

Research Markets Outlook

19 August 2024

Turning point

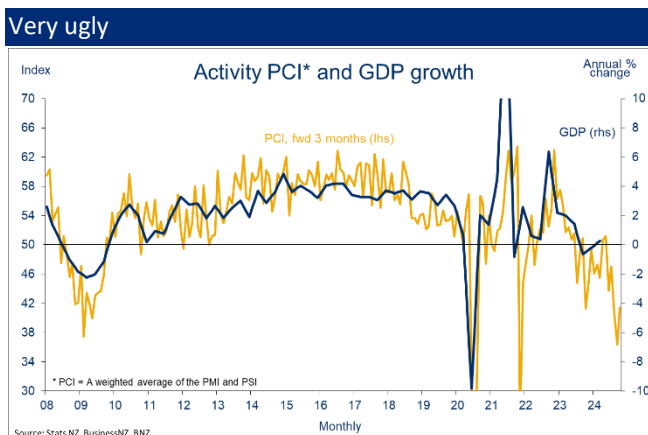
- Recent indicators vindicate RBNZ
- Activity going backwards
- Inflation contained
- We expect negative outturn for Q2 retail sales
- 2025 looking better but big hole to fill

In the three working days since the RBNZ decided to cut its cash rate the data flow has fully vindicated its decision. In short, it has provided further evidence the economy is going backwards, that job losses will mount and that inflation is falling rapidly.

Last Friday the BNZ-Business NZ Performance of Manufacturing Index (PMI) maintained its string of sub-par outcomes. At 44.0 it was the 17th consecutive time the index was below the 50 level seen as the dividing line between expansion and contraction. The key sub-index results for production (43.4) and new orders (42.5) remained awful and, importantly, the 43.1 reported for employment implies that net job losses are occurring across the manufacturing sector.

Then this morning, the once sturdy Services Index (PSI) again looked poorly. It's 44.6 reading was the fifth consecutive sub 50 report. And, again, the employment indicator of 46.6 suggests outright staff retrenchment.

Put the PMI and PSI together and they are consistent with the economy going backwards at a 4.0% annual pace. We are not forecasting anything like this but these data clearly show where the risks lie.

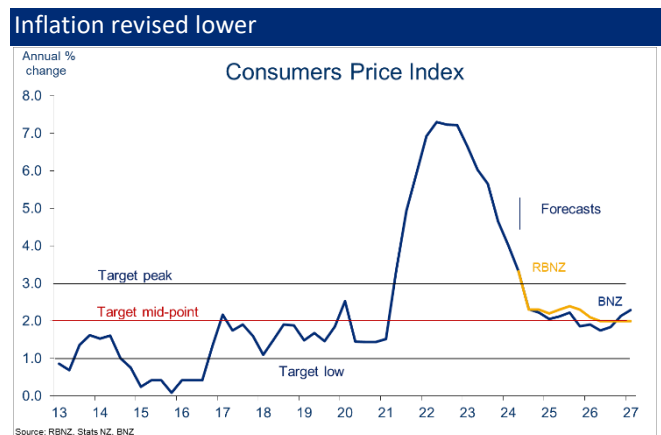


The employment indicators also support our view that the unemployment rate is headed higher. We are forecasting a potential peak of over 5.5%. There is nothing in these data to dissuade us from that view.

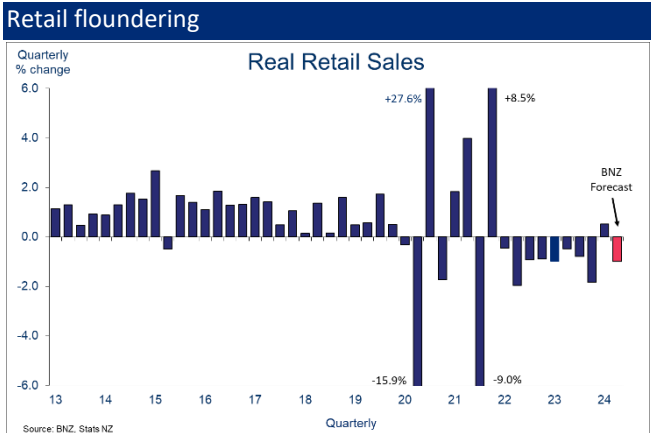
Adding to the soft real economy data were Thursday's Electronic Card Transactions. The value of retail transactions fell 0.1% in the month. It was the sixth consecutive negative monthly outturn. Compared with year earlier levels sales fell 3.9%. If you adjust this for inflation and population growth then you are looking at a real per capita decline approaching 8.0%!

The deterioration in high frequency indicators, their impact on GDP forecasts and, in turn, what this meant for the output gap was the primary reason the RBNZ turned so dovish in its latest Monetary Policy Statement so, given these latest numbers, the RBNZ will not be in the slightest bit upset about the decision it made.

