5 August 2024

Labour Market Softening

- **Official data to confirm softening labour market**
- **Employment weak; unemployment to rise**
- **Wage inflation expected to ease**
- **Easier monetary conditions required**
- **Inflation expectations seen behaving**

Market eyes will be firmly fixed on Wednesday's suite of Q2 labour market indicators. They are the last of the major indicators ahead of the RBNZ's August MPS.

Confirmation of softening in the labour market would seem as close to assured as you could get, given the host of lead indicators pointing that way. We have long forecast such dynamics and continue to do so for this quarter and well into next year. For this week, it would seem a case of assessing the speed and extent of it in Q2.

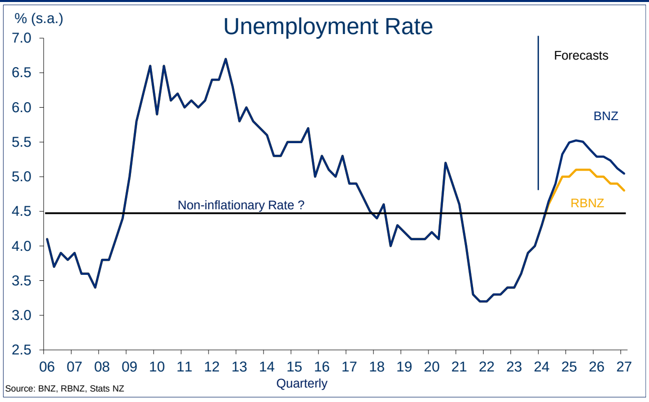
Of course, the Household Labour Force Survey (HLFS) has been known to be volatile in the past so nothing should be taken as given. Never say never. But, really, anything other than a material softening in Q2 would be a surprise.

We expect the unemployment rate to rise as flat-to-negative employment meets still rising labour supply (even with an assumed further pullback in the participation rate). In numbers, we have settled on employment edging down 0.1% in the quarter (+0.1 y/y) which would result in an unemployment rate of 4.6% (from Q1's 4.3%) given our participation rate assumption of 71.4% (from Q1's 71.5%).

Our estimates see a weaker labour market than RBNZ forecasts, largely on softer employment growth and associated dip in participation. Market expectations also represent a softer labour market than RBNZ projected back in May. Market consensus sits at -0.2%/4.7%/71.3% for quarterly employment growth, the unemployment rate, and participation rate respectively. The RBNZ's May MPS projected +0.1%/4.6%/71.5%.

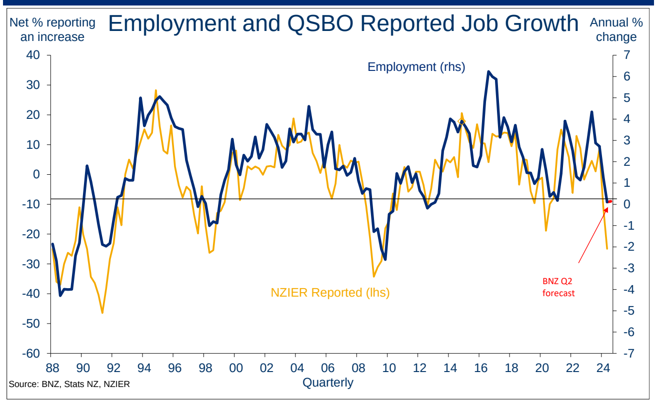
Recall that those RBNZ estimates were in a statement and commentary that had discussed raising the OCR and not reducing it until toward the end of next year so any softer looking labour market data compared to the Bank's published view should be considered in that context. That is to say that softer-than-RBNZ-expected data could, in the first instance, represent some catch up to the RBNZ's change of tone in July rather than necessarily an extension of it.

Softening expected



At the same time, we think it would be unwise to see an outcome on RBNZ expectation as tacit endorsement of the full May MPS. The labour market tends to lag the economic cycle and there has been material evolution in many other indicators since the May statement.

Downside risk here



Other figures that can help assess pressures in the labour market will also be worth watching in Wednesday's data, including the likes of the rates of underemployment and underutilisation. The underutilisation rate lifted to 11.2% in Q1.

We expect further slowing in annual wage inflation, reflecting a softening labour market. We should note that it is not wage inflation per se that is of most relevance for monetary policy considerations, but rather wage inflation that exceeds productivity growth. The LCI private sector all salary and wage rate index is the RBNZ's preferred wage measure. We forecast a Q2 increase of 0.9%. This would see annual inflation in this unit labour cost type index ease to 3.6% from 3.8%. The RBNZ published projections of 0.9% q/q and 3.6% y/y, while market consensus sees +0.8% q/q.

Wage inflation is a notoriously lagging indicator. Economic activity, associated labour demand, and labour market tightness indicators have all been softening aggressively – indicating further wage disinflation ahead. But to the extent that unit labour cost inflation remains elevated it will receive attention at the Bank, including through its association with services price inflation (that was steady at an elevated level in Q2).

