16 September 2024

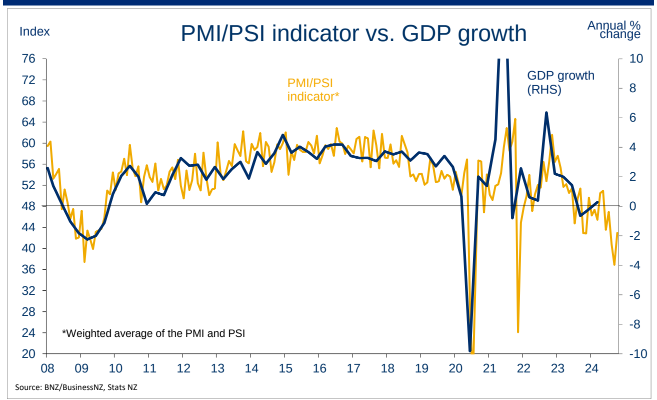
GDP to confirm economic struggle

- **PMI/PSI indicators looking less negative into Q3**
- **GDP expected to confirm contraction in Q2**
- **Annual current account deficit seen smaller in Q2**
- **Oil and dairy prices have diverged over past year**

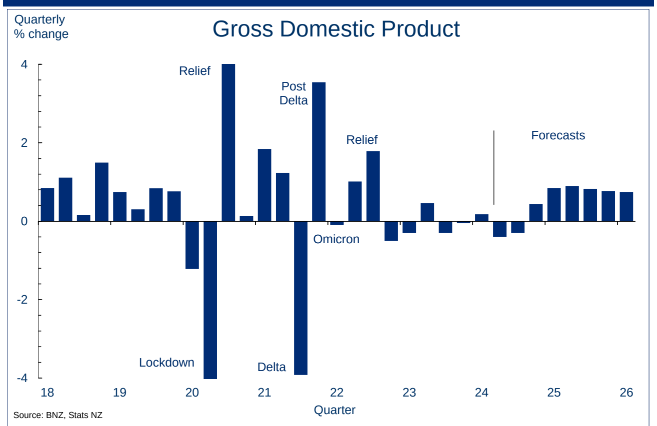
They haven't been uniform, and they are far from strong, but the high frequency data continue to be generally of a 'less bad' variety. We can add last Friday's PMI and this morning's PSI to that list.

Joining the PMI and PSI together, the combined index (PCI) continued to inch up in August. Its activity component rose to 44.1 from 43.0 in July. Hardly a large move, but it has pushed further above June's extreme low of 36.9. A move in the right direction, even if it is still indicating economic contraction (and still by more than we are forecasting).

Less bad



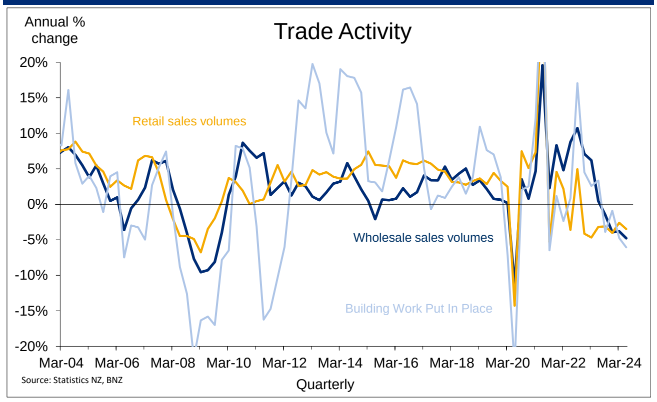
Q2 weakness expected to be confirmed this week



This week we get to learn how the economy performed back in Q2. It will not make pretty reading. With the partial indicators in, our pick for Q2 GDP has settled at -0.4% q/q which happens to match the market consensus. Anything around this sort of outcomes would affirm a negative and widening output gap and support further removal of monetary restraint. It would continue a lengthy period of economic struggle.

We expect weakness in the service sector with clear declines in both retail and wholesale trade. Construction is expected to remain soft and will continue trailing well behind year earlier levels. Across the primary sectors, there is likely to be some divergence with positivity in horticulture but a sharp decline in forestry.

Trade challenges



Manufacturing is expected to record positive quarterly growth and we wonder if it may surprise a few on the high side given last week's manufacturing survey inferred large gains in a couple of individual industries. The outperformers stood out from an otherwise general malaise as was indicated by the weak PMI through the period.

On balance,we look for service sector weakness to more than offset the lift in manufacturing, albeit that service sector indicators are generally more difficult to trust as a guide to their GDP components.

Regarding expenditure in the quarter, we expect lower private consumption (and a downward revision to the strange strength shown in Q1), flat investment, and a net drag on growth from international trade.

A quarterly GDP outcome as we anticipate would see annual growth drop to -0.6%, absent revisions. But we should say that the indicators have been very noisy so error bounds around any estimate are bloated.

