ANZ Research May 2023

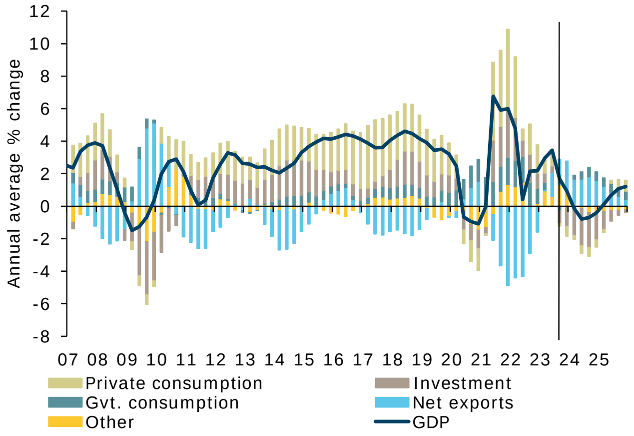
Quarterly Economic Outlook

Moving parts

Summary of forecasts

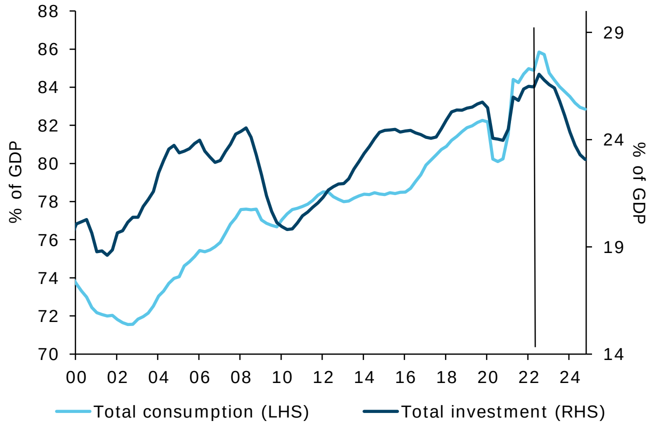
Recession is looming

Slower domestic demand is expected to more than offset the net exports recovery



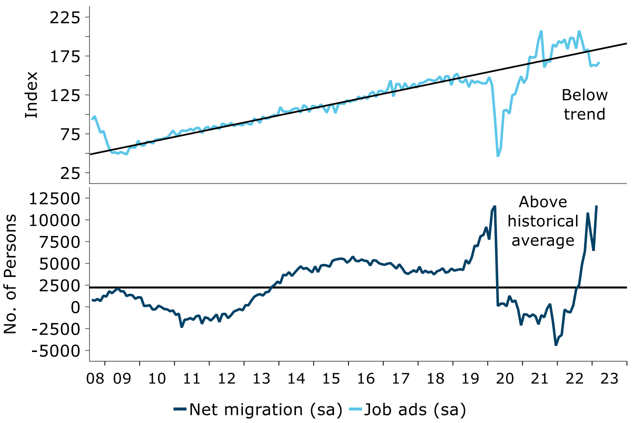
Consumer spending and investment to come under pressure

As higher rates bite and job security deteriorates



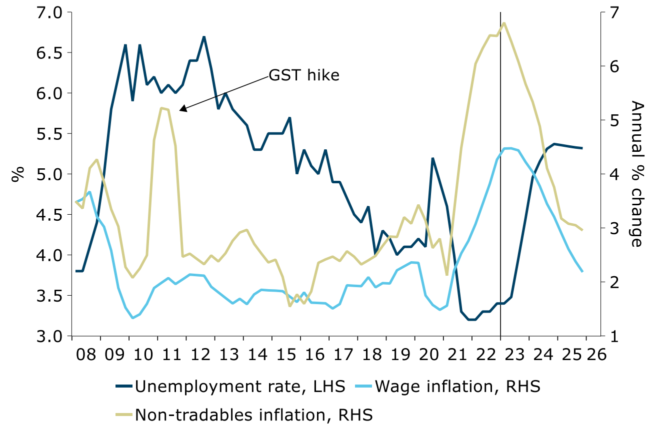
Labour demand is easing

Just as imported labour supply is surging



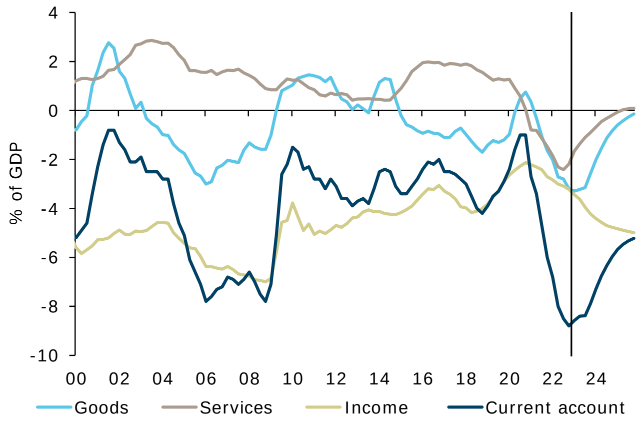
Higher unemployment and slower wage growth are expected

