AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 2 May 2022

Editorial: RBA to lift the Cash Rate by 15 basis points at the May Board meeting and 25 basis points in June.

RBA: Policy decision.

Australia: housing updates (dwelling approvals, finance, prices), retail, trade balance.

NZ: unemployment rate, LCI, GlobalDairyTrade auction, building consents.

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Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 29 APRIL 2022.

WESTPAC INSTITUTIONAL BANK

RBA to lift the Cash Rate by 15 basis points at the May Board meeting and 25 basis points in June

Last week we surprised most readers by forecasting a 40 basis point rate increase by the RBA at its June Board meeting.

There was no appetite amongst analysts for a rate increase at the May Board meeting and those expecting a move in June had settled on 15 basis points.

Our call came as quite a surprise.

Our reasoning was twofold:

- That we had lifted our forecast for underlying inflation in the March quarter from 0.9% to 1.2% boosting annual underlying inflation from 2.6% in December to 3.4%.
- In the April minutes the Board had elevated the actions of other central banks to centre stage in contrast with previous minutes where policy considerations focussed entirely on the Australian economy. Other central banks had already begun their tightening cycles and had moved or were expected to move in 50 basis point increments.

But while that expected lift in inflation was certainly sufficient to justify moving the cash rate immediately away from the emergency setting of 0.1%, the Governor gave some explicit guidance in his Statement following the April Board meeting: "over the coming months additional evidence will be available to the Board on inflation and the evolution of labour costs."

That guidance was repeated in the April Board minutes that were released only one week ago. This guidance was in line with the Board's consistent commitment to needing to see formal evidence of upward pressures on wages growth.

We were confident that such evidence on wages would be available in May to justify that 40 basis point increase but the overwhelming justification for the rate increase would be the 0.8ppt lift in annual underlying inflation (from 2.6% to 3.4%) which we expected for the March quarter.

My experience is that when central banks give explicit guidance about the next Board meeting we should listen intently.

That is why, while we expected that the Inflation Report would be sufficient to justify two "normal "rate hikes in both May and June the clear indication that the Board had committed to wait until June pointed to a "jumbo" 40 basis point move in June.

The Inflation Report for the March quarter indeed printed a high number – 1.4% (3.7% annual) for underlying inflation – considerably higher than our revised forecast of 1.2% (3.4% annual).

While annual underlying inflation is set to increase further over the next two quarters we assess that the March quarter will mark the peak in quarterly prints of underlying inflation.

We were closer on headline inflation, predicting a 2% increase, compared to the actual 2.1% and well above the market Consensus of 1.7%.

On seeing that number our thinking is now that it precludes the "luxury" of waiting for the additional information on the labour market and the RBA board will have to act on May 3.

Despite a higher print on underlying inflation for March than we had expected we think the move in May will be only 15 basis points to return the cash rate to 25 basis points and resume the likelihood that future moves will be at, or in multiples, of 25 basis points.

It is reasonable to ask why only 15 basis points when we previously favoured 40 basis points in June and the inflation print was significantly higher than our forecast.

The June decision would have had the benefit of fully preparing households and businesses for higher rates.

The Board would have signalled a very strong tightening bias at the May meeting; data on the labour market would have further strengthened the case by signalling a further tightening in the labour market and rising wage pressures.

The very strong tightening bias could be amplified in the May Statement on Monetary Policy, including significant upgrades to the inflation and wages forecasts.

By June the US Federal Reserve would have been on the verge of a second consecutive 50 basis point move.

For May, no such careful preparation is possible; the move will come only a week after the guidance that the Board intended to wait another month; and a jumbo first move would expose the risk of an excessive shock to confidence.

With 15 basis points coming in May we expect a further 25 basis points in June, achieving our earlier objective of a total of 40 basis points by June.

The RBA Board has more flexibility than the other central banks that have or are confidently expected to move to 50 basis point changes. That means that it can take a more cautious approach by relying more on regular 25 basis points increments.

The RBA Board holds 11 meetings per year. The Federal Reserve and the Bank of Canada hold 8 meetings whereas the RBNZ holds only 7 meetings.

We agree that a serious case can be made for a 50 basis point move in June given that the Inflation report was such a significant surprise.

And the Board is likely to adopt a strong tightening bias following the decision to raise the cash rate in May.

But we think the Board will be aware of the likely terminal rate in this cycle and choose to retain its flexibility by preferring a series of 25 basis point moves over the course of the remainder of 2022.

This profile is unchanged from our forecasts which printed last week – 25 basis points in July and August to be followed by a further 25 basis points in October and November with the cash rate reaching 1.5% by end 2022.

We expect a further two moves of 25 basis points in February and May in 2023 for a terminal rate of 2%.

The excessive leverage in the household sector will act as the dominant constraint to the much more aggressive terminal rate (3.6%) favoured by the market.

Because this forecast change is essentially a redistribution of the targeted move of 40 basis points in June we have not changed our other forecasts from last week. There is no additional forecast table in this note.

