher last week, and underperformed on a cross market basis, following a hawkish pivot by the RBNZ at the May Monetary Policy Statement (MPS). The Bank left the Official Cash Rate (OCR) steady at 5.5%. However, its hawkish bias was upgraded, referencing domestic inflation pressures, which have fallen more slowly than it had expected. 2-year swap rates increased 20bps to 5.12% as the market pared expectations for RBNZ rate cuts this year. There is close to 20bps of easing priced by the end of 2024, down from nearly 45bps at the beginning of last week.

RBNZ OCR track - higher for longer



Source: BNZ, RBNZ. * RBNZ projections are quarterly averages.

The RBNZ raised its modelled cash rate track, which now peaks at 5.65% in December, implying a higher probability of a further rate hike, relative to the February Statement. The first projected rate cut has been pushed back to H2-2025. Although the Committee reached a consensus decision to leave rates on hold, a hike was discussed. The hawkish pivot reflects the Bank's view that the near-term balance of risks around inflation are skewed higher. The Budget was also highlighted as a risk for the monetary policy outlook. In updated inflation forecasts, headline CPI inflation doesn't return into the 1-3% target band until December, a quarter later compared with February.

Although the RBNZ's growth forecasts have been downgraded, so have productivity growth assumptions, reducing the size of the forecast negative output gap and the associated downward pressure on inflation. The RBNZ also increased its estimate of the long-run nominal neutral OCR by 25bps to 2.75%, reflecting the Bank's suite of indicators. The Committee reiterated that the OCR needs to stay at a restrictive level, for an extended period, to ensure that inflation returns to the target range.

We continue to think that the OCR has peaked for the cycle at 5.5%. Policy settings are restrictive – the cash rate is well above the updated estimate of the long run neutral OCR – and previous hikes are still transmitting through the economy. We also expect the RBNZ will lower rates ahead of what is implied by its updated OCR track. However, given the tone of the statement, we have pushed back our forecast for the beginning of the easing cycle from November to next February.

We continue to think there is a high hurdle for a further rate hike. Economic activity is very weak. Core inflation is still falling, and we forecast annual headline CPI inflation will be back within the RBNZ's target band in the third quarter of this year.

Short-dated wholesale fixed rates have generally been range-bound in 2024. Moves in 2-year swap rates up towards the top end of the range in the 5.2%-5.3% region have quickly reversed lower. The market has been reluctant to completely remove the chance of easing this year, given the weak economic backdrop and expectations for a further moderation in inflation. The bottom end of the range corresponds with the March lows at 4.8%.

The updated government borrowing programme will be released alongside the Budget on Thursday. Finance Minister Willis has outlined that operating deficit for 2024/25 will be larger than previously forecast at the Half Year Economic and Fiscal Update in December. This points towards an increase in the 2024/25 bond programme which is currently forecast to be NZ$36 billion.

Heavy government bond supply will continue to be a feature of the NZ landscape for some time and will likely keep swap-bond spreads depressed. We expect to receive further details about the syndicated tap of the existing 15 May 2028 nominal line which will be undertaken in June.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.63	5.61 - 5.64
NZ 2yr swap (%)	5.12	4.87 - 5.22
NZ 5yr swap (%)	4.60	4.37 - 4.80
NZ 10yr swap (%)	4.62	4.43 - 4.87
2s10s swap curve (bps)	-50	-50 - -40
NZ 10yr swap-govt (bps)	-16	-17 - -11
NZ 10yr govt (%)	4.78	4.57 - 5.00
US 10yr govt (%)	4.47	4.31 - 4.71
NZ-US 10yr (bps)	31	19 - 32
NZ-AU 2yr swap (bps)	89	67 - 89
NZ-AU 10yr govt (bps)	47	34 - 48

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, NZD/USD consolidated just over the 0.61 mark, hitting a two-month high just over 0.6150 after a hawkish RBNZ update and ending the week down slightly at 0.6120. The AUD was the weakest of the majors and NZD/AUD rose 0.8% to 0.9235 after hitting a two-month high. NZD/JPY rose to a 17-year high just over 96. NZD/EUR was flat and NZD/GBP fell ½%.