Which guides non-tradables inflation lower



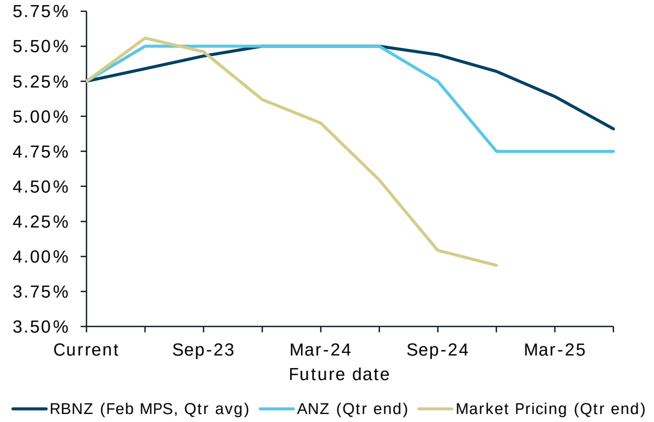
External imbalance will improve

Though it won't be fun, with weaker demand key



Risks are still skewed to more being needed

But downside risks have certainly not gone away



Source: Stats NZ, MBIE, RBNZ, Macrobond, ANZ Research

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Moving parts

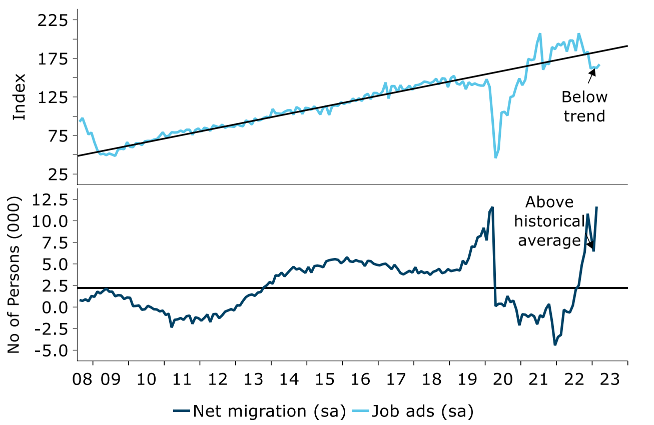
Summary

The economy is set to slow as 2023 goes on, with our core macroeconomic outlook little changed from our February edition. We expect the lagged effects of monetary policy to become hard to miss as the months go by, with a stagnant housing market, weakening labour demand, slower household spending, and reduced business and residential investment seeing the economy slip into recession in the second half of the year. Given this narrative is well understood and "textbook", we skip relatively quickly over our central forecasts before getting to the interesting bit – why we might be wrong! There are significant risks on both the upside and downside when it comes to the outlook for both growth and inflation – and of course, by association, the Official Cash Rate. On balance, we see the risks skewed towards the RBNZ sooner or later deciding more is needed to get inflation down, but downside risks have certainly not gone away – and indeed arguably grow in that scenario. More positively, ongoing supply-side recovery is good for both growth and bringing inflation down, and could be a stronger force than our forecasts build in.

Macroeconomic policy getting traction

Monetary tightening is clearly doing what is says on the tin. House prices are down 16%, both consumer and business confidence are very low, retail spend is weakening, and job ads have lost steam just as labour supply is lifting sharply via both a record-high labour force participation rate and most notably, soaring net migration (figure 1).

Figure 1. Monthly job ads and net migration



Source: MBIE, Stats NZ, Macrobond, ANZ Research

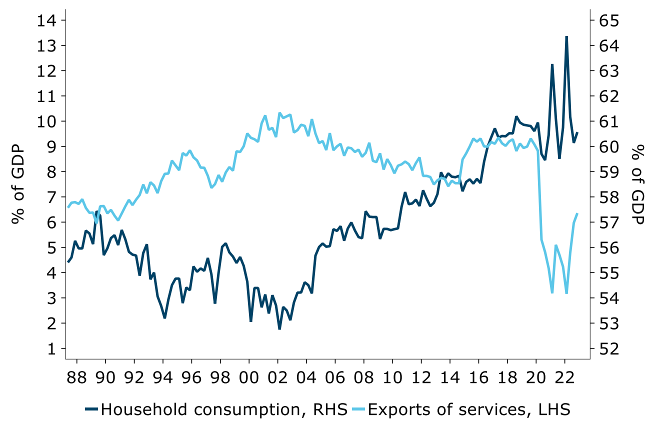
We see these dynamics continuing to evolve, with weaker domestic demand resulting in spare capacity opening up in the economy. In our central forecast, this allows the Reserve Bank to pause after one last 25bp hike this month, going into 'watch, worry, and wait' mode, as (hopefully) inflation obediently continues to fall. In our core scenario, inflation pressures gradually ease, allowing the RBNZ to cut rates in the second half of 2024.

Markets, however, are always looking for the next story, and are pricing OCR cuts from August this year (see the Markets section for more). But while there are certainly risks which, if they were to materialise, could result in such an outcome (see Risks section), we think that the job of getting services inflation lower will prove tougher going once the relatively low-hanging fruit of reducing goods inflation has been picked. It'll take time.

Economic forecasting is a mug's game, let's be honest. And part of the problem is not being entirely sure where the economy is right now. That can be due to three factors, primarily:

- **Data lags.** GDP, for example, is only released almost 3 months after the period in question. Measures of income and regional activity can take a year or more.
- **Volatility.** Some data is just always volatile. But the COVID period has redefined the concept. The data has been all over the shop, and the reverberations continue. Just look at the consumption and services exports share of GDP, for example (figure 2).
- **Data revisions.** Revisions don't get nearly as much attention as the first cut of data does, but they can really matter. One of the most important data series currently that is prone to very large revisions is migration. We discuss this more in our Risks section on page 7.

Figure 2. Household consumption and services exports



Source: Stats NZ, Macrobond, ANZ Research

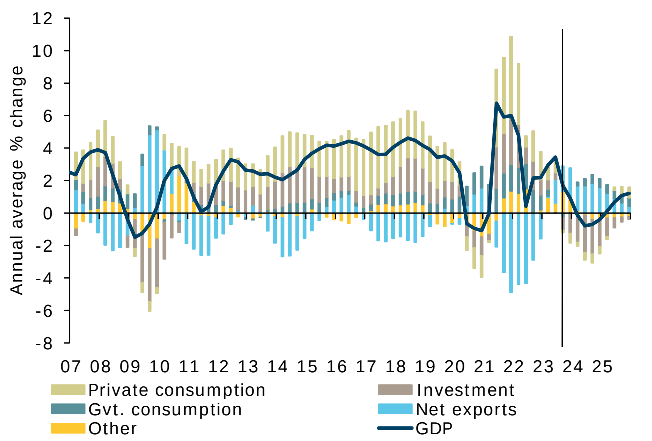
Moving parts

So, in sum, not only are we not sure where we're going; we're not sure where we are. Indeed, in practice, surprises regarding the starting point tend to be what drives the big changes to economic forecasts. But let's take the starting point largely as a given and quickly outline how we see the economy evolving from here.

The big picture

Figure 3 shows the make-up of GDP over recent years and our forecast for the period ahead, on an expenditure breakdown. Our forecast has the economy experiencing recession in the second half of 2023 as both investment and private consumption take a hit from higher interest rates, reinforced by a slowing in the labour market. And government consumption also represents a declining share of growth as expenditure normalises following the COVID period. Net exports do grow over the forecast period courtesy of the ongoing recovery in tourism and other services exports, as well as weaker demand for imports, but it's not enough to keep overall GDP growth in the black.

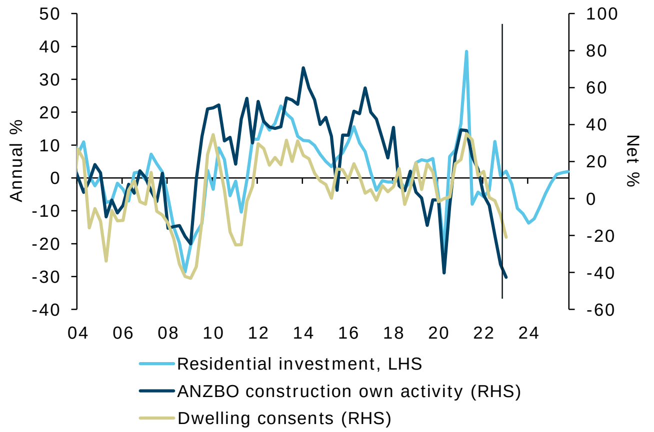
Figure 3. Contributions to GDP growth



Source: Stats NZ, ANZ Research

As the most interest rate-sensitive segment of the economy, investment is forecast to have a tough time. We see residential investment activity contracting around 11% over 2023. Both our Business Outlook survey and falling building consents suggest a slowdown, if anything potentially sharper than we are forecasting (figure 4).

