Research

Markets Outlook

10 June 2024

GDP Preview: Still Struggling

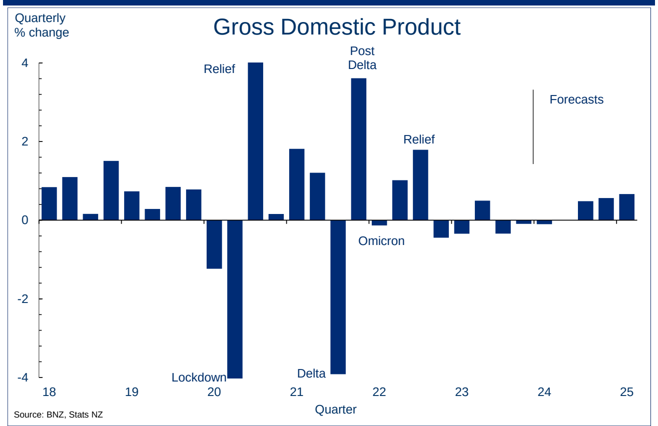
- **Indicators suggest GDP struggled to grow in Q1**
- **Building work, manufacturing contracting**
- **Services may have edged forward, on net**
- **Lots of noise, but GDP seen undershooting RBNZ view**
- **Friday's May monthly prices to inform on Q2 CPI**

The economy still looks like it is bumping along the bottom and contracting on a per-capita basis. Last week's mass of 'partial' GDP indicators gave no obvious reason to change our estimate for Q1 GDP, on net. Our pick for the quarter remains at -0.1% although not far to rounding up to flat. The GDP data is due out next Thursday, 20 June.

The indicators remain very noisy, so we wouldn't rule out the possibility of a small positive in the quarter. But the main message remains of the economy struggling to grow. A quarterly outcome as we see it would result in annual growth steadying to flat, from -0.3% in Q4 last year.

Anything near zero annual growth overall implies clear contraction on a per person basis. It also points to growth remaining well below potential such that we think the output gap is becoming more negative in our view. This will add to downward pressure on core inflation over time.

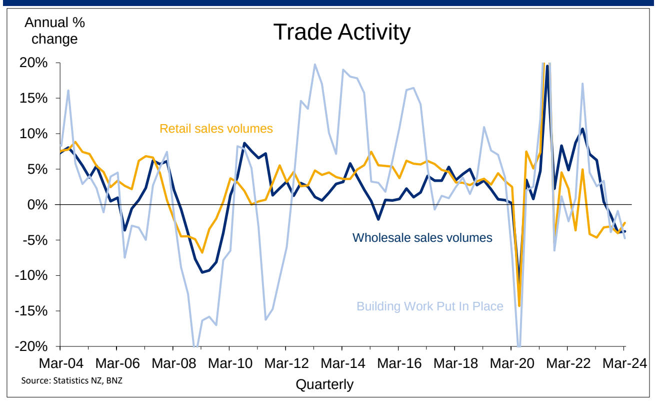
Bumbling along near zero



Briefly looking at the growth details for the quarter by industry, negativity seems to have been centred around goods producing areas such as construction and manufacturing. Last week's building work put in place saw a drop of 4% q/q, led by residential activity. Manufacturing sales volumes fell 0.4%, but adjusting for inventory change suggests a larger drop in production. We had expected weakness in these areas, and, at the margin, the indicators suggest a touch more than we had already factored in.

Distribution activity looks like it was flat to positive in Q1, judging by real sales in wholesale and retail trade. That is not to deny the pressure on these industries from a wider perspective, as indicated by sales remaining well behind year earlier levels on an inflation adjusted basis (as is the case for building work).

Trading down



For services, the balance of negatives and positives in last week's indicators suggested that the sector might have eked out a mild gain overall – although the indicators are hardly precise for GDP purposes.

We see some quarterly growth in primary production areas like forestry and horticulture – the latter including a record kiwifruit harvest this season. Milk production was a bit stronger in the quarter, while meat processing fell sharply after adjusting for usual seasonal patterns.

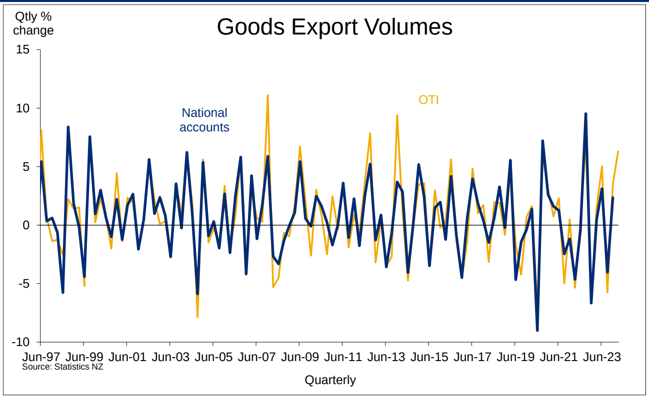
Putting that all together shows a lot of ups and downs that net to about zero. A flat to negative outcome would be a touch lower than the RBNZ's 0.2% published in its May MPS. We wouldn't judge that has a major difference given the noise in the data, but a nod to the softer side. If that is how it turns out, we would be a little cautious on translating that fully and immediately to how the Bank might see its influence on inflationary pressures. The RBNZ recently altered its view on potential growth and if it were to do so again it could offset observed weakness in growth.