We pay less attention to QES average hourly earnings given they can be thrown around by compositional changes in employment. But the QES filled jobs and paid hours (and the HLFS actual and usual hours worked) will be monitored for any guidance to economic activity in the quarter. We look for more evidence here that the economy contracted in Q2.

The market will be tuned in. Broadly weaker than expected outcomes would only encourage financial markets to anticipate OCR cuts to start in August, whereas a generally stronger than expected outcome could see some backing away from expectations for immediate central bank action.

We will release our August MPS preview later this week. We repeat, now, nonetheless that we believe easier monetary conditions are required.

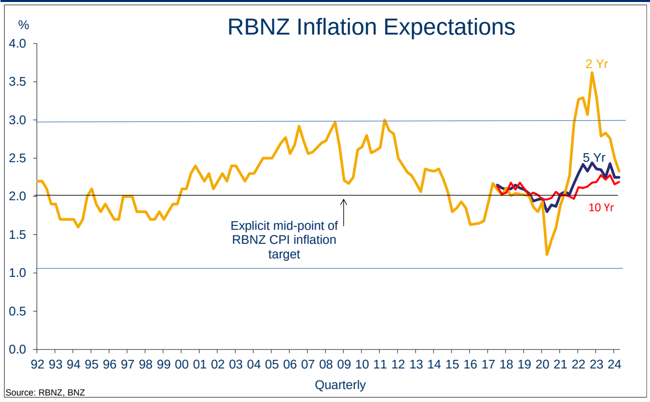
For us, we will weigh up all the recent data, including Wednesday's labour market information, in a MPS preview later in the week. As it stands, while we see the first OCR cut in November, we reiterate that we wouldn't rule out an earlier start to OCR cuts including at the Bank's August meeting which we see as live. We continue to believe that easier monetary conditions are required.

Recent offshore developments including softer growth signals out of China and the US, further escalation of tension in the Middle East, equity market volatility, and markets pricing more aggressive cuts from the US Fed add weigh to this belief.

Beyond the precise staring point of the first OCR reduction, the bigger picture is likely to remain following this week's data – one of struggling economic activity, a trend softening in the labour market, and the associated receding inflationary pressure resulting in a material reduction in the OCR over the coming year or two.

There is limited other data out during the week. Of what here is, Thursday's RBNZ Survey of Expectations will get the most attention to see if its inflation expectations components behave. From an idealist point of view, these expectations would fall further. They would seem more likely to do so than not given declines in actual inflation and what we have seen in other business surveys. For the record, the previous quarter's expectations for the 1, 2, 5, and 10 year ahead periods respectively were 2.73%, 2.33%, 2.25% and 2.19%. We actually see these as being healthily low already, but the RBNZ may well prefer them to nudge lower.

Behaving



Commodity price update will come in the form of July's ANZ index on Monday and the GDT dairy auction in the very early hours of Wednesday morning. The ANZ index is expected to post a modest monthly fall in world price terms (driven by dairy and aluminium), but a lower NZ dollar will help support prices in local currency terms. For the GDT auction, recent indicators seem more consistent with some further slippage after a hint of some stability at the prior full auction but we don't think it will be enough to threaten 2024/25 milk price forecasts that are around the $8 mark or a bit above.

Q2 concrete production on Friday will be worth a glance as a loose guide to construction in the quarter. Another negative looks on the cards, if the long and large preceding decline in building consents is any guide. Concrete production has already fallen for 9 consecutive quarters on a seasonally adjusted basis, including its 3.7% drop in Q1.

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Global Watch

- **Fed lines up September cut**
- **BoE cuts, BoJ hikes**
- **AU CPI undershoots; RBA seen on hold this week**
- **China PMI, trade data due**
- **Middle East tension escalating**
- **Equity market volatility rises**

Week in review

It was mostly about central banks offshore with the US FOMC, BoE and BoJ all meeting. US Fed Chair Powell gave the clearest signal that a September rate cut was more likely, along with some concerns around the labour market – markets price in more than a cumulative 200bps of cuts by end 2025. Key quotes from Powell were:

"*So, if we were to see, for example, inflation moving down quickly, or more or less in line with expectations, growth remains let's say reasonably strong and the labor market remains consistent with its current condition, then I would think that a rate cut could be on the table at the September meeting*"; and

"*So we don't think, I don't now think of the labor market in its current state as a likely source of significant inflationary pressures. So, I would not like to see material further cooling in the labor market, and that's part of what's behind our thinking*".

The BoE meanwhile cut rates in a close 5 vs. 4 decision, with some of those voting for a cut seeing it as "*finely balanced*". Given that context, markets are not expecting the BoE to rush the next rate hike, instead pricing the next rate cut in November. Bucking the global trend was Japan, the BoJ hiked rates and reduced its QE bond buying.

In Australia, the CPI surprised to the downside, which saw a dramatic re-pricing of the RBA outlook by markets. CPI trimmed mean inflation was 0.84% q/q vs. 1.0% consensus. While coming in below the consensus, the annual rate of 3.9% y/y was one tenth above the RBA's May forecast and three tenths above the Bank's February forecasts. While the data in NAB's view all but removes the risk of the RBA hiking rates again, conditions for a cut remain a long way off. NAB sees a rate reduction in May 2025.

