10 March 2025

Orr's Abdication Hawkish?

- **Will bank capital requirements be softened?**
- **This would be an easing in monetary conditions**
- **So less downward pressure on the cash rate**
- **GDP partials to confirm weak Q4**
- **Pricing indicators to suggest rising CPI inflation**

In our opinion the departure of Adrian Orr from the Governorship of the RBNZ may signal that New Zealand's cash rate has less downside than would otherwise be the case.

When Orr first took up the reigns at the central bank we were constantly asked our opinion as to whether Orr was Hawk or Dove. Our answer was neither, rather that he was a man who liked to get things done. He was an activist. His actions in leadership have confirmed that.

Whether it be raising interest rates to slow an expansion or lowering them to provide stimulus, Orr was always keen to get to where he ultimately wanted to be quickly. The current easing cycle has been no different with the central bank aggressively cutting interest rates to get them down to perceived neutrality as soon as practicable.

Of course, it is the Monetary Policy Committee that makes rate setting decisions, not just the Governor, but any Governor will, by virtue of the title, have a disproportionate influence on outcomes. It is hard to see Orr's replacement being quite so driven so there is, at the margin, the risk that it takes a little longer to get to the low in rates and/or the low is modestly higher.

Generally, organisations in transition tend to be less proactive. This too adds weight to our supposition that the RBNZ could become more cautious in its approach especially given that the cash rate is already perceived by the Bank to be approaching neutral, and its central projection suggests no clear desire to take it sub-neutral.

That said, all the above is just pure speculation on our part. All we can really conclude is that there will be no urgency for the Bank to change its current published interest rate track and certainly no urgency to accelerate the decline in interest rates or lower the floor.

There is, however, a potential deal breaker which comes in the form of bank capital ratios. Orr was adamant that New Zealand's bank capital ratios needed to rise markedly and quickly (activism to the fore again). Rule changes to capital requirements were finalised in 2019. They were not introduced until 2022 but banks started responding to the need to increase capital almost immediately. They have been doing so ever since and had expected to continue doing so until the legislated capital ratios peak in 2028.

If Banks have to hold more capital, then lending rates will tend to be higher meaning that, all other things being equal, the cash rate needs to be lower to achieve any given lending rate. This is where it gets interesting. The current government is currently focussed on growth and sees the RBNZ's current approach to bank capital as being overly restrictive to lending. Orr and Finance Minister Willis have been battling over this for some time and many speculate that their inability to resolve their differences was a major factor behind Orr's departure.

Willis has been "taking advice on the amount of capital banks hold" and was putting a lot of pressure on Orr to change his mind. When Orr is replaced the RBNZ Board recommends a new Governor to the Minister of Finance who then approves (or not) the candidate. One can only assume the Board would be reluctant to suggest a replacement who had the same views as Orr on banking sector capital requirements.

So, if the current proposed path of capital raising is moderated then, at face value, monetary conditions would become more stimulatory as lending rates would not be as high as would otherwise be the case, and the quantity of money available for lending would rise. This being the case, the cash rate would not need to fall as much.

Putting a number on this impact is fraught with danger. Banking sector estimates have been many and varied but the direction of pressure is clear.

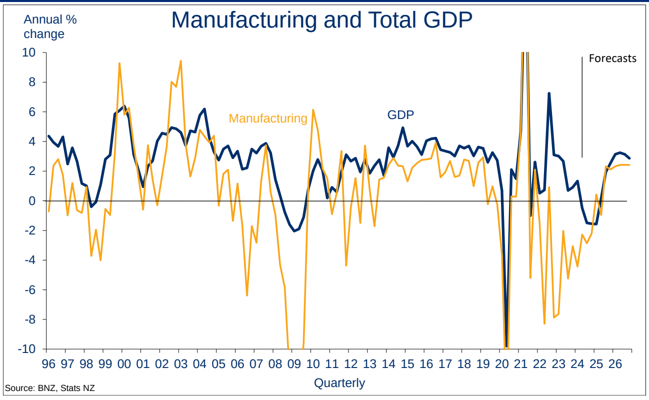
There is obviously a lot of water to go under the bridge yet. We've got an acting governor for the remainder of this month then, potentially, a temporary one for the next six months. If that was so then the new governor wouldn't take up the reigns until October 1, well after the easing cycle will have been completed by our reckoning.

We won't be changing our rate cut expectations solely on the back of the current ructions down at the Reserve Bank, but we warn strongly that the direction of risk to those forecasts is clearly upward.

While the machinations of the central bank will be more interesting than usual to watch over the next few months, more immediately, focus will turn to key price and activity indicators being released in the week ahead.