Looking at GDP from an expenditure perspective, our estimate nets to zero growth in the quarter amid some expected large swings in the details.

We anticipate a material drop in investment, driven by declines in residential and non-residential building, with additional weakness also expected in plant, machinery, and equipment investment.

Conversely, net exports of goods look set to make a strong growth contribution in the quarter. However, we suspect at least some of the strength in goods exports might be offset by what looks like at least some draw on inventory rather than current production per se.

Big ups here



For all the apparent strength in goods trade, the balance of services trade looked exceptionally weak over the period, given what appears to have been a very large drop in exports. We think the latter reflects a material drop in foreign traveller expenditure in the quarter (once inflation and seasonality is accounted for as is required for the purposes of real GDP estimates).

Private consumption looked sedate in the quarter, especially in comparison to many other components. We have pencilled in a small 0.3% gain, trivially different to the 0.4% expected by the RBNZ. For government consumption, we have essentially used Treasury's latest forecasts but sense there may be more upside risk than downside for the quarter given the decline expected.

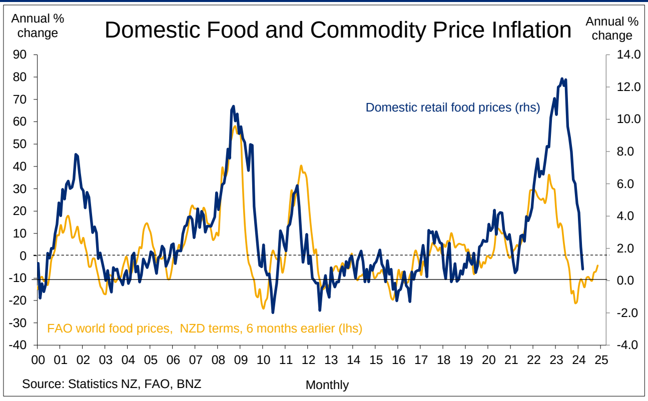
Standing back from the detail, 'top-down' cross-checks for growth in the quarter have been mixed. For example, relevant QSBO activity indicators were heavily negative in the quarter although that followed some positivity in the quarter prior that sometimes shows up in GDP with a lag. QES indicators like paid hours and filled jobs rose in Q1, whereas HLFS employment and usual hours worked declined. The PSI and PMI netted to indicate about flat for the quarter. All up, a lot of mixed signals but nothing to suggest any momentum in underlying growth.

Turning to this week's data there are a few bits and pieces worth keeping an eye on from both an activity and inflation point of view.

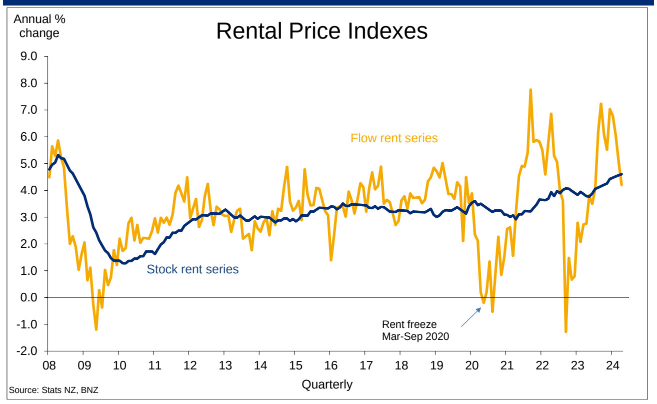
On the inflation front, May's selected prices on Friday will get some focus. We don't forecast all the monthly components but expect annual food price inflation to be close to April's 0.8% y/y, while a 0.4% m/m increase for rents would see its annual inflation nudge up to 4.7%.

Annual food price inflation has been rapidly unwinding from last year's weather-driven spike and previous cooling inflation pressures from offshore. We will be monitoring for any signs of change on those fronts as well as for any indications of influence from slowing wage inflation. Rent inflation has been trending higher on population pressures albeit with some recent signs that the extent of those pressure might be starting to change. May's rent figures will help shed more light on that theory. Annual inflation in the flow rent measure (read new tenancies) dipped below annual inflation in the stock rent measure (read existing tenancies) in April.