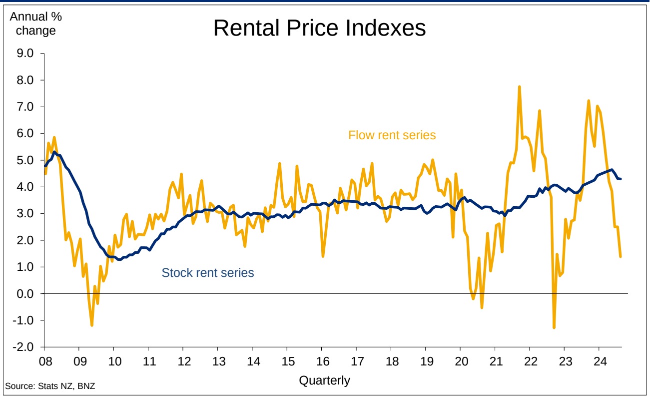
More generally, it seems probable that the economy contracted in the quarter, and it seems likely the contraction is no more than the -0.5% q/q built into the RBNZ's August MPS. Something along these lines would suggest no reason for the Bank to see the need to quicken the pace of relaxing monetary restraint beyond what it has already outlined. Of course, other factors may yet do so including if the US Federal Reserve was to cut 50 basis points on Thursday morning our time.

Last week's REINZ housing data for August continued recent themes of a subdued market with middling sales, houses taking longer to sell, and easing prices. Scant evidence (not that we imagined there would be any) of a pick-up following a dovish RBNZ in July, rate cut in August, and material reductions in retail rates. These things take time to have material impact.

The REINZ house price index was flat in the month and has slipped back below year earlier levels (down 0.8% y/y). This increases the risk that house prices are tracking a touch cooler than the RBNZ expected in Q3.

Rent inflation pressures certainly look to be easing. Not that you could tell from last week's 0.3% m/m increase in Stats NZ's stock measure of rent (think existing tenancies). Annual rent inflation was steady at 4.3%, on this measure. But the flow measure of rent inflation (think new tenancies) is much lower and continues to drop, now down to 1.4% y/y, driven by softness in Auckland and Wellington. A low flow measure points to slower CPI rent inflation over coming quarters, as is already factored into our forecasts.

Rent inflation pressure easing

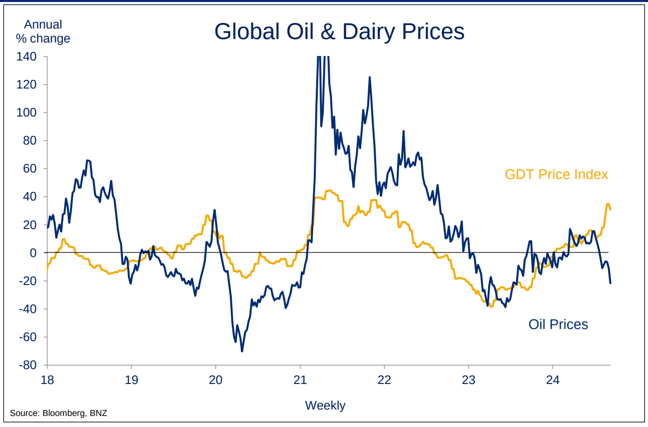


More broadly on inflation, last week's selected prices for August gave us no reason to change our view on Q3 CPI inflation, which remains at 2.2% y/y (a tick lower than the 2.3% y/y the RBNZ published in its August MPS). We continue to monitor falling fuel prices and ponder how the central bank may view these. Orthodoxy suggests looking through such changes, in the first instance. But to the extent that lower fuel prices (and associated lower headline inflation) start altering inflation expectations and/or firms' price-setting behaviour it could quickly become more relevant for policy.

We get the latest on dairy prices via the GDT auction very early on Wednesday morning. Indicators look more positive than negative for this auction. Base effects are likely to see the annual gain in dairy prices slow from about now.

Of interest, the difference between movements in dairy and oil prices over the past year has been stark. Dairy price gains (up 30.8% y/y off a low base) combined with falling oil prices (down 21.6% y/y off a high base) add more support to the terms of trade and a narrowing influence on the current account deficit.

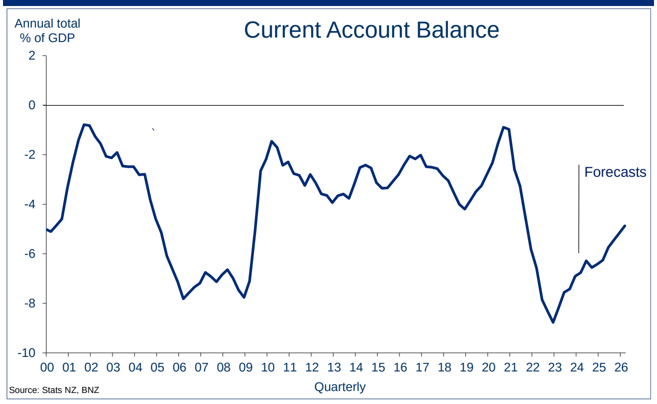
Terms of trade supportive



With this in mind, on Wednesday Q2 balance of payments data are due for release. We see the annual current account deficit narrowing to 6.3% of GDP, supported by revisions, from Q1's 6.8%. The market consensus is for 6.5%. A smaller deficit as a share of the economy would be helpful in the present context, but a result near expectations would still see a relatively large deficit which is likely to keep the external accounts on rating agencies' radars.