There were mixed drivers for the NZD last week, with domestic factors positive, in the form of a more hawkish than expected RBNZ policy update, and broad USD strength after strong PMI data and ongoing hawkish Fed speakers. Our risk appetite index remains near historically high levels, another supporting factor for the NZD.

In its Monetary Policy Statement, the RBNZ left the official cash rate steady at 5.5% but the Bank strengthened its hawkish bias and considered whether to hike the OCR further. The Bank put more emphasis on the sticky domestic inflation pressures than the economic recessionary conditions. The projected OCR track was lifted, with the implication that the next move was more likely to be a rate hike than a cut. This tone surprised the market, which was looking for hints on the timing of the first easing, resulting in higher NZ rates and a stronger NZD. The market no longer prices a full rate cut by November.

In the US, Fed speakers remained hawkish, emphasising the point that lower sustained inflation readings were necessary before rate cuts could be considered. In economic news, the composite PMI index rose by 3.1pts to 54.4, its highest level in two years, with the gain driven by the services sector. The data pointed to lingering economic resilience in the services sector, which will make the job harder to bring inflation down. The strong data followed a month-long period of US economic releases mostly surprising on the negative side, causing a larger than usual rates and currency reaction for this release.

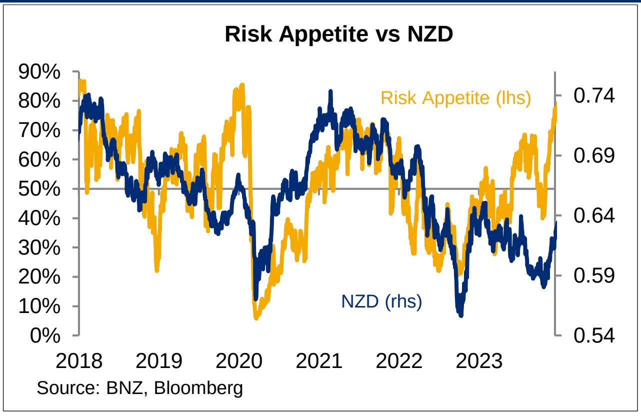
The hawkish RBNZ update was more noticeable in gains for NZD/AUD and NZD/JPY, both going against our view for weaker crosses. While our projections for NZD/AUD have targets of 0.92 for end-Q2 and 0.90 for year-end, we have been writing about the clear risk of sub-0.90 levels being hit this year. The hawkish RBNZ update will likely delay such a move. A higher NZD/GBP cross wasn't sustained because UK CPI inflation declined by less than expected in April and services sector inflation remained strong at 5.9% y/y. The market significantly pared expectations for BoE rate cuts, with the first full cut now not priced until November.

In the week ahead, the NZ Budget will be delivered, but this typically doesn't impact the NZD. For the ANZ business outlook survey, only the inflation/pricing indicators matter, which is where the RBNZ's focus is on, given its revealed preference about the weak state of the economy.

On the global calendar, US PCE deflators at the end of the week are probably the most important release, but any prospect for surprise has been blunted by the earlier release of CPI and PPI data for the month. Elsewhere, China PMI, Euro area CPI and Australia's monthly CPI indicator are worth noting.

We look for NZD/USD to consolidate further around current levels over the short term. While the hawkish RBNZ backdrop is supportive for the NZD over the short-term, a policy rate kept too high for too long would prolong NZ's economic downturn, which is ultimately NZD-negative to the extent that sharper rate cuts could follow when the easing cycle begins.