Bill Evans, Chief Economist

In Australia this week, the market had a singular focus – inflation.

The Q1 CPI report did not disappoint, with both headline and trimmed mean core inflation coming in ahead of our top-of-the-market expectation. Highlighting the historic significance of the result, headline inflation's 2.1% gain was the largest since the introduction of the GST more than two decades ago and took the annual rate from 3.5% to 5.1%. Trimmed mean core inflation's 1.4% gain was similarly the largest since the ABS series began in 2002 and, on RBA historical estimates, the biggest rise since December 1990. Annual trimmed mean inflation now stands at 3.7%, also materially above the top of the RBA's 2-3%yr medium-term target range.

Our bulletin on the release provides detail on the composition of prices pressures. Of particular note was not only the scale of energy and supply-chain shocks, but also the breadth of price increases overall. Of all the items in the CPI basket, the proportion seeing prices rise at an annual rate of 2.5%yr or more increased from 32% to 66% in March.

On the back of this report, Chief Economist Bill Evans outlined an adjustment to our near-term expectations for the RBA. Instead of forecasting a 40bp first increase in June, we now anticipate a 15bp increase in May followed by a 25bp rise in June. The remainder of our forecast profile is unchanged, with a run of 25bp increases to follow in July, August, October and November, taking the cash rate to 1.50% by end-2022. The final two hikes of the cycle are then expected in February and May 2023, resulting in a peak cash rate of 2.00%. Westpac's forecast peak is materially lower than that of the market. The primary justifications for our view are Australian households high debt levels, giving each rate increase and outsized effect versus history, and the impact of elevated inflation on real incomes.

Turning to the US. In Q1, GDP surprised materially to the downside, a 1.4% annualised contraction reported against expectations of a 1.0-1.5% annualised gain. While a shock, the detail of the report make clear this is not an outcome that will dissuade the FOMC from normalising policy at pace. This is because the decline in activity came as a result of reduced inventory restocking and strength in imports, both stemming from buoyant household consumption and a jump in equipment investment in the three months to March. In contrast to the 1.4% annualised decline in GDP, domestic final demand instead rose at a 2.7% annualised pace – just above the 10-year average for the series.

The Q1 outcome will cause complications for assessing GDP's momentum throughout 2022, and there is a material risk of another 'surprise' quarter. So, in assessing the outlook for growth, it is best to continue to focus on domestic demand. From a 3.0% annualised pace in the first half of 2022, we expect momentum to slow to trend in the second half (circa 2.5%); it is only in 2023 as the full effect of the FOMC's rate hikes and the associated tightening of financial conditions are felt that domestic demand growth is likely to fall materially below trend, to around 1.5% by the second half of the year. Along with dissipating price pressures and risks, we expect this activity outturn to justify the FOMC stopping rate hikes at the December 2022 meeting at a fed funds rate of 2.375% and, come 2024, to cut twice back to 1.875% to sustain GDP growth near potential.

The Euro Area has seen little data of significance this week, with the April CPI and Q1 GDP reports still to come. In the meantime, the focus has remained on risks to growth from Russia's invasion of Ukraine, particularly Russia's threat to turn off the Euro Area's gas supply. The ECB and the majority of private forecasters (including Westpac) continue to believe that activity growth will remain positive in 2022 even if gas supplies are impacted. However, it is important to recognise the immense uncertainty at play. Not only could energy shortages affect production and employment late in the year, but the hit to real incomes from persistent rapid inflation and the flow-on consequences for sentiment are a concern from now into 2023. Prices, activity and sentiment will need to be continuously assessed in the months ahead.

Week ahead & data wrap

Running to catch up

The state of the labour market has been overshadowed to some degree lately, as the surge in inflation has dominated the headlines. Nevertheless, it's giving a clear signal that the economy is overheated, and as such it's a crucial part of the story about ongoing inflation.

Indeed, we expect the March quarter labour market surveys, released next Wednesday, will include fresh entries in the labour market record books. For the Household Labour Force Survey (HLFS), we expect the unemployment rate to drop to 3%, from 3.2% in the December quarter. That previous reading was already a record low in the history of the survey going back to 1986, and the indicators that we follow suggest that the jobs market has tightened even further from that.

Firstly, the monthly employment indicator was up by 0.2% on average over the March quarter. This measure is drawn from tax data, which means it's quite a comprehensive record of workers in New Zealand. The indicator did drop slightly in February and March, though this may have been due to disruptions during the peak of the Omicron wave. Looking at other countries such as Australia that went through Omicron earlier than we did, there doesn't appear to have been a lasting impact.

Jobseeker benefit numbers have continued to edge down this year, and over the March quarter they were almost 10% lower than the same time last year – a period that was largely free of Covid altogether. The eligibility for the benefit isn't aligned with the official definition of unemployment in the HLFS, but the two tend to move in the same direction.

Finally, job advertisements have picked up again as the country has moved past the Delta lockdown. By March they were almost fully back to their pre-Delta level, which was itself significantly higher than pre-pandemic levels. Workers remain in hot demand, and a substantial part of the rise in job ads is likely to be due to 'churn', as workers are poached or jump to new roles.