We hasten to add that lower oil and higher dairy prices are no guarantee the current account deficit continues to narrow with influences pushing the other way too, such as elevated shipping and reinsurance costs and domestic energy issues that are challenging some energy-intensive export-focused industries.

Annual deficit as a % of GDP seen smaller in Q2



Lastly, the Westpac McDermott Miller consumer confidence index for Q3 is also scheduled for release on Wednesday. This index would seem odds-on to show some bounce from Q2's very weak 82.2, as revealed in the monthly ANZ confidence index. Tax cuts, lower interest rates, and falling fuel prices are likely to be confidence enhancing, but a subdued housing market and a deteriorating labour market perhaps not so much. We suspect confidence might be another one of those indicators that is becoming less negative. Not great, but you must stop going backwards before you can start moving forward.

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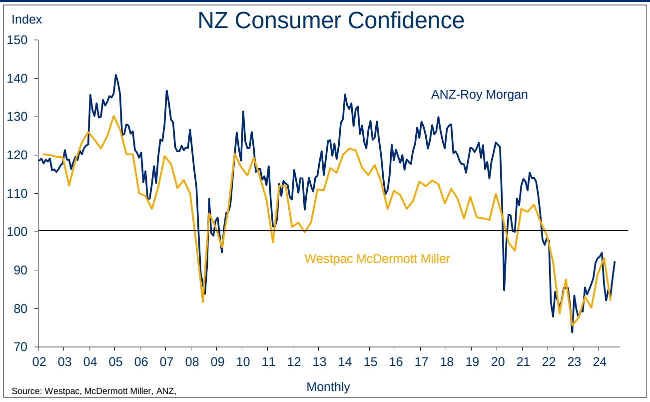
Less pessimistic?



Global Watch

- **FOMC decision, close call between 25bp or 50bp cut**
- **CPI data for the UK, Canada, and Japan**
- **BoE and BoJ decisions, no change expected**
- **Australia labour market data due**

Week in Review

In the US, headline CPI rose 0.2% m/m in August, driving annual inflation down to a fresh 3½ year low of 2.5%, as expected. The core measure was slightly higher than anticipated, with CPI ex food and energy rounding up to 0.3% m/m. US core PPI increased by 0.3% m/m, marginally ahead of consensus estimates. With inputs from the CPI and PPI data now available, estimates for the core PCE deflator, which is the Fed's preferred inflation measure, are pointing to another benign month.

CPI and PPI data had firmed up expectations that the Fed would likely kick off the easing cycle with a 25bps cut rather than 50bps. However, that changed on Friday, with WSJ and FT reports – likely influenced by FOMC members behind the scenes – claiming the policy decision this week would be a closely contested decision between 25bps or 50bps.

In Australia, the NAB Business Survey showed business conditions dropped back below average in August after a brief uptick in July, and confidence sank into negative territory in the month. That suggests soft Q2 growth has carried on into the new financial year.

On Thursday, RBA Assistant Governor (Economic) Sarah Hunter gave a speech on the labour market, concluding that the data are "*consistent with the labour market loosening from very tight conditions, but it is still operating above full employment.*" We will get another update in labour market data Thursday. Hunter's assessment is consistent with the RBA's pushback on the prospect of near-term cuts. NAB continues to expect the first cut in May, though note the risk skews earlier in 2025.

The ECB cut the Deposit Rate to 3.5% as expected and gave no forward guidance on its rate cut path. Core HICP forecasts for 2024/25 were increased, while economic growth forecasts were cut. NAB expect the ECB will wait until December to ease again, but a further temporary decline in headline inflation for September may well raise market pricing of an October easing.

Week Ahead

Australian employment data next week is expected to see the unemployment rate steady at 4.2% after a participation-driven jump in July that came despite strong employment gains and a fallback in the underemployment rate. The RBA pencilled in an unemployment rate averaging 4.3% in Q4. From the RBA, Assistant Governor (Financial Stability) Brad Jones speaks on Wednesday.

The FOMC's September meeting headlines the global calendar on Wednesday. Markets closed on Friday with the pricing for the Fed's first easing for the cycle this week at a toss-up between 25bps and 50bps, with media reports adding to the confusion. Prior to Friday, there was strong analyst consensus for a 25bp cut, however articles in the WSJ and FT have since raised the possibility of a larger 50bp cut.

Ahead of the FOMC decision is retail sales data on Tuesday, with soft auto sales likely weigh on the headline but the core control measure expected to increase 0.3% m/m. Canada gets August inflation data, also on Tuesday.

After the ECB policy meeting last week, it's a fairly quiet week for Europe, with final August inflation released on Wednesday. Q2 Labour costs on Monday will get some attention. Numerous ECB speeches are scheduled Wednesday through Friday.

In the UK, August inflation data is expected to tick higher across the board. The BoE meets on Thursday but will leave rates unchanged at 5% until the November meeting in what is likely to be a 7:2 vote. August retail sales and public finances round out the week.

