Research

Markets Outlook

15 July 2024

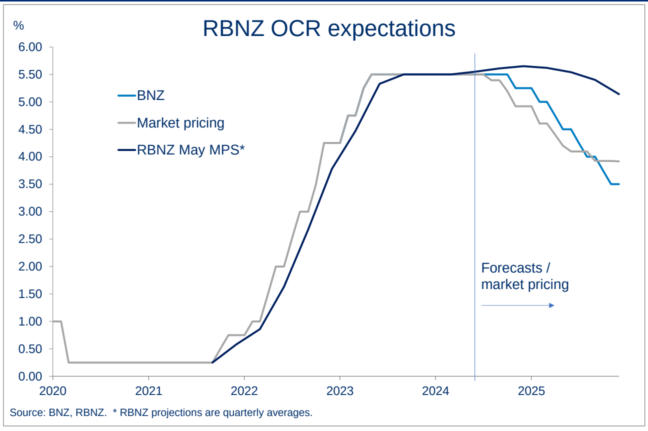
Crumbling

- **RBNZ's hawkish stance finally gives way**
- **Allowing us to revert to November OCR cut view**
- **Crumbling activity indicators risk earlier or larger cut**
- **Wednesday's Q2 CPI key; we see 0.6%/3.5%y/y**

If there was a surprise in the Reserve Bank's greenlighting of earlier rate cuts last week it was only in the timing. We've long been of the view the economy is buckling, inflation is beaten, and rate cuts would ultimately be delivered much earlier than RBNZ projections.

Recall that following the surprisingly hawkish May MPS we were compelled to push back the expected start of the easing cycle from November to February 2025. Last week's change of tack from the Bank has thus allowed us to revert to our November central forecast.

Cuts front-loaded



From how we've been reading things, the Bank's pivot couldn't come soon enough. There is a growing chorus of startlingly weak forward indicators that, at face value, warn of a crumbling in economic activity over the second and third quarters. We've only just revised down our Q2 GDP pick to a 0.2%q/q contraction, but it is already looking optimistic.

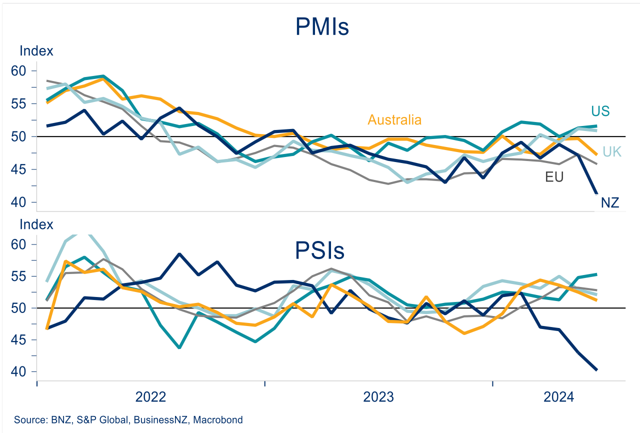
Even in the few days since the RBNZ decision we've seen further deterioration in the data flow. We noted last week the deterioration in the growth indicators from the June Quarterly Survey of Business Opinion. The June readings of the Performance of Manufacturing (PMI) and Performance of Services (PSI) went a step further.

The prior month declines in these indices were of such a magnitude that we'd wondered if some sort of pause was in the offing this time around. It wasn't to be. The additional, sizeable declines in the month of June put the PMI at the lowest level since the GFC (outside of lockdown months), and the PSI at the weakest level in the 17-year history of the series (again, outside of lockdown months).

If that wasn't enough, the speed at which particularly the PSI has cratered since February is cause for additional concern. It's been faster than the 2008/09 GFC and may not be over yet.

Globally, manufacturing has been under pressure for some time. NZ's PMI has been sub-50 for sixteen consecutive quarters. Until recently, the services sector, as represented by the PSI, had been key in propping up the broader economy. But the February-June slide has flipped that narrative on its head. A quick comparison to some of our trading partners simply highlights the point.

NZ strays southwards



As noted in our write up this morning, there are multiple drivers of this service sector weakness. At the heart of it is the malaise in retail spending. But the flattening tourism recovery, sub-par housing activity, and reduced government spending are all clear drags.

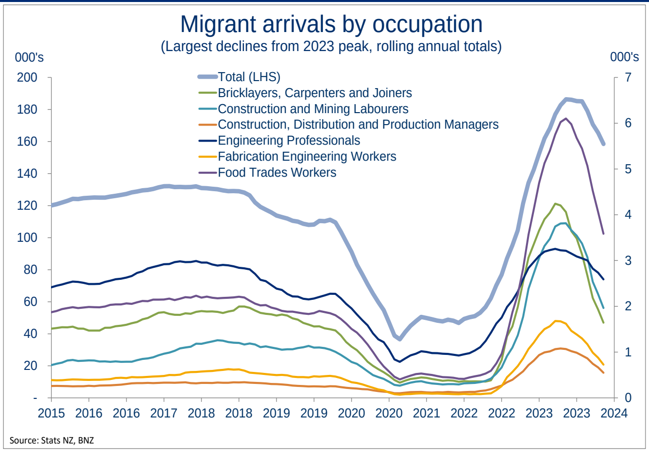
We also get the sense falling population growth is exposing a few more cracks in the economy. It's the flipside of the temporary gloss population growth put on some of our macro numbers as it boomed through late 2022 and 2023.

May figures released last week confirmed the migration boom is rapidly deflating. Stats NZ estimates a net migration gain of just 1410 people over the month. These monthly estimates need to be handled with care but, whichever way you look at it, net migration is a shadow of its former 10-15k-per-month self.

Bear in mind also that, on a non-seasonally adjusted basis (for which a reasonable case could be made is the more relevant measure), the monthly net migration flow was a small net negative, the first since mid-2022. Additional net outflows in coming months shouldn't be ruled out given the deteriorating jobs market.

The turnaround in the migration cycle has been a story of both reduced migrant arrivals and, particularly since February, a sharp lift in departures. Drawing on separate arrivals cards data provides a sense of which industries/occupations are contributing most to the fall in arrivals. As the chart shows, construction-related occupations feature heavily.

