29 July 2024

# Fewer Jobs

- **Filled jobs decline in June, extending weak data flow**
- **Not a good look for next week's official labour data**
- **Monetary conditions already easing**
- **Any support to business confidence, activity outlook?**
- **Business pricing indicators prone to ease further**

Bloomberg's regular survey of analysts released last week had its usual broad coverage of macroeconomic indicators. Generally subdued growth now, recovery into next year as inflation continues to fall and interest rates ease over time is the consensus view.

We see a stronger than consensus recovery next year, but think consensus is too optimistic on current economic conditions. The survey suggests Q2 GDP expanded 0.2%. That is a tick higher than the RBNZ published in its most recent forecasts back in May and would add to the small gain recorded in Q1. In contrast, we currently have -0.2% pencilled in for Q2.

For Q3 GDP, we, the RBNZ, and consensus all currently have +0.3% on the board. So, across Q2 and Q3 combined, we have a more subdued activity outlook than consensus. Moreover, we sense a bit more downside risk than upside to our own near term growth estimates given the run of poor lead indicators like the QSBO, PMI, and PSI. At this point we remain more wary of a weaker than expected Q2 outcome than Q3, given the latter is still expected to get some support from the income tax cuts that kick in from this Thursday (1 August) with cash hitting bank accounts soon after.

Generally weak activity expectations have long been part of our view that will see spare capacity grow, the labour market ease, and inflation, both headline and core retreat. This remains the case. Those dynamics have been underway for quite some time to the point that inflation is closing in on the top of the RBNZ's target band and we think will be inside the band in the current quarter. We think this counsels easing in monetary conditions.

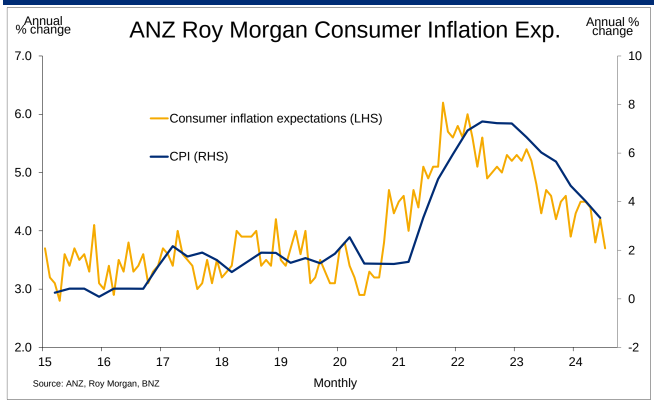
The RBNZ certainly changed its tone at the July MPR. But whether this extends to cutting the OCR at its next meeting in August remains moot.

If the Bank continues to focus on non-tradeables inflation, a somewhat higher than expected recent print could discourage it from immediate action. Likewise, sticky services inflation. Annual core inflation remains above the target band, averaging in the mid-3s but is trending lower.

The Bank may also see an aggressive decline in wholesale interest rates over recent weeks (with influence through to retail rates) and the associated lower than previously projected TWI as sufficient easing in monetary conditions for the time being before lowering the OCR itself.

After 13 consecutive quarters of annual CPI inflation being above the target band, the Bank may like to see inflation print inside the band before moving. We wouldn't put much weight on the length of time inflation has been above the band as being important for what is required now. A counter argument is that policy makers should look forward and there would seem licence to do so with recent indicators of inflation expectations generally well-behaved (including last week's consumer reading wobbling down again, supporting the broad trend toward a level previously consistent with the middle of the CPI target band). Real interest rates rise when inflation expectations ease. Also of note, annualising the quarterly CPI changes on a seasonally adjusted basis, inflation has been running within the target band over the past three quarters.

Consumer inflation expectations trending lower




We maintain our long-held view that inflation pressures are easing and will continue to do so such that the OCR can start to be reduced before too much longer. We stick with our central view that the first OCR cut will come in November this year, although we wouldn't rule out an earlier move. A cut as soon as August remains a distinct possibility.

We will wait for the Q2 labour market data next week before publishing our full August MPS preview. The labour market data are the final major scheduled information before the MPS is released on 14 August and always have potential to fine tune thoughts on the policy outlook (the RBNZ's expectations survey due on 8 August will also be worth a look).

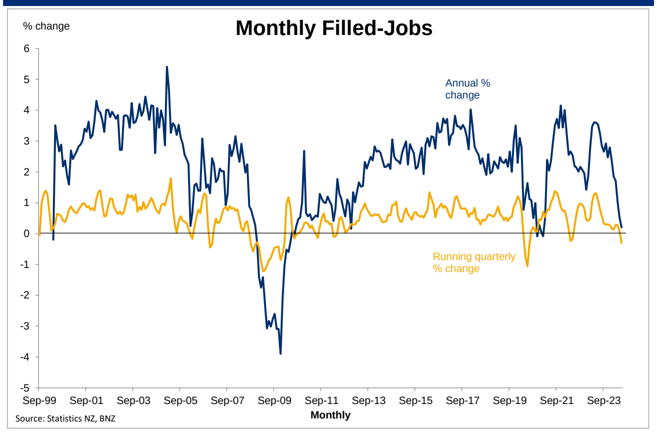
Beyond the precise timing of the first cut, our broad view remains that the OCR is headed materially lower over the coming year to two.

Turning to this week's data, this morning's employment indicators for June were soft. Filled jobs eased 0.1% m/m, which was broadly in line with our wonderings of 'flat to down'. However, notable downward revisions to prior months gave a broader sense of weakness. Annual growth in filled jobs has slowed to 0.2% y/y. It was 3.5% a year ago.

We have long been cautious on Q2 employment, despite the monthly filled jobs previously tracking for a positive quarter.

That positivity has now gone with revisions, with today's figures showing filled jobs down 0.3% in Q2. Filled jobs only ever provide a loose guide to official HLFS employment quarter to quarter. But today's June figures and revisions show caution on Q2 employment is valid and at face value suggests risks around Q2 HLFS employment growth has tilted lower. We say that with reference to our current flat forecast as well as the +0.1% q/q projection that the RBNZ included in its May MPS.