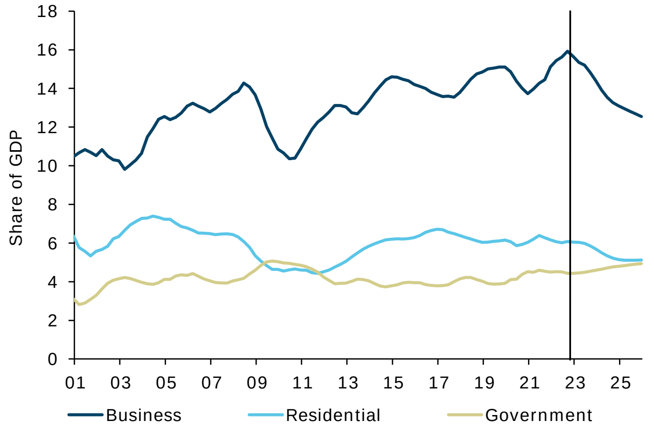
Figure 4. Residential investment and forward indicators



Source: Stats NZ, ANZ Research

In terms of investment in other sectors, we see weak business investment offsetting elevated government investment (figure 5).

Figure 5. Investment share of GDP



Source: Stats NZ, RBNZ, ANZ Research

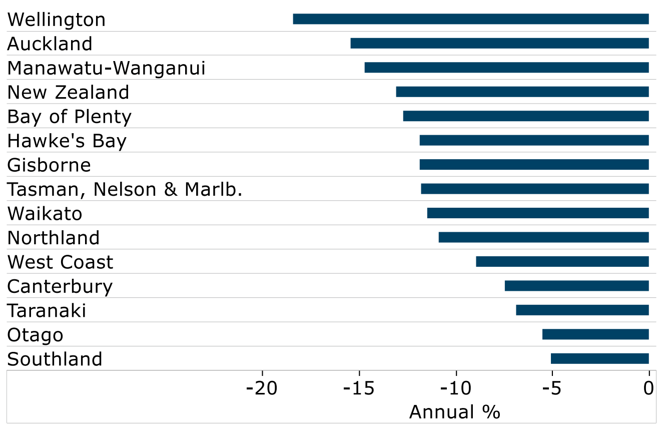
The housing market

The housing market warrants particular attention at present.

As discussed in our April Property Focus, we recently revised up our house price forecast from a fall of -22% to "just" -18%. That still sounds dramatic, but given we're already 16% in the red, it implies house prices bottoming out in June. If that doesn't square with what you're seeing outside your window, that isn't surprising, as the current disparity between regional housing markets is marked (figure 6). House prices have fallen at least three times as much in Wellington and Auckland over the past year as they have in Southland.

Moving parts

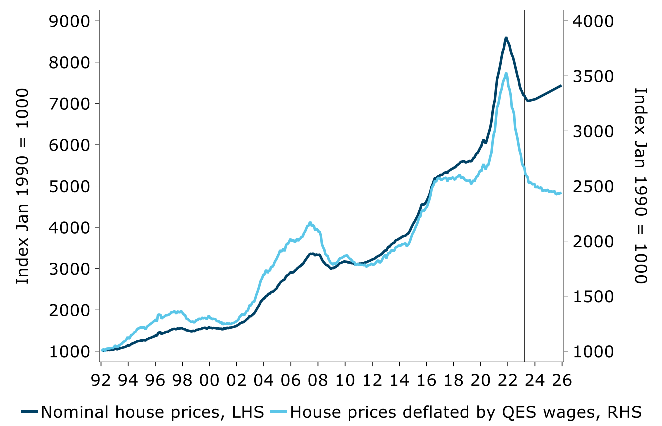
Figure 6. Annual house price inflation by region (3 mo. avg)



Source: REINZ, Macrobond, ANZ Research

Although we have revised our forecast higher, we are not anticipating house prices will take off again. House prices tick along at less than the rate of wage growth in our forecast, seeing 'real' house prices continue to gently ease (figure 7).

Figure 7. Annual house price inflation: nominal and real



Source: REINZ, Stats NZ, Macrobond, ANZ Research

There are good reasons why we see a firm lid staying on house price inflation:

- interest rates are much higher than a year ago,
- unemployment is set to rise, and
- some highly leveraged investors may be set to offload properties, depending on how interest rates and tax policy evolves.

And most importantly, at the end of the day, if the housing market looks like it's taking off again despite all of that, the RBNZ is likely to respond with more OCR hikes, putting an end to the party fairly promptly.

But why do we think that's even a risk that the RBNZ faces?

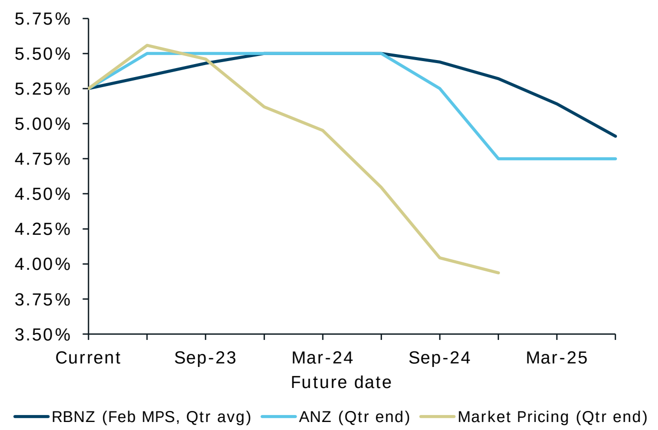
For one thing, fixed mortgage rates have fallen, and a perception is taking hold that "the worst is over". Although fixing one's mortgage for 1-year used to be the most popular (and cheapest) way to go, it isn't any more, and borrowers are instead finding relief in longer-term fixed rates, which are now coming down. Current 5.99% 3-year fixed rates quoted by most of the major banks have, for example, fallen by around 0.7%pts since January.

The market is more confident than we (or the RBNZ) are that the OCR is close to its ultimate peak and indeed expects cuts within a year (figure 8). This is why longer-term wholesale rates are lower than their short-term equivalents. Perceptions could change, of course, but for now, this belief is putting downward pressure on OCR expectations, the wholesale yield curve, and thus fixed mortgage rates, even as the RBNZ continues to hike.