Reduced demand for construction-related occupations

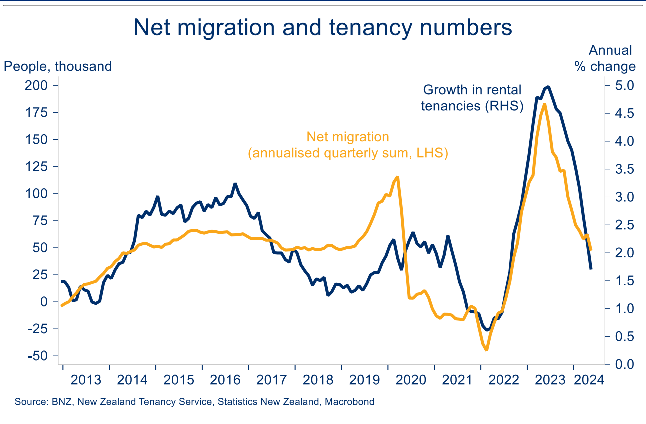


The slowing migration impulse is one of many factors acting to restrain housing demand. This morning's REINZ housing stats for June confirmed a picture of a generally moribund housing market. The trend in house prices remains flat to lower, and very weak activity indicators – falling sales and rising stock of inventory for sale – provided few signs of this changing in the short-term.

None of this is overly troubling for our forecasts. We saw enough back in May to lower our house price expectations to just a 2% lift for calendar 2024. Call it flat. While growing signs of excess supply risk an undershoot of this view, earlier interest rate cuts provide a clear offset.

In the rental market, the trend decline in net migrant arrivals has coincided with a marked reduction in new tenancy growth (chart below). Slowing income growth from the weakening labour market and the soft housing market are likely also impacting rental demand (the latter as unsold properties get listed for rent).

Rental demand falling

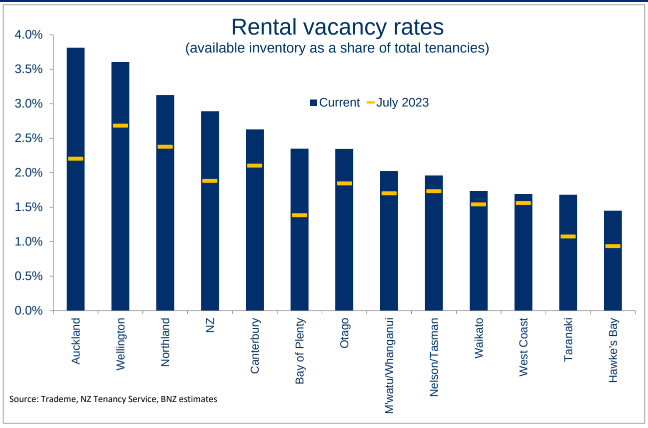


According to last Thursday's Selected Price Indices, annual rent inflation for the *stock* of existing tenancies held up at 4.5%y/y in June. However, the tide appears to be turning and this measure should soon turn lower.

Measures of rent inflation on new tenancies – so-called flow measures – are more closely aligned with the current state of supply and demand in the market. These have been falling since the start of the year. The Stats NZ measure of such cooled to 2.5% in June, well off the 7.2% September peak and last month's 3.8%.

Additional declines look to be in the offing now that prior tightness in the rental market is receding. Our estimates of regional rental vacancy rates confirm a noticeably looser supply picture. Auckland and Wellington now have vacancy rates north of 3.5%, well up from rates of 2.2% and 2.7% a year ago.

Rental vacancy rates rising everywhere



We'd still characterise this as more a picture of rapid normalisation from extremely tight conditions, than one of excess supply. But it's nevertheless a portent of vastly reduced upward pressure on rents, particularly in the larger cities.

That's helpful for the inflation outlook given the relatively high weighting attributed to rents in the Consumers Price Index. It supports our view that CPI inflation should fall rapidly over the remainder of this year, and be well within the RBNZ's 1-3% target range by Q3. The Reserve Bank is now "confident" of the same.

This, coupled with the Bank's welcome recognition that activity is "declining" and the risk that "monetary policy is feeding through to domestic demand more strongly than expected" clears the way for rate cuts this year.

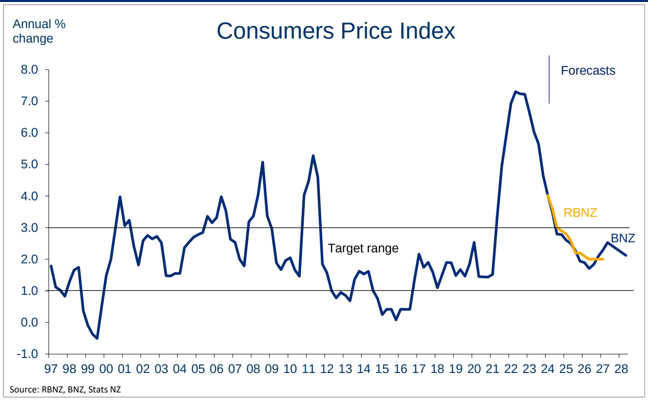
On timing, and as we noted in our post-meeting write-up, all remaining meetings in 2024 should be regarded as 'live'. November is our central forecast. But, against a backdrop of collapsing activity indicators, there is a heightened probability that a cut either comes earlier or, if the Bank does wait it out until November, it kicks things off with a larger, 50bps cut.

It's highly likely Wednesday's June quarter CPI inflation figures, the only remaining piece of domestic data for the week, will have something to say in this debate.

Our 0.6%q/q pick (3.5%y/y) is only different to the Reserve Bank's forecasts (0.6%, 3.6%) on the basis of rounding. But there's a fly in the ointment in the form of our marginally firmer non-tradables view (5.4%y/y against the RBNZ's 5.3%).

As such, an on-expectations outcome wouldn't be a trigger to front-load cuts any further. An August rate cut, which markets now see as a roughly even chance, would require a material downside surprise in the services and core CPI components, in our view. That may be a bridge too far for this week's numbers.

CPI forecasts in near alignment



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Global Watch

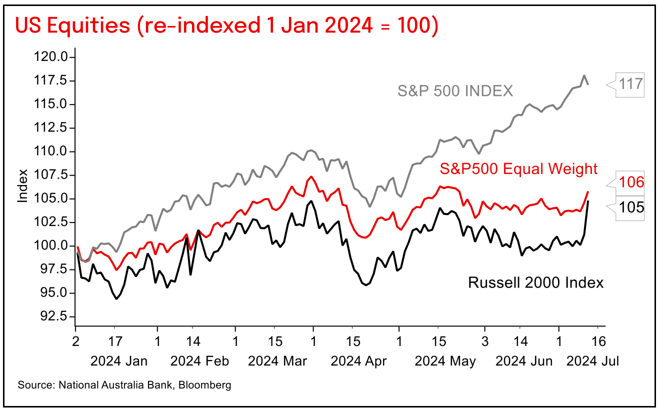
- **Heavy global economic calendar this week**
- **China activity data, US retail sales, CPI for UK, Canada, Japan, Australian employment, to name the key releases**
- **ECB widely expected to keep rates on hold; Fed speakers out in force, including Chair Powell**

Week in review

It was a quiet week in Australia with only the NAB Business Survey and the W-MI Consumer Survey of note. In the NAB Survey, business conditions fell back to slightly below long-run average, while capacity utilisation remains above average. Neither report was particularly market moving with markets instead waiting for Q2 CPI on 31 July ahead of the RBA in August.