**Filled jobs softening**

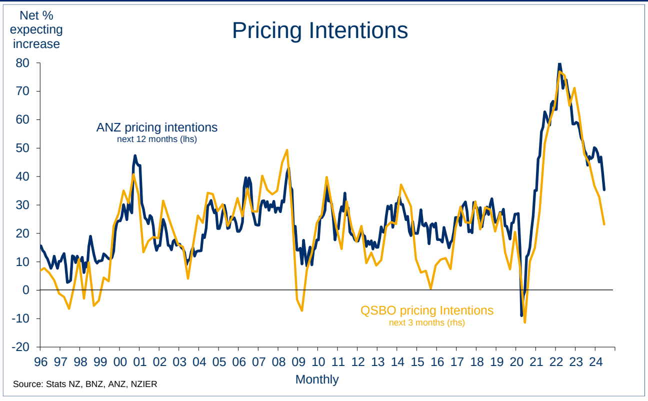



Looking at the rest of the week's data agenda, there aren't any top tier releases. However, Wednesday's latest ANZ business survey will be of some interest.

Recent demand has looked weak, and margins pressured, but will the RBNZ's change in tone and material fall in wholesale interest rates lift confidence? And offer any sense of revival in businesses' outlook for their own activity? It would seem too soon for such things to be fully captured in this survey, but the central bank's changing rhetoric and financial market response surely can't hurt. Some bounce is required in the activity outlook before too much longer for it to be consistent with our growth forecasts over the coming 12 months.

Attention will also be on the survey's inflation indicators. Pricing intentions would seem more likely to fall than not, although would need another meaningful decline to catch up with its similar measure in the QSBO. Reports of actual inflation continuing to ease could be expected to see inflation expectations continuing to trend downward.

**Business pricing intentions easing**




Both pricing intentions and inflation expectations in the ANZ survey need to fall further to be consistent with annual CPI inflation dipping below the 3% top of the RBNZ's target range. Other survey indicators including employment and investment intentions and profit expectations will be instructive too for those areas.

Building consents for June are also due on Wednesday, where we will see if the trend in residential consents can hang on to recent hints of stabilising following a lengthy period of significant decline.

Wednesday afternoon's household credit figures and Thursday's Core Logic house price report are likely to reflect a generally flat to soft housing market.

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# Global Watch

- **FOMC seen on hold**
- **BoJ and BoE decisions seen finely balanced**
- **US unemployment seen steady at 4.1%; ISM due**
- **EZ Q2 GDP +0.2% expected; prelim core CPI at 2.8% y/y**
- **China PMIs seen remaining subdued**
- **AU CPI important for RBA considerations**

## Week in review

There has been little Australian data flow with markets firmly focused on Q2 CPI, this Wednesday. RBA Governor Bullock made some comments on a panel that was reported by the AFR, but gave little away:

"*we're not seeing the same progress [on inflation] as overseas*" and "*But having said that, we know from overseas that progress is bumpy. It's up and down, so the challenge is understanding where the risks might lie*".

Offshore last week was big for markets with three important themes. The first has been a sharp appreciation of the Japanese Yen ahead of the BoJ.

The second is increased concern the Fed may be late to ease policy. Former NY Fed President Dudley wrote an opinion piece las, arguing "*the Fed should cut, preferably at next week's policy-making meeting*". However, Dudley also didn't expect the Fed to cut as soon as July.

The notion that the US is close to a recession because the unemployment rate has ticked up a few tenths has been dominating headlines, but now seems to be bit dated when Q2 GDP printed at 2.8% quarter annualised vs. the 2.0% consensus. And Jobless Claims also ticked lower. US inflation data (PCE deflator) was broadly in line with consensus on Friday night and supports the case for the Fed easing cycle to begin in September. Markets fully price a US Fed September cut and have a cumulative 68bps worth of cuts by year's end.

The third theme has been tech earnings with Tesla and Alphabet seeing sharp selloffs. Sector rotation is still very evident with small caps outperforming. Finally, in Canada the BoC cut rates and is guiding to further cuts.

## Week Ahead in Brief

Australia has a big data week with Q2 CPI (Wednesday). With inflation surprising the RBA on the high side recently, the framing is whether it is strong enough to push the RBA to hike rates this late in the cycle. NAB's forecast is of trimmed mean inflation at 1.0% q/q. NAB expects the RBA will hold on to their strategy and remain on hold, but the risks sit with a hike. However, NAB notes that should trimmed mean inflation print >1.1%, the RBA would have little choice but to hike rates again. Other data out in the week include Retail Sales (Wednesday), Building Approvals (Tuesday), Trade Balance and Dwelling Prices (Thursday).

Elsewhere, it is all about central banks and tech earnings. The US FOMC (Wednesday) is expected to be on hold. However, it is likely to be a closer decision for the BoJ (Wednesday) where markets are around 50% priced for a hike, and for the BoE (Thursday) where markets are around 50% priced for a cut. Given the recent sell-off in large tech, earnings by Microsoft (Tuesday), and Amazon and Apple (Thursday) will garner a lot of attention.

Turning back to the data flow, in the US the key pieces are the Manufacturing ISM (Thursday) and Payrolls (Friday) where focus will be on the unemployment rate given its rise to 4.1% over the past four months from 3.8% in March. Consensus is for the unemployment rate to remain steady at 4.1% and for solid payrolls of 178k. The ECI (Wednesday) will also be worth a look given last's quarter lift to 1.2% q/q.

In Europe, Q2 GDP (Tuesday) and Prelim CPIs (Wednesday) will help frame the narrative ahead of the ECB's September meeting. Consensus for Q2 GDP is 0.2% q/q which contrasts sharply to the US' 0.7% q/q and highlights the outperformance of the US economy to Europe. Note German/Spanish/Belgium CPIs are published a day earlier on Tuesday. The final version of the manufacturing PMI is also out.

In Asia, China has the Official PMIs as well as the Caixin Manufacturing PMI. Expectations are for ongoing subduedness with the consensus for the Manufacturing PMI at 49.4 from 49.5 previously.