Food price inflation



Rent inflation dynamics changing?



We expect a moderate fall in fuel prices and will monitor all components, including the volatile parts like airfares, for their (partial) guidance to Q2 CPI. Our current forecast for Q2 CPI sits at 0.6% q/q and 3.6% y/y (the same as the RBNZ published in its May MPS).

There is also a bunch of monthly activity indicators to peruse over the week. Wednesday brings April's migration and tourism figures. We expect the former to affirm annual migration net inflows are tracking firmly lower (part of the population growth pressures abating) while annual growth in visitor arrival numbers is set to slow sharply (to single digits?) from March's 28%. We think underlying tourism growth is slowing but the timing of Easter this year will make it look sharp in April.

Thursday's Electronic Card Transactions for May comes in the context of broad weakness. We haven't seen anything to change that but will take May's data as it comes. May's PMI is due Friday and will be lined up against April's 48.9.

Friday also has the REINZ housing report for May scheduled. Regional indicators suggest sales will be well up on a year ago (aided by more listings), but annual growth is unlikely to match April's 25% and the level of sales may still only be middling at best in the bigger picture. Annual house price inflation might maintain its mild positive appearance, even if the undercurrents seem to have flattened of late.

doug_steel@bnz.co.nz

Global Watch

- **ECB and BoC latest central banks to start easing**
- **FOMC to hold rates this week; eyes on guidance, dots**
- **US core CPI seen at 0.3% m/m, matching prior month**
- **BoJ seen on hold, but will bond buying be pared?**
- **AU unemployment rate expected to fall back to 4%**

Last week saw interest rate cuts by the BoC and ECB. While the BoC certainly guided towards more cuts, they also noted that "*risks to the inflation outlook remain. Governing Council is closely watching the evolution of core inflation…*". Markets price near half a chance of a follow up cut in July and there is roughly two 25bp cuts cumulative priced by end of 2024. It is clear that the BoC is responding to its own domestic developments.

The ECB was much less committal to future cuts, noting "*domestic price pressures remain strong as wage growth is elevated*" and that they will "*follow a data-dependent and meeting-by-meeting approach*". Markets price little chance of a follow up cut in July, and instead ascribe a strong chance of a cut at September meeting, but are less convinced of another after that with a cumulative 40bps priced by end 2024.

US data was very mixed through the week, before a bumper payrolls report dominated at the end of the week. US ISM Services rebounded sharply, but softer employment indicators via JOLTS and ADP drove yields lower before payroll strength was revealed on Friday. Nonfarm payrolls advanced 272k, which was higher than all forecasts in the Bloomberg survey with the consensus at 185k. Average hourly earnings were also stronger than expected rising 0.4% m/m for an annual rate of 4.1%. The unemployment rate, derived from a separate survey, edged up to 4.0% from 3.9%. Overall, the data suggests the US labour market remains resilient despite the impact of high interest rates. Yields rose. The market reduced the amount of implied Fed rate cuts, pricing around 1½ 25bp cuts by the end of the year, down from closer to 2 cuts prior to the payrolls data.

Australian macro data was not overly market moving. Q1 GDP printed close to expectations at 0.1% q/q vs. 0.2% consensus, while the annual rate was 1.1% y/y. There was some large upward revisions to household consumption which suggests earlier consumer weakness had been overstated. Dwelling price data and housing finance also showed ongoing strength in housing.

RBA Governor Bullock fronted Senate Estimates with nothing new of substance. Should inflation surprise, the RBA is willing to hike, but if it doesn't the RBA seems content to be on hold.

Week Ahead in Brief

In Australia, employment data on Thursday is the highlight of the data week. Most of the country (not WA or QLD) are off for the King's Birthday holiday Monday. The May NAB Business Survey is released on Tuesday.

NAB expects May unemployment to fall back to 4.0% after April saw a two-tenths rise to 4.1%. Half of April's rise could be attributed to an unseasonably large number of people attached to but yet to start a job. NAB expects a +40k employment gain (consensus 4.0%/30k). Note the RBA's SoMP had 4.0% on average for the unemployment rate over Q2.

The US dominates the global calendar with the FOMC outcome, including new projections, mere hours after the May CPI on Wednesday.

Falling energy prices should contain the headline CPI increase, while forecasts for core look to be firming at 0.3% m/m, matching April's outcome. Regardless, the earlier and unhelpful PCE prints should see 2024 PCE projections bumped higher in the FOMC SEP even as GDP gets marked down a little. The March median dot had 3 cuts in 2024. It would have taken only one to shift for that to have been 2. NAB expects to see the 2024 median pared to 2 cuts, with every likelihood that that flows through to the 2025 median as well. The tone struck in the press conference will be key as investors assess what the Fed will need to see to kick of the cutting cycle.