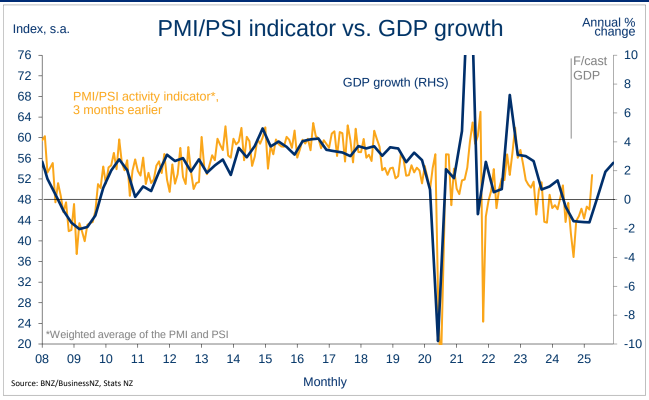
For us the most interesting will be seeing whether Friday's PMI and the PSI on Monday March 17 remain in positive territory. Last month the PMI moved back above the "breakeven" 50 mark for the first time in 23 months. It was also the highest reading since September 2022. Manufacturing has been a major drag on the New Zealand economy for some time. If this sector can return to expansion in a sustainable fashion this will be a very positive sign that progress is being made. We'll take any PMI number above 50 as a positive but something above last month's 51.4 would be a real gift.

Manufacturing's drag on GDP



The January PSI came in at 50.4, its first positive in 11 months. To be consistent with the sort of GDP growth we are forecasting for 2025 the combined PMI and PSI need to average in the mid-50s. We are not expecting to see this just yet but another step in the right direction would be welcomed. Any reduction in these indicators would suggest we need to push back on our recovery story.

More of the same please

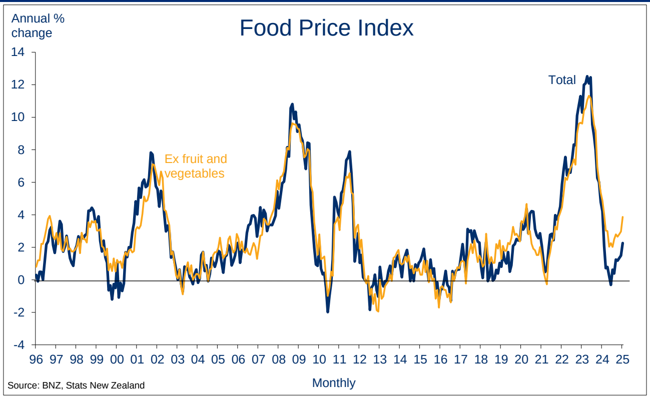


On Tuesday we get the Q4 business employment and financial data. These are the last pieces that we need to finalise our Q4 GDP pick, which is currently 0.2% for the quarter, -1.5% for the year. The Reserve Bank is at 0.3% q/q so it will be surprising if we come out with anything that suggests the RBNZ might be on the wrong track. Anyway, these data are ancient history. The high frequency data such as the PMI and PSI are far more relevant to getting a sense of economic momentum.

Where there does seem to be some unwelcome momentum is in prices. We'll get greater insight into this with the release of the selected price indices for February on Friday. We'll be looking for supporting evidence for our forecast 0.7% increase in the CPI for Q1 which would see annual CPI inflation climb to 2.3%.

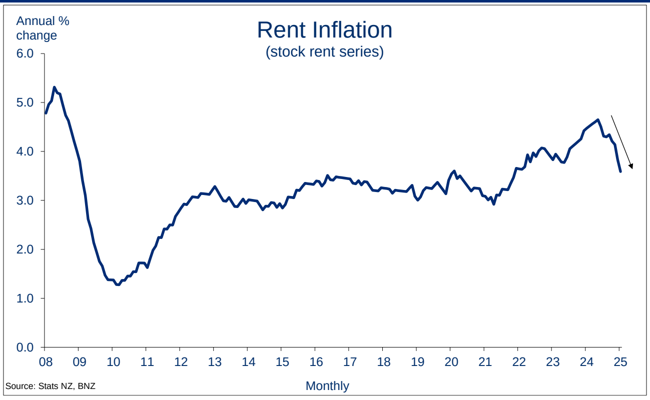
One of the key markers we'll be looking at is food prices. February is known for being a generally weak month for price pressure. We have pencilled in no change in food prices for the month, but this will still see the annual rate rise to 2.9%, its highest level since January 2024.

Going up



Another market of interest for us is rents. There continues to be substantial pressure on rental inflation to fall or, in many cases, for outright price declines. The stock measure of rents that goes into the CPI changes glacially, and with a long lag to what is happening with the flow, so is unlikely to show an absolute fall. We are picking a 0.2% m/m increase for this series taking the annual to 3.6% which will be its lowest since January 2022. This will maintain a firm downward trend in the annual reading.