With a jobs market as tight as this, we would expect to see upward pressure on wages and salaries as well. That is happening, although at a national level it hasn't looked particularly dramatic to date – more akin to a catch-up after a period of weak wage growth in the wake of the initial Covid shock. However, wage growth tends to lag the broader economic cycle, so this process likely has further to play out.

For the Labour Cost Index (LCI), we expect a 0.7% increase for the quarter, which would lift the annual growth rate to 2.9%, the highest since early 2009. The March quarter usually sees a relatively small increase – pay reviews are more common in the second half of the year – so this represents more of an acceleration in the quarterly growth pace than the headline number might suggest.

Given the inevitable comparisons between wage growth and inflation, we should emphasise that the LCI is not a measure of the pay rates that workers are receiving. It is literally what it says on the label: it's an index of the cost of a given unit of labour. It strips out pay increases that are related to experience or seniority – which is a big part of where individuals' pay increases will come from.

If we want to look at 'real' wage growth, a more appropriate measure would be the unadjusted analytical series of the LCI (which was up 4.2% in the year to December) or the average hourly earnings measure in the Quarterly Employment Survey (up 3.8%). Using either measure, it's still probably going to be the case that pay rates haven't kept up with the cost of living – recall that consumer prices rose by 6.9% in the year to March.

Whether we'd expect to see wages outstripping inflation will depend on what's driving the rise in inflation. If it's the result of a cost shock, such as a jump on world oil prices, it's really a no-win situation – someone has to bear the cost, and even in an extremely tight labour market, it's likely that it will be shared between businesses and workers. But if inflation is being driven by strong demand in the domestic economy, it's more likely that strong competition for workers will see wage rates bid up ahead of inflation.

Of course, we're experiencing both kinds of inflation in the last year or so. But up to now, cost shocks appear to have accounted for a larger share. So it's not entirely surprising that real wages have gone backwards. That will change in time: a year from now, we expect that headline inflation will be lower than it is today, but it will also be largely driven by demand-side forces. In that environment, we expect real wage growth to turn positive again.

If next week's results are in line with our forecasts, that would represent a modest upside surprise for the Reserve Bank, relative to its February *Monetary Policy Statement* forecasts. The RBNZ assumed a flat outturn for unemployment in the March quarter, on the way to a gradual rise in unemployment from the second half of this year. That reflects the idea that the economy is operating above 'maximum sustainable employment', and will need to ease back in order to bring inflation under control. That said, the idea of 'sustainable' comes down to what it means for wage inflation. And in that respect, the RBNZ's forecasts are similar to our own.

Michael Gordon, Acting Chief Economist NZ

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Thu 28	Mar trade balance $m	-691	-392	-200
	Mar employment indicators	-0.2%	-0.1%	–
	Apr ANZ business confidence	-41.9	-42.0	–
Fri 29	Apr ANZ consumer confidence	77.9	84.4	–

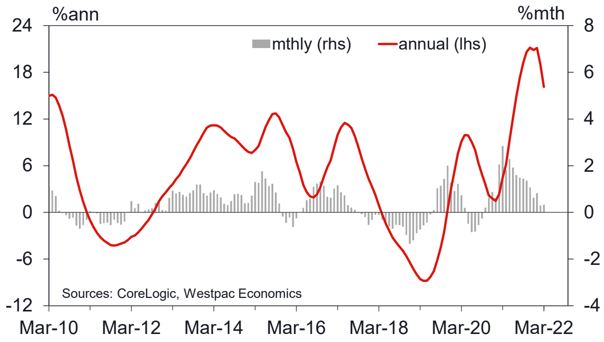
Aus Apr CoreLogic home value index

May 2, Last: 0.3%, WBC f/c: 0.3%

Dwelling prices rose 0.3% in March, matching the subdued 0.3% gain in Feb, the slowest monthly gains since Oct 2020. The annual pace of growth moderated further to 16.3%yr, down from 21.3%yr in Jan and is set to see a further sharp slowing in coming months as last year's strong first half burst cycles out of calculations. Q1 has seen price gains track a sub-5% pace in annualised terms. The slowdown has been particularly pronounced in Sydney and Melbourne.

April is set to be another repeat, daily measures pointing to a 0.3% gain nationally with slight declines in Sydney and Melbourne but continued gains in Brisbane, Adelaide and Perth. Turnover will also be of some interest given revised figures showing a sharp pull-back in the first quarter and buyer sentiment turning down quickly.