## Important Events Preview

**Tuesday 30**

**AU Building Approvals**
Building approvals continue to run at a subdued annual pace. NAB expects a pull-back of -3.0% m/m after last month's 5.5% increase. The key implication remains that the annual run rate of building approvals at 164k, is running well short of population growth of around 630k. Given cost pressures in the industry, there is a very high risk of falling short of the government's ambitious target of 240k dwellings a year.

**EZ Q2 GDP, Prelim CPIs for Germany/Spain/Belgium**
Q2 GDP is expected to print at 0.2% q/q and 0.5% y/y. But perhaps the more market moving piece ahead of the ECB's September meeting may be the preliminary CPIs for Germany/Spain/Belgium, ahead of the wider Euro area measure on Wednesday.

**US Confidence, JOLTS, Microsoft earnings**
While consumer confidence is unlikely to be market moving ahead of the FOMC on Wednesday, what will be for equities is tech earnings. Microsoft's results will be

keenly watched after the negative reaction to Tesla and Alphabet. All eyes will be on AI and cloud revenue.

**Wednesday 31**

**AU Q2 CPI, Retail Sales**
NAB expects Q2 trimmed mean inflation of 1.0% q/q and 4.0% y/y. The market consensus is also 1.0% q/q, which is two tenths above the RBA's May SoMP forecast of 0.8%, though analysts are reasonably evenly split between a 0.9 and a 1.0. NAB also pencils in a headline outcome of 1.0% q/q (consensus 1.0% q/q). The key framing for the data is whether inflation will be strong enough for their RBA to lose confidence in the outlook for inflation to return to target in 2026. The recent RBA Minutes gave a clear nod to the CPI and the Board had debated the case for hiking at the two prior meetings.

Despite having two months of the monthly inflation indicator, uncertainty where Q2 CPI may print remains and NAB sees risks as being broadly balanced around its 1.0% q/q forecast for trimmed mean.

Table 1: Consumer Price Index Forecasts

| | Actual | | | | | Forecast | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 |
| Headline CPI | | | | | | | | | |
| CPI - NSA | | | | | | | | | |
| %q/q | 0.8 | 1.2 | 0.6 | 1.0 | 1.0 | 0.4 | 0.7 | 0.7 | |
| %y/y | 6.0 | 5.4 | 4.1 | 3.6 | 3.8 | 3.0 | 3.1 | 2.8 | |
| | | | | RBA May SoMP: | 3.8 | | 3.8 | | |
| Core Measures | | | | | | | | | |
| Trimmed Mean | | | | | | | | | |
| %q/q | 0.9 | 1.2 | 0.8 | 1.0 | 1.0 | 0.85 | 0.75 | 0.70 | |
| %y/y | 5.8 | 5.1 | 4.2 | 4.0 | 4.0 | 3.7 | 3.6 | 3.3 | |
| | | | | RBA May SoMP: | 3.8 | | 3.4 | | |

Source: National Australia Bank, ABS

NAB's central view is that the RBA will remain on hold with a 1.0% q/q trimmed mean print – some cooling in market services inflation, wages growth having likely passed its peak, and soft activity growth should be enough to keep the low bar of a return to target in 2026 in sight. The consequence though is the RBA won't be able to cut for a long time – NAB have pencilled in May 2025.

Still, further tightening as soon as August is a real possibility should the RBA reassess and conclude rates are insufficiently restrictive. A print of >1.1% q/q for trimmed mean would be hard for the RBA to ignore.

As for June Retail Sales, NAB has pencilled in 0.4% m/m, one tenth above the 0.3% consensus, and coming after last month's 0.6%. NAB's transactions data suggested retail spending was relatively robust in June.

**JN BoJ, Retail Sales, Industrial Production**
The BoJ meeting takes centre stage with markets pretty even stevens on whether the BoJ hikes or not (pricing has 5.7bps, so around 50% priced for a 10bp hike). NAB's view is the BoJ should hike given the data flow, but messaging through the media has been very mixed, and Yen appreciation at the margin has probably lessened the perceived urgency. What is more certain and well flagged is the BoJ's plan to announce details of reducing QE, and it will also publish forecasts for inflation and growth.

**CH Official PMIs**
The PMIs are likely to remain on the weak side with the consensus for Manufacturing at 49.4 from 49.5; and non-manufacturing at 50.2 from 50.5.

**EZ CPI (prelim)**
The prior day's German/Spain/Belgium CPIs should give an updated guide to where CPI may print. The consensus as of publication is for Core at 2.8% y/y.

**US FOMC and Presser, ADP Employment, ECI**
The Fed is widely expected to be on hold with most focus on Chair Powell's presser to see whether he continues to guide markets to a September rate cut, following the stronger than expected Q2 GDP figures and Q2 PCE figures. Markets are more than fully pricing a rate cut at the September FOMC meeting.

On the data the ECI is the one to watch with consensus for a tick back to 1.0% q/q from 1.2% last quarter. ADP Employment may give some indication to payrolls with consensus at 168k.

**Thursday 01**

**AU Trade Balance, Dwelling Prices**
The trade balance is only for goods with consensus around $5bn.

**CH Caixin Manufacturing PMI**

**UK/EZ/US Final Manufacturing PMI**

**UK BoE Decision**
Likely to be a close call. NAB's view has been that the BoE would cut in August, but the recent data flow has been less helpful. The prior BoE Minutes for the June meeting seemed to lay the foundations for an August cut. While 7 vs 2 voted to hold in June, amongst some of the 7 who voted to hold "*the policy decision at this meeting was finely balanced*" – see BoE MPC June Minutes).

Chief Economist Pill since then has thrown a spanner in the works ("*on the basis of recent outturns, at the margin recent developments in these indicators have hinted towards some upside risk to my assessment of inflation persistence*"). Markets going into the meeting are pricing a 52% chance of a cut, with a full rate cut not fully priced until November.

**US ISM, Jobless Claims, Amazon & Apple**
The manufacturing ISM takes the pick with consensus at 49.0 from 49.5 previously. Keen interest will be on the headline manufacturing number, as well as the prices paid component given the lift in global container freight rates recently. Two big tech names also report post close – Amazon and Apple. Jobless Claims also worth a look given the dip back down to 235k, which may allay fears over the recent rise in the unemployment rate.