Elsewhere, in Europe, in the wake of the ECB's well telegraphed June cut, which came with a dissent from Holzmann, a cacophony of ECB officials litters the calendar in the week ahead including ECB President Lagarde again on Friday, while Chief Economist Lane appears Tuesday and Friday.

The Bank of Japan on Friday may well result in a paring of the pace of bond purchases, and while the policy rate is set to remain on hold the messaging will be in focus as markets look to the possibility of a July hike.

In China, the flowthrough of recent stimulus measures could support May aggregate financing data, due by Saturday 15 June, while price pressures are expected to remain subdued in Wednesday's inflation prints.

Important Events Preview

Monday 10

AU King's Birthday Holiday (excl. WA or QLD).

Tuesday 11

AU NAB Business Survey
No preview as NAB publishes the survey.

UK April Average Weekly Earnings, May Labour Data
Recent UK wage data from this ONS series have shown pay settlements at elevated levels, with regular (non-bonus) pay for the whole economy running at 5.9% y/y in March and at 6% for the private sector. The BoE's own DMP series is little different, even if expected pay over the year ahead is seen closer to 4%. The BoE will want to see pay settlements ease further to be more confident that second round effects are contained. At the same time broader labour market data for May is expected to show a loosening of the labour market.

Wednesday 12

CH May PPI & CPI
May inflation data for China are not likely to shift the broader story that lacklustre domestic demand is generating scant inflation pressure. Consumer prices are seen little changed at 0.4% y/y from 0.3%, while upstream PPI is seen remaining in negative territory but lifting to -1.5% y/y from -2.5%.

UK Monthly GDP & Industrial Production
Consensus sees flat GDP growth in April.

US May CPI
Falling energy prices will help contain headline inflation in the month, but the consensus for the core measure looks to be firming for a 0.3% m/m outcome, which would match the April outcome and see the y/y rate tick down to 3.5% from 3.6%. Further progress on year-ended core rates will be harder fought looking forward as the comparisons move to the more benign inflation prints of a year earlier. Note the PPI is out on Thursday which will enable a better mapping to the Fed's preferred PCE measure of inflation. Consensus for PPI ex food and energy is for 0.3% m/m which would see the annual nudge up a tick to 2.5% y/y.

US June FOMC meeting
The FOMC will hold rates at 5.25-5.5%. More interesting will be the updated dots and the tone in the post meeting press conference.

It would have only taken one more dot to shift higher for the March dot plot to show 2, rather than 3 cuts in 2024. NAB expect the June dots to see a median projection for 2 cuts in 2024, as well as more participants joining the 2 dots for on hold and 2 dots for a single cut. That may flow through to some slight upward drift to the pace of cuts implied by the 2025 and 2026 dots as well.

Elsewhere 2024 growth projections should be marked a little lower, but PCE projections will be marked higher in recognition of the unhelpful outturns through Q1.

CA BoC Governor Macklem
With the BoC having recently cut rates, remarks by Governor Macklem are likely to be closely watched to assess the timing and probability of future cuts.

Thursday 13

AU May Unemployment
Employment was a robust +38k in April, and yet the unemployment rate rose two tenths to 4.1%. The lift in the unemployment rate was alongside a lift back in the participation rate to 66.7% and driven by an unseasonably large number of people who had a job they were yet to start counted as unemployed in April.

If those people were instead employed, the unemployment rate would have been a tenth lower, so expect some payback in May as that cohort shifts into employment. Though it is worth keeping in mind the magnitude of the effect could yet be swamped by ordinary month to month volatility.

NAB pencils in an unemployment rate falling back to 4.0% on an employment gain of +40k, with the risk skewed to a 3.9% print on unemployment rate.

EZ G7 in Italy, Eurozone Industrial Production

US PPI and Jobless Claims, Fed's Williams with Yellen
With the PPI and CPI (from Wednesday), analysts will be able to do a mapping to the Fed's preferred PCE inflation measure. Consensus for core PPI is 0.3% m/m. Also out is Jobless Claims, which is worth a look given their recent tick up to 229k, and where difficulty seasonally adjusting may have impact. As for Fed speak, the Fed's Williams is in moderated discussion with Treasury Secretary Yellen at the Economic Club of New York.

Friday 14

JN BoJ Meeting
Press reporting has flagged a reduction in bond purchases will at least be discussed at the BoJ meeting on Friday. A recent Bloomberg survey of 50 analysts had 54% expecting a slower pace of bond buying out of the meeting, a firmer majority than it is seems at first glance given it is against 26% no change and 20% noncommittal.

This is the first meeting since the yen's dip to a 34-year low prompted the Ministry of Finance to conduct the most aggressive yen-buying intervention ever. A reduction on bond purchases could help ease some downward pressure on the yen, while any guidance on prospects for near term increases in the policy rate will also be in focus. Analysts have been pulling forward expectations of the next hike, with a third now expecting a hike in July.