Australian retail sales took a back seat to the CPI. But for the record, the value of monthly retail sales for June beat at 0.5% m/m vs. 0.2% consensus. The Statistician pointed to EoFY sales boosting discretionary items (ditto the prior month), but importantly there has been a pickup ahead of the tax cuts that became effective from July 1 along with other cost of living relief.

Other global data flow was mostly soft with the US Manufacturing ISM and a lift in US Jobless Claims seeing sharp moves in markets. That tone continued Friday with the US labour market cooling more than expected in July. Non-farm payrolls increased 114k, which was below the consensus of 175k and there were downward revisions to previous months. The unemployment rate increased to 4.3%, from 4.1%, well above consensus for no change.

Equity market volatility has increased and there has been further escalation of tensions in the Middle East with many Western governments stepping up calls for their citizens to level Lebanon while commercial flights are still available.

Week Ahead in Brief

NAB has always expected the **RBA** would remain on hold at the August meeting Tuesday, though the better than feared underlying CPI data on Wednesday has made it a little less interesting than it might have been. All but one of 22 analysts polled by Bloomberg look for a hold at 4.35%. Markets price essentially no risk of a hike. Today is a Bank holiday in NSW. There is no AU data of note, though RBZ Governor Bullock gives a speech Thursday, providing a further opportunity to expand on the RBA's updated August assessment.

Some of the RBA language around vigilance to upside risks may be tempered relative to June, and while trimmed mean inflation at 3.9% is still a tenth above the RBA's most recent May forecast, NAB expects the RBA will continue to forecast inflation around 2.5% in 2026. Note the forecast horizon extends to the end of 2026. The cash rate assumption will reflect market pricing post-CPI, meaning an end 2025 cash rate assumption about 30bp lower than in May, of some modest support to growth near the end of the forecast horizon. Headline inflation will reflect government energy subsidies, subtracting through FY25 and adding through FY26. The trimmed mean will be less effected, and so more useful.

NAB's view remains that the conditions for a cut are unlikely this year with a first cut in May 2025 pencilled in.

Globally, it is a quieter week in prospect with only US Services ISM and the Senior Loan Officers Survey (Monday) of much note. Weekly jobless claims on Thursday will be worth an extra look. Fed speakers will also be in focus although scheduled appearances are relatively light.

Quarterly earnings season continues, though contains fewer big names. Berkshire Hathaway, Eli Lily, Caterpillar, and Uber among those set to report. Harris' nomination is set to be confirmed by August 5, ahead of the DNC convention in Chicago on August 19.

Employment data for Canada is due Friday. The unemployment rate is seen rising to 6.5% in July, and markets are nearly fully priced for a third consecutive BoC cut in September.

It's August, and right on cue the European calendar goes remarkably quiet. Second tier data include Eurozone PPI (Monday) and Retail Sales (Tuesday).

Japanese labour cash earnings data (Tuesday) should confirm the improvement in the May numbers. Chinese Caixin Services PMI (Monday) is likely to confirm the modest further slowing in growth momentum into July seen in other PMI data. Trade data is on Tuesday and Aggregate Financing data is expected in the week from Friday.

Important Events Preview

Monday 05

CH Services PMI
The Caixin Services PMI completes the set of July PMI reads. The official PMIs remained soft in July, and the Caixin Manufacturing PMI, which had been showing more resilience, took a leg lower. Expectations are for the Caixin Services PMI to paint a slightly rosier picture, at 51.5 from 51.2.

EZ Final Services PMIs

US Services ISM & SLOOS
The contrast between the S&P Global US Services PMI and the ISM version is stark and expectations are for the services ISM to bounce back up above 50 even as it remains subdued. A sharp downside surprise to the Manufacturing ISM, including a large 6-point fall in the employment component to 43.4, the lowest reading in over four years saw a very strong market reaction last week. With markets sensitive to signs the labour market could deteriorate more sharply, the employment subcomponent of the services ISM will also be one to watch, previously at an already subdued 46.1.

The Senior Loan Officers Survey is also released, providing an update on lending standards.

Tuesday 06

JN Labour Cash Earnings
A lift in wages confirmed in May cash earnings growth helped build the BoJ's comfort a virtuous cycle between prices and wages could support a sustained lift in inflation and allow some policy normalisation. Expectations are the June numbers should show a further lift as recent higher wage outcomes continue to be reflected in pay packets.

AU RBA & SoMP
NAB see the RBA on hold on Tuesday, with the CPI last week all but putting to bed the small residual risk they feel compelled to tighten further.

The commentary at the June meeting emphasised vigilance about upside inflation risks. NAB expects that to be tempered somewhat, but wouldn't be surprised if Bullock in the post meeting press conference reveals the Board did again discuss a hike, even if it is only perfunctory.

The RBA forecasts will be extended 6 months to end 2026 and are based on a cash rate path implied by market pricing. In May, that snapshot was taken on the Wednesday prior to publication. This round, that would mean post CPI pricing and a forecast assumption for a lower path for policy rate of about 30bp lower by the end of 2025 than assumed in May.