In Japan, The BoJ decision on Friday is expected to be a non-event, with the BoJ on hold and no new projections, but there will be some focus on whether Ueda signals October is live for a hike. A majority of analysts surveyed by Bloomberg prefer December for the next move. Japan August CPI is also on Friday, expected to increase to 3.0% from 2.8% on the headline measure, 2.8% from 2.7% ex-fresh food.

In China, the PBoC is expected to keep key policy settings on hold, with a 1-year MLF rate set expected in the week from Wednesday. The LPR's are expected unchanged on Friday after a 10bp cut in July.

Important Events Preview

Tuesday 17

US Retail Sales & Industrial Production
Soft auto sales are expected to weigh on retail sales, the headline expected to fall 0.2% after last month's 1.0% gain, while the core control group measure is expected to match July's 0.3% m/m rise. The data is released during day one of the Fed's meeting.

CA August CPI

Wednesday 18

UK CPI
After hitting the BoE's 2% target two months ago, headline CPI continues to tick a little higher. The consensus looks for a 0.2% m/m rise to 2.2% annual inflation. Like the BoE, NAB see the risks on the upside and a 2.3 to 2.4% annual outturn. Core inflation will also rise from 3.3% in Jul to 3.5% or so. Services inflation, which dropped from 5.6% to 5.2% in Jul, will look rather erratic, rising back to 5.6% or so in August on base effects in hotels and recreation, before broadly declining again as the year unfolds.

US FOMC decision & SEP
Prior to media reports, there was strong analyst consensus for a 25bp cut at this week's FOMC meeting. However, on Friday the WSJ's Nick Timiraos said the Fed faced a "dilemma", a difficult decision in choosing between 25bps or 50bps. The FT's Colby Smith also said the Fed faced a "close call". There is suspicion that a Fed insider guided the tone of these articles during the blackout period ahead of the meeting, and this has increased the chance of a 50bp cut. Thrown into the mix, ex NY Fed President Dudley said, "there's a strong case for 50", after previously expecting just 25bps.

NAB concluded in their latest US update (prior to media reports) that while the labour market evolution could readily support a 50bp move to kick off the long-awaited cutting cycle, FOMC officials have not made that case, and the data is not emphatic enough to force their hand. As a result, a 25bp cut looks to be the most likely outcome. Powell's commentary has left the door open to a larger cut and if he was to advocate strongly for it, he would probably get the votes.

There will be a lot of focus on the updated projections. The median policy rate dot is likely to largely revert to May, showing a cumulative 75 basis points of cuts this year and a policy rate below 4% by the end of 2025, though the dots are unlikely to match market pricing for a policy rate below 3 in the second half of 2025. On the Summary of Economic projections, end 2024 core PCE could be nudged a touch lower from 2.8% in June, but the unemployment outlook will be more important. The June median saw 4.0% for end 2024 and 4.2% for end 2025. It currently sits at 4.2%

Thursday 19

AU August Employment
NAB expects employment growth of 20k and an unemployment rate steady at 4.2%, anticipating some retracement in the participation rate.

Employment growth has been especially strong in the past few months, pulling trend employment growth up to a very strong 48k. Even so, a jump in participation in July saw the unemployment rate increase to 4.2%. That's within the bounds of the RBA's August forecast for the unemployment rate to average 4.3% in Q4, and RBA's Hunter confirmed last week they continue to assess the labour market is tighter than levels consistent with full employment. NAB don't expect it will, but if the unemployment rate were to rise further in August it would certainly catch their attention.

UK Bank of England Bank Rate
The BoE will keep rates on hold at 5% on Thursday. NAB look for a 7:2 unchanged decision. Having delivered its first cut of the cycle just over a month ago, with a close 5:4 vote, the MPC will need more evidence that wages and services inflation are cooling to move again. NAB look for the BoE to wait for a new set of forecasts at the 7 November meeting to ease again. It's assessment of latest wage data within the Minutes will be of interest. The BoE will announce QT sales for the coming year. NAB look for another £100bn, with less active sales compared to the current year.

Friday 20

JN Bank of Japan & August CPI
The Bank of Japan is expected to hold on Friday. Inflation data out the same day is tipped to see headline inflation move up to 3.0% from 2.8%. Officials have communicated that policy rates remain accommodative, and policy can be normalised further if data evolves in line with expectations. The BoJ has one eye on financial market volatility, and the growing prospect of a national election following the LDP leadership vote on 27 September which are expected to keep the BoJ on the sidelines for now. A Bloomberg survey found no analysts expect a hike on Friday, 15% see a rate rise in October, 53% in December, and a cumulative 87% by January.