Risk appetite remains near historically high levels



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6116	0.5980 - 0.6150
NZD/AUD	0.9230	0.9070 - 0.9240
NZD/GBP	0.4801	0.4780 - 0.4840
NZD/EUR	0.5637	0.5570 - 0.5660
NZD/JPY	96.03	91.80 - 96.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6780	-10%
NZD/AUD	0.8840	4%

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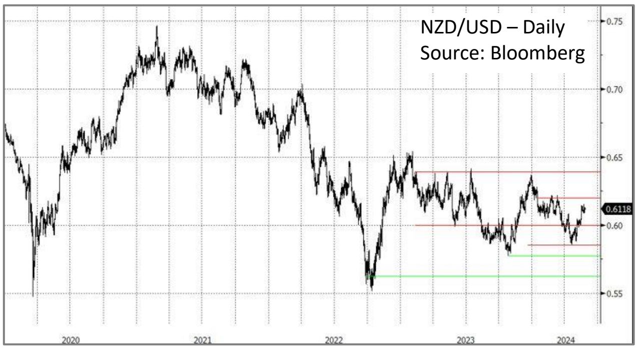
Technicals

NZD/USD

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

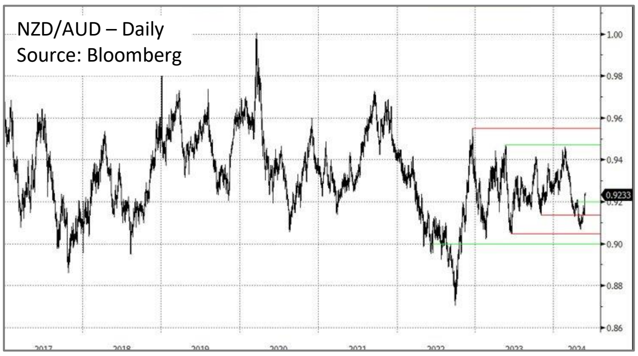
After hitting a two-month high, the first resistance level looks to be near 0.62, with support at 0.60.



NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9470 (ahead of 0.9550)
ST Support: 0.9140 (ahead of 0.9050)

0.92 didn’t prove to be much of a resistance level and there’s no obvious resistance points ahead of 0.9470. We lift support to 0.9140.



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NZ 5-year Swap Rate

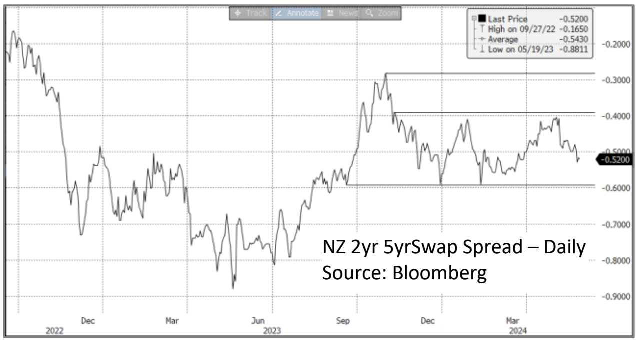
Outlook: Neutral
MT Resistance: 4.82
MT Support: 4.06

5 year swap retraced higher last week following a move higher in global rates and a hawkish RBNZ; while confirming short-term support from our upward channel. This is not yet sufficient for us to deviate from our neutral view, however we will watch closely for new breaks.

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

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

The 2y-5y swap spread dipped slightly lower last week, however remains without any technical direction. We view this spread as being rangebound so will look to fade any moves towards resistance or support.



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Quarterly Forecasts

Forecasts as at 27 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	-1.8	0.5	-0.5	0.4	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-7.4	-6.9	-6.4	-6.4	-6.3	-5.8	-5.5	-5.3	-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	3.1	2.9	2.9	2.9	3.0	3.0	2.9
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	4.65	4.90	4.75	4.70	4.70	5.75	4.50	0.40
Sep	5.50	5.65	4.50	4.75	4.35	4.55	4.65	5.50	4.25	0.50
Dec	5.50	5.50	4.25	4.60	3.95	4.30	4.50	5.25	4.10	0.50
2025 Mar	5.25	5.00	4.15	4.60	3.60	4.20	4.60	4.75	4.00	0.60
Jun	4.75	4.50	4.00	4.50	3.35	4.05	4.50	4.50	3.90	0.60
Sep	4.25	4.00	3.85	4.40	3.20	3.90	4.40	4.25	3.80	0.60
Dec	3.75	3.75	3.85	4.35	3.20	3.90	4.35	4.00	3.75	0.60

