17 February 2025

All Eyes on the RBNZ

- **RBNZ widely expected to cut OCR by 50 bps**
- **PMI, PSI show signs of life**
- **Concrete production slumps anew**
- **Near term inflation seen higher on tradeable prices**
- **Risk to inflation expectations worth watching**
- **Non-tradeable inflation looks to be easing sharply**

Wednesday's RBNZ Monetary Policy Statement (MPS) is the domestic focus this week. We laid out our thinking on that last week. To summarise, we expect the Bank to lower its cash rate by 50 basis points to 3.75%. Such a cut is the very widely held consensus view. And markets are pricing a 50-point cut as all but a done deal. It would be a massive surprise if the RBNZ did anything but deliver.

Besides the expected cut, the big interest for markets is what the Bank will intimate about its future rate track. We think the RBNZ will project further rate reduction and a quicker decline than published in its November MPS. If it goes 50 it will already be a bigger drop than the Bank's model delivered previously. We anticipate a projected OCR low of around 3.0% will be repeated.

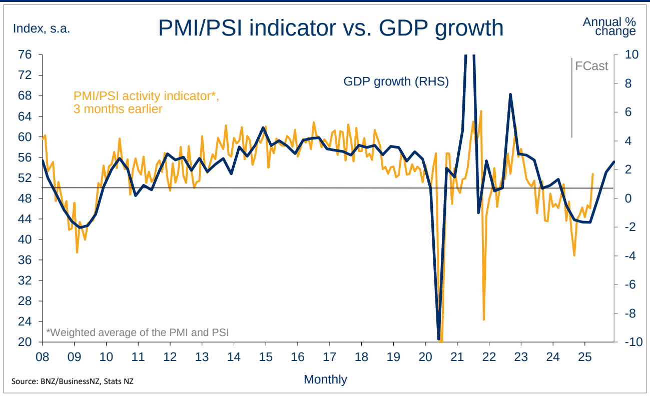
The MPS is to be released at 2pm on Wednesday, with the associated press conference scheduled at 3pm.

We haven't seen anything in the past week to materially alter our view. However, the data has offered plenty to think about.

On the activity front, we have seen more evidence of improvement in the New Year. Last Friday's January PMI took a decent step higher, edging into expansionary territory for the first time in 23 months. It has gone from truly awful to marginally positive. This morning's PSI followed the PMI's lead and snuck back above 50. And last week's ANZ truckometer posted gains for January.

This is all helpful for a return to growth in 2025 and it is encouraging to see some positivity creeping into the high frequency indicators. Activity led the charge in the PMI and PSI. It is the first increase after a lengthy period of decline. New orders lifted less convincingly, suggesting the growth outlook doesn't look any stronger than we, or the RBNZ, has forecast.

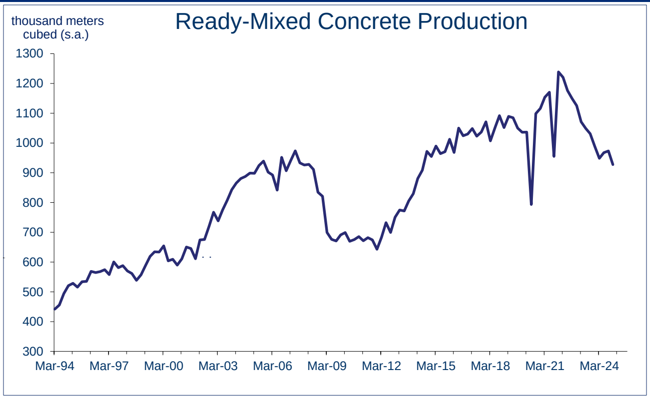
Signs of life



While some better-looking activity indicators are good to see, we shouldn't get too carried away with the positivity just yet. For a start, it is data for only one month. And lest we forget that any expansion this year is coming off last year's low base. Last week's concrete production for Q4 was another stark reminder of that.

Concrete production dropped 4.7% in Q4, to be 25% lower than its peak in late 2021. And, outside of the first Covid lockdown, it is at its lowest level in 10 years. A low base indeed. It highlights construction sector weakness and is yet another indicator suggesting the economy struggled to grow at all in Q4.

Even lower base



And not all January indicators have improved. Flat total electronic card transactions data disappointed last week and more so regards its retail component that fell 1.6%

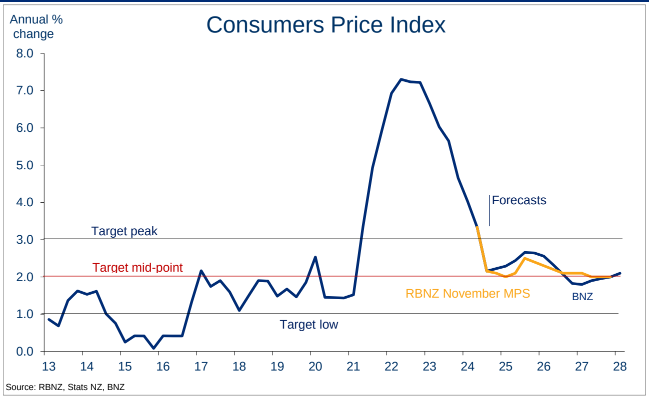
m/m. To be fair, this could just be noise with difficulty seasonally adjusting around the holiday period. The trend has been positive over recent months, at least on a nominal basis.

For all the emerging signs of life, none of it suggests growth above reasonable estimates of expansion in the economy's capacity. This suggests the output gap is still widening and with it more downward pressure on domestic inflation.