UK Aug Retail Sales

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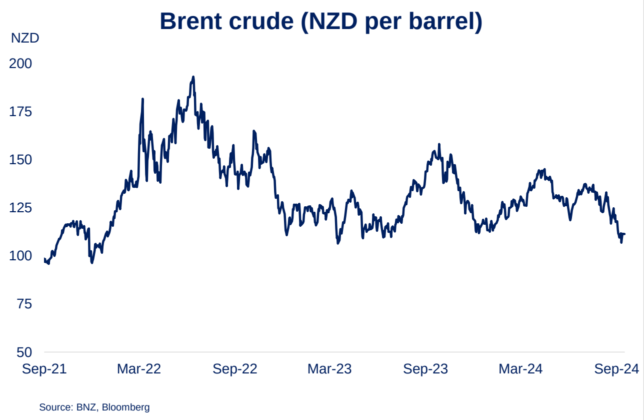
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

The rally across NZ fixed income extended last week with yields reaching fresh lows for the cycle. 2-year swap rates declined to 3.65%, below levels that prevailed in the aftermath of the August Monetary Policy Statement (MPS). The move lower in yield was largely parallel across the swap curve, while government bonds continued to underperform, pushing asset swap spreads to new multi-year highs. Despite underperforming swaps, 10-year government bond (NZGB) yields fell to 4.10%, the lowest level in more than a year and closing in on the 3.9-4.0% region, which formed strong support for yields through H1 2023.

Oil prices (in NZD terms) lowest in almost three years



Oil prices continued to decline, amid weak global demand, with the futures curve backwardation easing significantly over the past month. Brent crude prices have fallen almost 20% in New Zealand dollar terms since the beginning of Q3. All else being equal and assuming the decline is sustained – OPEC+ members have agreed to push back their previously planned production increases until December – this would put downward pressure on domestic inflation.

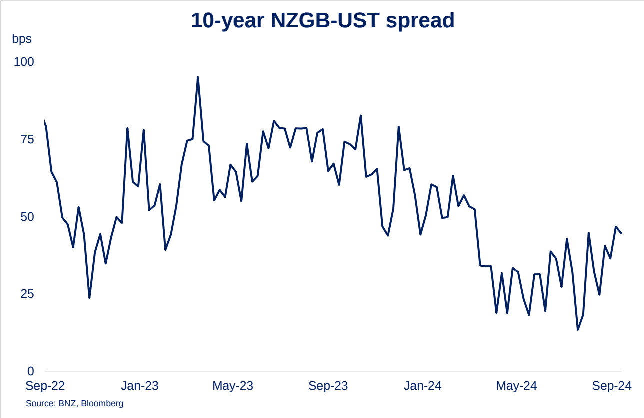
The influence of falling oil prices was visible in selected price indicators for August, both directly in terms of lower petrol and diesel prices, as well as impacting broader transport costs. The monthly partials suggest inflation is tracking in line with our 2.2% forecast for Q3 headline CPI which is marginally below the RBNZ's 2.3% projection from the August MPS. Q3 CPI data is released mid-October and after the RBNZ Monetary Policy Review.

Market pricing for the Official Cash Rate continues to look aggressive, relative to our baseline forecast of a 25bps cut at each meeting, which takes the policy rate to 3% by December 2025. There is currently close to 125bps of rate cuts by the February MPS implied by overnight index swap pricing. While we agree risks are skewed towards larger cuts relative to our baseline, inflation and activity appears to be tracking in line with the RBNZ's downwardly revised forecasts from August. The main domestic catalyst for NZ rates this week will be Q2 GDP data which is expected to contract 0.4% in the quarter.

The key risk event on the global calendar is the September FOMC. The US Federal Reserve (Fed) has held rates steady since July 2023 and is unanimously expected to begin an easing cycle this week. The Fed's focus has shifted to the cooling labour market with the upside surprise to core CPI data for August leaving little lasting impact on Fed rate cut expectations. The market continues to price a meaningful chance of a larger 50bps cut.

The Fed will release updated economic forecasts, including the closely monitored FOMC members' projections for the policy rate, which seem unlikely to match market pricing for 116bps of rate cuts by year end. The spread between 10-year NZGBs and US treasuries has narrowed from the recent peak above 50bps. A regression based on the relative path for RBNZ and Fed policy suggests there is still scope for further compression in the cross market spread towards 25bps.

10-year NZGB-UST spread



Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.10	5.10 - 5.25
NZ 2yr swap (%)	3.65	3.65 - 3.98
NZ 5yr swap (%)	3.50	3.50 - 3.79
NZ 10yr swap (%)	3.77	3.77 - 4.06
2s10s swap curve (bps)	12	6 - 13
NZ 10yr swap-govt (bps)	-33	-33 - -26
NZ 10yr govt (%)	4.10	4.15 - 4.30
US 10yr govt (%)	3.65	3.60 - 3.93
NZ-US 10yr (bps)	45	22 - 52
NZ-AU 2yr swap (bps)	8	1 - 20
NZ-AU 10yr govt (bps)	28	20 - 33

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the NZD underperformed, although price action was limited. The NZD traded a range of less than 1-cent over the week and closed down 0.3% to just below 0.6160. The NZD was lower on all key crosses, with insignificant falls against CAD, EUR and GBP, a 0.8% fall against the AUD to 0.9185 and a 1.3% fall against JPY to 86.7.

Last week risk appetite was higher, with our index recovering 10pts to 59%. However, that didn't drive the NZD as it modestly underperformed, even though commodity prices recovered. We could possibly point to domestic factors, with the market increasingly front-loading rate cut expectations. At Friday's close, the market was pricing in 127bps of rate cuts over the next three RBNZ meetings, so more than fully pricing in two 50bps cuts and a 25bps cut. This looks a tad aggressive to us.