The RBNZ's high loan-to-value (LVR) restrictions are set to ease – as of 1 June, mortgage lending over 80% LVR can be 15% of new owner-occupier mortgage lending, rather than 10%. And if we are right that house sales are bottoming out (seasonally adjusted), then it's a 50% larger share of a growing number.

And perhaps most importantly, net migration has taken off, and all those people need somewhere to live, whether it's rented or owned. We discuss the outlook for and impacts of migration further in the Risks section.

Figure 8. OCR: ANZ, RBNZ, market pricing



Source: Bloomberg, RBNZ, ANZ Research

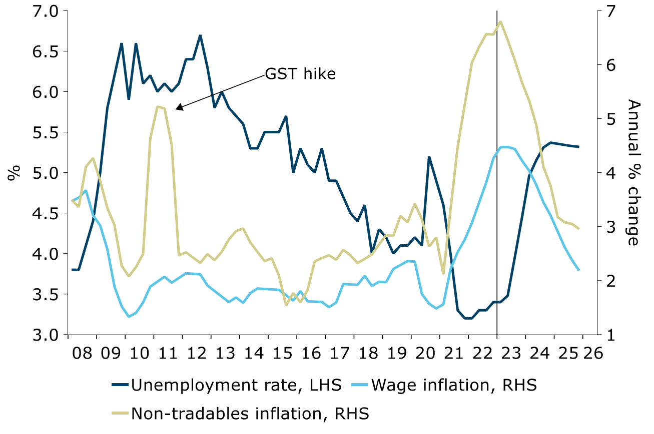
Putting it all together, we see house prices bottoming out very soon in Auckland, and on a national-average basis before very long. However, don't get too excited: the potential upside is capped by the fact that the RBNZ would be unlikely to sit back and watch the market lift meaningfully. And the downside risks if unemployment were to jump higher remain very real – figure 7 shows how high house prices remain relative to incomes compared to not-that-distant history – real house prices by this measure at the end of our forecasts are still 2.5 times what they were in the early 1990s.

The labour market

Extremely strong job security, solid employment growth and positive real wage growth go a long way to explaining why consumer spending has held up much better than consumer confidence has of late. However, the RBNZ sees higher unemployment as a necessary part of the battle against inflation. In that context, resilience must necessarily be on borrowed time.

While still very tight (and inflationary) in an absolute sense, the Q1 labour market statistics were a mixed bag. Strong employment growth is better interpreted as pent-up labour demand finally being met by strong labour supply growth, rather than a resurgence in labour demand. Our forecast has the unemployment rate lifting sharply from the second half of 2023, rising to 5.4% by the end of 2024. The associated reduction in pressure on wage costs is a large part of the reason why the heat comes out of non-tradable inflation (figure 9).

Figure 9. Unemployment, wage and non-tradables inflation



Source: Stats NZ, Macrobond, ANZ Research

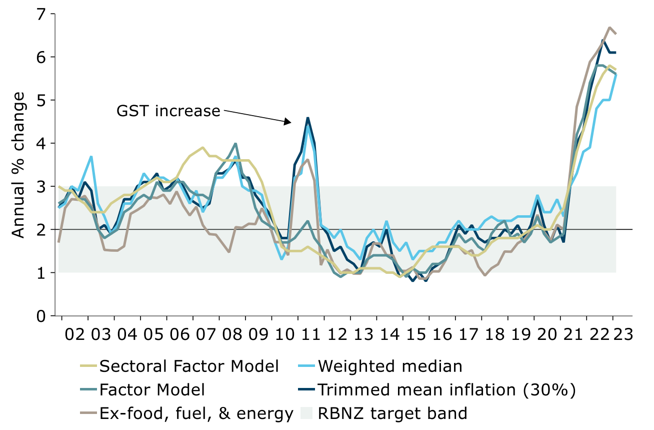
Inflation

Where does all this leave the outlook for inflation?

The latest read on inflation was a mixed bag. At 6.7%, headline inflation in Q1 was well below the RBNZ's 7.3% expectation, but the good news was mostly in the tradable component. At 6.8%, non-tradable inflation is still very problematic.

And core inflation is still running at a pace around three times where it should be. As figure 10 shows, some measures are tentatively falling, some have plateaued, and some are still rising. Overall, the RBNZ will still be very worried about the current rate of core inflation, and the possibility that it proves sticky. However, these measures do lag the rest of the economy. If the RBNZ were to keep hiking until all measures have decisively turned a corner, they would almost certainly overshoot. Hence the plan to pause, to "watch, worry and wait."

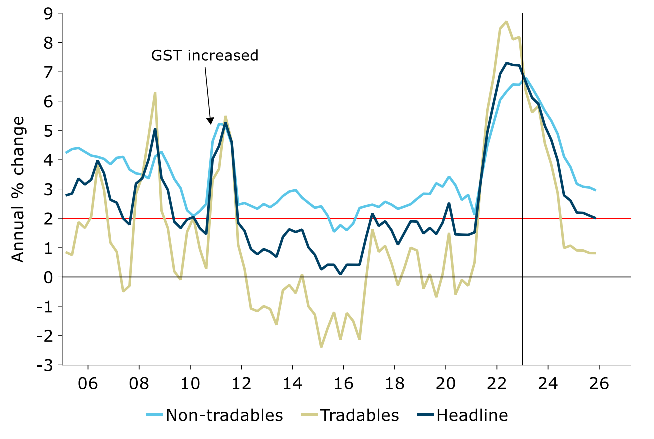
Figure 10. Core CPI inflation vs 1-3% target band



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

As the economy slows, we expect inflation will decline, approaching the 2% midpoint of the RBNZ's 1-3% target range in the first half of 2025 (figure 11).

Figure 11. ANZ inflation forecast



Source: Stats NZ, Macrobond, ANZ Research

The good news is that there is plenty that's going the right way, or at least no longer going the wrong way, in terms of getting headline inflation lower. On the non-tradable (domestic) inflation side:

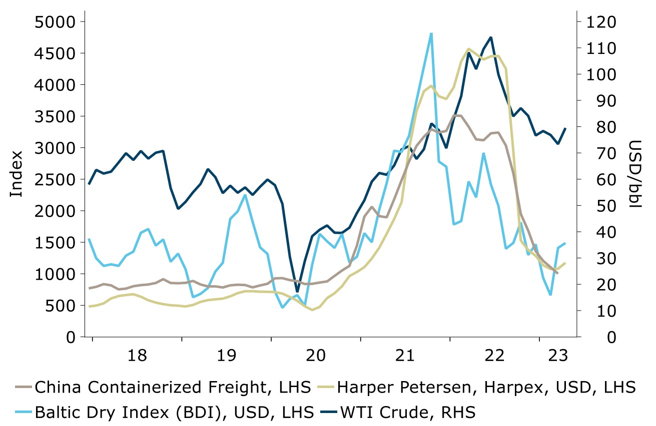
- Construction cost inflation is easing as building activity cools.