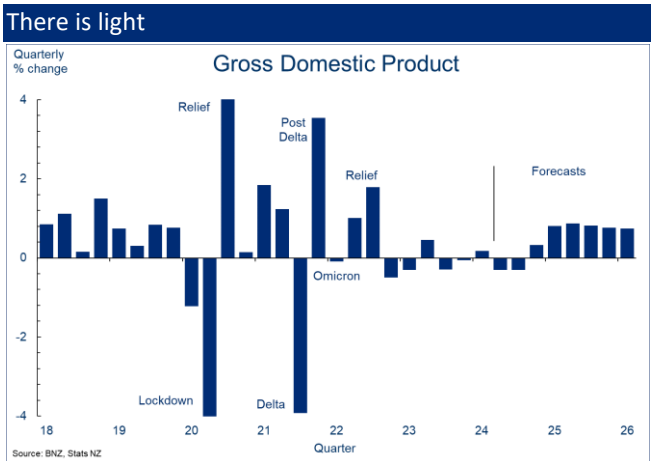
Of course it doesn't matter what happens to the output gap if there is no clear evidence of a reduction in inflation. But there is evidence, and the selected price indexes released on Thursday built on this. We had thought there was upside risk to the RBNZ's projection that the CPI would increase 0.8% in the September quarter. But we don't now. Thanks to greater weakness in the monthly indicators than we had anticipated, we have revised down our Q3 CPI expectation from 1.0% to 0.8% matching the Reserve Bank's forecast of annual inflation dropping to 2.3%.



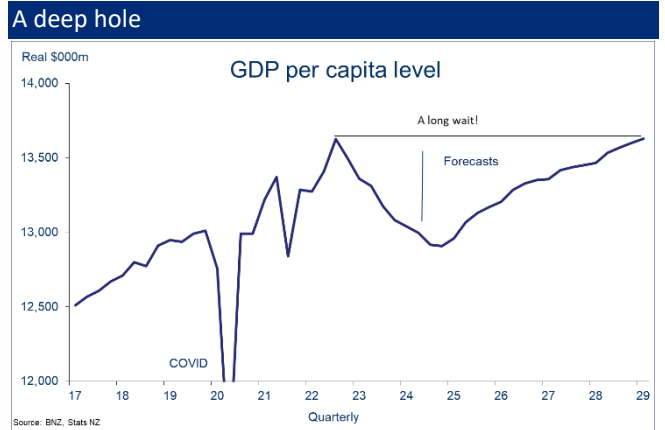
We should get further evidence of the economy’s demise with June quarter retail trade data due for release on Friday. We are forecasting a 1.0% decline in real terms. This is consistent with our view that private consumption contracted 0.8% in the quarter leading to a forecast drop in GDP of 0.3%.



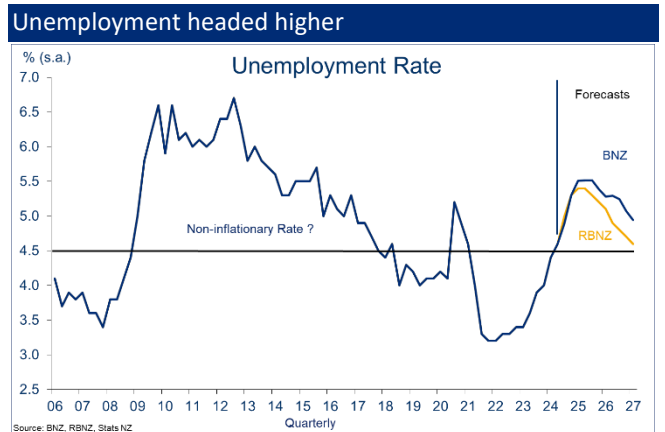
The good news, if you can call it that, is that we believe the third quarter of 2024, the quarter we are in now, will represent the low in the economic cycle. We think Q4 will be modestly positive and quarterly growth next year will be reasonable. Both business and consumer confidence are likely to start rising straight away but the real economy response to easing monetary conditions will take a little longer.



Be that as it may we are in a big hole and it will take a long time to emerge from it. By our estimates it will be the end of the March Quarter 2025 before the economy gets back to its previous peak of the third quarter of 2022. However, if you discount for population growth we’ll have to wait until the end of March 2029 for per capita output to return to previous levels!



The other point to note is that while commentators will start talking of economic recovery, it shouldn’t be forgotten that the labour market lags the real economy. By our reckoning the unemployment rate will keep rising through to the end of September 2025.



There are a few other bits and pieces to ponder in the week ahead:

- On Tuesday July trade data are released. We are expecting the annual trade deficit to further decline to around \$8.7bn from \$9.4bn as weakening domestic demand drives down imports while exports rise modestly on year earlier levels.
- We are also expecting the latest REINZ house price data early in the week. We expect yet another report showing house prices going nowhere.
- And on Wednesday we anticipate the latest GDT auction will show a small lift in prices. If prices can manage to stay at or above current levels this will increase the likelihood that Fonterra eventually nudges up its current year payout forecast from \$8.00. It would also add some upside risk to our own \$8.20 pick.