Going down



Rounding out the week are Electronic Card Transactions (ECT) data for February, released Wednesday, and Migration and Travel data for January, released Thursday.

The ECT data appear to have been battered by changes in seasonal patterns and large movements in petrol prices. Total retail card transactions rose 2.4% in December only to fall 1.6% in January. Except for the December data, annual readings for this series have been consistently negative for the last twelve months, and that's in nominal terms. We'll be looking for an outturn that indicates annual negativity is moderating, beyond the obvious weakness due to the leap day last February.

We expect more of the same from the migration and travel data. In brief, travel is improving slowly but remains well below pre-COVID levels and net migration starting to stabilise at low levels.

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Global Watch

- **US 25% steel and aluminium tariffs due to take effect**
- **US CPI and PPI; core measures for both seen at 0.3% m/m**
- **Bank of Canada decision, expected to cut 25bps**
- **University of Michigan inflation expectations in focus**

Week in Review

Last week was dominated by choppy risk sentiment and tariff volatility while European yields are sharply higher on a German defence and infrastructure spending deal.

The 25% tariffs on Canada and Mexico initially went ahead on 4 March, but within 48 hours a deferral for USMCA-compliant auto imports was in place, and a day after that the pause had been extended to all USMCA compliant goods. The additional 10% tariffs on China remain in place.

The pause lasts until 2 April, also the end date for the reciprocal tariff study. Commerce Secretary Lutnick continues to highlight that date, saying some tariffs will start right away, others will come in over a period of months and that once reciprocal tariffs are in, 'they will stick'.

In Germany, the CDU and SDP agreed a defence and infrastructure spending deal that will be presented to parliament next week. A provision would exempt defence spending above 1% of GDP from the "debt brake" that caps government borrowing. Another constitutional amendment would set up €500bn fund for infrastructure, which would run over 10 years.

In addition, Germany has called for the EU to exempt defence spending from its fiscal rules for longer than Brussels had proposed. Those developments thoroughly overshadowed an as expected ECB meeting, but for the record, the ECB cut rates by 25bp to 2.50%.

In Australia, GDP data last Wednesday broadly confirmed that growth is past its trough, helped by some discretionary spending-led pick up in household consumption even if it remains unspectacular. While growth of 1.3% y/y was a little above the RBA's February forecast of 1.1%, our colleagues at NAB don't see anything narrative shifting in the Q4 data.

Week Ahead

Globally, it is a busy week with major risk events being: (1) whether the US' 25% tariffs on steel and aluminium go ahead in full, and if so any potential retaliation (Wednesday) ; (2) US CPI and PPI to see any early tariff price impact either from front running or from the initial 10% tariff on China that took effect on February 4 (Wednesday and Thursday); and (3) if a US government shutdown is avoided by Friday when a continuing resolution is due to be passed.

On tariff announcements, key dates remain March 12 (steel and aluminium) and April 2 (reciprocal and other product specific tariffs). How business is reacting to trade uncertainty will be important and it is worth noting US data flow continues to undershoot expectations.

As for data flow, consensus for US Core CPI (Wednesday) sits at 0.3% m/m and 3.2% y/y. Also out in the week are JOLTS (Tuesday) and the Uni. Mich. Consumer Sentiment (Friday). The inflation expectations from consumer sentiment worth watching closely.

Elsewhere the BoC meets (Thursday). Previous modelling by the BoC suggested moderate rate cuts could be supportive should tariffs be imposed, but only if inflationary impacts are moderate.

A quiet week in Australia with all eyes on potential fallout from Ex-Cyclone Alfred. Our thoughts are with all those affected. As for dataflow the major pieces are the NAB Business Survey and Westpac Consumer Sentiment (Tuesday). A date for the upcoming Federal election may also be unveiled – note an election must be held on or by 17 May. Note also Victoria has a public holiday on Monday.

In China, the two sessions NPC wraps up on Tuesday.

Europe is busy with lots of talk around defence with Defence Ministers meeting (Monday) and the Paris Defence Forum (Tuesday to Thursday). The ECB also has a conference (Wednesday).

Important Events Preview

Monday 10

AU VIC, SA, Tas, ACT public holiday

CH Retaliatory tariffs on the US take effect

GE Industrial Production

EZ EU defence ministers meet

Tuesday 11

AU NAB Business Survey, WMI Consumer Confidence
No hints on the Business Survey given NAB publish the survey. The survey itself is widely referenced by the RBA, particularly regarding capacity utilisation, price and margin trends, and overall labour market tightness.

The Westpac Consumer Sentiment measure is for March. While much focus is on the headline measure, the unemployment expectations index is also worth a look given its recent trend down, which in turn is broadly tracking the unemployment rate.