We saw some sign of that in January's Selected Price Indexes on Friday. Non-tradeable prices for things like rents, restaurant meals, and domestic accommodation all saw annual inflation falling. We think there is more of that coming. For example, rent inflation looks set to slow sharply with listings well up on a year ago and demand looking subdued.

However, it is a very different story for tradeable prices. We have been warning of upside inflation risk from this source and continue to do so as the previous deflationary force from vegetable prices retreating fades and the offshore commodity price strength and lower NZD make their presence felt. On closer inspection of last week's price data, our CPI forecasts have been nudged higher.

Near term upside risk; medium term downside risk



Near-term upside to inflation will put some pressure on the RBNZ. The upside tradeable inflation risk would be more troubling for medium term inflation if it meaningfully filtered through to inflation expectations. Importantly, for the RBNZ, there appears to be no sign of this to date judging by last week's medium term inflation expectations data.

In fact, the 2, 5, and 10-year ahead measures of CPI inflation expectations all eased a bit, to be very close to 2%. Inflation expectations look well anchored. This is important as the RBNZ has suggested it has greater confidence to look through near term inflation deviations from target if inflation expectations are anchored.

However, this is an area that needs to be monitored closely. If higher actual inflation starts to feed into inflation expectations, it will be important for policy considerations.

Household inflation expectations data are due on Tuesday but are followed far less closely than their business equivalents. But this week's data may get a glance given they come out the day before the MPS.

Turning to the rest of this week's data, migration and tourism data for December have already been released this morning. They were both close to our expectations.

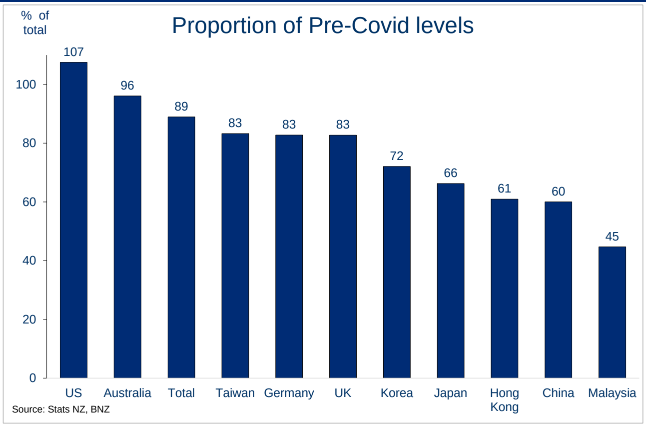
The annual net inflow of migrants continues to fall broadly in line with our expectations, with a provisional estimate of 27,100 for 2024. This is down from a peak of 135,600 just over a year earlier. Lower net migration has demand impacts, such as in the housing market, as well as supply implications, such as via the labour market with a slowing in the expansion of the working age population.

Month-to-month net flows have been relatively stable over the past 9-months. This will see the annual inflow also start to stabilise in the not too distance future, which is what we have built into our forecasts.

Short term visitor numbers were 12.2% up on a year ago, broadly in line with provisional figures. A decent lift from a year ago, but only at 89% of pre covid levels for the equivalent month.

The government's desire to boost tourism was added to over the weekend, with a campaign launched to lift visitor numbers from Australia. In December, visitor numbers from Australia were 96% of the pre-covid equivalent. Of New Zealand's main visitor source countries, visitor numbers from China continue to lag the farthest behind pre-pandemic levels, at 60%.

Many still well behind pre covid levels



The latest GDT dairy auction is scheduled for Wednesday. Early indications suggest some consolidation may be in store, after the previous strong gain.

Q4 business price indexes are also due on Wednesday, but they are not closely followed given they are published well after the CPI for the quarter. They are also heavily influenced by volatile commodity prices. In that regard, the Q4 outcome looks like largely being a contest between a very sharp drop in electricity prices in the quarter and further gains in primary product export prices.

Speaking of electricity, hydro lake storage levels are falling and are starting to get meaningfully below average for this time of year. With this it is no surprise to see wholesale power prices rising in Q1 to date. If this is to continue it will show up in that quarter's PPI. The bigger risk would seem to be if the lack of rain continues, and it squeezes prices materially higher into winter with flow on consequences for exposed major electricity users. It is something to keep an eye on.

Last, but not least, we may see January's REINZ housing report published before the week is done. Regional indicators suggest sales may post a decent gain from a year earlier, which would coincide with a recent significant lift in listings. The latter is a headwind to house prices which we suspect remained a touch below year earlier levels in January. If so, it would maintain the notion that house prices continue to undershoot the RBNZ's November MPS projections as they appeared to do through the December quarter.

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Global Watch

- **RBA decision, expected to cut 25bps**
- **Labour market data due for Australia and the UK**
- **CPI data for the UK, Japan and Canada**
- **Global PMIs to show activity pulse for February**

Week in Review

Globally, uncertainty over US trade policy continues. A 25% tariff on steel and aluminium was announced early last week. Further product specific products have been flagged for pharma, cars, and tech. While a study into reciprocal tariffs has been ordered – i.e. adjusting tariff rates to match duties/barriers imposed by other countries.

Markets though appear to be becoming less reactive to tariff headlines. It is also still unclear to what extent tariffs prove to be inflationary and the impact on activity.

Other important headlines during the week include hopes of a US-brokered truce between Russia and Ukraine. European equities were buoyed and since Trump was elected the Eurostoxx50 has risen around 13%.