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Global Watch

- **Central bankers meet at Jackson Hole**
- **Fed's Powell seen further teeing up September cut**
- **Global PMIs to show activity pulse for August**
- **Japan CPI seen cooling at core; BoJ's Ueda testifies**

Week in review

A week where there was a lot of anticipation on the US CPI, but where an on consensus read (Core CPI 0.2 m/m vs. 0.2 consensus) meant little sustained market reaction. Instead, lower than expected Jobless Claims and decent Retail Sales meant the US economy was still traveling at a solid pace, rebuffing the prior week's concerns. The Atlanta Fed Q3 GDP Now sits at 2.4% annualised, still above estimates of trend growth.

In Australia, employment data confirmed a still tight labour market with jobs growth nearly triple the market consensus (58.2k vs. 20k expected). The unemployment rate did lift a tenth to 4.2%, but the participation rate rose to a record high. RBA Governor Bullock at Parliamentary Testimony remained hawkish, pushing back on pricing for cuts, while also saying the RBA Board was focused on upside risks to inflation given the slow return of inflation to target. NAB continues to see the RBA on hold, and sees the first cut in H1 2025, having pencilled in May, but with risks skewed to earlier depending on the data flow.

Week Ahead in Brief

Offshore two key US events are central bankers meeting in Jackson Hole (Thursday-Saturday), and the Democratic Convention.

Fed Chair Powell's speech (Friday) will be closely scrutinised and should firm up expectations of a September rate cut, though markets will continue to toy with a 25 vs. 50bp cut depending on the data flow. Jobless Claims (Thursday) will be closely watched.

On the Democratic Convention, the focus will likely be on whether the convention gives momentum to Harris' campaign. Betting markets have Democrats in the lead into November, but key battle ground states remain very close. Markets will be attentive to potential policies.

Also on the central bank radar, the Riksbank (Sweden) meets (Tuesday) with markets pricing around a 30% chance of a supersized 50bp cut. Canadian CPI (Tuesday) is also under focus amid a switch in the BoC's assessment of risks to *"we need growth to pick up so inflation does not fall too much"*. A softer than expected CPI print could raise the potential of a supersized 50bp cut as well.

Global PMIs (Thursday) are the pick of the European data flow with European markets much more sensitive to the PMIs. To date the services side of Europe has held up

remarkably well, so too the UK. Although the ISMs are more closely watched in the US, another strong US Services PMI would again tame fears of a greater slowing.

A quiet week for Australia with just the RBA Minutes (Tuesday) scheduled. We are unlikely to learn much new from them given the plethora of RBA speak since then. Governor Bullock has pushed back on pricing for near-term cuts, while also saying the Board is attentive to upside risks to inflation given the forecast long return of inflation to target. NAB continues to see the RBA waiting until H1 2025 to cut rates, having pencilled in May, with risks skewed earlier in 2025 depending on the data flow.

In Asia it is a relatively quiet week with China loan prime rates expected to be unchanged. Japan though could be more interesting with CPI (Friday) and the BoJ's Ueda in front of Parliament speaking on the aftermath of the recent decision to hike rates.

Important Events Preview

Monday 19

US Democratic convention thru to Thursday

Politics heats up with the Democratic convention being held from Monday thru Thursday. Given Harris has already been endorsed, focus will be on what momentum the convention gives to her campaign and whether it sustains the momentum we have seen to date. Betting markets have Democrats in the lead, but polls in battle ground states are close and much uncertainty remains ahead of the November election.

Tuesday 20

AU RBA Minutes from August

The RBA Minutes are unlikely to contain much new given the plethora of RBA speak recently, including extensive discussion in recent parliamentary testimony. The Board did discuss the case to hike rates, and Governor Bullock in testimony on Friday re-stated it was still premature to think about rate cuts in the near term. The Governor also said on Friday the Board was focused on upside risks to inflation given the long return of inflation to target.

CH Loan Prime Rate

No change expected to either the 1yr or 5yr rate.

SE Riksbank

The Riksbank is widely expected to cut rates with the biggest debate being a 25 or a 50bp cut. Markets are pricing in a chance of a larger move with 33bps priced, equivalent to about a 30% chance of a 50bp cut.

EZ CPI-final version

CA CPI

The consensus for core inflation is for trimmed mean at 2.5% y/y and weighted median at 2.8% (from 2.6 and 2.9 respectively). Such an outcome would keep the recent run of Canadian inflation data as being close to target.

Although markets are well priced for BoC rate cuts with a cut at each of the next three meetings being almost fully priced, a soft CPI outcome could see pricing for a 50bp cut in September build.

Wednesday 21**JN Trade Balance****US FOMC Minutes, BLS Payrolls Revisions**

We are unlikely to glean much new from the FOMC Minutes given the plethora of Fed speakers to date. Consensus seems to be lining up to a 25bp cut at the September meeting and markets currently have 33.5bps priced (or a 34% chance of a larger 50bp cut).