Q1 GDP released since the May forecast update showed an upward revision to consumption, which may temper some of the downside risk the RBA saw in their consumption outlook despite the expected pick up in real incomes through the second half of the year.

The unemployment rate profile is likely to be similar, with Q2 data broadly in line with the RBA's May expectation.

On inflation, while underlying CPI was better than feared, y/y trimmed mean CPI at 3.9% was still a tenth above the RBA's May forecast. NAB expects the RBA will forecast inflation around the midpoint of the target band in 2026.

The forecast update will also incorporate new state and federal electricity subsidies for the first time. That will have a substantial impact on headline inflation forecasts, but more modest implications for underlying. The unwind of the subsides as legislated adds to y/y inflation through FY2026, but the effect will drop out by the end of the forecast horizon.

Wednesday 07

CH Trade

Thursday 08

AU RBA Governor Bullock Speech

US Jobless Claims
Weekly jobless claims will be worth a look on Thursday given the recent labour market surprises to the weaker side. The figures can be distorted around this time of year due to seasonal factors and Hurricane Beryl might also have had an impact, but continuing claims are already above 2019 levels and threatening to trend higher.

Friday 09

CH CPI & PPI
China inflation data should continue to show sluggish demand doing little to generate inflation pressures, though expectations are for CPI to tick up a tenth in y/y terms from 0.2% in June to 0.3% in July. PPI inflation should remain comfortably in negative territory, further weighed by recent declining commodity prices.

CA Unemployment
Weakening in the labour market has supported the Bank of Canada's pivot towards cuts. The unemployment rate has already risen sharply from a trough of 4.8% in 2022 to 6.4% in June. Another soft print would keep the BoC on track to continue easing at the September meeting.

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Fixed Interest Market

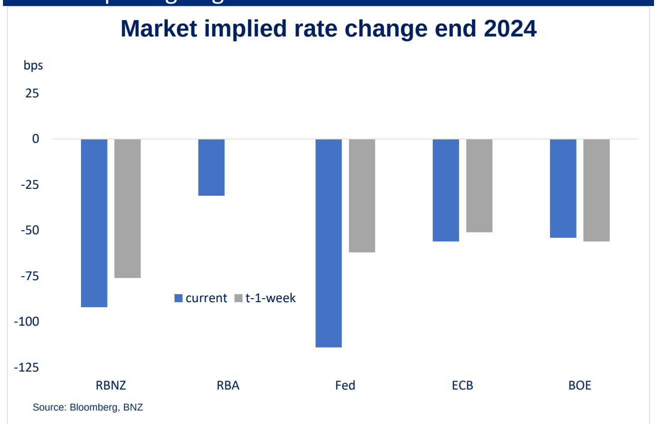
Reuters: BNZL, BNZM Bloomberg:BNZ

The move lower in NZ fixed income yields continued unabated last week with global drivers underpinning the rally in the absence of first-tier domestic data. The US Federal Reserve left rates on hold at the FOMC, as was unanimously expected, but signalled it is getting closer to lowering its policy rate. Weaker than expected US labour market data, led to increasing calls for a more aggressive Fed easing cycle, and contributed to a rally across global fixed income.

US non-farm payrolls increased 114k in July, which was below the consensus estimate, and there were downward revisions to previous months. The unemployment rate unexpectedly increased to 4.3% raising investor concerns about a US economic slowdown. The move higher in the unemployment rate triggered a widely followed recession indicator, the Sahm rule, which occurs when the 3-month average jumps more than 0.5% in a year.

The unemployment rate is at the top end of the Fed's longer run projection, and a further move higher, would be consistent with below-target inflation pressures. Several Wall Street banks are now calling for a 50bps cut at the September FOMC. Market pricing suggests the meeting is finely balanced between a 25bps and 50bps cut. Interest rate swaps are pricing 44bps of easing for September and a cumulative 114bps by the end of the year.

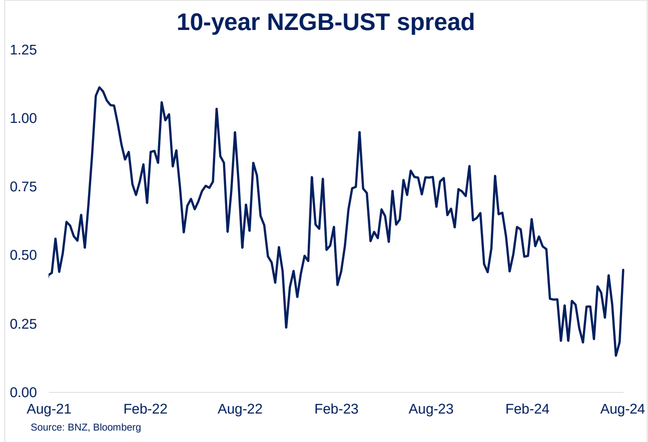
US led repricing of global central banks



10-year treasury yields have fallen below 3.80% which corresponds with the lows from last December. In addition to economic developments and Fed pricing, investor risk aversion has increased amid a sharp fall in global equities – the VIX index of expected volatility for the S&P 500 equalled intra-day levels from March 2023 when US regional banking stress hit a peak - supporting a safe haven bid for fixed income. Rising geopolitical tensions in the Middle East have also supported flows into defensive assets.