- Labour demand has softened significantly.
- Retail demand is softening, making it harder to pass on cost increases.

On the tradable (largely imported) side:

- Oil prices have bounced around a USD70-80 range for the past five or so months, well down from USD120+ last June. The fuel tax subsidy needs to come off, but the context for that could be worse.
- Shipping costs have plummeted back to normal levels (figure 12).
- The NZD isn't exactly strong at just under USD0.64, but it remains well off its October lows of USD0.56.

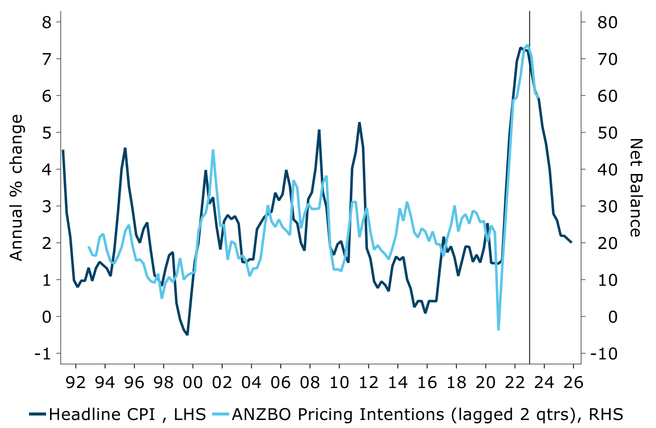
Figure 12. Shipping costs and oil prices



Source: Baltic Exchange, Harper Peterson & Co., Shanghai Shipping Exchange Macrobond, ANZ Research

Consistent with all of that, pricing intentions in the Business Outlook survey are well off their highs (figure 13) and trending lower, though clearly have a long way to go to be consistent with inflation in the 1-3% band.

Figure 13. ANZ inflation forecast and ANZBO pricing intentions



Source: Stats NZ, Macrobond, ANZ Research

Although the global inflation pulse has turned, geopolitics and climate change are upside risks to imported inflation, and there's always two-way risk around the exchange rate. And domestically, the impacts of the North Island weather events remain highly uncertain. We continue to build in relatively modest impacts for now. See our February QEO for more discussion of weather impacts on the economy.

But of concern to the RBNZ, strength in inflation has increasingly become concentrated in services prices, which are tightly linked to domestic labour market developments. With the unemployment rate still at 3.4%, the RBNZ would still describe the labour market as beyond 'maximum sustainable employment'. How quickly labour market pressures ease will likely be the key determinant of how quickly core inflation pressures subside.

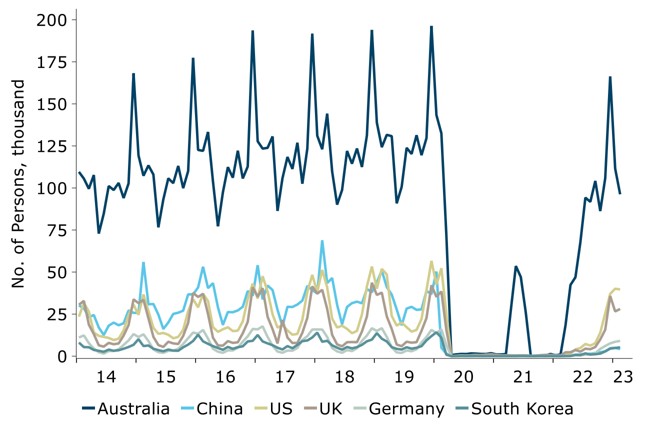
Risks to the outlook

In this section we discuss a few "known unknowns" – a number of reasons why the economy could pan out quite differently to the 'textbook' scenario above.

1) Is tourism masking fundamental weakness?

The tourism rebound has been dramatic, albeit incomplete (figure 14). How much weakness in true underlying momentum might be being masked by this, particularly in terms of retail and hospitality? We'll find out shortly, with the summer rush now well and truly winding down. Queenstown, Ohakune and Methven will be looking forward to the ski season, but in macroeconomic terms, summer is very much where it's at for tourism.

Figure 14. Short-term visitor arrivals (key tourism markets)

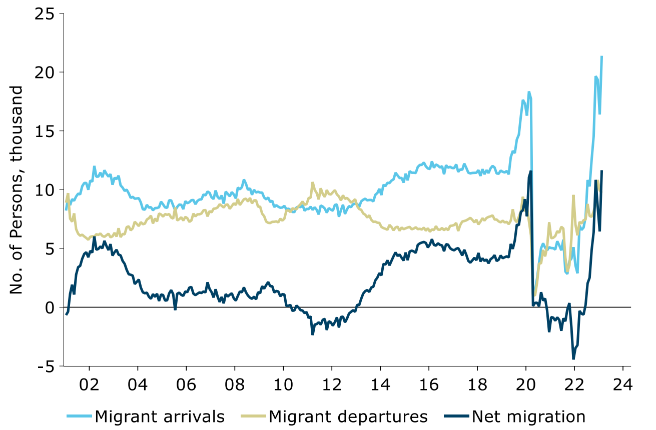


Source: Stats NZ, Macrobond, ANZ Research

2) What if migration holds up?

We talked at length about migration risks in our February edition of the QEO, so we'll pass once over lightly here. But in short, net migration in recent months has been running at a pace 2-3 times our assumption of 40k net arrivals this year (figure 15).

Figure 15. Monthly net migration



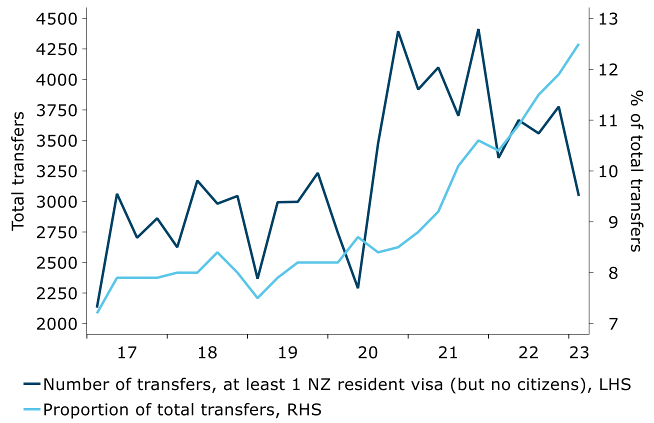
Source: Stats NZ, Macrobond, ANZ Research

Immigration is ambiguous in its impacts on inflation. On the one hand, it boosts labour supply, allowing the economy to grow more without attendant pressure on wage growth. On the other hand, all these people need somewhere to live, as well as other goods and services. In its April Monetary Policy Review the RBNZ talked about migration as an upside risk to medium-term activity and inflation. The Reserve Bank's own research pre-COVID suggested that the inflationary impacts do tend to dominate over time.