**Friday 02**

**US Payrolls**
Focus is on the unemployment rate and whether it holds at 4.1% after having trended up over the past few months. Headline payrolls are expected to remain robust at 175k from 206k previously, while average hourly earnings are expected to be 0.3% m/m, a similar pace to the prior month.

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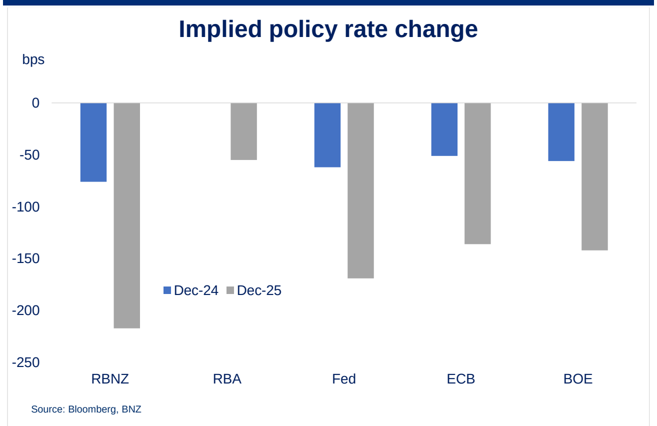
# Fixed Interest Market

**Reuters: BNZL, BNZM Bloomberg:BNZ**

The relentless move lower in NZ fixed income yields continued last week, led by the front end of the curve, as the market priced an increased probability of a near term start to the RBNZ easing cycle. The yield curve has continued to steepen with the longer end of the curve not able match the fall in short end rates. The move lower in yields took place against the backdrop of only second-tier domestic data, although global yields also declined, supported by rising investor risk aversion following the sharp fall in global equities along with benign US inflation data.

2-year NZD swap rates have declined close to 60bps since the July Monetary Policy Review, where the RBNZ significantly adjusted its stance and seemingly opened the way for a cut in the Official Cash Rate (OCR), at upcoming meetings. The extent of the move lower has moved further than we had anticipated. Overnight interest rate swaps imply about a 60% chance of a 25bps rate cut at the August Monetary Policy Statement and almost 80bps of easing by November.

Central bank policy divergence

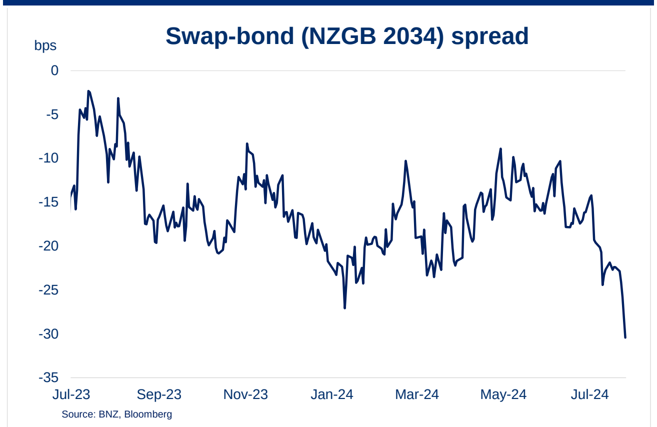



While we acknowledge the possibility the RBNZ could begin easing as soon as August – recent activity data would support a lower OCR – the Bank's uncertain reaction function makes us cautious about extrapolating the recent move lower in yields given the magnitude of rate cuts already priced. Domestic financial conditions have eased following the decline in wholesale interest rates and the almost 4% fall in the NZ dollar trade weighted index over the past four weeks.

The only domestic data of note in the week ahead is ANZ business confidence, and the directional bias for NZ fixed income markets, is likely to be driven by international developments. The Fed is unanimously expected to leave rates on hold at the FOMC, though is likely to signal a September rate cut, which is fully discounted by market pricing. After the recent cooling, US labour market data will be the key economic release to assess the likely pace and magnitude of the Fed's easing cycle.

NZ Government Bonds (NZGB) have underperformed relative to interest rate swaps in the recent move lower in yields. This is partly a function of the relentless speculative flow in swap markets and the ongoing heavy supply of NZGBs. 10-year swap spreads have broken out of the well-established range. We expect the adjustment will stimulate demand for NZGBs and that swap spreads will find a base near current levels.

Swap spreads break outside of the recent range




New Zealand Debt Management (NZDM) announced last week that a new 15 May 2036 nominal bond is expected to be launched, via syndication, before the end of September. This will be the first syndicated transaction for 2024/25. There are several suitable issuance windows towards the end of August, which seems the most likely timing, given the busy issuance schedule ahead. NZDM has previously indicated there will be two syndicated taps of existing nominal lines as part of the NZ$38 billion gross programme for the fiscal year.

Current rates and 1-month range

| | Current | Last 4-weeks range* |
|---|---|---|
| NZ 90d bank bills (%) | 5.46 | 5.46 - 5.63 |
| NZ 2yr swap (%) | 4.20 | 4.19 - 4.97 |
| NZ 5yr swap (%) | 3.87 | 3.86 - 4.50 |
| NZ 10yr swap (%) | 4.10 | 4.08 - 4.56 |
| 2s10s swap curve (bps) | -11 | -40 - -7 |
| NZ 10yr swap-govt (bps) | -29 | -29 - -15 |
| NZ 10yr govt (%) | 4.39 | 4.37 - 4.71 |
| US 10yr govt (%) | 4.19 | 4.14 - 4.49 |
| NZ-US 10yr (bps) | 20 | 14 - 38 |
| NZ-AU 2yr swap (bps) | 6 | 4 - 60 |
| NZ-AU 10yr govt (bps) | 8 | 5 - 36 |

*Indicative range over last 4 weeks

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# Foreign Exchange Market

**Reuters pg BNZWFWDS Bloomberg pg BNZ9**

For a second successive week, global forces drove down the NZD and AUD, with both currencies falling 2% and reaching levels not seen since early May. While NZD/AUD was flat, the NZD fell 1-2% against CAD, GBP and EUR, while NZD/JPY tumbled over 4%, as the yen continued its strong recovery from deep forty-year lows.