Australian dwelling prices



Aus RBA policy decision

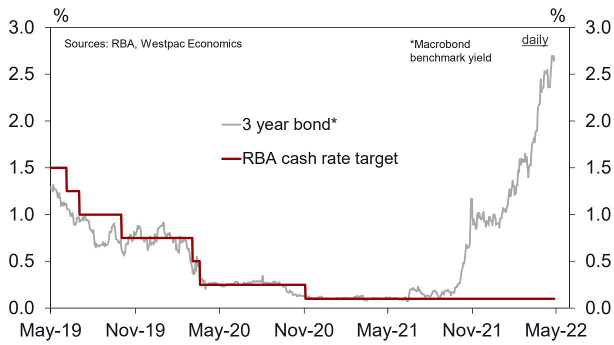
May 3, Last: 0.1%, WBC f/c: 0.25%
Mkt f/c: 0.25%, Range: 0.10% to 0.50%

We expect the RBA Board to announce the start of an interest rate tightening cycle at the May meeting – the first increase in rates since November 2010. The likely size of any move is a matter of conjecture. We anticipate an increase of 15bps, to 0.25%, up from a record low of 0.10%. There will be the adoption of a strong tightening bias justifying the decision, as well as the signalling of a follow-up move in June.

The RBA's policy objectives have broadly been met and the need for emergency settings has passed. The unemployment rate is at an equal 48 year low, and set to mover lower. Core inflation has rapidly moved from below the 2-3% target band, at 1.6% for June 2021, to be well above, at 3.7% in March 2022 - including a strikingly large 1.4% rise in the March quarter.

Westpac expects a series of moves in 2022 (including 25bps hikes in June, July and August), lifting the cash rate by year end to 1.5%, then rising to a peak of 2.0% in mid-2023.

RBA cash rate and 3 year bonds



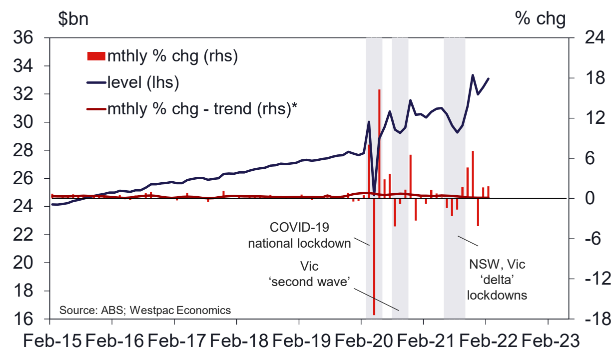
Aus Mar retail trade

May 4, Last: 1.8%, WBC f/c: –1.0%
Mkt f/c: 0.5%, Range: -1.0% to 2.0%

Retail sales posted a robust 1.8% gain in Feb following a better than expected 1.6% rise in Jan. Momentum has built steadily despite setbacks from both COVID (the omicron outbreak in early Jan), weather events (flooding in parts of Qld and NSW in the latter part of Feb) and higher fuel prices (fuel is outside the scope of the survey but higher fuel costs can siphon demand away from retail). That said, the Q1 CPI shows much of the lift is coming from higher prices rather than volumes.

Our **Westpac Card Tracker** suggests weather and fuel price effects became a little more pronounced in March with retail components notably softer in the second half of the month. With spending also rotating towards non-retail components this is likely to see sales retrace in the month. We expect retail sales to dip back 1% but still be up 2.5% vs Dec. Note that this is preliminary release only includes top level monthly aggregates. The detailed release including Q1 volume estimates is due out the following week on May 10.

Monthly retail sales



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

DATA PREVIEWS

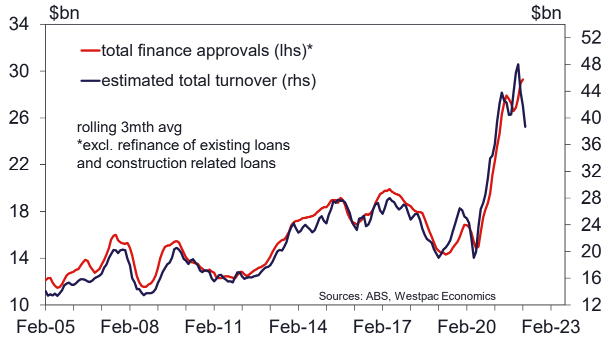
Aus Mar housing finance approvals

May 4, Last: –3.7%, WBC f/c: –3.5%
Mkt f/c: –2.0%, Range: –3.5% to 1.5%

Housing finance approvals declined 3.7% in Feb, with the start of the year now looking like the peak of the cycle – revised turnover data from CoreLogic now showing a significant 20% decline in the nominal value of housing sales during the first quarter. Housing finance is likely to follow that turn with a slight delay.

We expect the value of finance approvals to show another 3.5% decline in March with owner occupiers again leading the way.