CH two sessions NPC concludes

US JOLTs

The labour market is less tight on the JOLTs metrics with openings per unemployed person hovering near pre-pandemic and quits rate below pre-pandemic.

Wednesday 12

EZ ECB Conference (ECB and its Watchers)
A plethora of speakers are expected, including President Lagarde and Chief Economist Lane.

US CPI (February)
The February CPI will potentially include early tariff impacts from any pull forward of demand, and the imposition of the initial 10% tariff on China which took effect on February 4. Consensus for Core CPI is 0.3% m/m and 3.2% y/y. A fuller read through to the Fed's preferred PCE version of inflation will be available following the PPI on Thursday.

US 25% Steel and Aluminium tariffs take effect
Due to take effect are the well flagged 25% tariff on steel and aluminium. It is unclear whether there will be any carveouts in the lead up to this. Europe has already flagged that it would retaliate if tariffs are imposed.

CA BoC decision (25bps cut)
NAB expect the BoC to cut rates. The latest BoC meeting dropped forward guidance, but also had modelling which supported cutting rates should tariffs escalate. This was neatly summed up in a speech by Governor Macklem:

"*The sharp fall in exports and investment when tariffs are imposed, combined with weaker consumption, means that initially demand would fall more than potential output, creating excess supply in the economy. Provided the inflationary impact of tariffs is not too big, monetary policy can help smooth the adjustment by supporting demand so it doesn't weaken too much more than supply. But how much support monetary policy can provide is constrained by the need to control inflation*".

Thursday 13

AU RBA's Jones on a panel at the IIF
RBA Assistant Governor (Financial System) is speaking on a panel with ASIC Chair Joe Longo at the 2025 IIF Australia Forum in Sydney. It is unlikely there will be much discussed from a monetary policy point of view.

US PPI (February), Jobless Claims
While the PPI has traditionally been viewed as for what it implies for the Fed's preferred PCE measure, Fed officials have been saying they will also be looking at the PPI for price pressures associated with tariffs. Consensus for Core PPI is 0.3% m/m. Jobless Claims also out and worth a look given the sharp lift in the Challenger Job Cuts series.

Friday 14

JN Rengo Wage Negotiation outcome
The outcome of wage negotiations by the Japanese Trade Union Confederation (Rengo) is set to be known. The group said recently that its workers are demanding an average wage increase of 6.09%, up from last year's 5.85%. Rengo represents roughly 6.8m workers.

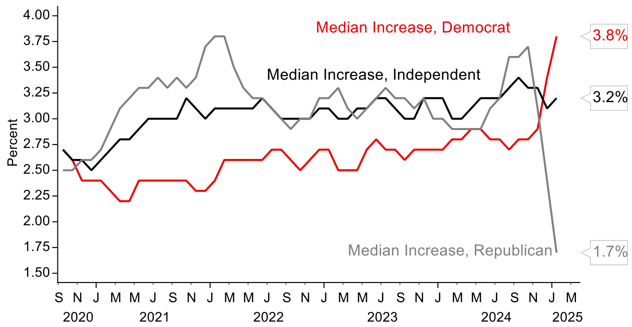
UK Industrial Production, Monthly GDP

EZ final-CPIs

US Uni Mich. Consumer Sentiment, Govt shutdown?
Inflation expectations the key to watch given the 5-10yr measure has lifted to 3.5%. Although it must be worth noting such a rise has not been seen to the same extent in the less timely NY Fed Consumer Measure, or in economist surveys, or market pricing.

The partisan mix between Democrats and Republicans is also worth teasing out for assessing the true state of inflation expectations. Data is only a 3m moving average basis, but it is clear Democrats are more worried about inflation than Republicans. Consensus for headline consumer sentiment is for little change at 63.5 from 64.7.

Uni Mich. Inflation Expectations (5-10yr) (3mma)



Source: National Australia Bank, University of Michigan, Macrobond

Meanwhile March 14 is also the date by when a continuing resolution needs to be passed to avert a government shutdown. President Trump has pressed all House Republicans to back a continuing resolution.

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Fixed Interest Market

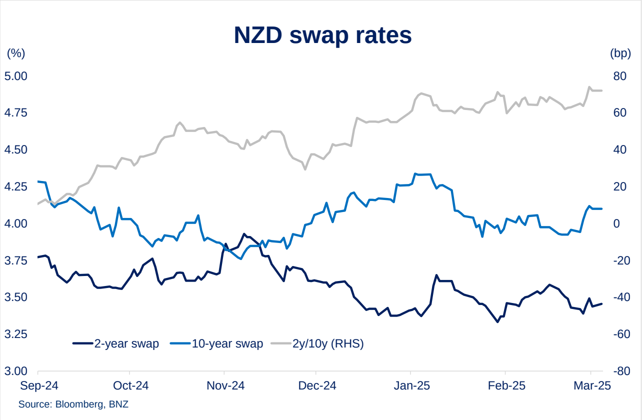
Reuters: BNZL, BNZM Bloomberg: BNZ

The NZ swaps curve steepened last week. Short term rates were little changed in the absence of domestic drivers, while longer dated rates moved higher, in line with global markets. RBNZ Governor Orr's resignation, while unexpected, had limited market impact. European bonds had a significant selloff following news that Germany plans to reform its fiscal rules, to allow for more defence and infrastructure spending, which contributed to higher global yields.