Other events in the week were US Fed Chair Powell's Testimony, US CPI and PPI. While Powell's remarks were close to his post-FOMC remarks, he did note he thought "*the neutral rate has risen meaningful* and "*many of my colleagues on the FOMC*" also do. Note the December dot plot showed a significant cluster with a long-run dot between 3.5-4.0%, and another cluster around 3%; Powell seems to be in the 3.5-4.0% camp.

As for US CPI, this printed hotter than expected, but not for the PPI components that feed into the Fed's preferred core PCE measure. Most mappings suggest a Core PCE print of 0.3% m/m and 2.6% y/y.

Week Ahead

It is a full week in Australia. The RBA meeting and forecast update is expected to see a first cut, after rates had been on hold since November 2023. The timing isn't ideal, with important Q4 wages data on Wednesday and Employment data on Thursday following in the days after the meeting. RBA leadership is quizzed in front of the House economics committee on Friday.

For the RBA, our colleagues at NAB see a cut as more likely than not, though are less convinced than market pricing near 90%. Good news on inflation in the last few months means the door to a cut is open, but a resilient labour market and an outlook for a pickup in activity do not create any urgency and there remains some value in waiting to get a better sense of the trajectory of the labour market and the extent of the pickup in consumption. Australia's unemployment rate is expected to tick up to 4.1% from 4.0%.

The US data calendar is comparatively quiet, though tariff headlines will continue to be watched closely. There are also a number of Fed speakers scheduled, including Waller on Tuesday. The January FOMC Minutes are published Wednesday. Note Monday is the President's Day holiday.

Preliminary PMIs are in focus Friday. The focus will be on whether the recent recovery in the US manufacturing PMI is sustained and whether the convergence in services activity that has seen Europe improve as the US expansion pace slowed sustains.

It is a busy UK calendar data calendar as well. Labour market data is published. Wages growth increased in November and there is a risk that extends in December, but the outlook is still for moderation through 2025. Unemployment may tick up again to 4.5%. The same day, Governor Bailey speaks in a fireside chat in Brussels. January CPI (Wednesday) looks set to rise to 2.8% y/y from 2.5% on a headline basis.

In Japan, GDP data is published Monday and seen up 0.3% q/q in Q4. CPI is published Friday. It is a quiet data calendar in China, with Loan Prime Rates seen steady for a fourth consecutive month on Thursday.

Important Events Preview

Monday 17

JN Q4 GDP
Japanese Q4 GDP is seen up 0.3% q/q, a similar pace to Q3. Some volatility under the surface could see drivers shift away from consumption, toward business spending, which is seen bouncing back from a softer Q3.

US Public Holiday (Presidents Day), Fed's Bowman
Cash bond and equity markets are closed.

Tuesday 18

AU RBA meeting and SoMP update
NAB sees a February rate cut as more likely than a hold, but it is a closer call than market pricing near 90%. The post meeting statement and Governor Bullock in the press conference are likely to be noncommittal about the path forward.

Since the November SoMP forecasts, the RBA has realised a downside surprise to growth in Q3 GDP, a downside surprise to wages in Q3 WPI, a sharp downside surprise to the unemployment rate, and a more benign Q4 inflation outcome. That is a complicated picture as the RBA staff update their SoMP forecasts.

While inflation data since the November meeting gives the Board the option to begin to moderate policy from modestly restrictive levels, the broader macro backdrop does not create any urgency to move. There remains some option value in waiting to get a better handle on the trajectory of the labour market and the extent of the pickup in activity growth.

NAB pencils in a gradual cutting cycle that extends to 100bp of cuts over 2025 and an ultimate terminal rate of 3.1%. That is supported by an assessment that current labour market conditions are not a source of meaningful inflationary pressure and a forecast for modest further cooling in the labour market. That benign outlook supports ongoing gradual policy normalisation to support a recovery in growth and minimise labour market spare capacity, but it equally does not create urgency to move quickly.

UK Labour Market Data, BoE's Bailey
Earnings recorded a jump in the November release, with headline regular (ex-bonus) pay at 5.6% 3M y/y and the in-focus private sector measure rising to 6% 3m y/y. These rises were thought to contain an element of catch-up to other surveys. There is a risk this process continues into the December release with headline earnings seen rising to 5.9% and private sector wages increasing to 6.3%. Looking forward, NAB expect earnings to ease gradually lower over the coming year, consistent with the BoE's 2025 private sector earnings forecast of 3.75%. Unemployment likely ticked up to 4.5% from 4.4% while vacancies fell. Meanwhile BoE Governor Bailey is speaking in a fireside chat in Brussels.

CA CPI (January)
With the prospect of tariffs front and centre, it is likely short-term macro data take more of a backseat unless it prints well wide of expectations. Consensus expects Core Median at 2.5% y/y and Trimmed Mean at 2.6%.

Wednesday 19

AU Q4 Wages
NAB expect Q4 WPI growth of 0.8% q/q and 3.2% y/y. Wages pressures have moderated from their peaks as the labour market has rebalanced from its post-pandemic tights, even as the unemployment rate remains low.

Looking forward, with the labour market remaining healthy and collective agreements continuing to embed average wage increases near 4%, NAB don't expect wages growth pressures to moderate sharply from here. Also note that further pay level adjustments for aged care workers and childcare workers will be measured in the next quarter. NAB expect those pay adjustments will add a cumulative 0.25-0.5ppt to overall WPI with most impact in Q1 2025, with some impact in Q4 2025 and Q1 2026.