New finance approvals*



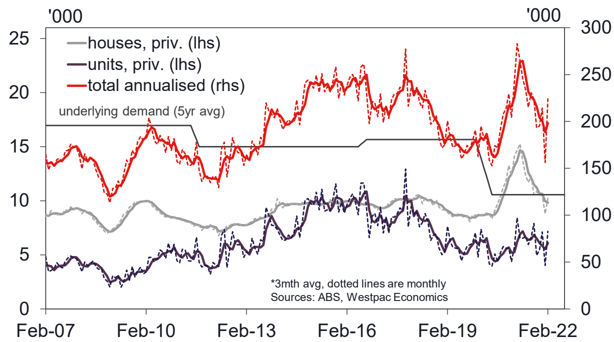
Aus Mar dwelling approvals

May 5, Last: 43.5%, WBC f/c: –4%
Mkt f/c: –15%, Range: –20% to +5%

Virus disruptions have generated enormous volatility in dwelling approvals in early 2022, a –27% plunge in Jan followed by a spectacular +43.5% surge in Feb that takes approvals back to slightly above their Dec level. Taking the two months together, average approvals are down 5% compared to the average in Q4 last year, suggesting some underlying softening.

March ought to be a bit more settled. That said, there may be some unwind in high rise unit approvals which were at a relatively high level in Feb (perhaps some catch-up for processing delays?). That plus some softening in detached houses in line with the wider market turn would give a 4% decline in the month.

Dwelling approvals



Aus Mar trade balance, $bn

May 5, Last: 7.5, WBC f/c: 10.7
Mkt f/c: 8.2, Range: 6.5 to 10.7

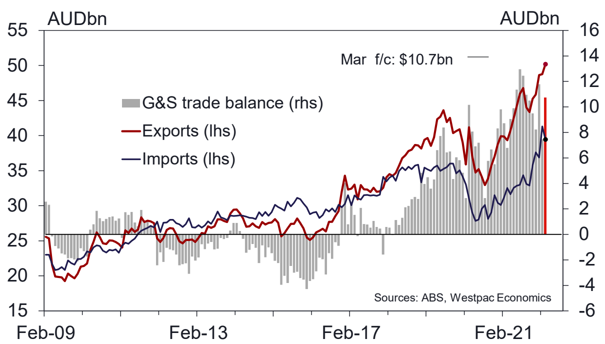
Australia's trade surplus narrowed from a high of $11.8bn in January to $7.5bn in February centred on a clustering of imports, which surged by 12% in the month, up $4.4bn.

For March, we expect the surplus to snap back, up $3.2bn to $10.7bn.

Imports are expected to pull-back after the February surge - within the context of an underlying upward trend associated with rising domestic demand. We've factored in a decline of -4.5%, -$1.8bn. Other factors at play in the month - mixed price dynamics (higher energy prices but downward pressure from a higher AUD).

Export earnings are forecast to rise by 2.9%, +$1.4bn. Coal will lead the way on higher prices, partially offset by lower volumes (with some flood impacts). Commodity prices more generally moved higher, across fuels, metals, gold and rural goods.

Australia's trade balance



DATA PREVIEWS

NZ Mar residential building consents

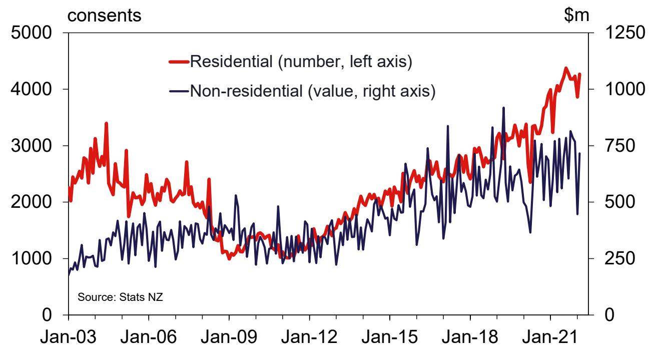
May 3, Last: +10.5%, Westpac f/c: -5.0%

Consent issuance rose 10.5% in February with just over 4,200 new dwellings approved. That increase was underpinned by a sharp rise in medium density consents.

We're forecasting a 5% fall in consents issuance in March, as some of February's sharp rise in multi-unit consents reverses. Stand-alone unit consents are expected to remain steady around firm levels. Looking through the month-to-month volatility, those developments would see annual consent issuance remaining close to their recent record highs.

We expect consent issuance and home building will remain strong over the remainder of 2022. However, the housing market has been cooling in recent months, while interest rates and build costs are pushing higher. Over time, those developments are likely to weigh on the number of new projects that come to market.

NZ building consents



NZ GlobalDairyTrade auction, whole milk powder prices

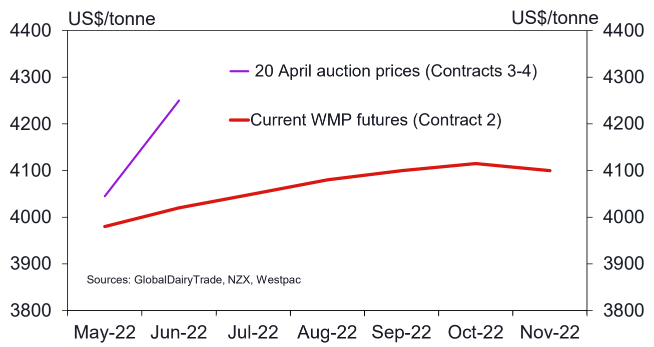
May 4, Last: -4.4%, Westpac: -2%

We expect whole milk powder prices (WMP) to fall 2% at the upcoming dairy auction. Prices have softened over the last three auctions by a combined 7.8% as global dairy markets have reacted to the Covid outbreak in China.