Thursday 22**EZ/UK, US Global PMIs**

Preliminary PMIs for August are due. The picture recently has seen underperformance from Europe and the US in manufacturing, with both deep in contractionary territory, while services activity in Europe has also struggled. In contrast, US services activity has been much more stellar according to the PMI barometer (at 55), but the broader ISM services survey (out early September) has been volatile, fluctuating between 49 and 54. The UK has been the surprising stand-out with readings above 52 for both.

EZ Q2 Negotiated Wages and ECB Minutes

The ECB publishes negotiated wages data for Q2. This is a sensitive topic for the ECB with wage settlements holding stubbornly higher than the ECB has expected. As inflation eases wage settlements are expected to follow with a lag, however a July report showed salaries rose to 4.2% in the year to June, after hovering around 3.5% since early 2024. The ECB will need to see some moderation to ease rates in early September.

US Jobless Claims, Home Sales

The recent tick back down in Jobless Claims has helped push back on fears the labour market was slowing more sharply than expected. Given ongoing uncertainties, expect Jobless Claims to remain under focus. Consensus is for 231k from the prior week's 227k.

US Jackson Hole

The central bank talk fest known as Jackson Hole kicks off on Thursday night. The title of this year's event is, *"Reassessing the Effectiveness and Transmission of Monetary Policy,"* taking place 22-24 August. For markets the highlight will be a keynote address by Fed Chair Powell which is on Friday and previewed below.

Friday 23**JN CPI, BoJ's Ueda testifies on July hike at Parliament**

Consensus for core CPI is at 1.9% y/y from 2.2%. But perhaps of greater importance will be BoJ's Ueda who is testifying before Parliament on the July rate hike. Recall the BoJ's Uchida helped calm markets post the rate hike with his comments that the BoJ won't hike if markets remain unsettled.

US Jackson Hole – Powell speech; BoE's Bailey

Chair Powell gives his Jackson Hole address. BoE's Bailey also gives a speech later in the day. For Fed Chair Powell, there is an expectation he will further tee up markets for a September rate cut by the Fed, but stay away from the 25bps versus 50bps debate. There is still more data to monitor including the 6 September non-farm payrolls.

As for the BoE's Bailey, he will likely nod to the UK's rate cutting cycle having started and may talk encouragingly about the latest earnings data and stronger UK economic growth, but he'll likely remain cautious on the pace of coming rate cuts. The ECB will similarly tread a cautious line and while NAB does expect two more cuts before year end (to 3.25%), much will depend on the trajectory of EZ wages, with this week's Q2 negotiated wages (if lagging) a consideration.

CA Retail Sales

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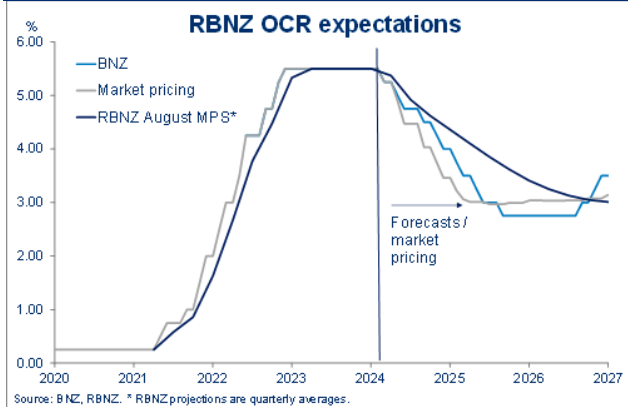
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income yields moved sharply lower last week after the RBNZ began its easing cycle with a 25bps cut to the Official Cash Rate (OCR), downgraded its assessment for activity and inflation and significantly revised its modelled cash rate track. 2-year swap rates declined towards 3.80%, a fresh two year low. The curve has continued to steepen - the 2y/10 curve reached a high of +10bps - having been inverted since the middle of 2022. The 10-year sector of the government curve underperformed in the rally as the market anticipated the syndication of the new May 2036 nominal line this week.

Although the Monetary Policy Committee reached a consensus decision, Governor Orr said in the accompanying press conference, that a larger 50bps cut was also considered. The RBNZ’s forecast OCR track outlined a frontloaded easing cycle relative to the May Statement. The modelled track implies 25bps rate cuts at each of the remaining two meetings this year, and the policy rate dropping towards a terminal rate of 3%, by the end of 2026.

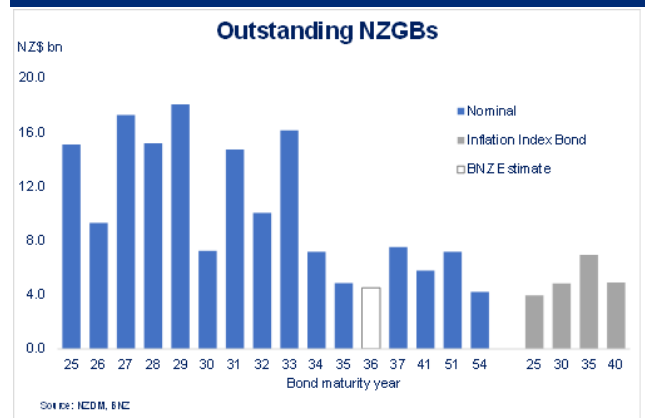
Expected OCR path



Given that monetary policy remains restrictive, economic activity very weak and inflation showing signs of moderating - we revised our Q3 CPI forecast to 2.3% following the July selected price data – there are risks of a larger than 25bps cut at the upcoming RBNZ policy meetings. Overnight interest rate swaps are pricing close to 75bps of easing across the October and November meetings, taking the OCR to 4.5% by the end of 2024. Market pricing implies the OCR will find a trough near 2.75% in early 2026.