Governor Orr resigned, having completed two years of his second five-year term, and will leave the Bank at the end of March. His acting replacement, Deputy Governor Hawkesby, is likely to maintain continuity within the Monetary Policy Committee if he is appointed in a temporary capacity during the six months, in which time a new permanent Governor will be named. Any impact of Orr's resignation is likely to be at the margin.

2-year swap rates remain near the midpoint of the 3.30%-3.60% range which has confined price action during recent months. We maintain a modest downside bias and expect an eventual retest of the bottom end of the range. The implied terminal Official Cash Rate is above our forecast of 2.75%. And we prefer to fade the relatively early rate hikes priced for 2026.

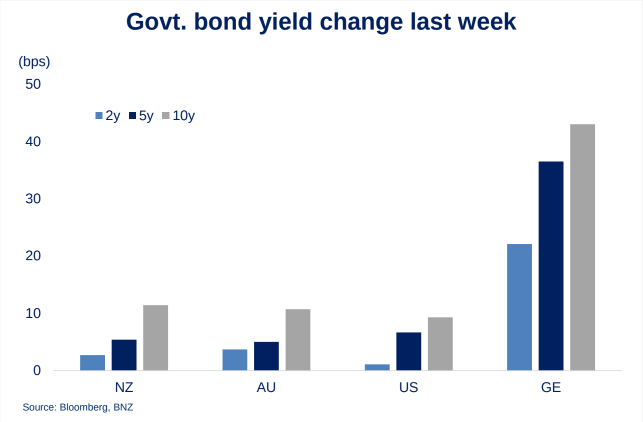
NZ 2y/10y yield curve steepens to cycle highs



After remaining range bound for much of 2025, the NZ 2y10y curve has traded to a fresh cycle high above 70bp. Our bias remains for the curve to steepen further as the RBNZ easing cycle progresses. Looking back at previous NZ monetary policy cycles, the curve hasn't tended to flatten until the last rate cut which, based on our forecast, won't take place until August.

Higher frequency indicators of domestic economic activity are improving, albeit from very weak levels, and suggest the NZ business cycle is turning. The manufacturing PMI, which returned to expansionary territory for the first time in almost two years in January, will be closely monitored in the week ahead along with data covering electronic card transactions. The last set of inflation partials before the April Monetary Policy Review, covering the month of February, will be an important gauge of how Q1 CPI is tracking relative to the Bank's 2.4% projection from the February Monetary Policy Statement.

Massive selloff for German bunds on fiscal easing



Heavy government supply from fiscal deficits remains a focus for both NZ and global bond markets. Last week, Germany's Chancellor-in-waiting Friedrich Merz announced the country will exempt defence spending from fiscal limits, as well as the launch of a €500b infrastructure fund.

In response, 10-year bund yields surged 30bp, which was the largest one-day move since 1997, as bond markets looked ahead to extra government borrowing. Bund swap spreads fell to a new record low.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	3.71	3.71 - 3.88
NZ 2yr swap (%)	3.46	3.37 - 3.60
NZ 5yr swap (%)	3.74	3.61 - 3.87
NZ 10yr swap (%)	4.18	4.01 - 4.27
2s10s swap curve (bps)	72	62 - 74
NZ 10yr swap-govt (bps)	-38	-43 - -32
NZ 10yr govt (%)	4.55	4.43 - 4.57
US 10yr govt (%)	4.30	4.10 - 4.66
NZ-US 10yr (bps)	25	-5 - 32
NZ-AU 2yr swap (bps)	-25	-41 - -23
NZ-AU 10yr govt (bps)	15	5 - 17

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the USD was broadly weaker, with major USD indices showing their largest weekly fall in over two years. The DXY index fell 3½% as European currencies outperformed, with the euro supported by policies that will see a massive increase in defence spending. NZD/USD rose 2% to 0.5710 but fell over 2% against EUR and 0.7% against GBP to fresh multi-year lows. The NZD made modest gains against the AUD and JPY.