NZ yields have fallen across the curve in response to the repricing in US markets. A 25bps RBNZ rate cut is now fully discounted for the August Monetary Policy Statement (MPS) on August 14 and there is close to 100bps of easing priced by the November meeting. Q2 labour market data on Wednesday is the last major economic release ahead of the MPS although inflation expectations, which have moderated, will contribute to the Bank's assessment of inflation dynamics.

Wider NZGB-UST spread



10-year NZ government bonds (NZGB) have fallen below 4.2%, to the lowest level since May last year, alongside the move in US treasuries. However, NZGBs have underperformed - the 10-year NZGB-UST cross market spread has widened back to the top of the approximately 10-40bps range that has contained price action since April. 10-year spreads look close to fair value based on the relative re-pricing on the paths for the RBNZ and Fed monetary policy.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.44	5.44 - 5.61
NZ 2yr swap (%)	4.05	4.05 - 4.89
NZ 5yr swap (%)	3.71	3.71 - 4.46
NZ 10yr swap (%)	3.91	3.90 - 4.55
2s10s swap curve (bps)	-14	-25 - -7
NZ 10yr swap-govt (bps)	-25	-30 - -20
NZ 10yr govt (%)	4.16	4.22 - 4.71
US 10yr govt (%)	3.79	3.78 - 4.38
NZ-US 10yr (bps)	37	14 - 38
NZ-AU 2yr swap (bps)	30	3 - 52
NZ-AU 10yr govt (bps)	11	5 - 30

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS **Bloomberg pg BNZ9**

In an eventful week, the NZD outperformed, seeing NZD/USD up 1.2% to 0.5960, gains over 1½-2% against the AUD, CAD, and GBP and a gain of less than 1% against EUR. A further strong recovery in the yen saw NZD/JPY plunge a further 3½% to 87.3.

Last week there were plenty of market moving events that rocked the market. US economic data were weaker than expected including soft payrolls for July and an unexpected jump in the unemployment rate to a near three-year high of 4.3%. The ISM manufacturing report for July was also very weak, with the headline index falling to 48.6 and a particularly meaty 6-point fall in the employment component to 43.4, the worst reading since the GFC excluding COVID. Wage inflation continues to slow. The employment cost index increased a below expected 0.9% in Q2 and slower than the 1.2% gain in Q1.

The softer data raised the question whether the Fed is too slow in kicking off an easing cycle. At the FOMC meeting, which came before the ISM survey and the weak employment report, the Fed kept policy steady but opened the door for cutting rates in September. Chair Powell said the Fed was more confident that inflation is heading back toward 2% and, while the FOMC has made no decisions about future meetings, a rate cut could happen as soon as the next meeting.

US rates plunged on the weak data, with the market pricing in an *extra* 48bps of easing over the last three meetings for this year, now looking at a high chance of a 50bps cut in September and 116bps over three meetings. Plunging US rates were a drag on the USD but an offsetting factor was much weaker risk appetite, with our index tumbling by 19pts for the week to a nine-month low of 42%.

Other key market moving events for the week were the BoE delivering a 25bps rate cut to kick off the UK easing cycle, the BoJ delivering a larger than expected 15bps hike accompanied by plans to reduce its bond purchases by half over a two-year period, and weaker than expected underlying Australian CPI data for Q2, which took the chance of another RBA rate hike off the table.

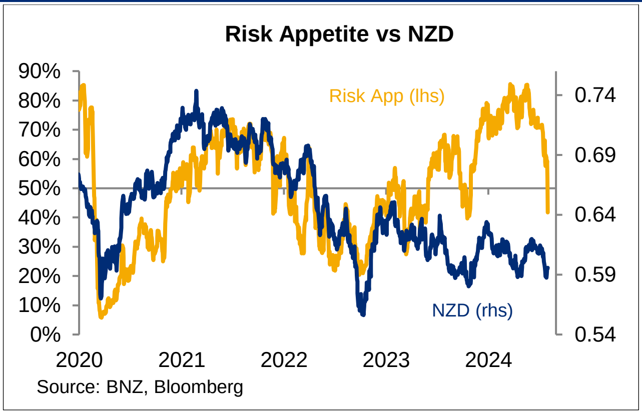
These forces resulted in GBP and AUD being the weakest of the majors for the week, while JPY was the strongest. The closing of short NZD/AUD positions was a supporting factor for the NZD, resulting in NZD/AUD closing the week at 0.9150, remarkably taking it more than ½ cent higher from the level prevailing just ahead of the RBNZ's dovish pivot on 10 July. Also remarkably, NZD/JPY is down nearly 12% from its peak of 99 less than a month ago.

In the week ahead, NZ labour market releases are the final top-tier data ahead of next week's MPS. There is a good chance of negative employment growth and the unemployment rate reaching a fresh three-year high of 4.6-4.7%. Alongside recent global forces, this could be enough to get the RBNZ over the line for an August rate cut, but there remains lingering uncertainty over whether the RBNZ will actually deliver then, or simply line up easier policy for later in the year. The market has already priced in a substantial easing in monetary policy over the next eighteen months (around 250bps) so we are not particularly concerned about downward forces on the NZD from this source.