After the sharp move lower in yields since the beginning of July, a period of consolidation is due. The level of 2-year swap rates already incorporates a more aggressive easing cycle than our base case scenario of sequential 25bps rate cuts at each policy meeting, taking the OCR to 3% by end 2025. While we acknowledge the risks of a larger 50bps cut in coming meetings, this is already largely discounted by market pricing.

NZDM NZGB portfolio



New Zealand Debt Management (NZDM) launched the syndication of the 15 May 2036 nominal bond this morning. The new maturity will fill a gap on the curve between the May-35 and April-37 lines. NZDM expects to issue at least NZ\$3.0 billion and the transaction will be capped at NZ\$6.0 billion. Bond cheapening relative to swaps since the start of July – 10-year asset swap spreads are towards the top end of the 10-30 bps range from the past 6 months and near multi-year highs – can be expected to support demand.

Non-resident investors have been allocated close to 50% on average in recent near-10-year maturity syndications and have consistently added to NZGB holdings through this year. NZGB cross market spreads against comparison markets like ACGBs and USTs have rebounded off the lows but are relatively tight in the context of broader time frames. Asset managers are expected to have rebalancing demand for the new 2036 maturity as it enters fixed income benchmarks. However, the impact of incorporating the new line will be relatively small.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.24	5.23 - 5.55
NZ 2yr swap (%)	3.79	3.76 - 4.36
NZ 5yr swap (%)	3.59	3.58 - 3.99
NZ 10yr swap (%)	3.86	3.85 - 4.18
2s 10s swap curve (bps)	7	-18 - 10
NZ 10yr swap-govt (bps)	-28	-30 - -22
NZ 10yr govt (%)	4.14	4.15 - 4.40
US 10yr govt (%)	3.88	3.67 - 4.29
NZ-US 10yr (bps)	26	14 - 43
NZ-AU 2yr swap (bps)	4	-2 - 39
NZ-AU 10yr govt (bps)	20	5 - 27

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZFWDS Bloomberg pg BNZ9

Last week, the NZD rose for a third successive week against a backdrop of broad USD weakness, with NZD/USD up 0.9% to 0.6055. Higher risk appetite outweighed the impact of lower NZ rates from the RBNZ’s first rate cut this cycle. Cross movements were mixed, with NZD/AUD and NZD/GBP down around ½%, NZD/EUR was flat, NZD/CAD was up ½%, and NZD/JPY rose 1½% as the yen was the weakest of the majors, reflecting the higher risk appetite backdrop.

Risk appetite recovered strongly last week with our index up a chunky 13pts to 63% and reflected in a strong recovery in global equity markets. US economic data releases were of a “goldilocks” variety, with stronger than expected activity indicators (such as retail sales and consumer sentiment and another dip in jobless claims) and benign CPI and PPI inflation data, allaying fears of a hard economic landing and providing further support to the view that the Fed can kick off its easing cycle next month. While Fed rate cut expectations were pared, the data support the view that a long series of rate cuts can proceed.

In domestic news, the RBNZ cut the OCR by 25bps to 5.25%. Given uncertainty about the RBNZ’s reaction function, the move wasn’t fully priced, and it paved the way for lower NZ rates and NZ-global rate spreads. The Bank’s projections show a steady fall in the OCR towards neutral around 3%, the only question now being how quickly we will get there. We see 25bps rate cuts at successive meetings from here, with some chance of larger 50bps move thrown into the mix, depending on the dataflow. NZ’s 2-year swap rate closed down 23bps to 3.78% and forward rates imply a 3% OCR rate or lower will be achieved within the next 12 months or so.

We were not surprised by the RBNZ’s rate cut or its projections and the policy update has no bearing on our FX projections. Our chart last week showed that the market prices similar trajectories for the Fed and RBNZ’s policy rates, with significant easing ahead for both the US and NZ. That remains the case so NZ-US interest rate differentials should be relatively steady over time.