Offshore, the most important piece of data was US CPI for June which came in cooler than expected. Core was 0.1% m/m vs. 0.2% expected, with the prior month also being benign. A September rate cut is now fully priced, up from 78% prior to the data. And there is now over 60bps of cuts priced by the end of the year.

Fed Chair Powell's Testimony on Tuesday and Wednesday gave little indication on the timing of possible rate cuts, but importantly also highlighted that the labour market was "*not a source of broad inflationary pressure for the economy*". Soft landing hopes remain strong with a rotation being seen from large cap tech (which dominates the S&P 500) to smaller caps as seen in the equal weight S&P500 (SPW) and Russell 2000.



The BoJ seemingly used the fall in the USD and yields post the CPI as an opportunity to intervene at least twice in 24 hours. USD/JPY now stands just over 158 and prior to the US CPI it was 161.60.

Politics remains topical, but with only fleeting impacts. Following the French 2nd round where no party bloc gained a majority, French-German 10yr spreads are at 65bps, still down from a peak of 82bps; note prior to elections it was around 50bps. Meanwhile, US President Biden's bid to be the Democratic nominee remains uncertain. Regardless, betting markets have Republicans winning the election and the assassination attempt on Trump yesterday might have increased his chance of winning.

Week Ahead in Brief

In **Australia** the RBA stays quiet again, but the data calendar gets more interesting. While a distant second to Q2 CPI on 31 July in terms of consequence for the RBA's August 6 forecast update and monetary policy decision, Thursday's labour market data should confirm that the labour market is not providing the same unhelpful surprises relative to recent RBA forecasts as the inflation data.

Slow recent growth and cooling labour demand suggest trend employment growth around 40k should moderate over coming months, and we pencil in a 25k gain in June. It's a close-run thing whether that would see the unemployment rate tick higher to 4.1%, but for choice we pencil in stable unemployment rate at 4.0% amid an ongoing gradual rise in the unemployment rate in trend terms. The RBA in May forecast unemployment of 4.0% in Q2 and 4.2% by year end.

In **Europe** the ECB meets Thursday, but we are aligned with markets in not expecting any policy shifts following what was deemed a hawkish first cut in this cycle. Markets price just 1 bp of easing for July, but 22bps by the September meeting, which is where we see the ECB next cutting rates.

From the **UK**, inflation data (Wednesday), labour market and earnings data (Thursday) and Retail Sales (Friday) come ahead of what is shaping up as a close-run decision from the BoE on 1 August.

In the **US**, Tuesday's June Retail Sales are expected to fall, driven by fuel and car sales, while core measures show a modest gain. Fed Chair Powell will be interviewed by David Rubenstein at the Economic Club of Washington DC (Monday), the Beige Book is published (Wednesday) and plenty of other FOMC participants are scheduled, including heavy hitters Waller (Wednesday) and Williams (Friday). The Republican National Convention takes place Monday through Thursday, and US earnings include BofA, Morgan Stanley, Goldman Sachs, Netflix and TSMC.

Inflation data for **Canada** (Tuesday) comes as markets are over 70% priced for a follow up cut at the Bank of Canada's 24 July meeting. Canada also gets retail sales Friday. In Japan, core measures are expected to follow the timelier Tokyo read and tick higher in Japanese inflation data (Friday).

In **China**, Q2 GDP (Monday) is expected to slow from the pace of growth in Q1, released alongside June monthly activity indicators including retail sales and industrial production. Even still expectations are low for much resembling support for near-term growth momentum out of the 5-yearly Third Plenum, beginning Monday, and the PBoC is expected to leave the 1-yr MLF rate on hold (also Monday).

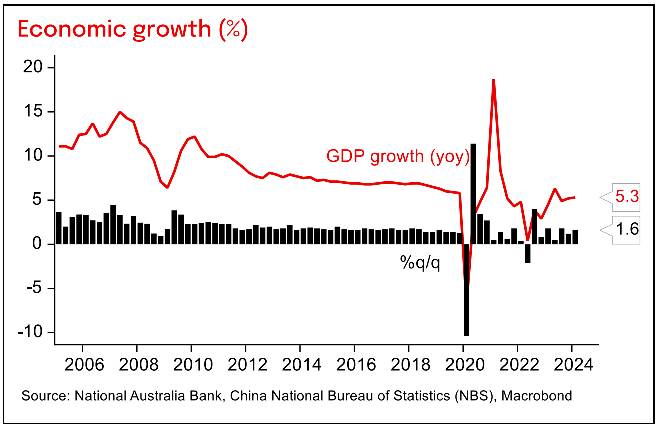
Important Events Preview

Monday 15

CH Q2 GDP, 1-yr MLF, Third Plenum
Consensus is for Q2 GDP growth to slow to 1.0% q/q from 1.6% in Q1. That would see the y/y rate ease to 5.0% from 5.3% as some of the support from the earlier tailwind of services and travel spending following reopening fades. The numbers will also be a more comprehensive check on whether momentum has been sufficient to keep the 5% growth target alive. More timely indications from the June Services PMIs point to shaky momentum heading into H2. Alongside the GDP number are June monthly outcomes for industrial production, retail sales and fixed asset investment.

The PBoC is expected to leave the 1-yr MLF rate unchanged at 2.5%

The Third Plenum, a 5-yearly four-day gathering of China's top leadership, takes place Monday through Thursday. The forum sets the direction for policy, but expectations are low for much to support short-term momentum, focus instead on President Xi's longer term growth drivers.



Source: National Australia Bank, China National Bureau of Statistics (NBS), Macrobond

US Fed's Powell Interview; Goldmans; NY Empire
Chair Powell is interviewed by David Rubenstein at the Economic Club of Washington DC. Powell in Congressional testimony this week called the May inflation result 'very good.' On that basis he should sound buoyed by the even lower June outcome. The June FOMC median dot for one cut this year at this stage looks dated, with markets now essentially fully priced for a September cut and 40% priced for a third cut by year-end. The July meeting still looks too soon to turn around an FOMC primed for caution after the string of upside surprises earlier in the year, but Powell could start to be a bit more explicit about cut timing.