We can see further consolidation in the NZD from here, with support near the April low of 0.5850 and resistance just over 0.62. The RBA will deliver an on-hold message tomorrow but still looks far from delivering easier policy compared to other key central banks. Despite the rebound in NZD/AUD, we believe that a return below 0.90 is more likely and appropriate rather than any sustained recovery from here.

Prepare for choppy currency market conditions to continue over coming months.

Weaker risk appetite catches "down" towards the NZD



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5958	0.5860 - 0.6120
NZD/AUD	0.9151	0.8950 - 0.9160
NZD/GBP	0.4654	0.4560 - 0.4720
NZD/EUR	0.5461	0.5420 - 0.5620
NZD/JPY	87.30	87.30 - 96.70

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6470	-8%
NZD/AUD	0.8720	5%

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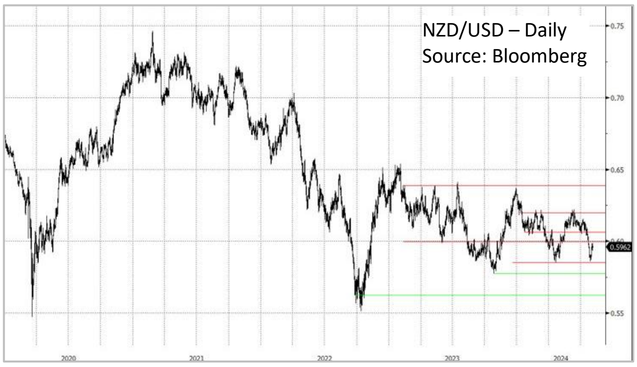
Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.60 (ahead of 0.6220)
ST Support: 0.5850 (ahead of 0.5775)



Recent price action has reaffirmed strong support near 0.5850. Key resistance still seen at 0.6220.

NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9200 (ahead of 0.9315)
ST Support: 0.8970 (ahead of 0.8900)

Sharp rebound last week brings some resistance near 0.92 into play. The 0.8970 level looks to be the first support base.

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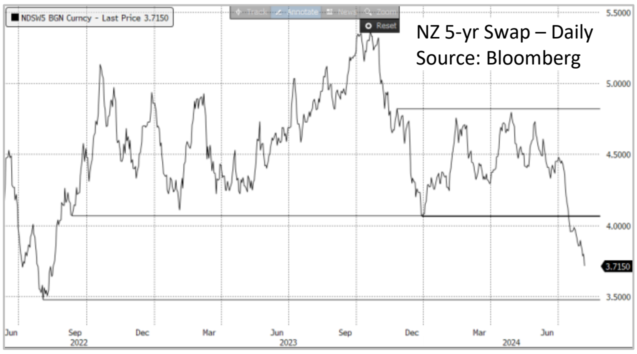
NZ 5-year Swap Rate

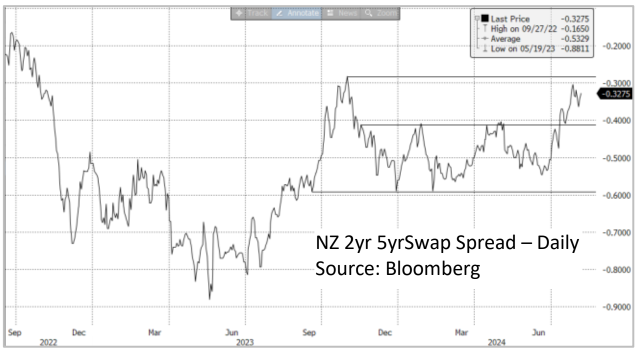
Outlook: Lower
MT Resistance: 4.06
MT Support: 3.48



5 year swap fell lower again last week on the back of increased rate cut expectations both in NZ and globally. We are looking for this trend to continue and target 3.48.

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

Outlook: Steeper
MT Resistance: -0.28
MT Support: -0.41



The 2x5 year swap spread somewhat treaded water last week. We still look for this to continue to move steeper towards resistance.

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Quarterly Forecasts

Forecasts as at 5 August 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded)