Last week was actioned packed for markets. Tariff headlines were again dominant. The quick summary is that President Trump imposed an extra 10% tariff rate on China, to add to the extra 10% imposed last month; Canada and Mexico faced 25% tariffs (with a reduced 10% rate for Canada energy products), but by the end of the week these were deferred for a month for those goods that come under the USMCA (free trade agreement). Still, around half of Mexico's goods and services will still face the 25% tariff while 62% of Canada's will face the 25% tariff. Both China and Canada retaliated with their own tariffs for US goods.

Price action was instructive, with the USD coming under significant downward pressure. This suggested that USD strength in Q4 likely reflected the market front-running tariffs, meaning that their imposition isn't necessarily USD-positive from here. Furthermore, the constant threat of tariffs, and uncertainty they are causing, is driving a weaker US economy and confidence around the outlook. Of note regarding US data, the US ISM manufacturing survey was disappointing in that the direction of travel was towards stagflation, while Challenger and Co showed February job layoffs skyrocketing to a five-year high. US growth concerns, because of tariffs and policy uncertainty, are negatively impacting the USD.

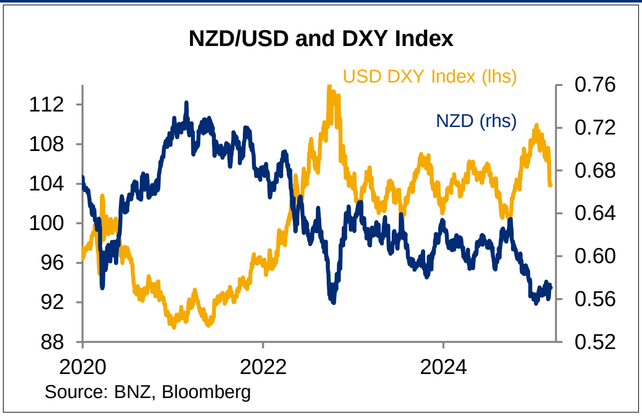
The other key news last week was EU leaders agreeing to step up their defence spending, allowing an additional €800b spending over four years without triggering budget penalties. Furthermore, Germany's Chancellor-in-waiting Merz indicated a relaxation of the constitutional debt brake, pledging to do "whatever it takes" to defend European peace and security, including a plan to allow limitless national borrowing to fund German defence spending. He also announced the launch of a €500b infrastructure fund. This was seen as a massive change in direction for German fiscal policy, which will significantly boost growth in the years ahead, and the euro responded accordingly.

We can't ignore last week's price action. While more tariffs on China could easily be forthcoming and we still await how 'reciprocal tariffs' will be imposed next month, early indications are that the market is increasingly worried about the implications for the US economy of tariffs. This is seeing the USD under pressure. It's entirely possible that USD strength in Q4 was overdone. The implication is that the downside risk for NZD/USD we saw for Q2 might be more muted that initially thought. Furthermore, increasingly negative sentiment for the USD could see a bringing forward of the NZD/USD recovery we saw for the second half of the year. In the meantime, event risk through the next couple of months remains high.

Europe's move to significantly lift defence spending, and Germany being at the forefront of any fiscal easing, is a game-changer. On this basis, we see the fall in NZD/EUR as justified, and we'll have to rethink the new trading range for the year ahead.

In the week ahead, key global data include the US CPI and PPI reports. With tariffs and growth now the focus, the importance to the market of these inflation reports has reduced. The Bank of Canada meets, where market isn't entirely sure whether it cuts rates at this meeting, but most believe a 25bps cut is likely. The NZ economic calendar remains light, but with indicators that will help firm up our Q4 GDP estimate.

USD under pressure; NZD hanging in there



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5715	0.5590 - 0.5770
NZD/AUD	0.9059	0.8950 - 0.9080
NZD/GBP	0.4425	0.4410 - 0.4560
NZD/EUR	0.5274	0.5250 - 0.5500
NZD/JPY	84.55	83.20 - 87.00

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	model suspended	
NZD/AUD	0.8500	7%

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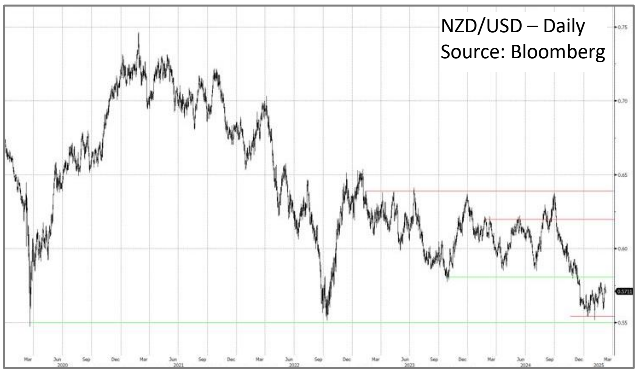
Technicals

NZD/USD

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

No change, with 0.58 still seen to be the first mark of resistance, and support in a 0.55-0.5550 zone.