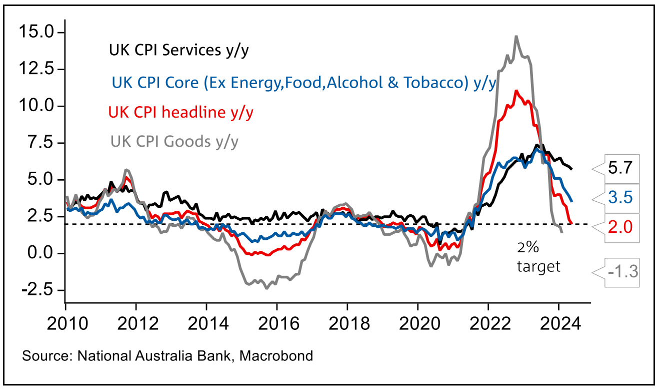
Tuesday 16

US Retail Sales, BofA & Morgan Stanley
Lower gas prices and disruptions to auto sales point to a decline in headline retail sales, early consensus is for -0.4% m/m. the core control group should fare better at +0.2% m/m after +0.4% in May. Broader consumption looks to be tracking around 0.4% q/q in Q2, a similar pace to Q1.

CA June CPI
June Canadian CPI comes ahead of the Bank of Canada's 24 July meeting, where markets are currently 72% priced for a follow up cut. The annual headline rate, at 2.9% y/y in May, not show much progress this month, but base effects turn supportive from July and the BoC will be looking at the core measures to greenlight further easing.

Wednesday 17

UK June CPI; King's speech
UK headline inflation is expected to ease marginally to 1.9% y/y, taking it temporarily below the target rate. Core inflation is expected to ease 1/10th to 3.4%, while services inflation is also expected to ease moderately and remain elevated at 5.6%. As such the latter will reinforce for some of the hawks a view they need more time before lowering Bank Rate. The MPC is set for a crunch decision in August when it unveils new forecasts. We continue to see the BoE easing then but concur it will be a close decision.



Source: National Australia Bank, Macrobond

EZ Final June CPI

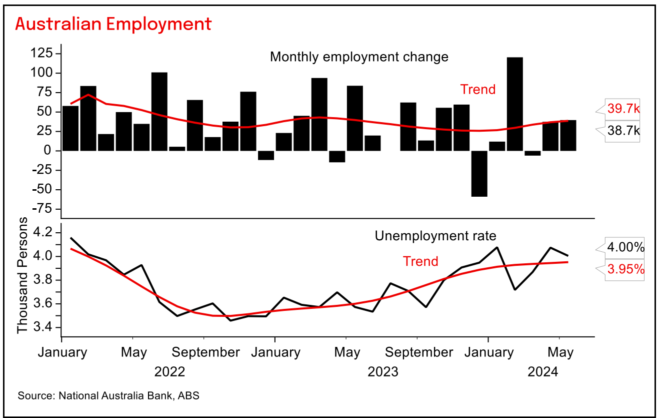
US Housing Starts, Industrial Production

Thursday 18

AU Unemployment
We pencil in +25k employment growth and an unemployment rate stable at 4.0%, though we wouldn't be surprised to see a 4.1%. The May outcome saw the unemployment rate fall back to 4.0% on a +40k employment gain that reflected some catch up after there were more people than usual waiting to start a job in April.

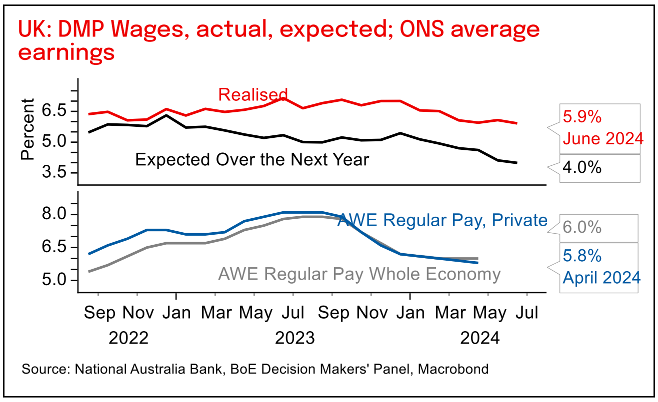
Beyond the month-to-month volatility, trend employment growth is +39k, enough to keep pace with strong population growth. We expect recent subdued activity growth and indications of cooling labour demand to be reflected in a moderation in trend employment gains over the next few months and an unemployment rate continuing to edge higher, but by less than a tenth per month.

For the RBA's part, Q2 outcomes look broadly in line with their May forecast, and they see an unemployment rate only 2 tenths higher at 4.2% by year end. The labour market remains tighter than they expected 6-12 months ago, but it is not outpacing their recent forecasts, in contrast to inflation.



EZ ECB Meeting
The ECB Governing Council meets but we are aligned with markets in not expecting any policy shifts following what was deemed a hawkish first cut in this cycle. There the ECB provided no guidance on future easing. Since that point wage data have come in a little hotter. Markets price just 1 bp of easing, but 22bps by the September meeting, which is where we see the ECB next cutting rates alongside a reduction in the MRO rate.

UK May Ave Weekly Earnings/ Jun Labour Market Data
UK average earnings are expected to record a modest decline, with headline earnings including bonuses at 5.8% 3M y/y, while ex-bonus earnings are seen pulling back to 5.7% 3M y/y from 6.0%. Other labour market data have shown a loosening with lower employment and job openings, higher unemployment and higher jobless claims.

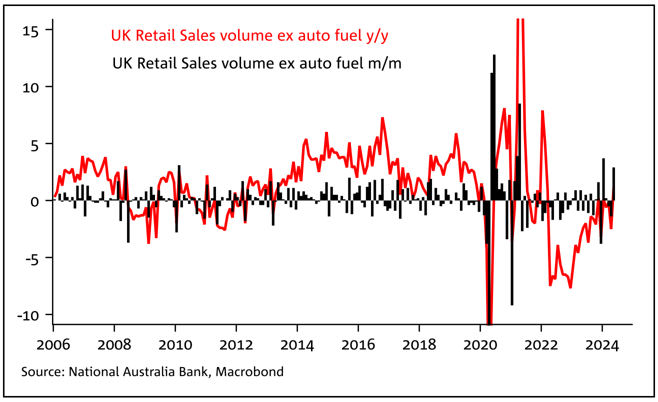


US Jobless Claims, Netflix & TSMC, Trump speech
Jobless Claims still worth watching closely after they fell back more than expected to 222k from 239k. Difficulties with seasonally adjusting around this time of year is likely to add to volatility. Meanwhile the first of the big tech names report with Netflix, and TSMC may give a guide to Nvidia and other US large tech. Former President Trump is also giving a speech as he officially accepts the Republican nomination on the final night of the GOP convention.