UK January CPI
The UK inflation report for January is likely to make uncomfortable reading, extending the recent rise in the headline rate closer to 3%, while the recent slowdown in core and services measures will more than reverse. Headline CPI looks set to rise to 2.8% y/y from 2.5% thanks to private school fee tax changes, energy costs and a reversal higher in air fares. Core CPI will rise to 3.7% y/y from 3.2%, while services prices will rebound to 5.2% y/y from 4.4%. The headline measure is expected to rise towards 3.5% in coming months.

US FOMC Minutes, Housing Starts
The FOMC minutes are unlikely to contain much new on top of Chair Powell's recent testimony. Fed officials since the last meeting have indicated they are broadly of the view of holding and not pre-empting potential tariff impacts on the economy.

Thursday 20

AU January Employment
January's employment data could see seasonal quirks that temporarily increase the unemployment rate. NAB pencil in a 4.1% unemployment rate from 4.0% in December on a 15k employment gain but suggest the first thing to check if the unemployment rate does move higher is whether the attached to a job but yet to start work phenomenon is once again the culprit. If so, it is likely to unwind in February.

Friday 21

AU RBA Parliamentary Testimony
A reasonably full complement of Senior RBA leadership is in front of the House of Representatives Standing Committee on Economics. Expect a grilling one way or the other for justification on the RBA's Tuesday decision. In attendance are Michele Bullock, Governor; Andrew Hauser, Deputy Governor; Sarah Hunter, Assistant Governor (Economic); and Brad Jones, Assistant Governor (Financial System).

JN CPI (January)
Consensus sees core CPI lifting to 2.5% y/y from 2.4%, while headline CPI is expected to be 3.9% y/y from 3.6%.

Global S&P Preliminary PMIs
The focus of the February PMIs will be twofold: First, whether the recent rebound in US manufacturing activity back into expansion at 51.2 (also seen at 50.9 on the ISM measure) is sustained. Secondly, whether the convergence in services activity that has seen Europe improve back to 51.3 (and Germany to 52.5) as the US expansion pace slowed to 52.9 (and ISM to 52.8) also holds. The latter convergence has seen some outperformance in the economic surprise indexes.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg: BNZ

NZ fixed income yields edged higher last week, and the curve steepened modestly. There was limited reaction to the range of domestic data. Activity indicators were mixed with soft electronic card transactions contrasting with a pickup in the manufacturing and service sector PMIs. Inflation partials for January were a touch firmer than expected though skewed towards tradeable prices. Non-tradeables, which make up a smaller component of the monthly inflation basket, were subdued.

RBNZ to cut by 50bp and signal further easing ahead

The key domestic focus in the week ahead is the RBNZ's Monetary Policy Statement (MPS). The overnight index swap (OIS) market has fully discounted a 50bp rate cut and implies the Official Cash Rate (OCR) will decline towards 3.1% by December. A 50bp cut on Wednesday is unanimously expected by economists and attention will turn to the Bank's messaging. We expect the RBNZ easing cycle will slow to 25bp increments in future reviews, taking the OCR to 2.75% by the August MPS.

The Reserve Bank of Australia (RBA) is expected to begin its easing cycle with a 25bp cut tomorrow. We think the RBA's decision will be closer than market pricing (85% chance) implies. The meeting outcome is binary, but where this could be reflected is in the tone of the RBA's statement and press conference, which could challenge the market's pricing of two further cuts for the year. We think there is room for compression in 2-year NZ-AU swap rates.

There was robust demand from investors in the syndicated tap of the May-2035 government bond (NZGB) last week. New Zealand Debt Management (NZDM) issued an additional NZ$5.5 billion which was towards the upper end of the indicated volume range. The book size at final price guidance – the bond was issued at a spread of 11bp to the May-3034 maturity representing a ~2bp concession to prevailing market levels - exceeded NZ$21.5 billion.

Investor breakdown for recent syndicated transactions

Domicile	Apr-33*	May-35	May-36	May-35*
Asia	12%	8%	11%	19%
Australia	5%	9%	13%	13%
Europe/UK	26%	18%	27%	24%
New Zealand	49%	62%	40%	34%
North America	7%	3%	9%	7%
Other	2%	0%	0%	4%
Investor Type				
Asset Manager/ Central Bank	38%	41%	62%	53%
Bank - Balance Sheet	33%	37%	17%	24%
Bank - Trading Book	16%	12%	13%	10%
Hedge Fund	13%	11%	8%	12%

Source: NZDM *Tap syndication

Non-resident investors were allocated a larger proportion of the book relative to recent near-10-year syndicated transactions. NZGBs offer relatively high real yields and carry, compared with comparison developed market sovereign bonds, which likely provided a tail wind for investor demand. The non-resident investor base remains key to absorbing the historically large NZGB issuance from the fiscal deficit and quantitative tightening by the RBNZ.