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (production s.a.)	-0.1	0.2	-0.2	0.3	0.5	0.7	0.7	0.8	0.8	0.8
Retail trade (real s.a.)	-1.8	0.5	-0.5	0.4	0.5	0.8	1.0	1.2	1.1	0.9
Current account (ytd, % GDP)	-6.9	-6.8	-6.7	-6.7	-6.5	-6.1	-5.8	-5.6	-5.3	-5.0
CPI (q/q)	0.5	0.6	0.4	1.0	0.5	0.5	0.5	0.9	0.1	0.5
Employment	0.4	-0.2	-0.1	0.0	0.1	0.3	0.5	0.6	0.7	0.7
Unemployment rate %	4.0	4.3	4.6	4.9	5.3	5.5	5.5	5.5	5.4	5.3
Avg hourly earnings (ann %)	6.6	4.8	4.1	3.0	3.3	3.9	3.4	3.2	3.0	3.0
Trading partner GDP (ann %)	3.3	3.2	3.1	2.9	2.9	2.9	3.0	3.1	3.1	3.0
CPI (y/y)	4.7	4.0	3.3	2.6	2.5	2.4	2.4	2.3	1.9	1.9
GDP (production s.a., y/y))	-0.2	0.3	-0.4	0.2	0.7	1.2	2.1	2.6	2.9	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
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	5.64	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024 Mar	5.50	5.66	4.41	4.64	4.91	4.38	4.40	5.60	4.20	0.44
Jun	5.50	5.62	4.50	4.65	4.98	4.47	4.50	5.60	4.30	0.35
Forecasts										
Sep	5.50	5.40	4.35	4.55	4.25	4.25	4.30	5.40	4.25	0.30
Dec	5.25	5.05	4.15	4.45	3.85	4.10	4.30	5.15	4.10	0.35
2025 Mar	5.00	4.65	4.00	4.40	3.45	3.95	4.25	4.65	4.00	0.40
Jun	4.50	4.15	3.85	4.35	3.20	3.80	4.20	4.40	3.90	0.45
Sep	4.00	3.65	3.75	4.30	3.05	3.70	4.15	4.15	3.80	0.50
Dec	3.50	3.30	3.70	4.25	3.00	3.65	4.10	3.90	3.75	0.50
2026 Mar	3.25	3.00	3.75	4.25	3.15	3.75	4.15	0.00	3.75	0.50

Exchange Rates (End Period)

	USD Forecasts NZD/USD	 AUD/USD	 EUR/USD	 GBP/USD	 USD/JPY	NZD Forecasts NZD/USD	 NZD/AUD	 NZD/EUR	 NZD/GBP	 NZD/JPY	 TWI-17
Current	0.59	0.65	1.09	1.28	146	0.59	0.91	0.55	0.47	86.8	69.6
Sep-24	0.61	0.67	1.09	1.28	146	0.61	0.91	0.56	0.48	89.1	71.1
Dec-24	0.62	0.69	1.11	1.30	143	0.62	0.90	0.56	0.48	88.7	71.4
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	72.3
Sep-26	0.67	0.73	1.18	1.36	129	0.67	0.89	0.56	0.48	79.0	72.8

Annual Forecasts

Forecasts as at 5 August 2024	March Years					December Years				
	Actuals					Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.9	1.4	2.6	7.4	3.3	0.6	1.5	2.1
Government Consumption	7.9	2.0	0.5	-3.3	0.4	7.8	4.9	-0.8	-2.2	-0.6
Total Investment	10.2	2.1	-1.7	-4.2	3.6	12.0	3.4	-0.9	-4.9	2.0
Stocks - ppts cont'n to growth	0.5	0.0	-1.5	1.3	0.1	1.4	-0.3	-1.4	0.7	0.5
GNE	7.9	2.5	-1.4	0.6	2.6	10.0	3.4	-1.5	0.1	2.1
Exports	2.5	6.0	6.4	2.2	5.0	-2.7	-0.2	9.8	2.8	4.7
Imports	17.3	4.4	-1.2	3.1	4.1	14.8	4.7	-0.5	2.8	3.6
Real Expenditure GDP	4.7	2.7	0.4	0.4	2.7	5.9	2.3	0.8	0.2	2.2
GDP (production)	**4.6**	**2.7**	**0.2**	**0.5**	**2.7**	**5.6**	**2.4**	**0.6**	**0.2**	**2.2**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.3*	*1.2*	*3.0*	*2.6*	*2.2*	*-0.2*	*0.7*	*2.9*
Output Gap (ann avg, % dev)	1.4	1.9	-0.3	-1.2	-0.5	1.6	2.0	0.2	-1.1	-0.7
Nominal Expenditure GDP - $bn	359	388	409	424	446	353	381	405	420	440
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.4	1.9	5.9	7.2	4.7	2.5	1.9
Employment	2.5	3.0	1.3	0.3	2.5	3.3	1.7	2.7	-0.2	2.1
Unemployment Rate %	3.2	3.4	4.3	5.5	5.3	3.2	3.4	4.0	5.3	5.4
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	-2.3	0.3	0.9	3.6	0.2	-2.3	-0.1	1.0
Unit Labour Costs (ann av %)	4.6	6.5	8.4	3.8	2.3	2.3	6.5	8.8	4.8	2.4
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	-27.6	-25.7	-22.5	-20.6	-33.4	-27.9	-27.4	-23.6
Current Account - % of GDP	-6.6	-8.2	-6.8	-6.1	-5.0	-5.8	-8.8	-6.9	-6.5	-5.3
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	71.4	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	4.65	3.00	0.92	4.55	5.63	5.05	3.30
5-year Govt Bond	2.90	4.40	4.60	4.00	3.75	2.20	4.30	4.50	4.15	3.70
10-year Govt Bond	3.20	4.35	4.60	4.40	4.25	2.35	4.25	4.65	4.45	4.25
2-year Swap	3.00	5.15	4.91	3.45	3.15	2.22	5.21	4.93	3.85	3.00
5-year Swap	3.20	4.50	4.40	3.95	3.75	2.56	4.62	4.43	4.10	3.65
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	0.40	0.50	0.90	0.65	0.65	0.35	0.50