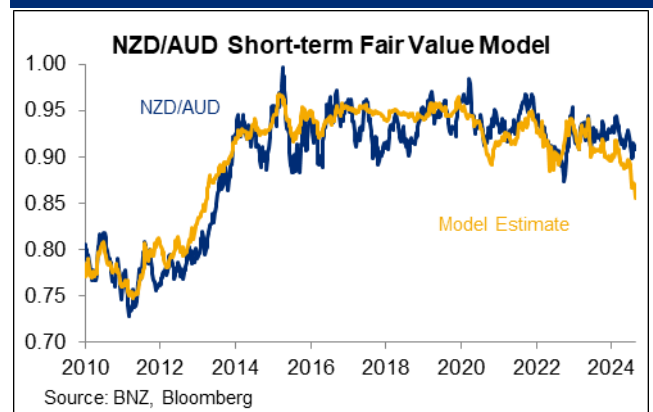
Regular readers will know that we believe the Fed’s monetary policy actions will be far more important for the trajectory of the NZD than the RBNZ. As long as the market believes that the Fed can embark on a significant easing cycle, then that should ultimately see broad-based USD weakness and support our view of NZD/USD upside over the coming year. Near-term support and resistance levels of 0.5850/0.6220 remain in play and our end-Q3 target remains at 0.61, with our targets progressively rising each quarter from here.

The RBNZ’s policy outlook is more important for the NZD/AUD cross rate, where the RBA’s policy trajectory looks a lot different. Last week, Australian labour market

data played to our view that the RBA will not be easing policy this year and Governor Bullock repeated the message that market pricing for easier policy this year looks overdone. We run two NZD/AUD short-term currency models and both put fair value around 0.85-0.86 at this juncture, reflecting compressing NZ-AU rate differentials and NZ’s unemployment rate rising at a faster pace than Australia. Needless to say, we remain bearish on the NZD/AUD cross rate, although our targets aren’t (yet) as aggressive as the model estimates.

The week ahead has less event risk, with key economic data releases being global PMIs, and Japan and Canada CPI. Domestic releases are second-tier, with NZ retail sales, REINZ housing data and trade data. Focus turns to the Fed’s Jackson Hole Symposium at the end of the week, in particular Chair Powell’s keynote address on Friday night NZ time.

NZD/AUD fair value down to 0.85-0.86 region



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6054	0.5850 - 0.6080
NZD/AUD	0.9078	0.8950 - 0.9220
NZD/GBP	0.4677	0.4560 - 0.4740
NZD/EUR	0.5490	0.5360 - 0.5540
NZD/JPY	89.38	83.10 - 91.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models		
	Model Est.	Actual/FV
NZD/USD	0.6580	-8%
NZD/AUD	0.8560	6%

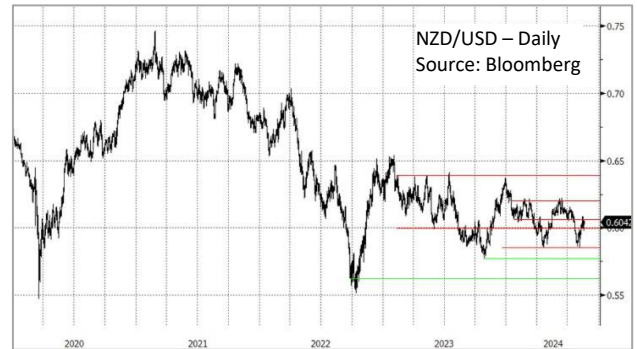
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Technicals

NZD/USD

Outlook: Trading range
 ST Resistance: 0.6220 (ahead of 0.6390)
 ST Support: 0.5850 (ahead of 0.5775)

Stuck in a trading range with strong support near 0.5850 and key resistance at 0.6220.



NZD/AUD

Outlook: Trading range
 ST Resistance: 0.9200 (ahead of 0.9315)
 ST Support: 0.8970 (ahead of 0.8900)

No change to key levels, with support around 0.8970 and resistance at 0.92.

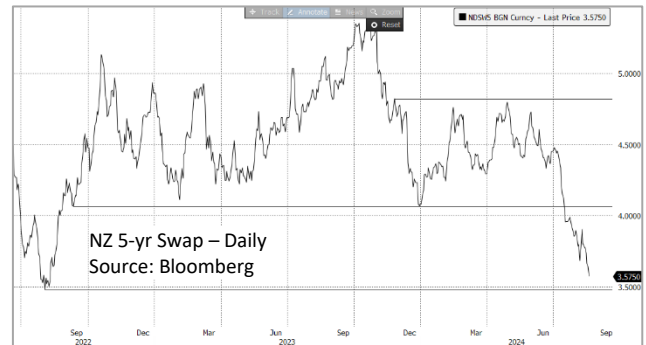
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NZ 5-year Swap Rate

Outlook: Lower
 MT Resistance: 4.06
 MT Support: 3.48

5 year swap moved sharply lower last week and is continuing to make fresh lows in this cycle. We are quickly approaching the next level of support at 3.48%.



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

Outlook: Steeper
 MT Resistance: -0.10
 MT Support: -0.28

The 2x5 year swap spread closed roughly unchanged on the week after continued volatility. We maintain our bias for the curve to continue to steepen.