The completed tap provides NZDM with flexibility around the final syndicated transaction, which will be a tap of an existing nominal line, in the June quarter. We estimate ~NZ$1.5 billion is required from the remaining syndication to complete the 2024/25 funding task – alongside the weekly tenders - opening the way for potential pre-funding for the next fiscal year.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	3.82	3.82 - 4.08
NZ 2yr swap (%)	3.51	3.33 - 3.63
NZ 5yr swap (%)	3.75	3.58 - 3.85
NZ 10yr swap (%)	4.14	4.03 - 4.24
2s10s swap curve (bps)	64	60 - 71
NZ 10yr swap-govt (bps)	-38	-44 - -37
NZ 10yr govt (%)	4.52	4.45 - 4.65
US 10yr govt (%)	4.48	4.38 - 4.66
NZ-US 10yr (bps)	5	-9 - 5
NZ-AU 2yr swap (bps)	-31	-44 - -29
NZ-AU 10yr govt (bps)	11	5 - 18

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, the USD and JPY were the weakest of the major currencies. NZD/USD rose 1.3% to 0.5730, after trading at a fresh 2025 high of 0.5738 in the closing trading minutes of the week. NZD/AUD was flat at 0.9020, after a temporary foray below 0.90. The NZD showed small falls against EUR and GBP and NZD/JPY was nearly 2% higher on yen underperformance, reversing the move seen over the prior week.

It was another week with Trump's policy agenda in the spotlight, with the net result for currency markets being broad weakness in the USD. President Trump signed an executive order for 25% tariffs on all US steel and aluminium imports, effective from 12 March. President Trump also signed an action plan on developing reciprocal tariffs. The levies would be applied on a country-by-country basis and include retaliation against non-tariff barriers. Under the proposal, value-added taxes (VAT or GST) would be retaliated against. Details remain sketchy but at face value NZ would face an across the board 15% import tariff, the same GST rate applied locally.

The market took some comfort that these reciprocal tariffs wouldn't be applied until 2 April, at the earliest. A lot of work will be required to set up the new scheme and it is not clear that this can be achieved over two months.

Also affecting currency markets, President Trump spoke to President Putin and President Zelensky, the outcome being negotiations to soon begin to end the war in Ukraine. This news supported European currencies. European natural gas futures fell 9% for the week.

On US economic data, stronger than expected US CPI and PPI figures were released but the market took comfort that the components that feed into the core PCE deflator suggest a lift of 0.3% m/m for January, which would drop the annual increase from 2.8% to 2.6%. Retail sales for January were much weaker than expected. These data added to USD weakness.

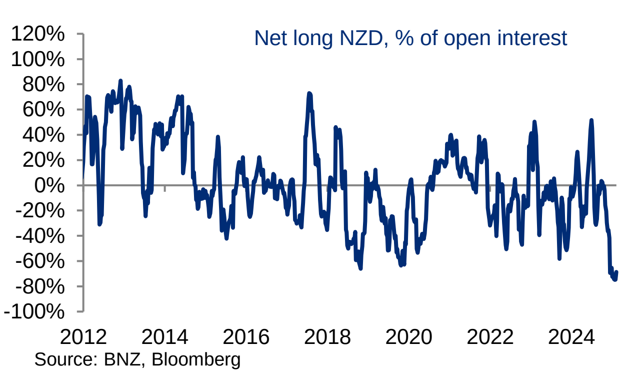
While there has been plenty of talk about new US import tariffs since President Trump began his second term, so far the only new tariffs imposed is the extra 10% applied to China. There remains a question mark on whether all this tariff talk is just a negotiation tool or the beginning of permanent incremental trade barriers. Holders of significant USD long positions are getting impatient, and this is helping to support the NZD. This theme could well continue until we get more information after the 1 April deadline passes for all the work related to new possible tariffs. That date remains a key one and while the near-term NZD outlook is constructive, a lot of risk still overhangs the currency for Q2.

In the week ahead the domestic focus will be on the RBNZ's MPS on Wednesday. Back in November, Governor Orr guided the market to a 50bps cut for this meeting and that is almost exactly what the market has priced. A smaller cut would be a complete shock. Focus will be on the rate track projection and guidance on future meetings. The previous projections were consistent with a slowdown in the pace of easing and a terminal OCR rate of just over 3%. We don't see the Bank deviating much from this and hence we are neutral on any possible NZD reaction.

There will be more interest in the RBA's rate decision tomorrow, where a 25bps is well priced by the market – the first easing for Australia in the cycle – but there is an outside chance of the Bank leaving rates unchanged. Market pricing for at least three rate cuts this year looks on the aggressive side, and if the Bank doesn't meet the market's dovish expectations then that would be AUD-supportive and negative for the NZD/AUD cross rate. Key Australian data on wages and employment will come after the RBA meeting.

Elsewhere, CPI data are released for Japan, UK and Canada. UK labour market and Japan GDP data will also be on the radar. At the end of the week, global PMI data are released. There are no key US economic releases. Market attention will remain alert for more policy announcements by President Trump.

Short NZD positionig pared a little but still near a record %



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5729	0.5520 - 0.5740
NZD/AUD	0.9020	0.8970 - 0.9100
NZD/GBP	0.4552	0.4500 - 0.4580
NZD/EUR	0.5463	0.5400 - 0.5530
NZD/JPY	87.26	85.30 - 89.10

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	model suspended	
NZD/AUD	0.8590	5%

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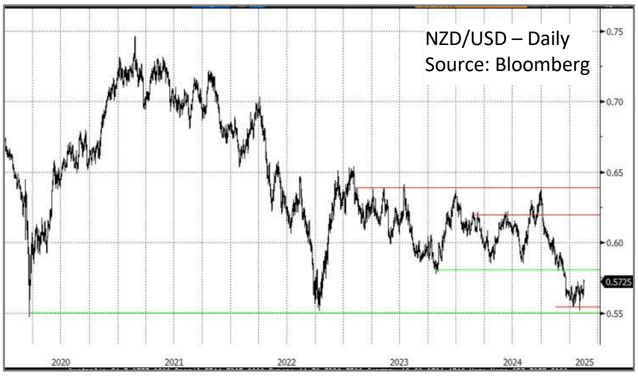
Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.58 (ahead of 0.60)
ST Support: 0.5540 (ahead of 0.55)