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.61	0.66	1.08	1.27	157
Jun-24	0.60	0.65	1.07	1.25	150
Sep-24	0.61	0.67	1.09	1.28	146
Dec-24	0.62	0.69	1.11	1.30	143
Mar-25	0.64	0.71	1.13	1.31	140
Jun-25	0.65	0.72	1.14	1.32	137
Sep-25	0.66	0.74	1.16	1.34	134
Dec-25	0.67	0.75	1.17	1.35	131
Mar-26	0.66	0.74	1.18	1.36	129
Jun-26	0.65	0.73	1.18	1.36	129

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.61	0.92	0.56	0.48	96.0	72.1
Jun-24	0.60	0.92	0.56	0.48	90.0	70.9
Sep-24	0.61	0.91	0.56	0.48	89.1	71.2
Dec-24	0.62	0.90	0.56	0.48	88.7	71.5
Mar-25	0.64	0.90	0.56	0.49	88.9	72.4
Jun-25	0.65	0.90	0.57	0.49	89.1	73.2
Sep-25	0.66	0.89	0.57	0.49	88.4	73.4
Dec-25	0.67	0.89	0.57	0.50	87.8	74.0
Mar-26	0.66	0.89	0.56	0.49	85.1	73.1
Jun-26	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 27 May 2024	March Years					December Years				
	Actuals		Forecasts			Actuals				
	2022	2023	2024	2025	2026	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	428	451	353	381	405	423	446
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	2.8	3.0	7.7	27.2	-11.1	-0.7	2.0	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	-2.5	-2.5	-1.7					
Net Core Crown Debt (ex NZS)	35.5	39.2	44.0	44.0	42.2					
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	5.25	3.50	0.75	4.25	5.50	5.50	3.75
90-day Bank Bill Rate	1.45	5.16	5.64	5.00	3.15	0.92	4.55	5.63	5.50	3.75
5-year Govt Bond	2.90	4.40	4.60	4.15	3.90	2.20	4.30	4.50	4.25	3.85
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	3.60	3.35	2.22	5.21	4.93	3.95	3.20
5-year Swap	3.20	4.50	4.40	4.20	4.00	2.56	4.62	4.43	4.30	3.90
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
	Sunday 26 May			
EC	ECB's Cipollone speaks			
	Monday 27 May			
JN	BOJ Governor Ueda speaks			
CH	Industrial Profits YoY Apr			-3.50%
EC	ECB's Vujcic speaks			
GE	IFO Expectations May	90.8		89.9
EC	ECB's Lane speaks			
	Tuesday 28 May			
EC	ECB's Holzmann speaks			
NZ	Filled Jobs SA MoM Apr			0.40%
AU	Retail Sales MoM Apr	0.30%	0.60%	-0.40%
US	Fed's Mester speaks			
EC	ECB's Schnabel speaks			
US	Fed's Bowman speaks			
EC	ECB 3 Year CPI Expectations Apr	2.50%		2.50%
UK	CBI Retailing Reported Sales May	-25		-44
EC	ECB's Centeno speaks			
	Wednesday 29 May			
US	S&P CoreLogic CS US HPI YoY NSA Mar			6.38%
EC	ECB's Knot speaks			
US	Fed's Kashkari speaks			
US	Conf. Board Consumer Confidence May	96		97
US	Fed's Cook, Daly speak			
AU	Westpac Leading Index MoM Apr			-0.05%
NZ	ANZ Business Confidence May			14.9
AU	Construction Work Done 1Q	0.50%	0.50%	0.70%
JN	BOJ Board Adachi speaks			
AU	CPI YoY Apr	3.40%	3.40%	3.50%