Friday 19

JN June CPI
Core CPI measures are expected to follow the Tokyo measure's lead and tick higher in June. Ex fresh food seen at 2.7% from 2.5% and ex fresh food and 2.2% from 2.1%, while the headline is seen stable at 2.8%. Reuters reports that the BoJ will 'roughly maintain view inflation to stay around 2%' despite trimming this year's growth forecast. Friday's data, along with the timelier July Tokyo read on 26 July, come ahead of the 31 July meeting and forecast update, where markets are about 50% priced for a 10bp rate increase.

UK June Retail Sales
June retail sales in the UK should reveal a reasonable increase on account of the improvement in the weather that has hampered spending footfall and construction activity (no consensus available at the time).



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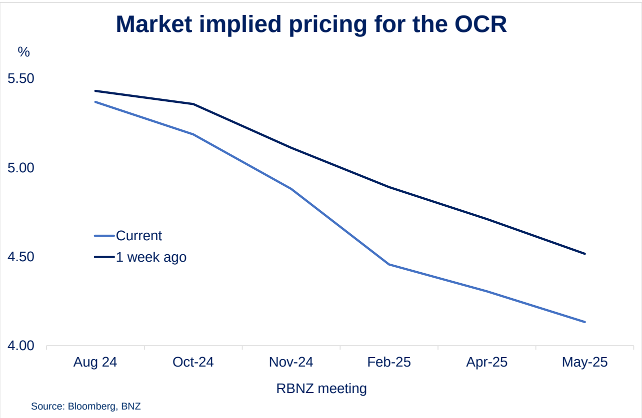
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

A significant change in tone by the RBNZ at the Monetary Policy Review (MPR), which appears to open the door for rate cuts this year, contributed to a large rally across NZ fixed income markets last week, led by the front end of the curve. The move lower in yield was supported by global developments. US June CPI data surprised to the downside, and along with the recent cooling in the labour market, suggests a higher chance of the US Federal Reserve (Fed) easing monetary policy. A 25bps September rate cut by the Fed is now fully priced.

The statement accompanying the expected RBNZ's 'on hold' decision represented an overhaul in the Bank's hawkish stance from the May Monetary Policy Statement (MPS). Unlike May, a rate hike wasn't discussed, and it was noted that restrictive monetary policy has 'significantly reduced consumer price inflation'. The risks for the inflation outlook were seen as two-way, and indications of growing excess capacity in the economy, is providing the Bank with greater certainty that domestic driven inflation pressure will decline.

Market incorporates additional RBNZ rate cuts

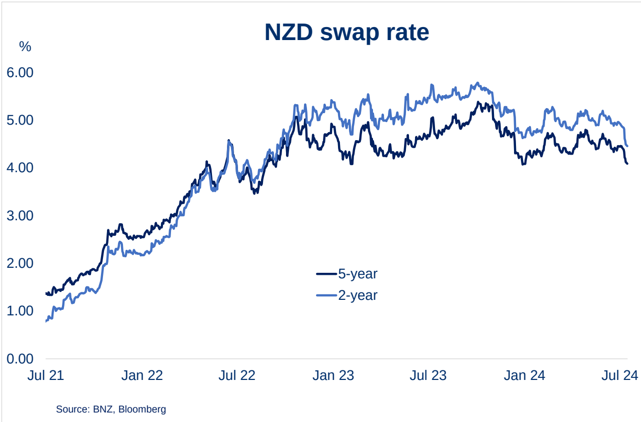


The Monetary Policy Committee (MPC) agreed that monetary policy will need to remain restrictive but dropped 'for a sustained period' which featured in previous statements. In a dovish development, the MPC outlined the extent of restrictive policy 'will be tempered over time consistent with the expected decline in inflation pressures'. Overall, the key message from the statement is the Bank's assessment of the economy and inflation risks have evolved, increasing the probability of easing this year.

After the dovish messaging from the MPR, we have reverted to our previous forecast and expect the RBNZ to begin to ease policy in November, with a 25bps cut to the Official Cash Rate (OCR). We see risks to our baseline scenario as skewed towards an earlier start to the easing cycle or a larger 50bps rate cut if the Bank delays easing until November, should the woeful run of economic activity data continue. The latest PMI and PSI data highlights the very weak state of economic activity.

The move lower in NZ yields was led by shorter maturities. We had expected range bound conditions to persist, but this proved incorrect as 2-year swap rates traded through the range-base at 4.70%, and extended lower reaching 4.47%, the lowest level in almost two years. The yield curve has continued to steepen - the 2y/10y swaps curve is the least inverted since last November at -21bps.

Interest rate swaps towards levels from January



Q2 CPI is released on Wednesday and is the key domestic risk event for rates markets in the week ahead. Overnight interest rate swaps (OIS) are pricing the first 25bps cut by October and 68bps of easing by November. We think the market will face increasing headwinds to pricing further rate cuts, unless there is a downside surprise in the inflation data, and particularly the non-tradables component, relative to the RBNZ's 5.3% forecast at the May MPS.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.55	5.55 - 5.63
NZ 2yr swap (%)	4.49	4.48 - 5.00
NZ 5yr swap (%)	4.12	4.12 - 4.50
NZ 10yr swap (%)	4.28	4.27 - 4.56
2s10s swap curve (bps)	-22	-52 - -22
NZ 10yr swap-govt (bps)	-23	-24 - -15
NZ 10yr govt (%)	4.50	4.54 - 4.71
US 10yr govt (%)	4.18	4.17 - 4.49
NZ-US 10yr (bps)	32	22 - 38
NZ-AU 2yr swap (bps)	25	25 - 85
NZ-AU 10yr govt (bps)	18	18 - 48

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the NZD underperformed following a clear dovish pivot by the RBNZ at its Monetary Policy Review (MPR) which shocked the market. However, damage was mostly limited to the crosses, as the USD was broadly weaker and NZD/USD fell only 0.4% to 0.6120. NZD/AUD fell 1% to 0.9020 after trading sub-0.90 for the first time since October 2022. JPY was the strongest of the majors, supported by official intervention, seeing NZD/JPY down over 2% to 96.6 after hitting a fresh 38-year high just over 99, ahead of the RBNZ announcement.