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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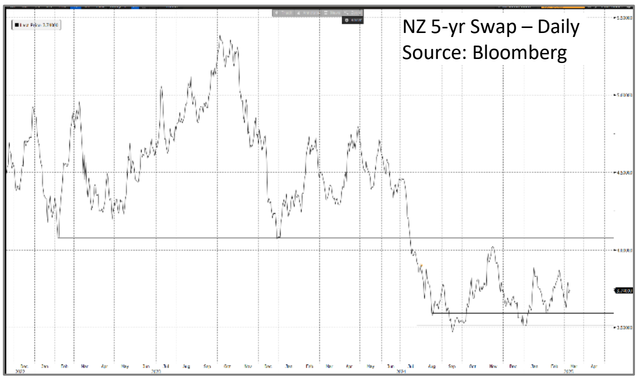
NZ 5-year Swap Rate

Outlook: Neutral
ST Resistance: 3.90
ST Support: 3.60

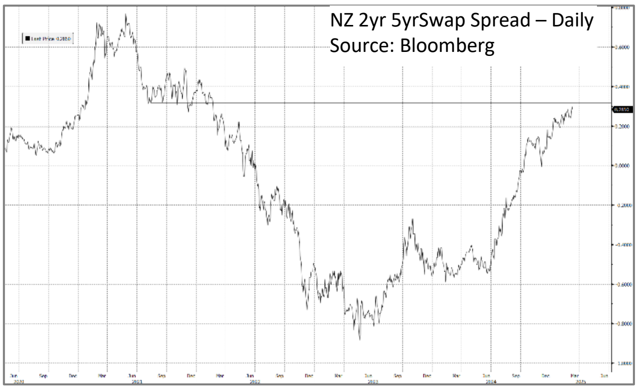
5-year swap looks to be range bound here, need a sustained break either way for any conviction about the medium-term direction.



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

Outlook: Neutral
ST Resistance: 0.30
ST Support: 0.20

2x5 swap spread continues to steepen, looking for consolidation around current levels before the next move.



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Quarterly Forecasts

Forecasts as at 10 March 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	0.2	0.3	0.7	0.8	0.8	0.9
Retail trade (real s.a.)	-2.0	0.6	-1.2	0.0	0.9	0.5	0.8	1.0	1.2	1.1
Current account (ann, % GDP)	-6.9	-6.6	-6.6	-6.4	-6.0	-5.3	-4.6	-4.2	-4.0	-3.9
CPI (q/q)	0.5	0.6	0.4	0.6	0.5	0.7	0.5	0.9	0.5	0.5
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
Pr. 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	2.4
GDP (production s.a., y/y)	0.9	1.3	-0.5	-1.5	-1.5	-1.6	0.1	1.9	2.6	3.1

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.64	4.90	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/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.57	0.63	1.08	1.29	148	0.57	0.91	0.53	0.44	84.4	67.6
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 10 March 2025	March Years					December Years				
	Actuals					Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.3	3.4	1.0	0.1	2.3	7.6	4.2	1.0	0.1	1.6
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	-5.0	1.3	10.9	4.2	-0.6	-4.9	-1.1
Stocks - ppts cont'n to growth	0.5	0.3	-1.6	0.2	0.3	1.4	0.0	-1.4	0.1	0.2
GNE	7.9	3.7	-1.1	-0.7	2.1	9.9	4.5	-0.9	-0.9	1.2
Exports	2.5	5.6	8.6	2.3	4.2	-2.7	-0.8	11.4	3.9	3.7
Imports	17.2	4.4	-1.3	1.2	3.5	14.8	4.6	-0.6	1.7	2.1
Real Expenditure GDP	4.6	3.9	1.3	-0.6	2.3	5.8	3.2	1.8	-0.1	1.3
GDP (production)	**4.5**	**3.5**	**1.4**	**-1.3**	**1.9**	**5.6**	**2.9**	**1.8**	**-0.6**	**0.8**
GDP - annual % change (q/q)	*0.5*	*3.0*	*1.3*	*-1.6*	*3.1*	*2.6*	*3.1*	*0.9*	*-1.5*	*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	2.4	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	-0.5	1.2	3.6	0.7	-1.3	-0.2	0.7
Unit Labour Costs (ann av %)	4.7	5.7	7.2	5.0	2.3	2.3	6.0	7.6	5.0	3.2
House Prices (stratified, qtr)	9.1	-12.8	2.8	-0.4	7.0	22.5	-13.8	0.6	-0.9	6.8
External Balance										
Current Account - $bn	-24.5	-33.8	-27.6	-22.6	-17.3	-21.3	-35.6	-28.6	-25.4	-17.6
Current Account - % of GDP	-6.8	-8.6	-6.6	-5.3	-3.9	-6.0	-9.2	-6.9	-6.0	-4.0
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.4	-1.8	-2.1	-3.0	-2.3					
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 10 March			
JN	Full-Time Pay YoY Jan	2.90%		2.80%
GE	Industrial Production SA MoM Jan	1.50%		-2.40%
GE	Trade Balance SA Jan	19.9b		20.7b
EC	Sentix Investor Confidence Mar	-9.3		-12.7
	Tuesday 11 March			
EC	ECB's Nagel Speaks			
US	NY Fed 1-Yr Inflation Expectations Feb			3.00%
NZ	Mfg Activity Volume QoQ 4Q			-1.20%
NZ	Business Financial Data 4Q			
AU	Westpac Consumer Conf Index Mar			92.2
JN	Household Spending YoY Jan	3.70%		2.70%
JN	GDP SA QoQ 4Q F	0.70%		0.70%
UK	BRC Sales Like-For-Like YoY Feb	2.00%		2.50%
AU	NAB Business Confidence Feb			4
FI	ECB's Rehn Speaks			
US	NFIB Small Business Optimism Feb	101		102.8
	Wednesday 12 March			
US	JOLTS Job Openings Jan	7665k		7600k
NZ	Card Spending Total MoM Feb			0.00%
EC	ECB's Lagarde, Simkus & Villeroy Speak			
	Thursday 13 March			
US	MBA Mortgage Applications 7-Mar			20.40%
EC	ECB's Escriva, Lane & Others Speak			
US	CPI Ex Food and Energy MoM Feb	0.30%		0.40%