Our pick is similar to futures market pricing.

Looking beyond the next few auctions, we expect prices to remain high on strong market fundamentals. However, there is uncertainty around when China's Omicron wave passes and in turn when Chinese dairy demand recovers.

Whole milk powder prices



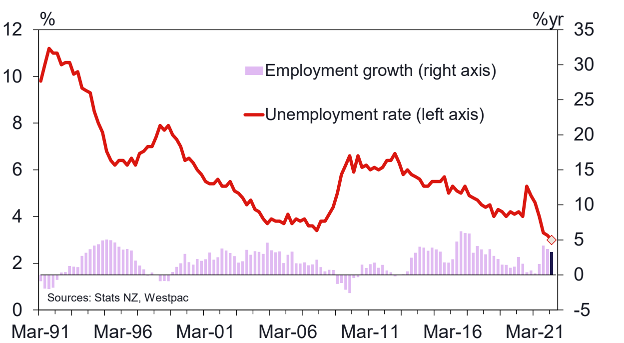
NZ Q1 Household Labour Force Survey

May 4, Employment last: 0.1%, WBC f/c: 0.2%, Mkt: 0.1%
Unemployment rate last: 3.2%, WBC f/c: 3.0%, Mkt: 3.1%

We expect the unemployment rate to fall to 3.0% in the March quarter. This would be another new low in the history of the survey going back to 1986. Labour market indicators point to a further tightening in the market in recent months, albeit with some disruptions from the Omicron wave. Jobseeker benefit numbers have continued to drift lower, business surveys point to a lift in employment as the country has moved beyond the Delta lockdown, and job advertisements have almost fully recovered to their pre-Delta highs.

Our forecast would represent a modest upside surprise to the Reserve Bank's view – something that was perhaps already anticipated in this month's decision to lift the OCR by 50 basis points in one go.

NZ Household Labour Force Survey



DATA PREVIEWS

NZ Q1 Labour Cost Index

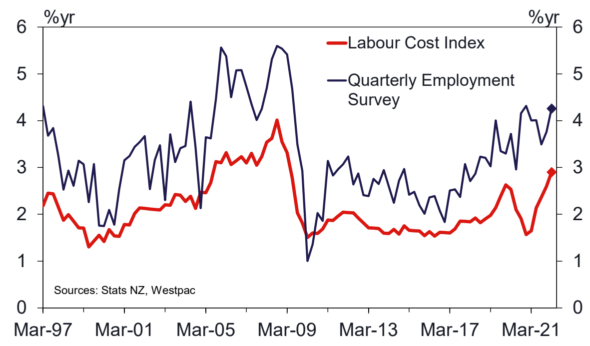
May 4, Private sector last: 0.6%, WBC f/c: 0.7%, Mkt: 0.7%

We expect a further acceleration in wage growth, albeit still falling short of the surge in consumer price inflation.

For the Labour Cost Index (LCI), we expect a 0.7% increase for the quarter, which would lift the annual growth rate to 2.9%, the highest since early 2009.

The March quarter usually sees a relatively small increase – pay reviews are more common in the second half of the year – so this represents more of an acceleration in the quarterly growth pace than the headline number might suggest.

NZ salary and wage growth, all sectors



US May FOMC meeting

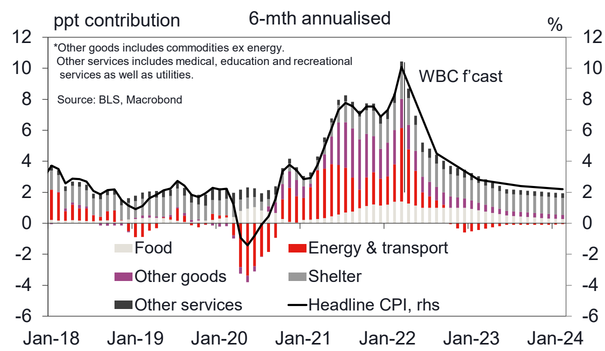
May 3-4, Fed Funds rate, Last: 0.375%, WBC f/c: 0.875%, Mkt f/c: 0.875%

Heading into the May meeting, members of the FOMC are singularly focused on the historic pace of inflation and associated risks.

A 50bp hike in the fed funds rate at this meeting is therefore anticipated along with a clear signal that the rapid tightening of rates will continue in June and be paired with a quick ramping up of quantitative tightening through mid year.

While unlikely at the May meeting, from June/July the FOMC's view on risks will again broaden to include activity. Assuming inflation pressures are by then showing signs of easing, the July meeting is likely to see a return to 25bp increases in the fed funds rate, taking the policy rate to a peak of 2.375% at year end.