The two key scheduled releases last week were the RBNZ's July MPR and US CPI data and both caused notable market reactions. The RBNZ expressed a clear change in view. Following the surprisingly hawkish May MPS, where the Bank noted upside risk to the policy rate, the MPR opened the door to cutting the policy rate with the comment monetary restraint "will be tempered over time consistent with the expected decline in inflation pressures".

We have been highlighting the poor state of the NZ economy, arguing for easier policy, and recent data suggest that the recession deepened in the June quarter. The Bank acknowledged weaker higher frequency indicators and included a laundry list of other variables it has been watching, including financial stress indicators. A rate cut by November now seems highly likely, although this timing seems like an eternity against the barrage of poor economic data. The clear risk is that easing can come earlier or, if the Bank waits until November, then the prospect of a 50bps cut comes into play.

US CPI data printed on the soft side of expectations again, cementing in views that the Fed easing cycle will begin in September. The market has priced about 60bps of Fed cuts this year, less than the 75bps it could achieve by cutting 25bps at every meeting this year from September. The NZ market prices in 67bps of cuts this year, and a chunky 100bps by February.

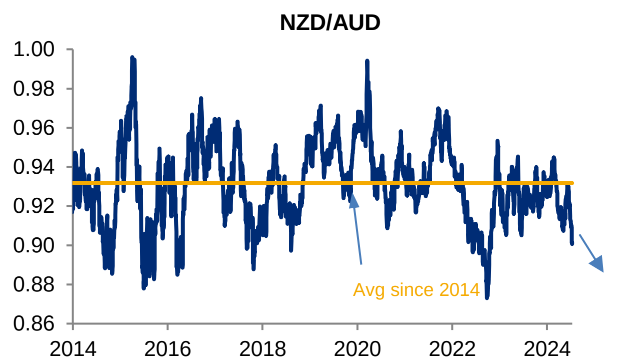
Our core view has been that the Fed's policy outlook is more important for NZD/USD, while cross rates are more likely to reflect domestic factors like RBNZ policy. Despite the dovish RBNZ update, recent support for the NZD at 0.6050 held. We haven't changed our NZD/USD view, with an end Q3 target of 0.61 consistent with a 0.59-0.63 trading range and basically a flat NZD/USD through the rest of the quarter.

NZD/AUD moved to the bottom of its trading range since 2023 and, rather than suggest mean reversion higher, our prevailing projections suggest further downside ahead. We remain bearish over the medium-term based on lower NZ-Australian rate spreads against a backdrop NZ's poor economic performance compared to Australia. Our projections show a sustained move below 0.90 over time to a new lower trading range than experienced over recent years.

In the week ahead, the domestic focus will be on Q2 CPI due Wednesday, where our projection of 0.6% q/q and 3.5% y/y is closely aligned with the RBNZ's now somewhat dated estimate back in May. Any downward surprise, including the key core measures would fuel speculation of a possible rate cut as soon as the next August meeting and a weaker NZD, while a notable upward surprise would see higher rates and a higher NZD.

The global economic calendar is busy. We'll be watching China GDP and monthly activity indicators this afternoon. In the US, the retail sales report is the key release. CPI data for the UK, Canada and Japan are released, while UK labour market data will also be key as to whether the BoE will begin easing in August. Australia releases its monthly employment report. The ECB is widely expected to hold rates steady after the initial rate cut in June and be open to cutting rates again in September.

NZDAUD: 2022 lows on the radar



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6108	0.6050 - 0.6150
NZD/AUD	0.9022	0.8990 - 0.9220
NZD/GBP	0.4710	0.4710 - 0.4840
NZD/EUR	0.5611	0.5590 - 0.5730
NZD/JPY	96.46	96.10 - 99.00

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6700	-9%
NZD/AUD	0.8680	4%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6220 (ahead of 0.6390)
ST Support: 0.6050 (ahead of 0.60)

Despite weaker momentum last week, support at the recent low of 0.6050 held. There is notable resistance near the 0.6220 mark.

NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9200 (ahead of 0.9315)
ST Support: 0.9000 (ahead of 0.8900)

The 0.90 support level was only temporarily broken intraday, so we'll leave support there, ahead of 0.89. We lower resistance to 0.92.

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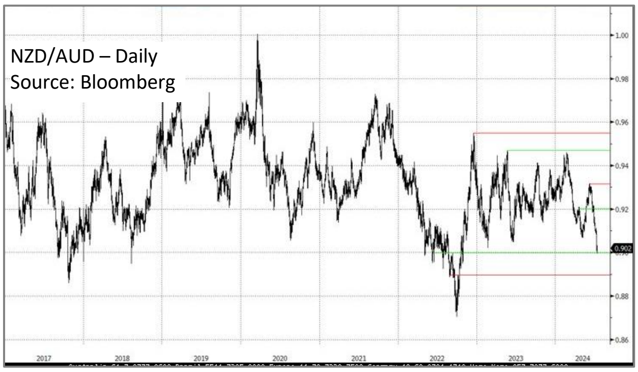


NZ 5-year Swap Rate

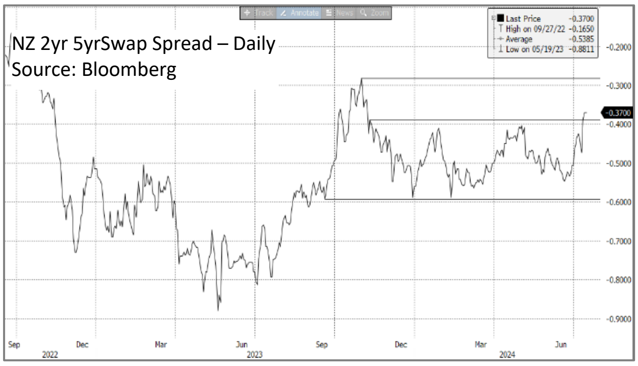
Outlook: Neutral
MT Resistance: 4.82
MT Support: 4.06

Last weeks' policy pivot from the RBNZ has seen the 5 year swap rate rally to near our support at 4.06%. From a technical perspective; should our support hold this week then we will look to enter a short rates position. However should it break lower then the next level of support comes in around 3.50%; we will likely look to enter a long position should this be the outcome.

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

Outlook: Steeper
MT Resistance: -0.28
MT Support: -0.39

The 2y-5y swap spread steepened significantly last week as the 2 year leg led the rate rally from the RBNZ's policy pivot. It looks as if the spread has broken higher through resistance. We will look to enter a paid position here and will initially target our new resistance at -28bp, with a tight stop loss level at -42 bp, just below our new support.