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Quarterly Forecasts

Forecasts as at 19 August 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	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	-0.3	-0.3	0.3	0.8	0.9	0.8	0.8	0.7
Retail trade (real s.a.)	-1.8	0.5	-1.0	0.0	0.5	0.8	1.0	1.2	1.1	0.9
Current account (ytd, % GDP)	-6.9	-6.8	-6.7	-6.8	-6.7	-6.3	-6.1	-6.0	-5.8	-5.4
CPI (q/q)	0.5	0.6	0.4	0.8	0.4	0.5	0.5	0.9	0.0	0.5
Employment	0.5	-0.3	0.4	-0.2	-0.1	0.2	0.5	0.6	0.7	0.7
Unemployment rate %	4.0	4.4	4.6	4.9	5.3	5.5	5.5	5.5	5.4	5.3
Avg hourly earnings (ann %)	6.6	4.8	4.0	2.9	3.1	3.7	3.4	3.2	3.0	3.0
Trading partner GDP (ann %)	3.3	3.2	3.0	2.9	2.9	2.9	3.0	3.0	3.1	3.0
CPI (y/y)	4.7	4.0	3.3	2.3	2.2	2.1	2.1	2.2	1.9	1.9
GDP (production s.a., y/y)	-0.2	0.3	-0.5	-0.5	-0.1	0.5	1.7	2.8	3.3	3.2

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread NZ-US Ten year
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	
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	5.25	5.00	4.15	4.55	3.85	4.05	4.30	5.40	4.25	0.30
Dec	4.75	4.75	4.05	4.45	3.50	4.00	4.30	5.15	4.10	0.35
2025 Mar	4.50	4.25	3.90	4.40	3.20	3.85	4.25	4.65	4.00	0.40
Jun	4.00	3.75	3.80	4.35	3.05	3.75	4.20	4.40	3.90	0.45
Sep	3.50	3.25	3.70	4.30	2.95	3.65	4.15	4.15	3.80	0.50
Dec	3.00	3.00	3.75	4.25	3.05	3.70	4.10	3.90	3.75	0.50
2026 Mar	2.75	2.90	3.80	4.25	3.30	3.80	4.15	3.65	3.75	0.50

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.60	0.66	1.10	1.28	147
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
Sep-26	0.67	0.73	1.18	1.36	129

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.60	0.91	0.55	0.47	88.5	69.8
Sep-24	0.61	0.91	0.56	0.48	89.1	71.1
Dec-24	0.62	0.90	0.56	0.48	88.7	71.4
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
Sep-26	0.67	0.89	0.56	0.48	79.0	72.8