US Uni Michigan Consumer Confidence
Sentiment fell sharply to 69 from 77 in May. Clouding the interpretation is how much impact the implementation of gradual transition away from phone interview to web interviews that began in April had on the result. Nevertheless, the inflation expectations components of the report are likely to remain under focus, more so if this week's CPI or PPI data surprises.

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

Fixed Interest Market

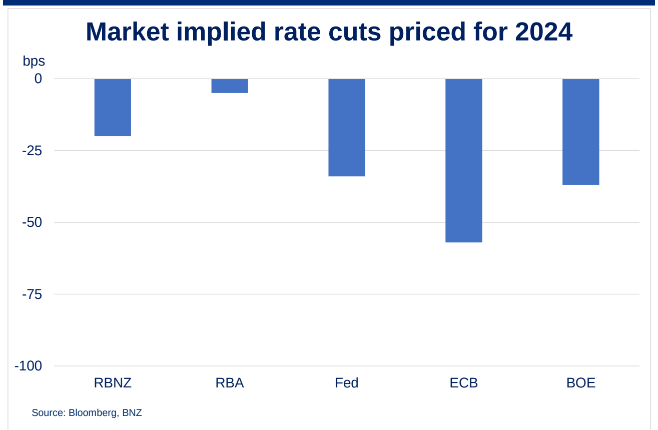
Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income markets extended the recent rally with yields falling to multi-week lows across the curve. The 2y/10y interest rate swap curve flattened 6bps to -50bps, matching the lows from the past three months. Curve flattening pressure was more pronounced in the government curve, ahead of the tap syndication of the May-2028 nominal bond, which launched on Wednesday and priced the following day. Stronger than expected US labour market data led to a reversal higher in global yields at the end of last week.

The NZ fixed income market has remained broadly range bound in recent months and is lacking a catalyst for a significant break in either direction. The market is pricing close to one 25bps RBNZ rate cut by year end. There is a high hurdle to reduce rate cut expectations further given the very weak economic backdrop and declining headline inflation. However, a break lower in yields would require a softening in the RBNZ's hawkish bias and an associated decline in stubborn domestic inflation pressures.

The market's focus this week will centre on key US risk events. The Federal Reserve (Fed) is unanimously expected to leave rates on hold at the FOMC with attention turning to the accompanying statement and updated economic projections. May CPI data is released ahead of the FOMC. The Fed will outline that easing remains likely later this year conditional on clearer progress on inflation. The updated dot plot for the median FOMC participant will show a reduction in 2024 easing from 75bps forecast at the March FOMC. The market is pricing 36bps by end 2024.

Central bank easing priced by end 2024



There was robust investor demand for the 15 May-2028 tap syndication last week. The order book, at final price guidance, exceeded NZ$15.5 billion. New Zealand Debt Management (NZDM) issued NZ$3.5 billion which was towards the upper end of the indicated target issuance volumes. The deal size had been capped at NZ$4 billion.

The bonds were issued at a spread of 4bps under the 15 April 2027 nominal bond. As is typical with shorter maturities, allocations were heavily skewed towards domestic investors and in particular banks. Bank balance sheets were allocated 61% of the total book. At the end of April, bank holdings of nominal NZ government bonds (NZGB) reached an all-time high of NZ$18.4 billion, surpassing the previous peak from 2021.

May-2028 tap syndication allocations

Investor Location (%)

Asia	0%
Australia	7%
Europe/UK	15%
New Zealand	74%
North America	0%
Other	4%

Investor Type (%)

Asset Manager/ Central Bank	17%
Bank - Balance Sheet	61%
Bank - Trading Book	17%
Hedge Fund	6%

source: NZDM

After incorporating the tap syndication proceeds, NZDM have issued a total of NZ$38 billion and completed the 2023/24 borrowing programme. However, NZDM has confirmed it can prefund part of the 2024/25 programme. The NZ$500 million weekly tenders, till the end of the fiscal year on June 30, will provide an offset to the forecast NZ$38 billion programme for next fiscal year. We estimate gross NZGB issuance for 2024/25 will be reduced to ~NZ$36 billion which offsets the increase at the Budget Economic and Fiscal Update (BEFU) at the end of May.