The NZD and AUD remained out of favour as commodity prices tumbled further and our risk appetite index traded down to a level not seen since last November, below 60% on our index. Bloomberg's industrial commodity price index rose slightly on Friday, but this followed a nine day stretch of consecutive falls. The index is down over 10% from early July levels and close to 20% from its peak in May.

The fall in commodity currencies and commodity prices can probably be traced to concerns returning on China's growth outlook. Last week, the PBoC eased monetary policy further, cutting its 7-day reverse repo rate by 10bps to 1.7%, and other lending rates fell by 10-20bps. The PBoC said it wanted to step up financial support for the real economy, with the move following recent economic data showing softer GDP growth, weighed down by the property market and consumer spending.

The weaker NZD and AUD can also be traced back to a significant unwinding of the yen carry trade, with MXN and BRL also noticeably weaker over the past two weeks. Sentiment for the yen has turned around sharply, with its recovery supported by official intervention and anticipation of the BoJ tightening monetary policy, against the grain of easier policy by other major central banks. There has been a significant shakeup of short positions in the yen. NZD/JPY peaked just over 99 three weeks ago and has plunged 8½% since, after dipping as low as 89.8 last week.

Early last week the market was focused on President Biden's withdrawal from the Presidential race. Market reaction has been muted, but it is fair to say that the odds of Trump waltzing to victory in November has fallen significantly, with presumptive Democratic nominee Harris much better positioned than Biden was to beat Trump. Updated polls show a close contest between Harris and Trump. Our currency projections don't incorporate a Trump victory and we'll maintain that assumption for now.

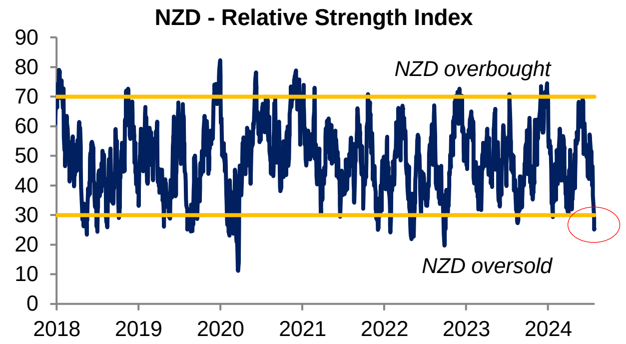
Trading below 0.59, the NZD looks to be oversold, with the technical RSI at 25, below the 30 mark which signals an oversold level. While we are still watching the April low near 0.5850 as a possible support level, we think the balance of risk over coming weeks is skewed positively for the NZD.

The week ahead has plenty of potential market moving events, with policy meetings from the US Fed, BoE and BoJ, alongside top-tier data releases. The Fed is close to easing policy but at this stage is probably happy to signal a September start date, conditional on cooperative data releases ahead of that meeting.

The BoJ and BoE meetings are both close calls. At a minimum, the BoJ will be outlining a clear pathway to reduced bond purchases and it ought to be lifting its policy rate by 0.1%. Another wavering on the policy rate could see the yen unwind some of last week's strength. A BoE rate cut, the first for the cycle, is seen to be an even bet and our view is that they will deliver.

Key US releases include non-farm payrolls at the end of the week, but the JOLTs survey, employment cost index, and ISM manufacturing survey are also potential market movers. Any upside surprise to Australian CPI data would raise the chance of the RBA needing to hike rates again and drive NZD/AUD lower. China PMI data and euro area CPI and GDP data will also be on the radar. In NZ, the ANZ business outlook survey is released, with ongoing interest in the pricing indicators.

Technical RSI suggests the NZD is oversold




Source: BNZ, Bloomberg

Cross Rates and Model Estimates

| | Current | Last 3-weeks range* |
|---|---|---|
| NZD/USD | 0.5891 | 0.5880 - 0.6150 |
| NZD/AUD | 0.8994 | 0.8970 - 0.9160 |
| NZD/GBP | 0.4579 | 0.4570 - 0.4810 |
| NZD/EUR | 0.5422 | 0.5420 - 0.5690 |
| NZD/JPY | 90.63 | 89.80 - 99.00 |

*Indicative range over last 3 weeks, rounded figures

**BNZ Short-term Fair Value Models**

| | Model Est. | Actual/FV |
|---|---|---|
| NZD/USD | 0.6600 | -11% |
| NZD/AUD | 0.8660 | 4% |

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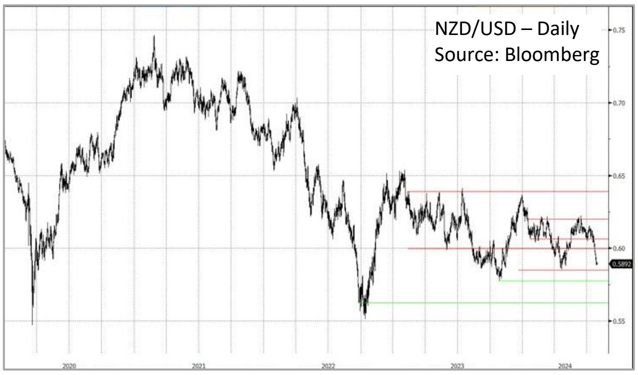
# Technicals

**NZD/USD**

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

While the technical RSI has fallen into oversold territory below 30, 0.5850 seen to be a stronger support base.




**NZD/AUD**

Outlook: Downside risk
ST Resistance: 0.9200 (ahead of 0.9315)
ST Support: 0.8900 (ahead of 0.8700)

While a base might be forming around 0.8980, more evidence is required and until then, 0.89 is seen to potentially offer better support.