In key international news, the US CPI rose 0.2% m/m, driving annual inflation down to a fresh 3½ year low of 2.5%. The core measure was slightly higher than expected, with CPI ex food and energy rounding up to 0.3%, seeing the annual increase steady at 3.2%. There was nothing to suggest that the disinflationary process isn't still on track.

Post the CPI print, the market firmed up expectations that the Fed would likely kick off the easing cycle this week with a 25bps cut rather than 50bps. However, that changed on Friday, with WSJ and FT reports – likely influenced by FOMC members behind the scenes– claiming the policy decision this week would be a closely contested decision between 25bps or 50bps.

In the week ahead there are many potentially market moving events, including the aforementioned Fed policy meeting. The BoE and BoJ also meet. On Friday the market closed with a relatively even bet between a 25bps and 50-bps cut by the Fed. Economic projections will be updated, including an updated dotplot of Fed Funds projections, which will show more easing expected compared to June, alongside lower inflation and higher unemployment rate projections. Thus, there is plenty of scope for some market reaction.

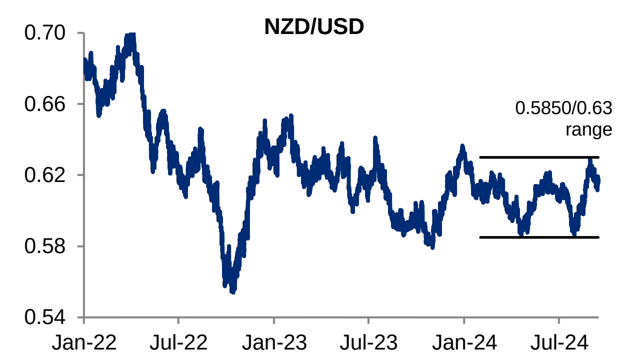
As we noted last week, the sweet spot for our NZD projections is for the Fed to cut by 25bps per meeting, this being enough to support our view that the USD can steadily decline further into next year. If the Fed is cutting in larger chunks, that could be associated with an uglier economic outlook, which could mean risk-off and a stronger USD profile.

The BoE and BoJ are expected to keep policy steady, following their rate cut and hike respectively at their previous meeting. Scope for surprise is limited.

On the economic side, NZ Q2 GDP shouldn't rock the market. The RBNZ projected a 0.5% q/q contraction, below all economist estimates, suggesting some hurdle for disappointment. BNZ is in line with the Bloomberg consensus at -0.4% q/q. Elsewhere, CPI data for Canada, UK and Japan, US retail sales and Australia's monthly employment report are released and worth keeping an eye on.

Overall, we continue to see the NZD in a consolidation phase after the down and up phase through July/August. Resistance is at 0.63, with support near 0.60. Global forces are likely to be in the driving seat through the rest of the month. After the NZ GDP release is out of the way, the next key domestic events are the QSBO on 1 October and the RBNZ MPR on 9 October.

NZD consolidating after recent July/August swings



Source: Bloomberg, BNZ

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6160	0.6110 - 0.6300
NZD/AUD	0.9191	0.9160 - 0.9270
NZD/GBP	0.4693	0.4680 - 0.4770
NZD/EUR	0.5559	0.5550 - 0.5670
NZD/JPY	86.76	86.30 - 91.70

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6760	-9%
NZD/AUD	0.8640	6%

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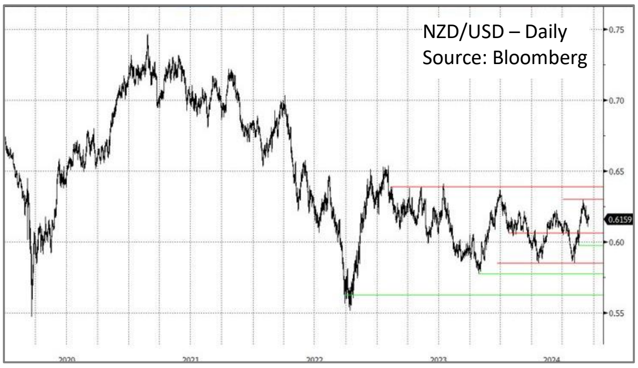
Technicals

NZD/USD

Outlook:	Trading range
ST Resistance:	0.6300 (ahead of 0.6390)
ST Support:	0.6060 (ahead of 0.5975)

No change, with resistance remaining at the recent high just under 0.63. We see some support around 0.6060, ahead of 0.5975.



NZD/AUD

Outlook:	Trading range
ST Resistance:	0.9315 (ahead of 0.9470)
ST Support:	0.9050 (ahead of 0.8970)

No change, with resistance remaining around 0.9315 and support remaining around 0.9050.