The impacts on the labour market are reasonably clear. Employment could not have grown 0.8% in Q1 without the 0.5% growth in the population of working age brought about by immigration.

What's perhaps harder to estimate is the impact on the housing market. About 12.5% of house sales are currently to people on residence visas, with the proportion gradually rising, though sales have fallen in absolute terms as the housing market has cooled (figure 16). Of course, the 2020-21 growth in sales to people on residence visas isn't due to the recent surge in arrivals, but rather the large-scale issuance of residence visas to people already in the country, many of whom had previously been on rolling work visas during the COVID closed-border period.

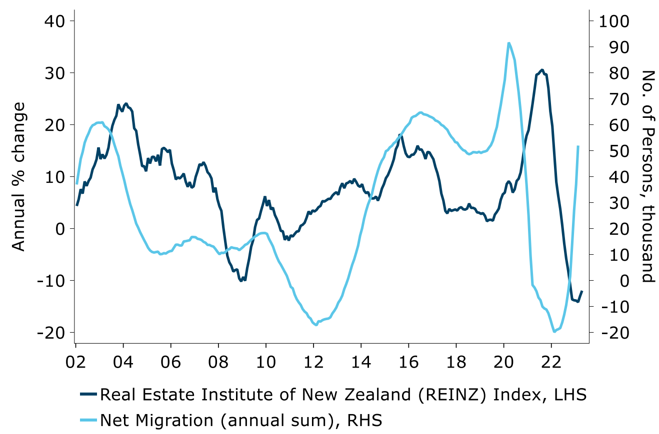
Figure 16. Sales of homes to people on residence visas



Source: Stats NZ, Macrobond, ANZ Research

Figure 17 shows that there does tend to be a lagged relationship between migration and house prices.

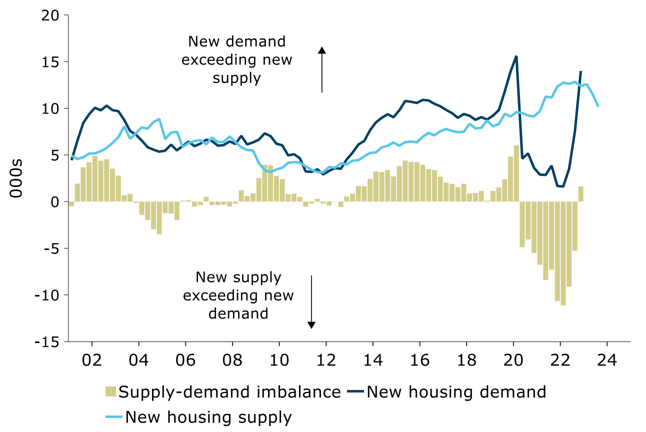
Figure 17. Net migration and house price inflation



Source: Stats NZ, REINZ, Macrobond, ANZ Research

But correlation isn't causation, and of course in recent years there's been a lot going on with both migration (the closed border and policy changes) and the housing market (record-low mortgage rates, changes to macroprudential settings, record-high house building). But for all that, it's a no-brainer that the fundamental demand-supply balance matters, and is affected by net migration, among other things. Over the past two years New Zealand has reduced its housing shortages due to a combination of a closed border and a very strong house-building cycle. But both of these things are now pointing the other way (figure 18).

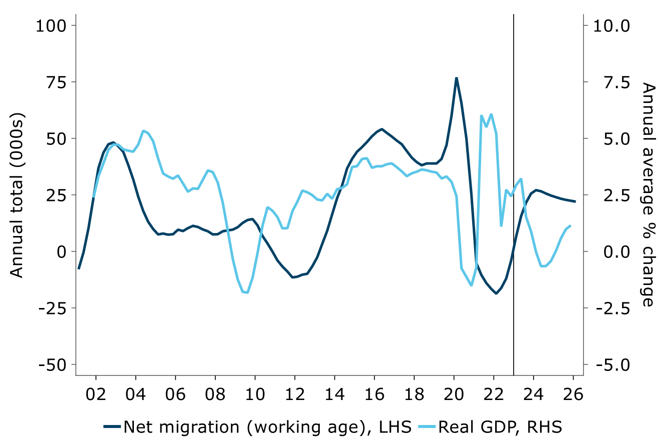
Figure 18. New housing demand and supply



Source: Stats NZ, Macrobond, ANZ Research

As a more general point, while the timing of the bidirectional impacts is complicated, it is very unusual for net migration to be rising as the economy (read: labour demand) cools (figure 19). This is a key part of why we are assuming that net immigration drops away before long, as labour demand does. But if migration does persist at high levels for longer than we expect, it would represent an upside surprise to both housing demand and labour supply. Overall, we agree with the RBNZ that it would be an upside risk to where the OCR ultimately needs to get to in order to bring inflation down successfully.

Figure 19. ANZ net migration assumption and GDP forecast

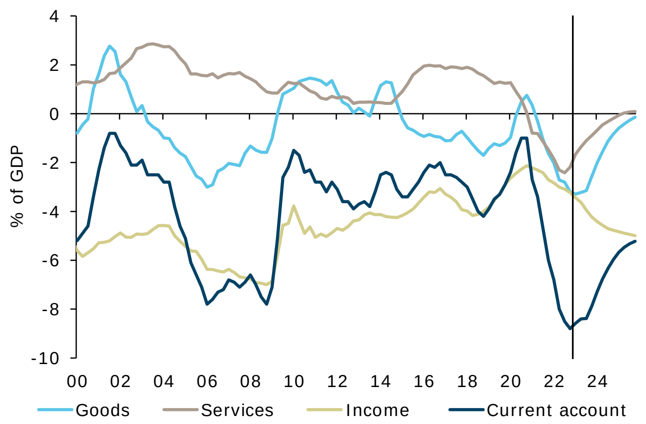


Source: Stats NZ, ANZ Research

3) Could the current account become a problem this year?

The current account deficit hit a record 8.9% of GDP in Q4 (figure 20), in what was a real team effort by its components: the goods trade balance (strong imports), the services trade balance (lost tourism), and the income balance (NZ is a net debtor nation, so we lose when interest rates rise globally).