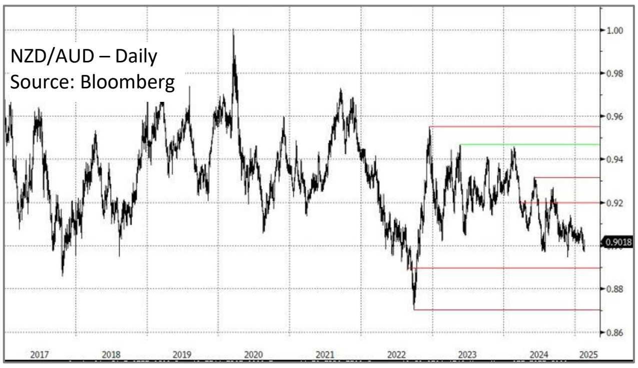
Key support of 0.55 no longer a near-term threat, with the NZD reaching a fresh 2025 last week. First point of resistance could be around 0.58.



NZD/AUD

Outlook: Trading range
ST Resistance: 0.92 (ahead of 0.9315)
ST Support: 0.89 (ahead of 0.87)

No obvious markers but we see continue to see support at 0.89 and some resistance at 0.92.



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NZ 5-year Swap Rate

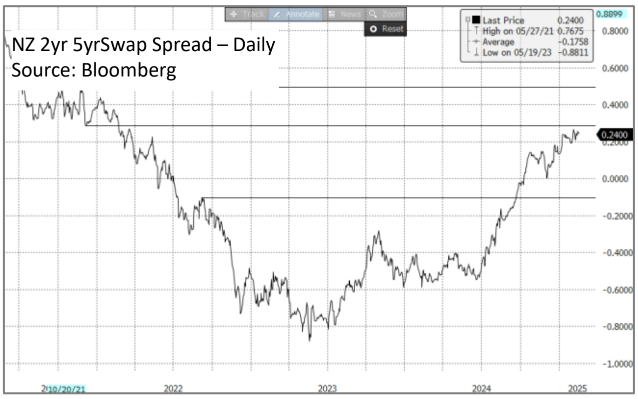
Outlook: Neutral
ST Resistance: 4.06
ST Support: 3.48

5-year swap sold off slightly last week with a move higher above 3.80 being rejected. It continues to sit right in the middle of the range.

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

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

2x5 swap spread made new highs last week as it steepened to 26.5bp before failing to break our resistance. We will continue to watch closely for a break.



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Quarterly Forecasts

Forecasts as at 17 February 2025

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.)	0.3	0.3	-1.1	-1.0	0.1	0.3	0.7	0.8	0.8	0.9
Retail trade (real s.a.)	-1.8	0.5	-1.2	-0.1	0.0	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-6.9	-6.6	-6.6	-6.4	-6.1	-5.5	-4.9	-4.6	-4.3	-4.0
CPI (q/q)	0.5	0.6	0.4	0.6	0.5	0.7	0.5	0.8	0.5	0.6
Employment	0.4	-0.5	0.1	-0.6	-0.1	0.0	0.2	0.4	0.6	0.7
Unemployment rate %	4.0	4.4	4.6	4.8	5.1	5.3	5.5	5.5	5.4	5.2
Avg hourly earnings (ann %)	6.6	4.8	4.0	3.2	4.0	4.5	4.2	3.6	2.9	3.0
Trading partner GDP (ann %)	3.2	3.1	2.9	2.9	3.0	2.8	2.9	2.9	2.9	2.8
CPI (y/y)	4.7	4.0	3.3	2.2	2.2	2.3	2.4	2.7	2.6	2.6
GDP (production s.a., y/y)	0.9	1.3	-0.5	-1.5	-1.6	-1.7	0.0	1.8	2.6	3.1

Interest Rates

Historical data - qtr average			Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter		Cash	90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	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	4.90	5.07	5.28	4.85	4.90	5.65	4.45	0.64
2024	**Mar**	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.60	4.15	0.53
	Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.60	4.45	0.30
	Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.35	3.95	0.37
	Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.85	4.30	0.19
Forecasts											
2025	**Mar**	3.75	3.50	3.70	4.50	3.20	3.55	4.15	5.00	4.30	0.20
	Jun	3.25	3.00	3.45	4.45	2.90	3.35	4.15	5.00	4.25	0.20
	Sep	2.75	2.90	3.45	4.45	3.00	3.40	4.20	4.75	4.25	0.20
	Dec	2.75	2.90	3.55	4.30	3.15	3.50	4.10	4.50	4.00	0.30
2026	**Mar**	2.75	2.90	3.65	4.30	3.40	3.65	4.15	4.25	4.00	0.30

Exchange Rates (End Period)