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Quarterly Forecasts

Forecasts as at 15 July 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts (shaded: Jun-24 onwards)

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (production s.a.)	-0.1	0.2	-0.2	0.3	0.6	0.7	0.7	0.8	0.8	0.8
Retail trade (real s.a.)	-1.8	0.5	-0.5	0.4	0.5	0.8	1.0	1.2	1.1	0.9
Current account (ytd, % GDP)	-6.9	-6.8	-6.9	-6.9	-6.5	-6.0	-5.7	-5.6	-5.4	-5.1
CPI (q/q)	0.5	0.6	0.6	1.1	0.5	0.5	0.5	0.9	0.1	0.4
Employment	0.4	-0.2	0.0	0.0	0.1	0.3	0.5	0.6	0.7	0.7
Unemployment rate %	4.0	4.3	4.6	4.9	5.3	5.5	5.5	5.5	5.4	5.3
Avg hourly earnings (ann %)	6.6	4.8	4.1	3.0	3.3	3.9	3.4	3.2	3.0	3.0
Trading partner GDP (ann %)	3.3	3.2	3.0	2.9	2.9	3.0	3.0	3.0	3.0	3.0
CPI (y/y)	4.7	4.0	3.5	2.8	2.8	2.6	2.5	2.3	1.9	1.9
GDP (production s.a., y/y))	-0.2	0.3	-0.4	0.2	0.9	1.4	2.3	2.8	3.0	3.0

Interest Rates

Historical data - qtr average
Forecast data - end quarter

		Government Stock			Swaps			US Rates		Spread
	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	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024 Mar	5.50	5.66	4.41	4.64	4.91	4.38	4.40	5.60	4.20	0.44
Jun	5.50	5.62	4.50	4.65	4.98	4.47	4.50	5.60	4.30	0.35
Forecasts										
Sep	5.50	5.65	4.50	4.75	4.40	4.55	4.65	5.50	4.25	0.50
Dec	5.25	5.50	4.25	4.60	3.95	4.30	4.50	5.25	4.10	0.50
2025 Mar	5.00	5.00	4.15	4.60	3.60	4.20	4.60	4.75	4.00	0.60
Jun	4.50	4.50	4.00	4.50	3.35	4.05	4.50	4.50	3.90	0.60
Sep	4.00	4.00	3.90	4.40	3.25	3.95	4.40	4.25	3.80	0.60
Dec	3.50	3.75	3.85	4.35	3.25	3.90	4.35	4.00	3.75	0.60
2026 Mar	3.25	3.25	3.90	4.35	3.35	4.00	4.40	0.00	3.75	0.60

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	0.61	0.67	1.08	1.27	161	0.61	0.91	0.57	0.48	98.2	72.1
Sep-24	0.61	0.67	1.09	1.28	146	0.61	0.91	0.56	0.48	89.1	71.2
Dec-24	0.62	0.69	1.11	1.30	143	0.62	0.90	0.56	0.48	88.7	71.5
Mar-25	0.64	0.71	1.13	1.31	140	0.64	0.90	0.56	0.49	88.9	72.4
Jun-25	0.65	0.72	1.14	1.32	137	0.65	0.90	0.57	0.49	89.1	73.3
Sep-25	0.66	0.74	1.16	1.34	134	0.66	0.89	0.57	0.49	88.4	73.4
Dec-25	0.67	0.75	1.17	1.35	131	0.67	0.89	0.57	0.50	87.8	74.0
Mar-26	0.66	0.74	1.18	1.36	129	0.66	0.89	0.56	0.49	85.1	73.1
Jun-26	0.65	0.73	1.18	1.36	129	0.65	0.89	0.55	0.48	83.9	72.4
Sep-26	0.67	0.73	1.18	1.36	129	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 15 July 2024	March Years					December Years				
	Actuals					Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.9	1.4	2.6	7.4	3.3	0.6	1.5	2.1
Government Consumption	7.9	2.0	0.5	-3.3	0.4	7.8	4.9	-0.8	-2.2	-0.6
Total Investment	10.2	2.1	-1.7	-3.4	4.0	12.0	3.4	-0.9	-4.3	2.6
Stocks - ppts cont'n to growth	0.5	0.0	-1.5	1.3	0.1	1.4	-0.3	-1.4	0.7	0.5
GNE	7.9	2.5	-1.4	0.7	2.6	10.0	3.4	-1.5	0.2	2.2
Exports	2.5	6.0	6.4	2.8	5.0	-2.7	-0.2	9.8	3.2	4.8
Imports	17.3	4.4	-1.2	3.9	4.1	14.8	4.7	-0.5	3.4	3.8
Real Expenditure GDP	4.7	2.7	0.4	0.5	2.7	5.9	2.3	0.8	0.3	2.3
GDP (production)	**4.6**	**2.7**	**0.2**	**0.5**	**2.8**	**5.6**	**2.4**	**0.6**	**0.2**	**2.4**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.3*	*1.4*	*3.0*	*2.6*	*2.2*	*-0.2*	*0.9*	*3.0*
Output Gap (ann avg, % dev)	1.4	1.9	-0.3	-1.2	-0.5	1.6	2.0	0.2	-1.1	-0.7
Nominal Expenditure GDP - $bn	359	388	409	424	447	353	381	405	420	441
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.6	1.9	5.9	7.2	4.7	2.8	1.9
Employment	2.5	3.0	1.3	0.4	2.5	3.3	1.7	2.7	-0.1	2.1
Unemployment Rate %	3.2	3.4	4.3	5.5	5.3	3.2	3.4	4.0	5.3	5.4
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.3	3.0
Productivity (ann av %)	1.8	0.5	-2.3	0.3	1.0	3.6	0.2	-2.3	-0.2	1.1
Unit Labour Costs (ann av %)	4.6	6.5	8.4	3.9	2.2	2.3	6.5	8.8	4.8	2.3
House Prices	13.8	-12.1	2.8	3.0	7.7	27.2	-11.1	-0.7	2.0	6.9
External Balance										
Current Account - $bn	-23.6	-31.8	-27.6	-25.6	-22.6	-20.6	-33.4	-27.9	-27.5	-23.7
Current Account - % of GDP	-6.6	-8.2	-6.8	-6.0	-5.1	-5.8	-8.8	-6.9	-6.5	-5.4
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.7	-3.1	-1.9					
Net Core Crown Debt (ex NZS)	35.5	39.3	43.1	43.5	43.0					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	38.0	36.0					
Bond Programme - % of GDP	5.6	7.2	9.3	9.0	8.1					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.61	0.64	0.66	0.68	0.63	0.62	0.62	0.67
USD/JPY	119	134	150	140	129	114	135	144	143	131
EUR/USD	1.10	1.07	1.09	1.13	1.18	1.13	1.06	1.09	1.11	1.17
NZD/AUD	0.93	0.93	0.93	0.90	0.89	0.95	0.94	0.93	0.90	0.89
NZD/GBP	0.52	0.51	0.48	0.49	0.49	0.51	0.52	0.49	0.48	0.50
NZD/EUR	0.62	0.58	0.56	0.56	0.56	0.60	0.60	0.57	0.56	0.57
NZD/YEN	81.5	83.0	91.1	88.9	85.1	77.4	85.6	89.5	88.7	87.8
TWI	73.9	71.0	71.2	72.4	73.1	73.0	72.9	72.0	71.5	74.0
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	5.00	3.25	0.75	4.25	5.50	5.25	3.50
90-day Bank Bill Rate	1.45	5.16	5.64	5.00	3.25	0.92	4.55	5.63	5.50	3.75
5-year Govt Bond	2.90	4.40	4.60	4.15	3.90	2.20	4.30	4.50	4.25	3.85
10-year Govt Bond	3.20	4.35	4.60	4.60	4.35	2.35	4.25	4.65	4.60	4.35
2-year Swap	3.00	5.15	4.91	3.60	3.35	2.22	5.21	4.93	3.95	3.25
5-year Swap	3.20	4.50	4.40	4.20	4.00	2.56	4.62	4.43	4.30	3.90
US 10-year Bonds	2.10	3.65	4.20	4.00	3.75	1.45	3.60	4.00	4.10	3.75
NZ-US 10-year Spread	1.10	0.70	0.40	0.60	0.60	0.90	0.65	0.65	0.50	0.60