GE	GfK Consumer Confidence Jun	-22.5		-24.2
EC	ECB's Villeroy speaks			
	Thursday 30 May			
GE	CPI YoY May P	2.40%		2.20%
US	Richmond Fed Manufact. Index May	-6		-7
US	Dallas Fed Services Activity May			-10.6
US	Fed's Williams speaks			
US	Federal Reserve Releases Beige Book			
NZ	Building Permits MoM Apr			-0.20%
AU	RBA's Hunter speaks			
US	Fed's Bostic speaks			
AU	Private Capital Expenditure 1Q	0.70%	1.10%	0.80%
AU	Building Approvals MoM Apr	1.50%	1.30%	1.90%
NZ	New Zealand Government Budget			
EC	Consumer Confidence May F			-14.3
EC	Economic Confidence May	96.1		95.6
EC	Unemployment Rate Apr	6.50%		6.50%
	Friday 31 May			
US	GDP Annualized QoQ 1Q S	1.30%		1.60%
US	Initial Jobless Claims May-25	217k		215k
US	Continuing Claims May-18	1795k		1794k
US	Pending Home Sales MoM Apr	0.10%		3.40%
US	Fed's Williams speaks			
US	Fed's Logan speaks			
UK	Lloyds Own Price Expectations May			60
JN	Jobless Rate Apr	2.60%		2.60%
JN	Industrial Production MoM Apr P	1.50%		4.40%
JN	Retail Sales MoM Apr	0.70%		-1.20%
AU	Private Sector Credit MoM Apr	0.40%	0.40%	0.30%
CH	Manufacturing PMI May	50.4		50.4
CH	Non-manufacturing PMI May	51.5		51.2
EC	ECB's Vujcic speaks			
EC	ECB's Panetta speaks			
EC	CPI Estimate YoY May	2.50%		2.40%
EC	CPI Core YoY May P	2.70%		2.70%
	Saturday 01 June			
US	Personal Income Apr	0.30%		0.50%
US	Personal Spending Apr	0.30%		0.80%
US	Real Personal Spending Apr	0.00%		0.50%
US	PCE Deflator MoM Apr	0.30%		0.30%
US	PCE Deflator YoY Apr	2.70%		2.70%
US	PCE Core Deflator MoM Apr	0.20%		0.30%
US	PCE Core Deflator YoY Apr	2.80%		2.80%
US	MNI Chicago PMI May	41		37.9
US	Fed's Bostic speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	5.50
1mth	5.60	5.60	5.60	5.61
2mth	5.61	5.61	5.62	5.66
3mth	5.62	5.61	5.63	5.70
6mth	5.63	5.57	5.62	5.82
GOVERNMENT STOCK				
05/26	4.88	4.70	4.97	4.48
04/29	4.60	4.45	4.77	4.31
05/31	4.66	4.51	4.84	4.33
05/34	4.78	4.62	4.96	4.42
04/37	4.92	4.77	5.11	4.54
05/41	5.02	4.88	5.22	4.62
05/51	5.02	4.89	5.21	4.51
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	49	49	52	75
Europe 5Y	51	50	55	80

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.12	4.90	5.19	5.24
3 years	4.83	4.62	4.95	4.88
4 years	4.68	4.47	4.83	4.67
5 years	4.60	4.41	4.78	4.55
10 years	4.62	4.47	4.85	4.43
FOREIGN EXCHANGE				
NZD/USD	0.6119	0.6105	0.5978	0.6056
NZD/AUD	0.9233	0.9158	0.9104	0.9259
NZD/JPY	96.04	95.39	93.45	85.04
NZD/EUR	0.5642	0.5624	0.5576	0.5654
NZD/GBP	0.4804	0.4805	0.4758	0.4901
NZD/CAD	0.8365	0.8319	0.8166	0.8230
TWI	71.8	71.8	70.7	70.3

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