10-year swap spreads are back at the top end of the -25/-10 range. We expect the recent bond outperformance is likely to fade at current levels.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.62	5.61 - 5.64
NZ 2yr swap (%)	5.06	4.87 - 5.21
NZ 5yr swap (%)	4.54	4.37 - 4.74
NZ 10yr swap (%)	4.56	4.43 - 4.77
2s10s swap curve (bps)	-50	-52 - -41
NZ 10yr swap-govt (bps)	-12	-18 - -11
NZ 10yr govt (%)	4.68	3.87 - 4.92
US 10yr govt (%)	4.43	4.27 - 4.64
NZ-US 10yr (bps)	25	19 - 36
NZ-AU 2yr swap (bps)	85	71 - 93
NZ-AU 10yr govt (bps)	46	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 strengthened after a stronger than expected US employment report. After trading at a fresh three-month high of 0.6215, NZD/USD closed down 0.7% for the week at just over 0.61. The NZD made small gains against AUD and CAD, small losses against EUR and GBP, and fell 1% against the yen after NZD/JPY traded at a fresh 17-year high of 96.85.

The key market mover for currencies last week was the US employment report at the end of the week, showing a strong 272k gain in non-farm payrolls in May and a small pick-up in average hourly earnings growth. The market paid little heed to the lift in the unemployment rate to 4.0%, its highest level in over two years. After pricing in two full rate cuts this year just ahead of the release, by the end of the week the market was back to pricing in about 1½ rate cuts. Other US data were mixed, with job openings falling to their lowest level in over three years, a weaker than expected ISM manufacturing survey, and a stronger than expected rebound in the ISM services index.

Overall, the data seemed consistent with the soft-landing narrative for the US economy, but also consistent with the Fed remaining on the sidelines for now, likely happy to wait further before cutting rates, even as other central banks kick off easing cycles.

On that note, both the Bank of Canada and ECB met market expectations by cutting their policy rates by 25bps, following in the footsteps of recent rate cuts by the Swiss and Swedish central banks. The BoC said it was reasonable to expect further cuts. The ECB was non-committal on the timing of the next rate cut.

We expect easier global monetary policy to support the global economic growth outlook and commodity prices, factors that would normally support the NZD. JP Morgan's global manufacturing PMI index has already recovered to its highest level in nearly two years (see chart). The previous strong link between US monetary policy easing expectations and the NZD has weakened over the past month. However, we still see easier US policy, more so than currently priced by the market through the next eighteen months, as broadly USD-negative and therefore positive for the NZD.

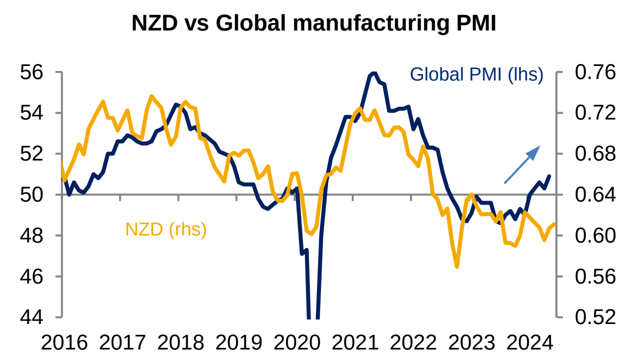
Last week's price action reinforced our view of some technical resistance just over 0.62. We look for some consolidation in the NZD, ahead of the next leg upward. The NZD remains fundamentally cheap against our short-term fair value model estimate, which has been hovering around 0.67 through most of 2024.

In the week ahead the key focus will be on the US CPI for May followed by the US Fed's policy announcement. The core CPI is expected to rise 0.3% m/m, driving the annual figure down to a fresh three-year low of 3.5% y/y. As always, the focus will be on the detail, and in particular the services side. Just hours later, Thursday morning NZ time, the Fed will be able to incorporate the data into its policy decision and projections. The market ascribes no chance for a rate cut at this meeting but will be seeking clues on the timing of the first rate cut. The dotplot projections are likely to show the median FOMC member expecting just one or two rate cuts this year (down from three previously projected). Both the projections and Chair Powell's press conference provide the opportunity to perturb the market, but we suspect the message will be familiar – the Fed will want to see more low inflation prints before kick starting the easing cycle.

The BoJ meets on Friday and there is a good chance that it announces a reduction in its bond purchases, while another rate hike is seen unlikely until the July meeting. The BoJ will be wanting to avoid another lurch down in the yen and to do this it'll have to offer a more hawkish policy perspective than delivered at the last meeting.

The domestic calendar is light and the only other release worth noting is the Australian employment report.