Figure 20. Current account deficit



Source: Stats NZ, ANZ Research

So far, we've been given a free pass by global markets, perhaps in recognition that external imbalances are set to improve as tourism revenues roll in and imports of consumption and investment goods wane. We are indeed forecasting a fairly rapid improvement. But there is a risk that markets could lose patience if current account risks become front of mind for markets for some reason. If so, we'd likely see a sharply weaker exchange rate, which would be unhelpful in terms of its potential impact on tradable CPI inflation, particularly for the likes of petrol and other imported goods where NZ is a 'price taker'. That's the sort of inflation the Reserve Bank prefers to look through, but if they are still concerned about elevated inflation expectations, that may be easier said than done.

4) Global growth wobbles could turn nasty

Our forecasts assume that softening global growth dampens demand for NZ's exports to some extent. However, New Zealand is far from the only country where debate is raging about whether the central bank may have already overachieved on the policy tightening front without realising it. In particular, eyes are trained on US regional banks, with three significant failures raising concern that financial conditions could tighten abruptly via reduced lending appetite. While the US is not a key trading partner for New Zealand, the state of the US consumer is very important for global growth, not least in China, New Zealand's biggest export destination. If global and particularly China demand were to slow abruptly, the New Zealand economy would be looking at a sharper slowdown in turn. Geopolitical and climate risks provide another layer of uncertainty that's unlikely to be growth or trade friendly.

Moving parts

This marks a particular risk for a primary production sector that is already very subdued in terms of confidence, with a growing regulatory burden, high cost inflation and rising interest rates all taking a toll.

Weighing it all up

The above is not an exhaustive list of reasons we could be wrong, by any means! But overall, our forecast story and the risks around it have a theme of "moving parts" on both the demand and supply side. Our story is essentially grounded in a waning of demand in response to tighter monetary conditions. But the supply side of the economy is evolving too: labour supply, housing supply, and global supply chains, for starters. This all adds up to uncertainty regarding not only how much braking power tighter monetary conditions are applying to the economy, but also how much is actually necessary in order to bring inflation back to target in an acceptable timeframe. There will no doubt be plenty for the RBNZ to mull over during its "watch, worry and wait" policy pause.

Markets outlook

Summary

The New Zealand interest rate cycle is now very mature, and consequently, our forecasts have most interest rates either at their respective peaks already or peaking in coming months. Shorter-term rates like the 3-month will move with the OCR, which we expect to be hiked one more time (to a peak of 5.5%), but longer-term rates like the 10-year bond yield peaked late last year/early this year. This is typical of past cycles and has created an inverted yield curve. Our forecasts have New Zealand's OCR peaking before the US Fed Funds rate, but at the same level. This is expected to have a narrowing influence on NZ/US bond spreads over the rest of 2023. In the FX space, we expect NZD/USD to appreciate gradually to 0.65 by the end of 2023 and 0.66 by the end of 2024. NZD/AUD is expected to drift down to around 0.90 by year-end, as Australia's better fiscal position, trade surplus and growth prospects come to the fore.

Nearing the peak… but there are risks

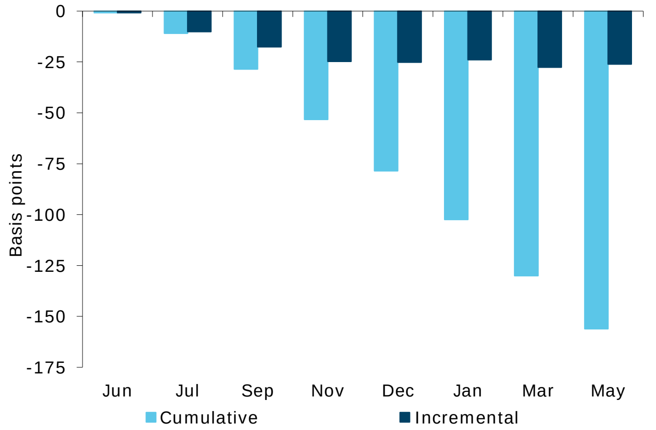
The RBNZ has delivered 500bp of rate hikes this cycle, with its latest 50bp hike in April taking it to 5.25%. From here we expect one more 25bp increase, taking it to 5.5%. That's the level that the RBNZ has flagged as the likely peak or "terminal" rate in both its November and February projections, and a level that we believe is sufficiently restrictive to bring inflation back to its 2% target in a reasonable timeframe.

However, this forecast is not without its risks. When viewed purely through a domestic macroeconomic lens, we would characterise the risks as to the upside given sticky inflation, a still very tight labour market, and rising services inflation globally. As noted on page 6, while New Zealand headline CPI surprised to the downside in Q1, non-tradable and services inflation (which, unlike tradable or energy inflation, is the element of inflation the RBNZ can control, or at least strongly influence). If these elements of inflation prove to be sticky, the OCR may well need to go higher.

However, global financial stability risks point the other way, and if nervousness around the health of the US banking system picks up again (which relates mainly to concerns over deposit stability and balance sheet management at regional banks), central banks may end up being forced to cut before year end. That isn't our expectation, but that's the predominant fear in financial markets, which are pricing in high odds that the US Federal Reserve is done tightening and will be cutting aggressively before too long. As figure 1 shows, US markets are pricing in 78bp of cuts by the end of the year.

While the risk of a financial crisis seems low, the fallout would be significant, and it's that latter consideration that's having the most impact. Market participants place different odds on a crisis unfolding but few would refute the idea that it would be very destructive, and markets are mindful of that.

Figure 1. Market expectations for the US Fed Funds rate



Source: Bloomberg, ANZ Research

Extraordinary as it would be for any central bank to be easing policy in the face of such tight labour market conditions (the US labour market is as strong as New Zealand's), and with inflation this high (US CPI is below its 9% peak but is still running at 5%), the fact is, a tightening in financial conditions could tip the US economy into recession. That would have implications for global growth, and by extension, New Zealand.

That said, our forecasts are based on a "business as usual" premise. We acknowledge the risk of a crisis, and although a crisis is certainly not explicitly built into our OCR forecasts, the lingering risk of it is built into our forecast for longer-term interest rates, as these are likely to be lower than otherwise while such risks percolate. Even though the Fed or the RBNZ are not likely to ease policy any time soon unless there actually is a crisis (or one is expected imminently), that won't stop market participants from pricing in the risk of cuts into forward interest rates and longer-term bond yields.

Curve inversion and tighter NZ/US spreads

Diving deeper into our forecasts, with just one more OCR hike expected, we expect 3-month and 2-year interest rates to peak this quarter (Q2). There is a risk that the 2-year rate may have already peaked, especially if US bank wobbles intensify, but our working assumption is that they lift a little further before coming down in the second half of the year, and markets look forward to mild and measured OCR cuts next year (which we expect to begin in August).