(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 05 August			
AU	Judo Bank Australia PMI Services Jul F			50.8
JN	BOJ Minutes of June Meeting			
AU	Melbourne Institute Inflation YoY Jul			3.20%
NZ	ANZ Commodity Price MoM Jul			1.50%
GE	HCOB Germany Services PMI Jul F	52		52
EC	HCOB Eurozone Services PMI Jul F	51.9		51.9
EC	Sentix Investor Confidence Aug	-8		-7.3
UK	S&P Global UK Services PMI Jul F	52.4		52.4
	Tuesday 06 August			
US	Fed's Goolsbee speaks			
US	S&P Global US Services PMI Jul F	56		56
US	ISM Services Prices Paid Jul			56.3
US	ISM Services Employment Jul			46.1
US	ISM Services New Orders Jul			47.3
US	Senior Loan Officer Opinion Survey on Bank Lending Practices			
US	Fed's Daly speaks			
UK	BRC Sales Like-For-Like YoY Jul	0.20%		-0.50%
JN	Cash Earnings - Same Sample Base YoY Jun	3.50%		2.30%
JN	Scheduled Full-Time Pay - Same Base YoY Jun	2.90%		2.70%
JN	Household Spending YoY Jun	-0.80%		-1.80%
AU	ANZ-Indeed Job Advertisements MoM Jul			-2.20%
AU	RBA Cash Rate Target Aug-06	4.35%	4.35%	4.35%
AU	RBA-Statement on Monetary Policy			
GE	Factory Orders MoM Jun	0.50%		-1.60%
EC	Retail Sales MoM Jun	-0.10%		0.10%
UK	BOE releases report on APF			
	Wednesday 07 August			
US	Trade Balance Jun	-$72.5b		-$75.1b
CA	S&P Global Canada Composite PMI Jul			47.5
CA	S&P Global Canada Services PMI Jul			47.1
NZ	GDT dairy auction			0.40%
NZ	Unemployment Rate 2Q	4.70%	4.60%	4.30%
NZ	Employment Change QoQ 2Q	-0.20%	-0.10%	-0.20%
NZ	Pvt Wages Ex Overtime QoQ 2Q	0.80%	0.90%	0.80%
AU	RBA's Hunter-Testimony			
GE	Industrial Production SA MoM Jun	1.00%		-2.50%
GE	Trade Balance SA Jun	21.5b		24.9b
CH	Trade Balance CNY Jul			703.73b
	Thursday 08 August			
CA	Bank of Canada Releases Summary of Deliberations			
UK	S&P Global, KPMG and REC UK Report on Jobs			
JN	BOJ Summary of Opinions (July MPM)			
AU	RBA's Bullock speaks			
NZ	2Yr Inflation Expectation 3Q			2.33%
JN	Eco Watchers Survey Outlook SA Jul	48.5		47.9
	Friday 09 August			
US	Initial Jobless Claims Aug-03	243k		249k
US	Continuing Claims Jul-27	1871k		1877k
US	Wholesale Trade Sales MoM Jun			0.40%
US	Fed's Barkin speaks			
CH	PPI YoY Jul	-0.90%		-0.80%
CH	CPI YoY Jul	0.30%		0.20%
GE	CPI YoY Jul F	2.30%		2.30%
CH	New Yuan Loans CNY YTD Jul	13700.0b		13270.0b
CH	Aggregate Financing CNY YTD Jul	19299.2b		18100.0b

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	5.50
1mth	5.53	5.54	5.60	5.61
2mth	5.49	5.50	5.60	5.63
3mth	5.44	5.46	5.60	5.64
6mth	5.25	5.28	5.55	5.74
GOVERNMENT STOCK				
05/26	4.25	4.32	4.77	4.98
04/29	3.94	4.03	4.47	4.72
05/31	4.05	4.16	4.54	4.73
05/34	4.24	4.36	4.66	4.77
04/37	4.45	4.58	4.82	4.87
05/41	4.64	4.76	4.97	4.96
05/51	4.69	4.81	5.00	4.92
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	58	52	49	67
Europe 5Y	63	55	52	71

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	4.05	4.19	4.84	5.48
3 years	3.81	3.94	4.58	5.15
4 years	3.72	3.86	4.45	4.94
5 years	3.71	3.86	4.38	4.82
10 years	3.91	4.07	4.45	4.70
FOREIGN EXCHANGE				
NZD/USD	0.5956	0.5876	0.6126	0.6106
NZD/AUD	0.9151	0.8972	0.9092	0.9290
NZD/JPY	87.33	90.50	98.50	86.99
NZD/EUR	0.5458	0.5430	0.5659	0.5550
NZD/GBP	0.4654	0.4569	0.4783	0.4777
NZD/CAD	0.8266	0.8140	0.8352	0.8163
TWI	69.7	69.3	72.3	70.8

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