Pick-up in global manufacturing PMI bodes well for NZD



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6108	0.6080 - 0.6220
NZD/AUD	0.9280	0.9140 - 0.9320
NZD/GBP	0.4798	0.4790 - 0.4850
NZD/EUR	0.5669	0.5610 - 0.5710
NZD/JPY	95.85	95.10 - 96.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6730	-9%
NZD/AUD	0.8920	4%

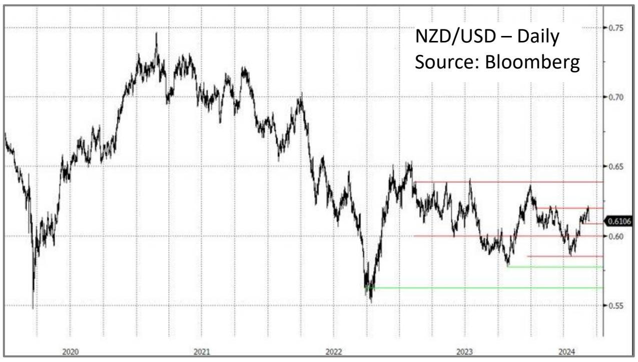
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6215 (ahead of 0.6390)
ST Support: 0.6085 (ahead of 0.60)

There is notable resistance just over 0.62, specifically 0.6215, close to recent highs in February, March and last week. Initial support is 0.6085.

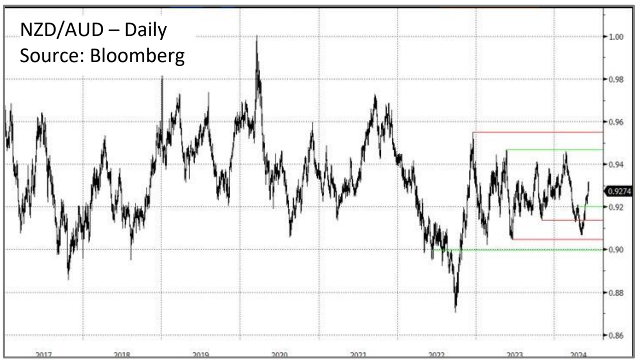


NZD/AUD

Outlook: Trading range
ST Resistance: 0.9470 (ahead of 0.9550)
ST Support: 0.9140 (ahead of 0.9050)

There's no obvious resistance points ahead of 0.9470, while support remains at 0.9140.

jason.k.wong@bnz.co.nz



NZ 5-year Swap Rate

Outlook: Neutral
MT Resistance: 4.82
MT Support: 4.06

5 year swap moved slightly lower last week but stayed short of testing any technical levels. By making higher lows in yield, we are beginning to develop a bias for higher rates. We remain neutral for now but are watching the upward sloping support closely.

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

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

The 2y-5y swap spread remained stable and near the middle of the range over the past week. We continue to wait for further technical guidance.

matthew.herbert@bnz.co.nz

Quarterly Forecasts

Forecasts as at 10 June 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	0.5	0.6	0.7	0.7	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	-6.6	-6.6	-6.3	-5.7	-5.2	-4.8	-4.7	-4.5
CPI (q/q)	1.8	0.5	0.6	0.6	0.9	0.5	0.5	0.6	0.8	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	2.6	2.5	2.0
GDP (production s.a., y/y))	-0.6	-0.3	0.0	-0.5	0.3	0.9	1.7	2.5	2.8	3.0