		Median	Fcast	Last
	Thursday (continued)			
US	CPI Ex Food and Energy YoY Feb	3.20%		3.30%
CA	Bank of Canada Rate Decision 12-Mar	2.75%		3.00%
NZ	Net Migration SA Jan			3810
AU	RBA's Jones Speaks			
EC	Industrial Production SA MoM Jan	0.70%		-1.10%
	Friday 14 March			
US	PPI Ex Food and Energy MoM Feb	0.30%		0.30%
US	PPI Ex Food and Energy YoY Feb	3.50%		3.60%
US	Initial Jobless Claims 8-Mar	227k		221k
US	Continuing Claims 1-Mar	1890k		1897k
EC	ECB's Holzmann, Villeroy & Nagel Speak			
NZ	BusinessNZ Manufacturing PMI Feb			51.4
NZ	Food Prices MoM Feb			1.90%
NZ	Selected Monthly Price Indexes Feb			
UK	Monthly GDP (MoM) Jan	0.10%		0.40%
GE	CPI YoY Feb F	2.30%		2.30%
UK	Industrial Production MoM Jan	-0.10%		0.50%
UK	Manufacturing Production MoM Jan	0.00%		0.70%
UK	Trade Balance GBP/Mn Jan	-£3000m		-£2816m
EC	ECB's Escriva & Cipollone Speak			
	Saturday 15 March			
US	U. of Mich. Sentiment Mar P	63.5		64.7
US	U. of Mich. 1 Yr Inflation Mar P	4.20%		4.30%
US	U. of Mich. 5-10 Yr Inflation Mar P	3.40%		3.50%

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	3.75	3.75	4.25	5.50
1mth	3.87	3.87	4.03	5.59
2mth	3.77	3.77	3.94	5.62
3mth	3.71	3.73	3.86	5.65
6mth	3.55	3.55	3.68	5.59
GOVERNMENT STOCK				
04/27	3.60	3.58	3.62	4.48
05/30	4.06	4.02	4.04	4.41
05/32	4.35	4.28	4.32	4.50
05/35	4.63	4.52	4.60	
04/37	4.81	4.69	4.76	4.72
05/41	5.00	4.89	4.94	4.81
05/54	5.18	5.08	5.09	
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	51	50	48	50
Europe 5Y	55	53	53	53

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.46	3.42	3.45	4.88
3 years	3.55	3.50	3.51	4.57
4 years	3.64	3.59	3.60	4.40
5 years	3.74	3.67	3.69	4.33
10 years	4.18	4.07	4.11	4.36
FOREIGN EXCHANGE				
NZD/USD	0.5719	0.5617	0.5641	0.6170
NZD/AUD	0.9060	0.9023	0.8986	0.9330
NZD/JPY	84.60	83.96	85.74	90.66
NZD/EUR	0.5278	0.5355	0.5473	0.5647
NZD/GBP	0.4425	0.4422	0.4561	0.4815
NZD/CAD	0.8217	0.8134	0.8076	0.8319
TWI	67.6	67.1	67.8	71.9

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