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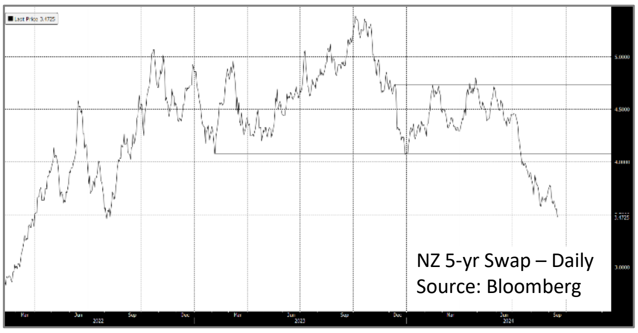
NZ 5-year Swap Rate

Outlook:	Lower
MT Resistance:	4.06
MT Support:	3.48

Strong momentum has driven the 5y to approach medium term support, a break here opens up a move toward 3.30



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

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

Strong steepening momentum remains, a target of -10 bps looks realistic before we see some consolidation

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Quarterly Forecasts

Forecasts as at 16 September 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	-0.4	-0.3	0.4	0.8	0.9	0.8	0.8	0.7
Retail trade (real s.a.)	-1.8	0.4	-1.2	0.0	0.5	0.8	1.0	1.2	1.1	0.9
Current account (ytd, % GDP)	-6.9	-6.8	-6.3	-6.6	-6.4	-6.3	-5.7	-5.4	-5.2	-4.9
CPI (q/q)	0.5	0.6	0.4	0.7	0.4	0.5	0.5	0.6	0.1	0.6
Employment	0.5	-0.3	0.4	-0.4	-0.2	0.2	0.5	0.6	0.7	0.7
Unemployment rate %	4.0	4.4	4.6	5.0	5.4	5.5	5.6	5.6	5.5	5.4
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 %)	3.2	3.2	3.0	2.9	2.9	2.8	3.0	3.0	3.1	3.0
CPI (y/y)	4.7	4.0	3.3	2.2	2.1	2.0	2.0	2.0	1.7	1.9
GDP (production s.a., y/y))	-0.2	0.3	-0.6	-0.6	-0.1	0.6	1.9	3.0	3.4	3.3

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	5.25	5.00	4.10	4.40	3.85	3.95	4.15	5.30	4.10	0.30
Dec	4.75	4.75	4.05	4.40	3.50	3.90	4.15	5.05	4.10	0.30
2025 Mar	4.50	4.25	3.85	4.35	3.20	3.75	4.15	4.55	4.00	0.35
Jun	4.00	3.75	3.75	4.30	3.05	3.70	4.15	4.30	3.90	0.40
Sep	3.50	3.25	3.70	4.25	2.95	3.65	4.10	4.05	3.80	0.45
Dec	3.00	3.00	3.75	4.25	3.05	3.70	4.10	3.80	3.75	0.50
2026 Mar	2.75	2.90	3.80	4.25	3.30	3.80	4.15	3.55	3.75	0.50

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.61	0.67	1.10	1.30	142
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	0.66	0.74	1.20	1.37	125

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.61	0.92	0.56	0.47	87.3	70.7
Sep-24	0.61	0.91	0.56	0.48	89.1	70.6
Dec-24	0.62	0.90	0.56	0.48	88.7	70.9
Mar-25	0.64	0.90	0.56	0.49	88.9	71.9
Jun-25	0.65	0.90	0.57	0.49	89.1	72.8
Sep-25	0.66	0.89	0.57	0.49	88.4	73.0
Dec-25	0.67	0.89	0.57	0.50	87.8	73.5
Mar-26	0.66	0.89	0.56	0.49	85.1	72.5
Jun-26	0.65	0.89	0.55	0.48	83.9	71.7
Sep-26	0.66	0.89	0.55	0.48	82.5	72.1
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 16 September 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	1.0	2.7	7.4	3.3	0.6	1.3	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	-3.0	3.4	12.0	3.4	-0.9	-3.9	2.0
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	0.5	2.7	10.0	3.4	-1.5	0.1	2.2
Exports	2.5	6.0	6.4	1.1	5.1	-2.7	-0.2	9.8	2.0	4.3
Imports	17.3	4.4	-1.2	3.7	3.8	14.8	4.7	-0.5	3.3	3.4
Real Expenditure GDP	4.7	2.7	0.4	-0.1	2.9	5.9	2.3	0.8	-0.2	2.3
GDP (production)	**4.6**	**2.7**	**0.2**	**-0.2**	**2.9**	**5.6**	**2.4**	**0.6**	**-0.3**	**2.2**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.3*	*0.6*	*3.3*	*2.6*	*2.2*	*-0.2*	*-0.1*	*3.4*
Output Gap (ann avg, % dev)	1.4	2.0	-0.1	-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	2.0	1.9	5.9	7.2	4.7	2.1	1.7
Employment	2.5	3.1	1.3	0.0	2.5	3.3	1.7	2.9	-0.5	2.0
Unemployment Rate %	3.2	3.4	4.4	5.5	5.4	3.2	3.4	4.0	5.4	5.5
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	0.0	1.4	3.6	0.2	-2.4	-0.5	1.5
Unit Labour Costs (ann av %)	4.6	6.5	8.5	4.2	1.7	2.4	6.5	9.0	5.1	1.9
House Prices (stratified, qtr)	9.1	-12.8	2.7	-0.7	7.0	22.5	-13.8	0.6	-1.5	6.5
External Balance										
Current Account - $bn	-23.6	-31.8	-27.6	-26.4	-21.6	-20.6	-33.4	-27.9	-26.8	-22.6
Current Account - % of GDP	-6.6	-8.2	-6.8	-6.3	-4.9	-5.8	-8.8	-6.9	-6.4	-5.2
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	71.9	72.5	73.0	72.9	72.0	70.9	73.5
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	3.85	3.80	2.20	4.30	4.50	4.05	3.75
10-year Govt Bond	3.20	4.35	4.60	4.35	4.25	2.35	4.25	4.65	4.40	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	3.75	3.80	2.56	4.62	4.43	3.90	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	0.35	0.50	0.90	0.65	0.65	0.30	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 16 September			
NZ	Performance Services Index Aug			44.6
EC	ECB's Panetta speaks			
EC	ECB's Guindos speaks			
EC	Trade Balance SA Jul	15.0b		17.5b
EC	Labour Costs YoY 2Q			5.10%
	Tuesday 17 September			
EC	ECB's Lane speaks			
US	Empire Manufacturing Sep	-4.3		-4.7
NZ	Vehicle registrations Aug			
	Wednesday 18 September			
CA	CPI YoY Aug	2.10%		2.50%
US	Retail Sales Advance MoM Aug	-0.20%		1.00%
US	Retail Sales Ex Auto MoM Aug	0.20%		0.40%
US	Retail Sales Control Group Aug	0.30%		0.30%
US	Industrial Production MoM Aug	0.20%		-0.60%
US	Manufacturing (SIC) Production Aug	0.20%		-0.30%
NZ	Dairy GDT auction			-0.40%
NZ	Westpac Consumer Confidence 3Q			82.2
NZ	Current Account GDP Ratio YTD 2Q	-6.50%	-6.30%	-6.80%
AU	RBA's Jones-Speech			
JN	Trade Balance Aug	-¥1456.2b		-¥621.8b
AU	Westpac Leading Index MoM Aug			-0.04%
UK	CPI YoY Aug	2.20%		2.20%
EC	ECB's Holzmann speaks			
EC	ECB's Vujcic speaks			
EC	CPI YoY Aug F	2.20%		2.20%
EC	CPI Core YoY Aug F	2.80%		2.80%