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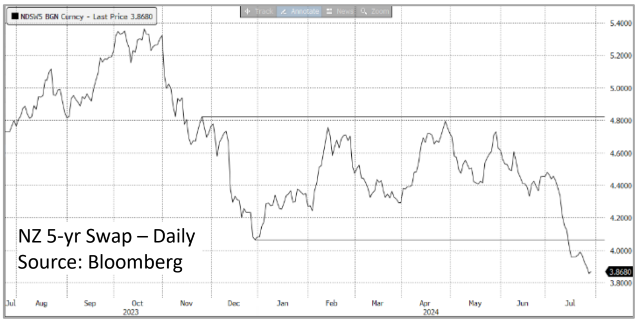
**NZ 5-year Swap Rate**

Outlook: Lower
MT Resistance: 4.06
MT Support: 3.48

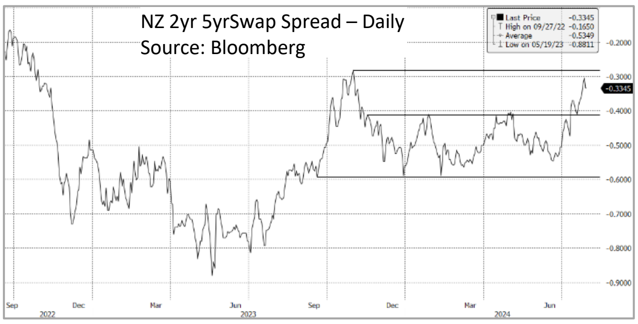
5 year swap continued its downward protectory last week in line with our outlook.




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

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

The 2x5 year swap spread moved sharply steeper last week. We continue to favour a continuation of this move but will be watching closely to see whether our resistance can hold and create a new range.

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# Quarterly Forecasts

**Forecasts as at 29 July 2024**

## Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Jun-24 onward)

| | 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 | -6.7 | -6.7 | -6.5 | -6.1 | -5.8 | -5.6 | -5.3 | -5.0 |
| **CPI (q/q)** | 0.5 | 0.6 | 0.4 | 1.1 | 0.5 | 0.5 | 0.4 | 0.9 | 0.1 | 0.5 |
| **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 | 3.1 | 2.9 | 2.9 | 2.9 | 3.0 | 3.1 | 3.1 | 3.0 |
| **CPI (y/y)** | 4.7 | 4.0 | 3.3 | 2.6 | 2.6 | 2.4 | 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 | | 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 | 4.48 | 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 | 5.50 | 4.40 | 4.55 | 4.35 | 4.35 | 4.40 | 5.50 | 4.25 | 0.30 |
| **Dec** | 5.25 | 5.25 | 4.20 | 4.45 | 3.90 | 4.15 | 4.30 | 5.25 | 4.10 | 0.35 |
| **2025 Mar** | 5.00 | 4.75 | 4.00 | 4.40 | 3.55 | 3.95 | 4.25 | 4.75 | 4.00 | 0.40 |
| **Jun** | 4.50 | 4.25 | 3.85 | 4.35 | 3.25 | 3.80 | 4.20 | 4.50 | 3.90 | 0.45 |
| **Sep** | 4.00 | 3.75 | 3.80 | 4.30 | 3.10 | 3.75 | 4.15 | 4.25 | 3.80 | 0.50 |
| **Dec** | 3.50 | 3.50 | 3.75 | 4.25 | 3.05 | 3.70 | 4.10 | 4.00 | 3.75 | 0.50 |
| **2026 Mar** | 3.25 | 3.00 | 3.75 | 4.25 | 3.20 | 3.75 | 4.15 | 0.00 | 3.75 | 0.50 |

## Exchange Rates (End Period)

### USD Forecasts

| | NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY |
|---|---|---|---|---|---|
| **Current** | 0.59 | 0.66 | 1.09 | 1.29 | 154 |
| **Sep-24** | 0.61 | 0.67 | 1.09 | 1.28 | 146 |
| **Dec-24** | 0.62 | 0.69 | 1.11 | 1.30 | 143 |
| **Mar-25** | 0.64 | 0.71 | 1.13 | 1.31 | 140 |
| **Jun-25** | 0.65 | 0.72 | 1.14 | 1.32 | 137 |
| **Sep-25** | 0.66 | 0.74 | 1.16 | 1.34 | 134 |
| **Dec-25** | 0.67 | 0.75 | 1.17 | 1.35 | 131 |
| **Mar-26** | 0.66 | 0.74 | 1.18 | 1.36 | 129 |
| **Jun-26** | 0.65 | 0.73 | 1.18 | 1.36 | 129 |
| **Sep-26** | 0.67 | 0.73 | 1.18 | 1.36 | 129 |

### NZD Forecasts

| | NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|---|---|---|---|---|---|---|
| **Current** | 0.59 | 0.90 | 0.54 | 0.46 | 90.9 | 69.5 |
| **Sep-24** | 0.61 | 0.91 | 0.56 | 0.48 | 89.1 | 71.1 |
| **Dec-24** | 0.62 | 0.90 | 0.56 | 0.48 | 88.7 | 71.4 |
| **Mar-25** | 0.64 | 0.90 | 0.56 | 0.49 | 88.9 | 72.4 |
| **Jun-25** | 0.65 | 0.90 | 0.57 | 0.49 | 89.1 | 73.2 |
| **Sep-25** | 0.66 | 0.89 | 0.57 | 0.49 | 88.4 | 73.4 |
| **Dec-25** | 0.67 | 0.89 | 0.57 | 0.50 | 87.8 | 74.0 |
| **Mar-26** | 0.66 | 0.89 | 0.56 | 0.49 | 85.1 | 73.1 |
| **Jun-26** | 0.65 | 0.89 | 0.55 | 0.48 | 83.9 | 72.3 |
| **Sep-26** | 0.67 | 0.89 | 0.56 | 0.48 | 79.0 | 72.8 |
| **TWI Weights** | 14.5% | 17.7% | 9.5% | 3.4% | 5.6% | |