	USD Forecasts					NZD Forecasts					
	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.57	0.64	1.05	1.26	152	0.57	0.90	0.55	0.46	87.2	68.2
Mar-25	0.58	0.65	1.04	1.27	155	0.58	0.89	0.56	0.46	89.9	69.0
Jun-25	0.57	0.64	1.05	1.27	155	0.57	0.89	0.55	0.45	88.4	68.7
Sep-25	0.59	0.66	1.06	1.28	153	0.59	0.89	0.55	0.46	89.5	69.5
Dec-25	0.60	0.67	1.07	1.28	150	0.60	0.89	0.56	0.47	89.3	70.0
Mar-26	0.62	0.69	1.08	1.29	144	0.62	0.89	0.57	0.48	88.6	71.4
Jun-26	0.64	0.71	1.11	1.32	140	0.64	0.89	0.57	0.48	88.9	72.7
Sep-26	0.65	0.72	1.13	1.34	135	0.65	0.90	0.58	0.49	87.8	73.6
						TWI Weights					
						15.6%	18.4%	9.2%	3.9%	5.5%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 17 February 2025	March Years Actuals 2022	2023	2024	2025	2026	December Years Actuals 2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.3	3.4	1.0	0.2	2.3	7.6	4.2	1.0	0.1	1.7
Government Consumption	8.0	2.7	2.0	-1.3	-0.1	7.9	5.2	0.8	-0.2	-0.6
Total Investment	9.1	3.3	-1.6	-4.9	1.4	10.9	4.2	-0.6	-4.9	-0.9
Stocks - ppts cont'n to growth	0.5	0.3	-1.6	0.2	0.4	1.4	0.0	-1.4	0.1	0.3
GNE	7.9	3.7	-1.1	-0.6	2.2	9.9	4.5	-0.9	-0.8	1.3
Exports	2.5	5.6	8.6	1.4	3.1	-2.7	-0.8	11.4	3.5	2.2
Imports	17.2	4.4	-1.3	1.5	3.6	14.8	4.6	-0.6	1.9	2.4
Real Expenditure GDP	4.6	3.9	1.3	-0.8	2.1	5.8	3.2	1.8	-0.2	1.0
GDP (production)	**4.5**	**3.5**	**1.4**	**-1.3**	**1.9**	**5.6**	**2.9**	**1.8**	**-0.6**	**0.7**
GDP - annual % change (q/q)	*0.5*	*3.0*	*1.3*	*-1.7*	*3.1*	*2.6*	*3.1*	*0.9*	*-1.6*	*2.6*
Output Gap (ann avg, % dev)	1.0	2.0	0.9	-1.4	-1.3	1.3	1.9	1.2	-0.7	-1.6
Nominal Expenditure GDP - $bn	359	394	417	428	450	353	386	412	426	444
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.3	2.6	5.9	7.2	4.7	2.2	2.6
Employment	2.5	3.1	1.0	-0.6	1.9	3.3	1.7	2.8	-1.1	1.2
Unemployment Rate %	3.2	3.4	4.4	5.3	5.2	3.2	3.4	4.0	5.1	5.4
Wages - ahote (private sector)	5.3	8.2	4.8	4.5	3.0	4.1	8.1	6.6	4.0	2.9
Productivity (ann av %)	1.7	1.3	-1.1	-0.6	1.2	3.6	0.7	-1.3	-0.3	0.7
Unit Labour Costs (ann av %)	4.7	5.7	7.2	5.0	2.4	2.3	6.0	7.6	5.1	3.2
House Prices (stratified, qtr)	9.1	-12.8	2.8	-0.4	7.0	22.5	-13.8	0.6	-1.0	6.8
External Balance										
Current Account - $bn	-24.5	-33.8	-27.6	-23.7	-18.2	-21.3	-35.6	-28.6	-25.9	-19.0
Current Account - % of GDP	-6.8	-8.6	-6.6	-5.5	-4.0	-6.0	-9.2	-6.9	-6.1	-4.3
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.7	-2.4	-3.1	-4.1	-3.1					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	35.4	39.3	42.4	45.1	45.1					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	39.3	40.0	40.0					
Bond Programme - % of GDP	5.6	7.1	9.4	9.3	8.9					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.61	0.58	0.62	0.68	0.63	0.62	0.57	0.60
USD/JPY	119	134	150	155	144	114	135	144	154	150
EUR/USD	1.10	1.07	1.09	1.04	1.08	1.13	1.06	1.09	1.05	1.07
NZD/AUD	0.93	0.93	0.93	0.89	0.89	0.95	0.94	0.93	0.91	0.89
NZD/GBP	0.52	0.51	0.48	0.46	0.48	0.51	0.52	0.49	0.45	0.47
NZD/EUR	0.62	0.58	0.56	0.56	0.57	0.60	0.60	0.57	0.55	0.56
NZD/YEN	81.5	83.0	91.1	89.9	88.6	77.4	85.6	89.5	88.4	89.3
TWI	73.9	71.0	71.2	69.0	71.4	73.0	72.9	72.0	68.5	70.0
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	3.75	2.75	0.75	4.25	5.50	4.25	2.75
90-day Bank Bill Rate	1.45	5.16	5.64	3.50	2.90	0.92	4.55	5.63	4.26	2.90
5-year Govt Bond	2.90	4.40	4.60	3.70	3.65	2.20	4.30	4.50	3.90	3.55
10-year Govt Bond	3.20	4.35	4.60	4.50	4.30	2.35	4.25	4.65	4.45	4.30
2-year Swap	3.00	5.15	4.91	3.20	3.40	2.22	5.21	4.93	3.53	3.15
5-year Swap	3.20	4.50	4.40	3.55	3.65	2.56	4.62	4.43	3.63	3.50
US 10-year Bonds	2.10	3.65	4.20	4.30	4.00	1.45	3.60	4.00	4.40	4.00
NZ-US 10-year Spread	1.10	0.70	0.40	0.20	0.30	0.90	0.65	0.65	0.05	0.30