Markets outlook

Longer-term interest rates will continue to be driven primarily by global interest rate trends – particularly movements in US bond yields. US 10-year bond yields have fallen faster than we forecast they would, but as our global forecasts had them falling gradually anyway, we have not changed them following recent volatility, mindful that they have scope to bounce if US activity data remains robust. Nevertheless, our broad expectation is that US bond yields will fall from here, taking New Zealand bond yields with them.

With the RBNZ ahead of the Fed's rate hike cycle and the OCR expected to peak this month, but the Fed on track to hike one more time in June, we expect NZ/US bond spreads to narrow. Our expectation of further US and global interest rate moderation implies a further inversion of the yield curve in the near term before the curve starts to steepen again as short-end rates fall, catching up with their longer-term equivalents. The expected eventual steepening will happen sooner if central banks are forced (by a crisis or similar surprise) to cut soon, or later if inflation proves to be sticky and central banks end up having to resume hiking or hold off cutting even if growth slows (or markets continue to fret about financial instability).

NZD/USD higher, NZD/AUD lower

Our forecasts have NZD/USD appreciating gradually to 0.65 by the end of 2023 and 0.66 by the end of 2024. This view is predicated on our expectation that the RBNZ takes the OCR a notch higher (to 5.50%, matching the expected peak in the Fed Funds rate) and our assessment of where fair value lies. Our models put fair value at around 0.64, and one of the reasons why the NZD is still "cheap" is that the USD DXY (an index of the USD against a basket of major currencies) is trading around 10% "rich" versus where we see fair value on it. The DXY got to rich extremes in 2022 as the Fed hiked rapidly, but with markets no longer expecting hikes and instead eying Fed cuts, we expect the DXY to gravitate back towards fair value.

Our expectation of a downward adjustment in the USD is key driver of our forecast of gradual NZD/USD appreciation. We say that because when the NZD is viewed from a purely domestic perspective, there isn't much to get excited about, with commodity prices falling, the current account deficit dangerously wide, the rate cycle peaking, and a recession looming.

By contrast, NZD/AUD is expected to fall to around 0.90 by year end. Given our expectation of NZD/USD appreciation, this is expected to be the result of AUD outperformance. It too is expected to benefit from an unwind of USD richness to fair value, but unlike New Zealand, which is running a record current account deficit, Australia is running a record trade surplus. Australia has just announced that it will deliver a fiscal surplus for 2022/23. Although that surplus will only be fleeting, future deficits are projected to be less severe. By contrast, New Zealand's fiscal position is deteriorating, and we don't expect a surplus until 2025/26. And as we highlighted in a recent Insight note, Australia is also expected to avoid a recession, and is in store for better growth in coming quarters.

Table 1: Forecasts (end of quarter)

FX Rates	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD/USD	0.63	0.64	0.65	0.65	0.65	0.65	0.66
NZD/AUD	0.93	0.91	0.90	0.90	0.90	0.89	0.89
NZD/EUR	0.57	0.57	0.57	0.56	0.55	0.54	0.55
NZD/JPY	81.9	81.3	80.6	79.3	78.0	76.7	76.6
NZD/GBP	0.50	0.50	0.50	0.49	0.49	0.48	0.49
NZD/CNY	4.28	4.26	4.26	4.23	4.19	4.16	4.22
NZ$ TWI	70.7	70.6	70.5	70.0	69.6	69.0	69.8
Interest Rates	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**
NZ OCR	5.50	5.50	5.50	5.50	5.50	5.25	4.75
NZ 90-day bill	5.60	5.60	5.60	5.60	5.43	4.93	4.85
NZ 2-yr swap	5.25	4.75	4.34	4.25	4.15	4.10	4.10
NZ 10-yr bond	4.15	3.75	3.50	3.50	3.75	4.00	4.00

Source: Bloomberg, ANZ Research

Key forecasts

Calendar Years	2019	2020	2021	2022	2023(f)	2024(f)	2025(f)
NZ Economy (annual average % change)							
Real GDP (production)	3.1	-1.5	6.1	2.4	0.9	-0.4	1.2
Private Consumption	3.2	-2.2	7.9	2.8	-0.9	-0.7	1.1
Public Consumption	4.7	7.2	8.2	4.5	-0.1	2.6	2.4
Residential investment	5.3	-3.1	8.4	0.3	-5.0	-10.1	0.8
Other investment	4.0	-5.1	13.9	4.6	-4.6	-6.1	-1.1
Stockbuilding[1]	-0.5	-0.8	1.3	-0.1	0.1	-0.2	-0.2
Gross National Expenditure	3.1	-1.8	10.3	3.4	-0.9	-1.8	0.7
Total Exports	2.6	-13.5	-2.3	-0.7	12.2	5.6	3.5
Total Imports	2.2	-15.8	14.8	4.5	2.7	-0.5	1.5
Employment (annual %)	1.2	0.6	3.3	1.6	0.3	-0.2	1.5
Unemployment Rate (sa; Dec qtr)	4.1	4.9	3.2	3.4	4.4	5.4	5.3
Labour Cost Index (annual %)	2.4	1.5	2.8	4.3	4.2	3.2	2.2
Terms of trade (OTI basis; annual %)	7.1	-1.6	2.8	-3.9	2.0	1.5	1.6
Prices (annual % change)							
CPI Inflation	1.9	1.4	5.9	7.2	5.2	2.6	2.0
Non-tradable Inflation	3.1	2.8	5.3	6.6	5.7	3.8	3.0
Tradable Inflation	0.1	-0.3	6.9	8.2	4.6	1.1	0.8
REINZ House Price Index	5.1	15.5	26.2	-12.9	-4.8	2.2	2.4
NZ Financial Markets (end of December quarter)							
NZD/USD	0.67	0.72	0.68	0.64	0.65	0.66	--
NZD/AUD	0.96	0.94	0.94	0.93	0.90	0.89	--
NZD/EUR	0.60	0.59	0.60	0.59	0.57	0.55	--
NZD/JPY	73.1	74.6	78.6	83.3	80.6	76.6	--
NZD/GBP	0.51	0.53	0.51	0.52	0.50	0.49	--
NZD/CNY	4.69	4.74	4.35	4.38	4.26	4.22	--
NZ$ TWI	73.7	75.2	73.2	72.1	70.5	69.8	--
Official Cash Rate	1.00	0.25	0.75	4.25	5.50	4.75	4.75
90-day bank bill rate	1.29	0.27	0.97	4.65	5.60	4.85	4.85
2-year swap rate	1.26	0.28	2.17	5.38	4.34	4.10	4.10
10-year government bond rate	1.65	0.99	2.39	4.47	3.50	4.00	4.00

[1] Percentage point contribution to growth

Forecasts finalised 11 May 2023

Source: Statistics NZ, REINZ, Bloomberg, Treasury, ANZ Research

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