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 19 August 2024	March Years					December Years				
	Actuals			2025		Actuals			2025	
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.9	1.0	2.7	7.4	3.3	0.6	1.2	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	-4.3	3.5	12.0	3.4	-0.9	-4.9	1.9
Stocks - ppts cont'n to growth	0.5	0.0	-1.5	1.2	0.3	1.4	-0.3	-1.4	0.6	0.6
GNE	7.9	2.5	-1.4	0.2	2.7	10.0	3.4	-1.5	-0.2	2.1
Exports	2.5	6.0	6.4	1.1	4.7	-2.7	-0.2	9.8	2.1	3.8
Imports	17.3	4.4	-1.2	2.7	4.0	14.8	4.7	-0.5	2.6	3.5
Real Expenditure GDP	4.7	2.7	0.4	-0.1	2.8	5.9	2.3	0.8	-0.2	2.1
GDP (production)	4.6	2.7	0.2	-0.1	2.8	5.6	2.4	0.6	-0.2	2.1
<i>GDP - annual % change (q/q)</i>	<i>0.6</i>	<i>2.0</i>	<i>0.3</i>	<i>0.5</i>	<i>3.2</i>	<i>2.6</i>	<i>2.2</i>	<i>-0.2</i>	<i>-0.1</i>	<i>3.3</i>
Output Gap (ann avg, % dev)	1.4	2.0	0.0	-1.3	-0.6	1.6	2.1	0.4	-1.1	-0.8
Nominal Expenditure GDP - \$bn	359	388	409	422	444	353	381	405	418	438
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.1	1.9	5.9	7.2	4.7	2.2	1.9
Employment	2.5	3.1	1.3	0.3	2.5	3.3	1.7	2.9	-0.2	2.0
Unemployment Rate %	3.2	3.4	4.4	5.5	5.3	3.2	3.4	4.0	5.3	5.4
Wages - ahote (private sector)	5.3	8.2	4.8	3.7	3.0	4.1	8.1	6.6	3.1	3.0
Productivity (ann av %)	1.7	0.5	-2.4	-0.2	1.2	3.6	0.2	-2.4	-0.5	1.2
Unit Labour Costs (ann av %)	4.6	6.5	8.5	4.4	1.9	2.4	6.5	9.0	5.2	2.2
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	-26.8	-24.2	-20.6	-33.4	-27.9	-28.0	-25.3
Current Account - % of GDP	-6.6	-8.2	-6.8	-6.3	-5.4	-5.8	-8.8	-6.9	-6.7	-5.8
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	4.50	2.75	0.75	4.25	5.50	4.75	3.00
90-day Bank Bill Rate	1.45	5.16	5.64	4.25	2.90	0.92	4.55	5.63	4.75	3.00
5-year Govt Bond	2.90	4.40	4.60	3.90	3.80	2.20	4.30	4.50	4.05	3.75
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	3.20	3.30	2.22	5.21	4.93	3.50	3.05
5-year Swap	3.20	4.50	4.40	3.85	3.80	2.56	4.62	4.43	4.00	3.70
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		Median	Fcast	Last
Monday 19 August							
JN Core Machine Orders MoM Jun	0.90%		-3.20%	EC HCOB Eurozone Services PMI Aug P	51.7		51.9
Tuesday 20 August							
US Fed's Waller speaks				UK S&P Global UK Manufacturing PMI Aug P	52.1		52.1
EC ECB's Rehn speaks				UK S&P Global UK Services PMI Aug P	52.8		52.5
NZ Trade Balance NZD Jul		-458m	699m	EC ECB Publishes Euro Area Negotiated Wages Indicator for Q2 2024			
NZ RBNZ's Hawkesby speaks				UK CBI Trends Total Orders Aug	-23		-32
AU RBA Minutes of Aug. Policy Meeting				UK CBI Trends Selling Prices Aug	5		2
GE PPI YoY Jul	-0.80%		-1.60%	EC ECB Publishes Account of July Rate Decision			
SW Riksbank Policy Rate Aug-20	3.50%		3.75%	Friday 23 August			
EC CPI YoY Jul F	2.60%		2.60%	US Chicago Fed Nat Activity Index Jul			0.05
EC CPI Core YoY Jul F	2.90%		2.90%	US Initial Jobless Claims Aug-17	231k		227k
Wednesday 21 August							
US Philadelphia Fed Non-Manufacturing Activity Aug			-19.1	US Continuing Claims Aug-10	1860k		1864k
NZ GDT dairy auction			0.50%	US S&P Global US Manufacturing PMI Aug P	49.8		49.6
US Fed's Bostic speaks				US S&P Global US Services PMI Aug P	54		55
US Fed's Barr speaks				EC Consumer Confidence Aug P	-12.8		-13
JN Trade Balance Jul	-¥326.5b		¥224.0b	US Existing Home Sales Jul	3.93m		3.89m
AU Westpac Leading Index MoM Jul			0.00%	NZ Retail Sales Ex Inflation QoQ 2Q	-0.90%	-1.00%	0.50%
EC ECB's Panetta speaks				UK GfK Consumer Confidence Aug	-12		-13
Thursday 22 August							
US BLS releases preliminary annual payrolls benchmark revision				JN Natl CPI YoY Jul	2.70%		2.80%
US FOMC Meeting Minutes Jul-31				EC ECB 1 Year CPI Expectations Jul			2.80%
AU Judo Bank Australia PMI Mfg Aug P			47.5	EC ECB 3 Year CPI Expectations Jul	2.30%		2.30%
AU Judo Bank Australia PMI Services Aug P			50.4	Saturday 24 August			
GE HCOB Germany Services PMI Aug P	52.3		52.5	US Fed's Powell speaks			
EC HCOB Eurozone Manufacturing PMI Aug P	45.8		45.8	US New Home Sales Jul	624k		617k
				US Kansas City Fed Services Activity Aug			-4
				UK BOE's Bailey speaks			
				Sunday 25 August			
				EC ECB's Lane speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago		Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS					SWAP RATES				
Call	5.25	5.50	5.50	5.50	2 years	3.78	4.01	4.36	5.64
1mth	5.36	5.44	5.59	5.61	3 years	3.59	3.81	4.10	5.35
2mth	5.35	5.44	5.57	5.63	4 years	3.56	3.77	4.01	5.16
3mth	5.25	5.36	5.55	5.64	5 years	3.58	3.78	3.99	5.05
6mth	4.98	5.11	5.36	5.75	10 years	3.85	4.02	4.17	4.94
GOVERNMENT STOCK					FOREIGN EXCHANGE				
05/26	3.91	4.15	4.42	5.21	NZD/USD	0.6051	0.6019	0.5979	0.5928
04/29	3.72	3.91	4.09	5.00	NZD/AUD	0.9077	0.9137	0.9001	0.9242
05/31	3.93	4.06	4.23	5.02	NZD/JPY	89.36	88.59	93.88	86.66
05/34	4.13	4.25	4.40	5.10	NZD/EUR	0.5488	0.5505	0.5489	0.5440
04/37	4.30	4.44	4.58	5.20	NZD/GBP	0.4676	0.4714	0.4623	0.4647
05/41	4.46	4.61	4.75	5.27	NZD/CAD	0.8280	0.8272	0.8225	0.8029
05/51	4.50	4.66	4.79	5.26	TWI	70.2	70.4	70.6	69.6
GLOBAL CREDIT INDICES (ITRXX)									
Nth America 5Y	51	60	49	70					
Europe 5Y	54	61	53	79					

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