(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 17 February			
JN	GDP SA QoQ 4Q P	0.30%		0.30%
JN	Industrial Production MoM Dec F			0.30%
EC	Trade Balance SA Dec	14.5b		12.9b
	Tuesday 18 February			
EC	ECB's Nagel and Holzmann Speak			
US	Fed's Harker, Bowman and Waller Speak			
NZ	Household Inflation Expectations 1Q			
AU	RBA Cash Rate Target 18/02/2025	4.10%	4.10%	4.35%
UK	ILO Unemployment Rate 3Mths Dec	4.50%		4.40%
UK	Weekly Earnings ex Bonus 3M/YoY Dec	5.90%		5.60%
UK	BOE's Bailey Speaks			
GE	ZEW Survey Expectations Feb	20		10.3
	Wednesday 19 February			
US	Empire Manufacturing Feb	-2		-12.6
CA	CPI YoY Jan	1.90%		1.80%
NZ	Dairy GDT Auction			
EC	ECB'S Cipollone Speaks			
US	Fed's Daly and Barr Speak			
NZ	PPI Input QoQ 4Q			1.90%
NZ	PPI Output QoQ 4Q			1.50%
JN	Trade Balance Jan	-¥2106.5b		¥130.9b
AU	Wage Price Index QoQ 4Q	0.80%	0.80%	0.80%
AU	Wage Price Index YoY 4Q	3.20%	3.20%	3.50%
NZ	RBNZ Official Cash Rate 19/02/2025	3.75%	3.75%	4.25%
CH	Used Home Prices MoM Jan			-0.31%
JN	BOJ's Takata Speaks			
UK	CPI YoY Jan	2.80%		2.50%
UK	CPI Core YoY Jan	3.70%		3.20%
	Thursday 20 February			
US	Housing Starts Jan	1397k		1499k
US	New York Fed Services Business Activity Feb			-5.6
US	FOMC Meeting Minutes 29/01/2025			
	Thursday (continued)			
US	Fed's Jefferson Speaks			
AU	Employment Change Jan	20.0k	15.0k	56.3k
AU	Unemployment Rate Jan	4.10%	4.10%	4.00%
CH	1-Year Loan Prime Rate 20/02/2025	3.10%		3.10%
CH	5-Year Loan Prime Rate 20/02/2025	3.60%		3.60%
	Friday 21 February			
EC	ECB's Makhlouf and Nagel Speak			
US	Philadelphia Fed Business Outlook Feb	20		44.3
US	Initial Jobless Claims 15/02/2025	215k		213k
US	Continuing Claims 8/02/2025	1879k		1850k
US	Fed's Goolsbee, Musalem and Others Speak			
EC	Consumer Confidence Feb P	-13.9		-14.2
NZ	Trade Balance NZD Jan			219m
AU	S&P Global Australia PMI Mfg Feb P			50.2
AU	S&P Global Australia PMI Services Feb P			51.2
AU	RBA-Parliamentary Testimony			
JN	Natl CPI YoY Jan	3.90%		3.60%
JN	Natl CPI Ex Fresh Food, Energy YoY Jan	2.50%		2.40%
UK	GfK Consumer Confidence Feb	-21		-22
UK	Retail Sales Inc Auto Fuel MoM Jan	0.60%		-0.3%
GE	HCOB Germany Services PMI Feb P	52.5		52.5
EC	HCOB EZ Manufacturing PMI Feb P	47		46.6
EC	HCOB EZ Services PMI Feb P	51.6		51.3
UK	S&P Global UK Manufacturing PMI Feb P	48.5		48.3
UK	S&P Global UK Services PMI Feb P	50.8		50.8
	Saturday 22 February			
EC	ECB's Lane Speaks			
US	S&P Global US Manufacturing PMI Feb P	51.2		51.2
US	S&P Global US Services PMI Feb P	53		52.9
US	U. of Mich. Sentiment Feb F	67.8		67.8
US	Existing Home Sales Jan	4.13m		4.24m
US	Fed's Jefferson Speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	4.25	4.25	4.25	5.50
1mth	3.98	4.03	4.35	5.64
2mth	3.90	3.94	4.15	5.68
3mth	3.82	3.86	4.06	5.71
6mth	3.67	3.68	3.85	5.74
GOVERNMENT STOCK				
04/27	3.66	3.62	3.76	4.78
05/30	4.09	4.04	4.18	4.72
05/32	4.36	4.32	4.49	4.80
05/35	4.61	4.60	4.74	
04/37	4.78	4.76	4.91	5.02
05/41	4.98	4.94	5.11	5.12
05/54	5.14	5.09	5.27	
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	47	48	49	53
Europe 5Y	51	53	54	56

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.51	3.45	3.61	5.19
3 years	3.58	3.51	3.67	4.89
4 years	3.66	3.60	3.75	4.75
5 years	3.75	3.69	3.83	4.68
10 years	4.14	4.11	4.22	4.72
FOREIGN EXCHANGE				
NZD/USD	0.5721	0.5641	0.5672	0.6150
NZD/AUD	0.9012	0.8986	0.9039	0.9403
NZD/JPY	87.09	85.74	88.24	92.32
NZD/EUR	0.5457	0.5473	0.5445	0.5705
NZD/GBP	0.4544	0.4561	0.4602	0.4883
NZD/CAD	0.8112	0.8076	0.8117	0.8296
TWI	68.1	67.8	67.5	72.1

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