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

# Annual Forecasts

| **Forecasts** as at 29 July 2024 | March Years Actuals 2022 | 2023 | 2024 | 2025 | 2026 | December Years Actuals 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 | -3.6 | 4.0 | 12.0 | 3.4 | -0.9 | -4.5 | 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 | 2.2 | 5.0 | -2.7 | -0.2 | 9.8 | 2.8 | 4.7 |
| Imports | 17.3 | 4.4 | -1.2 | 3.1 | 4.1 | 14.8 | 4.7 | -0.5 | 2.8 | 3.6 |
| Real Expenditure GDP | 4.7 | 2.7 | 0.4 | 0.6 | 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 | 2.4 | 1.9 | 5.9 | 7.2 | 4.7 | 2.6 | 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 | -25.8 | -22.4 | -20.6 | -33.4 | -27.9 | -27.5 | -23.5 |
| Current Account - % of GDP | -6.6 | -8.2 | -6.8 | -6.1 | -5.0 | -5.8 | -8.8 | -6.9 | -6.5 | -5.3 |
| | | | | | | | | | | |
| ***Government Accounts*** - June Yr, % of GDP | | | | | | | | | | |
| OBEGAL (core operating balance) | -2.7 | -2.4 | -2.7 | -3.1 | -1.9 | | | | | |
| Net Core Crown Debt (ex NZS) | 35.5 | 39.3 | 43.1 | 43.5 | 43.0 | | | | | |
| Bond Programme - $bn (Treasury forecasts) | 20.0 | 28.0 | 38.0 | 38.0 | 36.0 | | | | | |
| Bond Programme - % of GDP | 5.6 | 7.2 | 9.3 | 9.0 | 8.1 | | | | | |
| | | | | | | | | | | |
| ***Financial Variables*** [(1)] | | | | | | | | | | |
| NZD/USD | 0.69 | 0.62 | 0.61 | 0.64 | 0.66 | 0.68 | 0.63 | 0.62 | 0.62 | 0.67 |
| USD/JPY | 119 | 134 | 150 | 140 | 129 | 114 | 135 | 144 | 143 | 131 |
| EUR/USD | 1.10 | 1.07 | 1.09 | 1.13 | 1.18 | 1.13 | 1.06 | 1.09 | 1.11 | 1.17 |
| NZD/AUD | 0.93 | 0.93 | 0.93 | 0.90 | 0.89 | 0.95 | 0.94 | 0.93 | 0.90 | 0.89 |
| NZD/GBP | 0.52 | 0.51 | 0.48 | 0.49 | 0.49 | 0.51 | 0.52 | 0.49 | 0.48 | 0.50 |
| NZD/EUR | 0.62 | 0.58 | 0.56 | 0.56 | 0.56 | 0.60 | 0.60 | 0.57 | 0.56 | 0.57 |
| NZD/YEN | 81.5 | 83.0 | 91.1 | 88.9 | 85.1 | 77.4 | 85.6 | 89.5 | 88.7 | 87.8 |
| TWI | 73.9 | 71.0 | 71.2 | 72.4 | 73.1 | 73.0 | 72.9 | 72.0 | 71.4 | 74.0 |
| Overnight Cash Rate (end qtr) | 1.00 | 4.75 | 5.50 | 5.00 | 3.25 | 0.75 | 4.25 | 5.50 | 5.25 | 3.50 |
| 90-day Bank Bill Rate | 1.45 | 5.16 | 5.64 | 4.75 | 3.00 | 0.92 | 4.55 | 5.63 | 5.25 | 3.50 |
| 5-year Govt Bond | 2.90 | 4.40 | 4.60 | 4.00 | 3.75 | 2.20 | 4.30 | 4.50 | 4.20 | 3.75 |
| 10-year Govt Bond | 3.20 | 4.35 | 4.60 | 4.40 | 4.25 | 2.35 | 4.25 | 4.65 | 4.45 | 4.25 |
| 2-year Swap | 3.00 | 5.15 | 4.91 | 3.55 | 3.20 | 2.22 | 5.21 | 4.93 | 3.90 | 3.05 |
| 5-year Swap | 3.20 | 4.50 | 4.40 | 3.95 | 3.75 | 2.56 | 4.62 | 4.43 | 4.15 | 3.70 |
| US 10-year Bonds | 2.10 | 3.65 | 4.20 | 4.00 | 3.75 | 1.45 | 3.60 | 4.00 | 4.10 | 3.75 |
| NZ-US 10-year Spread | 1.10 | 0.70 | 0.40 | 0.40 | 0.50 | 0.90 | 0.65 | 0.65 | 0.35 | 0.50 |

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

Source: Statistics NZ, BNZ, NZ Treasury

# Key Upcoming Events

All times and dates NZT

| | | Median | Fcast | Last |
|---|---|---|---|---|
| | **Monday 29 July** | | | |
| UK | CBI Retailing Reported Sales Jul | -10 | | -24 |
| | **Tuesday 30 July** | | | |
| JN | Jobless Rate Jun | 2.60% | | 2.60% |
| AU | Building Approvals MoM Jun | -2.50% | -3.00% | 5.50% |
| GE | GDP SA QoQ 2Q P | 0.10% | | 0.20% |
| EC | Consumer Confidence Jul F | | | -13 |
| EC | Economic Confidence Jul | 95.2 | | 95.9 |
| EC | GDP SA QoQ 2Q A | 0.20% | | 0.30% |
| | **Wednesday 31 July** | | | |
| GE | CPI YoY Jul P | 2.20% | | 2.20% |
| US | S&P CoreLogic CS US HPI YoY NSA May | | | 6.29% |
| US | JOLTS Job Openings Jun | 8055k | | 8140k |
| US | Conf. Board Consumer Confidence Jul | 99.5 | | 100.4 |
| US | Dallas Fed Services Activity Jul | | | -4.1 |
| NZ | Building Permits MoM Jun | | | -1.70% |
| UK | Lloyds Own Price Expectations Jul | | | 53 |
| JN | Retail Sales MoM Jun | 0.20% | | 1.70% |
| JN | Industrial Production MoM Jun P | -4.50% | | 3.60% |
| NZ | ANZ Business Confidence Jul | | | 6.1 |
| CH | Manufacturing PMI Jul | 49.4 | | 49.5 |
| CH | Non-manufacturing PMI Jul | 50.2 | | 50.5 |
| AU | Retail Sales MoM Jun | 0.20% | 0.40% | 0.60% |
| AU | Retail Sales Ex Inflation QoQ 2Q | -0.20% | 0.10% | -0.40% |
| AU | Private Sector Credit MoM Jun | 0.40% | 0.40% | 0.40% |
| AU | CPI YoY Jun | 3.80% | 3.80% | 4.00% |
| AU | CPI Trimmed Mean YoY Jun | | | 4.40% |
| AU | CPI QoQ 2Q | 1.00% | 1.00% | 1.00% |
| AU | CPI Trimmed Mean QoQ 2Q | 1.00% | 1.00% | 1.00% |
| NZ | Household credit, YoY Jun | | | 3.30% |
| SZ | SNB Publishes 1H Results | | | |
| GE | Unemployment Claims Rate SA Jul | 6.00% | | 6.00% |
| EC | CPI Estimate YoY Jul | 2.50% | | 2.50% |
| EC | CPI Core YoY Jul P | 2.80% | | 2.90% |
| JN | BOJ Target Rate (Upper Bound) Jul-31 | 0.10% | | 0.10% |
| JN | BOJ Target Rate (Lower Bound) Jul-31 | 0.00% | | 0.00% |
| JN | BOJ Core CPI Ex-Energy Current 3Q | | | 1.90% |