(1) *Average for the last month in the quarter*

Source: Statistics NZ, BNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Last
	Monday 15 July		
CH	Used Home Prices MoM Jun		-1.00%
CH	GDP SA QoQ 2Q	0.9%	1.6%
CH	Industrial Production YoY Jun	5.0%	5.6%
CH	Retail Sales YoY Jun	3.4%	3.7%
CH	Fixed Assets Ex Rural YTD YoY Jun	3.9%	4.0%
CH	Surveyed Jobless Rate Jun	5.0%	5.0%
EC	Industrial Production SA MoM May	-0.8%	-0.1%
	Tuesday 16 July		
US	Empire Manufacturing Jul	-8.0	-6.0
US	Fed's Powell speaks		
EC	ECB Bank Lending Survey		
GE	ZEW Survey Expectations Jul	41.0	47.5
EC	Trade Balance SA May	17.0b	19.4b
	Wednesday 17 July		
US	New York Fed Services Bus Activity Jul		-4.7
US	Retail Sales Advance MoM Jun	-0.3%	0.1%
US	Retail Sales Ex Auto and Gas Jun	0.3%	0.1%
US	Retail Sales Control Group Jun	0.2%	0.4%
US	NAHB Housing Market Index Jul	43	43
NZ	CPI YoY 2Q	3.4%	4.0%
NZ	CPI Tradeable QoQ 2Q	0.1%	-0.7%
NZ	CPI Non Tradeable QoQ 2Q	0.8%	1.6%
UK	CPI YoY Jun	1.9%	2.0%
UK	CPI Services YoY Jun	5.6%	5.7%
EC	CPI YoY Jun F	2.5%	2.6%
EC	CPI Core YoY Jun F	2.9%	2.9%
	Thursday 18 July		
US	Housing Starts Jun	1300k	1277k
US	Manufacturing (SIC) Production Jun	0.1%	0.9%
US	Federal Reserve Releases Beige Book		
JN	Trade Balance Jun	¥219.5	-¥1221.3b
AU	Employment Change Jun	20.0k	39.7k
AU	Unemployment Rate Jun	4.1%	4.0%
UK	ILO Unemployment Rate 3Mths May	4.4%	4.4%
UK	Payrolled Employees Monthly Chng Jun	-13k	-3k
UK	CBI Trends Total Orders Jul		-18
UK	CBI Trends Selling Prices Jul		20
	Friday 19 July		
EC	ECB Main Refinancing Rate Jul-18	4.25%	4.25%
EC	ECB Marginal Lending Facility Jul-18	4.50%	4.50%
EC	ECB Deposit Facility Rate Jul-18	3.75%	3.75%
US	Initial Jobless Claims Jul-13	230k	222k
US	Continuing Claims Jul-06	1857k	1852k
US	Philadelphia Fed Business Outlook Jul	2.9	1.3
US	Fed's Logan speaks		
UK	GfK Consumer Confidence Jul	-12	-14
US	Fed's Bowman speaks		
JN	Natl CPI YoY Jun	2.9%	2.8%
UK	Retail Sales Inc Auto Fuel MoM Jun	-0.6%	2.9%
GE	PPI YoY Jun	-1.6%	-2.2%
EC	ECB Survey of Professional Forecasters		

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	5.50
1mth	5.60	5.60	5.60	5.60
2mth	5.58	5.60	5.60	5.63
3mth	5.55	5.60	5.61	5.65
6mth	5.39	5.55	5.58	5.76
GOVERNMENT STOCK				
05/26	4.52	4.77	4.75	4.81
04/29	4.23	4.47	4.43	4.56
05/31	4.35	4.54	4.47	4.51
05/34	4.51	4.66	4.59	4.55
04/37	4.68	4.82	4.75	4.67
05/41	4.84	4.97	4.88	4.75
05/51	4.88	5.00	4.88	4.68
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	48	49	53	66
Europe 5Y	51	52	63	72

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	4.46	4.84	4.93	5.39
3 years	4.21	4.58	4.64	5.04
4 years	4.12	4.45	4.48	4.81
5 years	4.09	4.38	4.39	4.66
10 years	4.24	4.45	4.41	4.51
FOREIGN EXCHANGE				
NZD/USD	0.6111	0.6126	0.6132	0.6325
NZD/AUD	0.9022	0.9092	0.9273	0.9278
NZD/JPY	96.66	98.50	96.72	87.72
NZD/EUR	0.5611	0.5659	0.5712	0.5628
NZD/GBP	0.4709	0.4783	0.4826	0.4838
NZD/CAD	0.8334	0.8352	0.8415	0.8348
TWI	71.4	72.3	72.3	72.5

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