US supply side inflation to recede



US Apr employment report

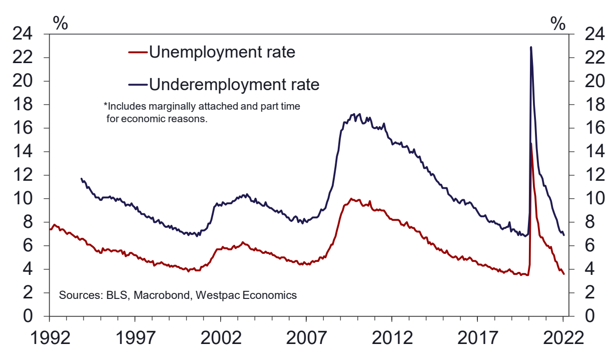
May 6, nonfarm payrolls, Last: 431k, WBC f/c:425k, Mkt f/c: 390k
May 6, annualised, Last: 3.6%, WBC f/c: 3.6%, Mkt f/c: 3.6%

For the US labour market, the supply of workers remains the prime concern. Highlighting this point, at March the unemployment rate was just 0.1ppt off its pre-pandemic low while participation was a percentage point below its prior peak.

This situation is likely to persist in coming months, slowing job creation back to levels more consistent with a stable unemployment rate.

Into 2023, limited supply is expected to be joined by another headwind, real activity growth slowing below trend. Through that year, a degree of slack will grow, balancing out the labour market and dampening wages growth back to average levels.

US 'maximum employment' achieved



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 02					
Aus	Apr CoreLogic home value index	0.3%	–	0.3%	Prices moderating nationally, dipping in Sydney, Melbourne.
	Apr MI inflation gauge %yr	4.0%	–	–	Material inflation pressures have increased in 2022.
	Apr ANZ job ads	0.4%	–	–	Job ads up strongly; evidence of a tight labour market.
Jpn	Apr Nikkei manufacturing PMI	53.4	–	–	Final estimate for the month.
Eur	Apr S&P Global manufacturing PMI	55.3	55.3	–	Final estimate for the month.
US	Apr S&P Global manufacturing PMI	59.7	59.7	–	Final estimate for the month.
	Mar construction spending	0.5%	0.8%	–	Activity supported by home building strength.
	Apr ISM manufacturing	57.1	57.7	–	Robust momentum still evident in manufacturing.
Tue 03					
Aus	RBA policy decision	0.10%	0.25%	0.25%	Tightening cycle to begin, the first rate hike since Nov 2010.
NZ	Mar building consents	10.5%	–	-5.0%	Small pull-back after last month's bounce, annual still high.
Eur	Mar unemployment rate	6.8%	6.7%	–	Tight labour market laying foundation for wages growth.
UK	Apr S&P Global manufacturing PMI	55.3	–	–	Final estimate for the month.
US	Mar factory orders	–0.5%	1.1%	–	Capital investment should gain over 2022...
	Mar durable goods orders	0.8%	–	–	... as inventories return to pre-pandemic levels.
	Mar JOLTS job openings	11266k	–	–	Pointing to extraordinary demand for workers.
Wed 04					
Aus	Mar retail sales	1.8%	0.5%	-1.0%	Weather, fuel price effects look to have dragged in March.
	Mar housing finance	-3.7%	-2.0%	-3.5%	Market now clearly looks to have peaked at start of 2022...
	Mar owner occupier finance	-4.7%	–	-4.0%	... total value of sales down 20% in Q1 and housing finance...
	Mar investor finance	-1.8%	–	-2.5%	... likely to follow suit in coming months.
NZ	GlobalDairyTrade auction prices (WMP)	-4.4%	–	-2.0%	China's Omicron outbreak continues to weigh on prices.
	RBNZ Financial Stability Report	–	–	–	Six-monthly review of the financial system's health.
	Q1 unemployment rate	3.2%	3.1%	3.0%	Indicators point to a tightening labour market...
	Q1 employment	0.1%	0.1%	0.2%	... albeit with some headwinds for growth.
	Q1 LCI wage inflation (pvt, ord time)	0.7%	0.7%	0.7%	Wage growth picking up but lagging behind inflation.
	Apr ANZ commodity prices	3.9%	–	–	Dairy prices fell over April on Chinese Omicron outbreak.
Eur	Apr S&P Global services PMI	57.7	57.7	–	Final estimate for the month.
	Mar retail sales	0.3%	–	–	Spending outlook is dampened by inflation risks.
UK	Mar net mortgage lending £bn	4.7	–	–	Softer lending to be seen as rate rises take effect.
US	Apr ADP employment change	455k	385k	–	Jobs growth holding at robust levels.
	Mar trade balance US$bn	-89.2	-87.0	–	Deficit to remain wide on demand and inventory rebuild.
	Apr S&P Global services PMI	54.7	–	–	Final estimate for the month.
	Apr ISM non-manufacturing	58.3	58.7	–	Services sector remains in robust health.
	FOMC policy decision, midpoint	0.375%	0.875%	0.875%	First of two consecutive 50bp hikes; QT detail confirmed.
Thu 05					
Aus	Mar dwelling approvals	43.5%	-15%	-4%	Softening looks likely after wild swings through Jan-Feb.
	Mar trade balance $bn	7.5	8.2	10.7	A likely partial unwind of February's 12% import surge.
Chn	Apr Caixin China PMI services	42.0	41.0	–	COVID-19 lockdowns weighing on service sector.
UK	Apr S&P Global services PMI	58.3	–	–	Final estimate for the month.
	BoE policy decision	0.75%	1.00%	1.00%	25bp rate hike in May; a pause to assess is nearing.
US	Q1 productivity	6.6%	-2.3%	–	Likely to remain volatile throughout 2022.
	Initial jobless claims	180k	–	–	To remain near record lows.
Fri 06					
Aus	RBA Statement on Monetary Policy	–	–	–	Updated forecasts key focus.
US	Apr non-farm payrolls	431k	390k	425k	Employment gains sustaining a healthy pace...
	Apr unemployment rate	3.6%	3.6%	3.6%	... keeping the unemployment rate near its lows...
	Apr average hourly earnings %mth	0.4%	0.4%	0.4%	... and supporting robust wages growth.
	Fedspeak	–	–	–	Williams to speak.