| | | Median | Fcast | Last |
|---|---|---|---|---|
| | **Wednesday (Continued)** | | | |
| JN | BOJ Core CPI Ex-Energy Current Forecast +1 3Q | | | 1.90% |
| JN | BOJ Core CPI Ex-Energy Current Forecast +2 3Q | | | 2.10% |
| | **Thursday 01 August** | | | |
| NZ | CoreLogic House Px MoM Jul | | | -0.50% |
| US | ADP Employment Change Jul | 149k | | 150k |
| US | MNI Chicago PMI Jul | 44.5 | | 47.4 |
| US | Pending Home Sales MoM Jun | 1.30% | | -2.10% |
| AU | CoreLogic House Px MoM Jul | | | 0.70% |
| US | FOMC Rate Decision (Upper Bound) Jul-31 | 5.50% | 5.50% | 5.50% |
| AU | Judo Bank Australia PMI Mfg Jul F | | | 47.4 |
| AU | Trade Balance Jun | A$5000m | A$5000m | A$5773m |
| CH | Caixin China PMI Mfg Jul | 51.5 | | 51.8 |
| EC | HCOB EZ Manufacturing PMI Jul F | 45.6 | | 45.6 |
| EC | ECB Publishes Economic Bulletin | | | |
| UK | S&P Global UK Manufacturing PMI Jul F | 51.8 | | 51.8 |
| EC | Unemployment Rate Jun | 6.40% | | 6.40% |
| UK | Bank of England Bank Rate Aug-01 | 5.00% | | 5.25% |
| | **Friday 02 August** | | | |
| US | Initial Jobless Claims Jul-27 | 236k | | 235k |
| US | Continuing Claims Jul-20 | 1855k | | 1851k |
| UK | DMP 3M Output Price Expectations Jul | | | 3.90% |
| UK | DMP 1 Year CPI Expectations Jul | | | 2.80% |
| UK | BOE decision maker panel survey | | | |
| US | S&P Global US Manufacturing PMI Jul F | | | 49.5 |
| US | Construction Spending MoM Jun | 0.20% | | -0.10% |
| US | ISM Manufacturing Jul | 48.8 | | 48.5 |
| UK | BOE's Huw Pill speaks | | | |
| AU | PPI QoQ 2Q | | | 0.90% |
| AU | Home Loans Value MoM Jun | 0.00% | 0.00% | -1.70% |
| UK | BOE Chief Economist Huw Pill speaks | | | |
| | **Saturday 03 August** | | | |
| US | Change in Nonfarm Payrolls Jul | 178k | | 206k |
| US | Unemployment Rate Jul | 4.10% | | 4.10% |
| US | Average Weekly Hours All Employees Jul | 34.3 | | 34.3 |
| US | Factory Orders Jun | -3.10% | | -0.50% |
| US | Durable Goods Orders Jun F | -6.60% | | -6.60% |

# Historical Data

| | Today | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **CASH AND BANK BILLS** | | | | |
| Call | 5.50 | 5.50 | 5.50 | 5.50 |
| 1mth | 5.57 | 5.59 | 5.60 | 5.62 |
| 2mth | 5.53 | 5.57 | 5.62 | 5.64 |
| 3mth | 5.48 | 5.55 | 5.63 | 5.67 |
| 6mth | 5.28 | 5.36 | 5.59 | 5.77 |
| **GOVERNMENT STOCK** | | | | |
| 05/26 | 4.34 | 4.42 | 4.85 | 4.97 |
| 04/29 | 4.05 | 4.09 | 4.49 | 4.69 |
| 05/31 | 4.18 | 4.23 | 4.54 | 4.68 |
| 05/34 | 4.38 | 4.40 | 4.65 | 4.70 |
| 04/37 | 4.60 | 4.58 | 4.81 | 4.83 |
| 05/41 | 4.78 | 4.75 | 4.93 | 4.91 |
| 05/51 | 4.83 | 4.79 | 4.95 | 4.85 |
| **GLOBAL CREDIT INDICES (ITRXX)** | | | | |
| Nth America 5Y | 51 | 49 | 52 | 63 |
| Europe 5Y | 54 | 53 | 58 | 68 |

| | Today | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **SWAP RATES** | | | | |
| 2 years | 4.20 | 4.36 | 4.93 | 5.48 |
| 3 years | 3.95 | 4.10 | 4.65 | 5.14 |
| 4 years | 3.87 | 4.01 | 4.51 | 4.91 |
| 5 years | 3.87 | 3.99 | 4.45 | 4.76 |
| 10 years | 4.10 | 4.17 | 4.49 | 4.60 |
| **FOREIGN EXCHANGE** | | | | |
| NZD/USD | 0.5891 | 0.5979 | 0.6076 | 0.6209 |
| NZD/AUD | 0.8992 | 0.9001 | 0.9123 | 0.9243 |
| NZD/JPY | 90.62 | 93.88 | 98.08 | 88.33 |
| NZD/EUR | 0.5425 | 0.5489 | 0.5657 | 0.5646 |
| NZD/GBP | 0.4578 | 0.4623 | 0.4803 | 0.4838 |
| NZD/CAD | 0.8150 | 0.8225 | 0.8345 | 0.8189 |
| TWI | 69.2 | 70.6 | 72.1 | 71.4 |

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