		Median	Fcast	Last
	Wednesday (continued)			
EC	ECB's Nagel speaks			
	Thursday 19 September			
US	Housing Starts Aug	1320k		1238k
CA	BoC Releases Summary of Deliberations			
US	FOMC Rate Decision (Upper Bound) Sep-18	5.25%		5.50%
NZ	GDP SA QoQ 2Q	-0.40%	-0.40%	0.20%
AU	Employment Change Aug	25.0k	20.0k	58.2k
AU	Unemployment Rate Aug	4.20%	4.20%	4.20%
AU	Participation Rate Aug	67.10%	67.10%	67.10%
EC	ECB's Knot speaks			
EC	ECB's Schnabel speaks			
UK	Bank of England Bank Rate Sep-19	5.00%		5.00%
EC	ECB's Nagel speaks			
	Friday 20 September			
US	Current Account Balance 2Q	-$260.0b		-$237.6b
US	Philadelphia Fed Business Outlook Sep	-1		-7
US	Initial Jobless Claims Sep-14	230k		230k
US	Continuing Claims Sep-07	1855k		1850k
US	Existing Home Sales Aug	3.90m		3.95m
EC	ECB's Schnabel Chairs Panel			
NZ	PM Luxon - BBG address and Q and A			
JN	Natl CPI YoY Aug	3.00%		2.80%
UK	Retail Sales Inc Auto Fuel MoM Aug	0.40%		0.50%
JN	BOJ Target Rate Sep-20	0.25%		0.25%
	Saturday 21 September			
EC	Consumer Confidence Sep P	-13.2		-13.5
EC	ECB's Lagarde speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.25	5.25	5.25	5.50
1mth	5.29	5.36	5.36	5.60
2mth	5.18	5.20	5.30	5.63
3mth	5.07	5.12	5.24	5.66
6mth	4.84	4.87	4.96	5.72
GOVERNMENT STOCK				
05/26	3.87	4.00	3.97	5.26
04/29	3.69	3.81	3.78	5.01
05/31	3.89	4.03	3.98	5.00
05/34	4.10	4.23	4.19	5.06
04/37	4.34	4.47	4.37	5.16
05/41	4.53	4.65	4.52	5.23
05/51	4.60	4.71	4.57	5.23
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	50	52	51	63
Europe 5Y	53	55	53	69

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.62	3.78	3.83	5.56
3 years	3.46	3.62	3.63	5.29
4 years	3.44	3.60	3.60	5.11
5 years	3.48	3.63	3.62	4.99
10 years	3.76	3.91	3.91	4.87
FOREIGN EXCHANGE				
NZD/USD	0.6162	0.6145	0.6113	0.5917
NZD/AUD	0.9182	0.9227	0.9081	0.9192
NZD/JPY	86.78	87.97	89.59	87.33
NZD/EUR	0.5558	0.5568	0.5515	0.5534
NZD/GBP	0.4692	0.4700	0.4706	0.4779
NZD/CAD	0.8368	0.8331	0.8333	0.7980
TWI	70.7	70.8	70.2	69.7

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