Forecasts

Interest rate forecasts

Australia	Latest (29 Apr)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Cash	0.10	0.50	1.00	1.50	1.75	2.00	2.00	2.00
90 Day BBSW	0.71	0.70	1.20	1.70	1.95	2.20	2.20	2.20
3 Year Swap	3.06	3.00	2.90	2.85	2.75	2.65	2.55	2.50
3 Year Bond	2.75	2.80	2.70	2.65	2.55	2.45	2.35	2.30
10 Year Bond	3.15	3.20	3.10	2.80	2.65	2.50	2.35	2.20
10 Year Spread to US (bps)	33	30	30	30	25	20	15	10
US								
Fed Funds	0.375	1.375	1.875	2.375	2.375	2.375	2.375	2.375
US 10 Year Bond	2.82	2.90	2.80	2.50	2.40	2.30	2.20	2.10
New Zealand								
Cash	1.50	2.00	2.50	3.00	3.00	3.00	3.00	3.00
90 day bill	1.97	2.40	2.90	3.10	3.10	3.10	3.10	3.10
2 year swap	3.82	3.70	3.80	3.80	3.70	3.50	3.30	3.10
10 Year Bond	3.64	3.60	3.60	3.40	3.30	3.20	3.10	3.00
10 Year spread to US	82	70	80	90	90	90	90	90

Exchange rate forecasts

Australia	Latest (29 Apr)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
AUD/USD	0.7102	0.74	0.75	0.76	0.77	0.78	0.79	0.80
NZD/USD	0.6511	0.69	0.70	0.71	0.72	0.72	0.73	0.73
USD/JPY	130.87	130	128	126	124	122	120	119
EUR/USD	1.0497	1.07	1.10	1.12	1.13	1.14	1.15	1.15
GBP/USD	1.2459	1.28	1.30	1.32	1.34	1.36	1.37	1.36
USD/CNY	6.6266	6.55	6.45	6.35	6.25	6.20	6.15	6.15
AUD/NZD	1.0945	1.07	1.07	1.07	1.08	1.08	1.09	1.10

Australian economic growth forecasts

	2021			2022				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2020**	**2021**	**2022f**	**2023f**
GDP % qtr	0.8	–1.9	3.4	0.2	1.9	1.4	0.9	–	–	–	–
Annual avg change	9.6	4.0	4.2	2.5	3.7	7.2	4.5	–0.8	4.2	4.5	2.5
Unemployment rate %	5.1	4.6	4.7	4.1	3.7	3.3	3.2	6.8	4.7	3.2	3.4
CPI % qtr	0.8	0.8	1.3	2.1	0.9	1.0	1.5	–	–	–	–
Annual change	3.8	3.0	3.5	5.1	5.2	5.4	5.6	0.9	3.5	5.6	2.6
CPI trimmed mean %qtr	0.5	0.7	1.0	1.4	1.0	1.0	1.0	–	–	–	–
%yr end	1.6	2.1	2.6	3.7	4.2	4.5	4.4	1.2	2.6	4.4	3.0

New Zealand economic growth forecasts

	2021			2022				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2020**	**2021**	**2022f**	**2023f**
GDP % qtr	2.5	–3.6	3.0	0.3	0.7	2.3	1.3	–	–	–	–
Annual avg change	5.2	4.8	5.6	5.3	1.3	2.9	3.4	–2.1	5.6	3.4	4.8
Unemployment rate %	4.0	3.3	3.2	3.0	3.0	3.0	3.0	4.9	3.2	3.0	3.3
CPI % qtr	1.3	2.2	1.4	1.8	0.8	1.1	0.5	–	–	–	–
Annual change	3.3	4.9	5.9	6.9	6.4	5.2	4.3	1.4	5.9	4.3	2.7

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