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
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	4.40	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	3.90	4.40	3.25	3.95	4.40	4.25	3.80	0.60
Dec	3.75	3.75	3.85	4.35	3.25	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	0.93	0.57	0.48	95.7	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	73.3
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 10 June 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	0.1	0.7	2.5	7.4	3.3	0.3	0.3	2.2
Government Consumption	7.9	2.0	-0.3	-3.2	0.5	7.8	4.9	-1.1	-2.8	-0.2
Total Investment	10.2	2.1	-2.1	-3.5	4.1	12.0	3.4	-1.1	-4.9	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	0.0	2.6	10.0	3.4	-1.5	-0.9	2.1
Exports	2.5	6.0	6.5	3.5	5.2	-2.7	-0.2	10.0	3.5	5.3
Imports	17.3	4.3	-1.9	0.9	3.9	14.8	4.6	-0.3	-0.4	3.6
Real Expenditure GDP	4.7	2.8	0.1	0.8	2.8	5.9	2.2	0.6	0.4	2.5
GDP (production)	**4.6**	**2.7**	**0.1**	**0.6**	**2.8**	**5.6**	**2.4**	**0.6**	**0.2**	**2.5**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.0*	*1.7*	*3.1*	*2.6*	*2.2*	*-0.3*	*0.9*	*3.0*
Output Gap (ann avg, % dev)	1.4	1.9	-0.4	-1.2	-0.3	1.5	2.0	0.2	-1.2	-0.5
Nominal Expenditure GDP - $bn	359	388	409	424	447	353	381	405	419	441
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.6	1.9	5.9	7.2	4.7	2.7	2.0
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	0.2	1.0	3.6	0.2	-2.3	-0.3	1.1
Unit Labour Costs (ann av %)	4.6	6.5	8.5	3.9	2.2	2.4	6.5	8.8	5.0	2.3
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	-26.9	-21.9	-18.9	-20.6	-33.4	-27.8	-23.9	-20.0
Current Account - % of GDP	-6.6	-8.2	-6.6	-5.2	-4.2	-5.8	-8.8	-6.9	-5.7	-4.5
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.7	-3.1	-1.9					
Net Core Crown Debt (ex NZS)	35.5	39.3	43.1	43.5	43.0					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	38.0	36.0					
Bond Programme - % of GDP	5.6	7.2	9.3	9.0	8.1					
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	3.25	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	3.25
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
	Monday 10 June			
JN	GDP SA QoQ 1Q F	-0.50%		-0.50%
JN	Eco Watchers Survey Outlook SA May	49		48.5
EC	Sentix Investor Confidence Jun	-1.7		-3.6
EC	ECB's Nagel, Holzmann speak			
CH	New Yuan Loans CNY YTD May	11260.0b		10190.0b
CH	Aggregate Financing CNY YTD May	15030.0b		12730.0b
	Tuesday 11 June			
US	NY Fed 1-Yr Inflation Expectations May			3.26%
AU	NAB Business Confidence May			1
UK	ILO Unemployment Rate 3Mths Apr	4.30%		4.30%
UK	Payrolled Employees Mthly Change May	-10k		-85k
EC	ECB's Simkus, Villeroy, Rehn, Lane speak			
US	NFIB Small Business Optimism May	89.6		89.7
EC	ECB's Holzmann, Villeroy speak in Vienna			
	Wednesday 12 June			
EC	ECB's Elderson, Vujcic speak			
NZ	Net Migration SA Apr			4910
CH	PPI YoY May	-1.50%		-2.50%
CH	CPI YoY May	0.40%		0.30%
GE	CPI YoY May F	2.40%		2.40%
UK	Monthly GDP (MoM) Apr	0.00%		0.40%
UK	Industrial Production MoM Apr	-0.10%		0.20%
UK	Trade Balance GBP/Mn Apr	-£1500m		-£1098m
	Thursday 13 June			
US	CPI Ex Food and Energy YoY May	3.50%		3.60%
EC	ECB's Guindos speaks			
US	FOMC Rate Decision (Upper Bound) Jun-12	5.50%	5.50%	5.50%
EC	ECB's Nagel, Villeroy speak			
NZ	Card Spending Total MoM May			0.90%
AU	Employment Change May	30.0k	40.0k	38.5k
AU	Unemployment Rate May	4.00%	4.00%	4.10%
EC	Industrial Production SA MoM Apr	0.20%		0.60%
	Friday 14 June			
US	Initial Jobless Claims Jun-08	220k		229k
US	Continuing Claims Jun-01			1792k
US	PPI Ex Food and Energy YoY May	2.50%		2.40%
US	Fed's Williams Interviews Treasury Sec. Yellen			
NZ	BusinessNZ Manufacturing PMI May			48.9
NZ	Food Prices MoM May		0.20%	0.60%
JN	Industrial Production MoM Apr F			-0.10%
EC	ECB's Vasle speaks			
UK	BoE/Ipsos Inflation Next 12 Mths May			3.00%
UK	BOE inflation attitudes survey			
EC	Trade Balance SA Apr			17.3b
EC	ECB's Lane speaks			
JN	BOJ Target Rate (Upper Bound) Jun-14	0.10%		0.10%
JN	BOJ Target Rate (Lower Bound) Jun-14	0.00%		0.00%
	Saturday 15 June			
US	U. of Mich. Sentiment Jun P	73		69.1
EC	ECB's Lagarde speaks			
US	Fed's Goolsbee, Cook speak			

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	5.60
2mth	5.61	5.62	5.62	5.64
3mth	5.62	5.63	5.63	5.69
6mth	5.62	5.63	5.59	5.76
GOVERNMENT STOCK				
05/26	4.82	4.91	4.81	4.64
04/29	4.50	4.65	4.57	4.46
05/31	4.53	4.70	4.62	4.47
05/34	4.63	4.82	4.72	4.55
04/37	4.78	4.95	4.89	4.64
05/41	4.90	5.05	5.02	4.71
05/51	4.90	5.04	5.02	4.60
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	50	50	51	71
Europe 5Y	51	51	53	78

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.08	5.10	4.98	5.37
3 years	4.81	4.83	4.72	4.99
4 years	4.65	4.69	4.57	4.75
5 years	4.57	4.62	4.51	4.62
10 years	4.59	4.66	4.59	4.50
FOREIGN EXCHANGE				
NZD/USD	0.6105	0.6193	0.6017	0.6122
NZD/AUD	0.9279	0.9257	0.9105	0.9068
NZD/JPY	95.78	96.65	93.98	85.46
NZD/EUR	0.5663	0.5679	0.5576	0.5690
NZD/GBP	0.4797	0.4835	0.4791	0.4894
NZD/CAD	0.8401	0.8439	0.8223	0.8184
TWI	72.1	72.5	71.0	70.7

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